Annual Report 2019

Contents

Directors' Report

for the year ended 30 September 2019

Your directors submit their report for the year ended 30 September 2019.

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.

Helen Coonan BA, LLB (Chair)

Non-executive Chair, appointed 29 July 2019. The Honourable Helen Coonan is a former Senator in the Australian Parliament, serving from 1996 to 2011 in roles including as the Deputy Leader of the Government in the Senate, the Minister for Communications, Information Technology and the Arts, the shareholder Minister for Telstra Corporation and Australia Post, the Minister for Revenue and Assistant Treasurer.

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.

She is the inaugural 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 Non-executive Director of Snowy Hydro Ltd, Crown Resorts Ltd, a member of the J.P Morgan Advisory Council and Co-Chair of GRACosway (a subsidiary of the Clemenger Group). She is a Non-executive Director of Obesity Australia Limited and of the Australian Children's Television Foundation and Chairs the Advisory Board of Allegis Partners. Ms Coonan serves on the Corporate Council of the European Australian Business Council and the Australia-Israel Chamber of Commerce Advisory Council. She is also a member of Chief Executive Women. Ms Coonan is an Ambassador for the Menzies School of Health Research and of the GUT Foundation. She serves on the Advisory Council of the National Breast Cancer Foundation and is also a mentor at start up fintech hub Stone and Chalk.

Peter Miller, FCA, FAICD (Director)

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

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

Non executive Director, appointed 1985. Kevin Eley is a Chartered Accountant with significant executive and director experience, including as Chief Executive Officer of HGL Ltd from 1985 to 2010. Kevin was appointed Chair of the Audit and Risk Committee on 1 May 2018. He is a director of Milton Corporation Ltd (since December 2011), EQT Holdings Ltd (since November 2011) and Pengana Capital Group Ltd since 2017, and was a director of Hunter Hall International Ltd from 2015 to 2017.

Julian Constable (Director)

Non executive Director, appointed 2003. Julian Constable has 35 years experience in the stockbroking industry, and is a senior client advisor of Bell Potter Securities Ltd. He is a member of the Nomination and Remuneration Committee and the Audit and Risk Committee.

Cheryl Hayman (Director)

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

Directors' Report

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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
Helen Coonan	–	–
Peter Miller	107,575	14,951,756
Kevin Eley	–	1,144,338
Julian Constable	219,353	6,538,417
Cheryl Hayman	–	–

Key management personnel

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

Chief Executive Officer

Henrik Thorup, BSc (Econ), GAICD

Appointed CEO in 2013, Henrik has over 20 years experience in CEO and other senior executive roles across a number of businesses, including Pandora Jewellery, Nilfisk and ISS Facility Service. He is currently engaged in an orderly transition of the CEO role and will leave the HGL group during the 2020 financial year.

Chief Financial Officer & Company Secretary

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

Appointed CFO / Company Secretary in 2015, Iain has over 25 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.

Dividends

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

	Payment Date	Cents per share	$'000
Interim dividend for the current year on ordinary shares	23/07/2019	0.75	459
Final dividend for the previous year on ordinary shares	22/01/2019	1.50	889

All dividends declared or paid are fully franked at 30%.

Share buy-back

The Company operates an unlimited duration on-market share buy-back. During the financial year, 211,297 ordinary shares were acquired pursuant to the on-market buy-back, at a cost of $86,127 (2018:Nil).

Principal activities

HGL invests in and actively supports a portfolio of wholly or partly-owned wholesale and distribution companies with expertise and capital. The portfolio companies are independently operated marketing and supply chain businesses, 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 the total number of shares issued under the DRP was 1,863,424 (2018: 1,937,877).

Operating and financial review

Revenue from Continuing Operations for the twelve months ending 30 September 2019 was $39.2 million (FY18: $43.4 million), a 9.6% decrease on the prior corresponding period.

Gross margin increased to 53.4% (FY18: 51.5%), assisted by effective sourcing initiatives and higher gross margin levels attributable to Pegasus Healthcare.

Operating expenses increased by $2.4 million to $21.9 million (FY18: $19.5 million) primarily from the addition of six months of overheads from Pegasus Healthcare compared to the prior year, partly offset by net cost savings in SPOS Group, JSB Lighting and HGL head office.

Equity accounted profit from Mountcastle increased to $1.6 million, up from $1.0 million in the prior corresponding period, with strong earnings from both the Australian operations and the Sri Lankan manufacturing operations.

Underlying Earnings Before Interest and Tax ("EBIT") from Continuing Operations in FY19 of $0.6 million (FY18: $3.9 million) is a decrease of $3.3 million on the prior corresponding period. The decline in Underlying EBIT was caused by a large downturn in profit contribution from JSB Lighting, following severe organisational disruption in 2018 and slow profit recovery through FY19. The EBIT downturn was in part offset by profit growth in Mountcastle and six months additional profit contribution from Pegasus Healthcare.

Statutory Net Profit After Tax for FY19 was $1.5 million (FY18: $0.8 million), including non-cash revaluation adjustments arising from the Pegasus Put and Call options and the Intralux deferred royalty payments, and net proceeds from the settlement of a legal claim.

Company Portfolio Strategy

HGL is repositioning its company portfolio, building scale and expanding its representation in industry sectors with long term growth prospects. Our current portfolio of businesses, JSB Lighting, SPOS Group, Pegasus Healthcare, BLC Cosmetics and Mountcastle, all operate in markets with solid growth prospects.

HGL invests in and actively supports a portfolio of wholly or partly owned wholesale and distribution companies, bringing both operational and strategic expertise and access to growth capital. Our portfolio companies are independently operated marketing and supply chain businesses, selling premium quality products, under exclusive agency or company brands, in diversified niche markets.

The Group continues to pursue stand-alone and bolt on acquisitions of value accretive businesses with performance results which will underpin the Group's target financial metrics based on our equity and skills principle. Funding for acquisitions will be through a combination of own funds, borrowings and capital management as appropriate.

Business unit review

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

JSB Lighting experienced a slowdown in sales with revenue of $13.9 million in 2019 compared to $23.4 million in the same period last year. As previously advised, the company had anticipated a negative impact on sales following the loss of a major brand and several sales executives.

In the past six months JSB has continued its recovery, increasing its total value of sales quotes for specified project work, while maintaining the forward order pipeline at encouraging levels.

The acquisition of Intralux in 2018 has enabled JSB to manufacture product lines with reduced production costs and market-leading technical features. Sales of Intralux product grew by 30% in 2019 underpinned by the launch of new products in the indoor downlight space.

The growth in this business required Intralux to move its Brisbane factory from Darra to Seventeen Mile Rocks during November 2019 to provide additional factory capacity for assembly and warehousing supporting projected future volume growth.

JSB Lighting maintains it focus on providing quality service to its extensive client base in Australia and New Zealand, led by our company owned Intralux products and new exclusive Illus and TAL brands. Underlying EBIT in JSB Lighting was $0.4 million, significantly down compared to $3.8 million in prior corresponding period.

Pegasus Healthcare is a supplier of high quality, clinically supported alternating pressure devices (pressure relieving beds and mattresses) sold or rented to hospitals and aged care facilities. Pegasus' rehabilitation division supplies assistive technology devices, medical equipment, consumables and services to patients being nursed at home.

Pegasus achieved sales revenue of $9.9 million in FY19, in line with our business plan target for the initial twelve months. The growth potential in Pegasus is strong and the company is successfully executing its business plan, growing market share by providing high quality services with clinically proven products.

The company renewed its master contract with NSW Health for a further 5 years, and subsequently secured multiple new rental clients in NSW including a major new contract with Western Sydney Local Health District (WSLHD) covering hospitals including Westmead and Blacktown. The company is expanding its operational facilities in Wagga Wagga and Canberra, increasing its service revenue into those areas.

Pegasus Health Group was successful in being appointed as an approved supplier of rental mattresses with the Victorian Public Health Services and Hospitals (HPV). This is a major new strategic opportunity for the business, and we are considering the relative merits of establishing new operations in Victoria compared to the addition of a bolt-on acquisition.

Directors' Report

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The business increased its capital expenditure investments in the second half of FY19, strengthening its branch network and hiring additional resources across the organisation to support current and future growth opportunities. Pegasus Healthcare achieved an Underlying EBIT of $0.9 million in 2019 in its first full year of operations within HGL.

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 was able to arrest its long term revenue decline, achieving revenue growth of 1% over the prior year to $5.1 million. The sales performance was based on growth generated from new brand introductions combined with improvement in Thalgo product sales.

The company launched the Linda Meredith, Skin Regimen and Scentered candles brands into the salon and spa market in Australia, and secured the distribution rights for Comfort Zone in New Zealand.

BLC experienced a 3.1% decline in gross margin from currency fluctuation and product sales mix, with Gross Margin contribution decreasing despite same level sales during the period. Combined with a nominal increase in overhead expenses, BLC incurred an Underlying EBIT loss of $0.6 million in FY19 (FY18 $0.3m).

BLC has undergone significant transformational change in the past three years to rebuild sales performance, but profit recovery has been slower than projected. The company is considering its strategic options to improve earnings, sustainability and shareholder returns.

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

SPOS Group achieved revenue of $10.3 million (FY18: $10.4 million) consistent with same period last year. The Australian operation performed well, while the company was impacted by a slight downturn in sales in New Zealand.

Despite this sales decline, the New Zealand operation is driving new sales initiatives to major supermarket chains and custom project work for global brands and building its sales pipeline, with an outlook of increased revenue in the coming twelve months.

The continued depreciation of the Australian dollar against the US dollar has negatively impacted the gross margin level in SPOS Group. The gross margin percentage decline was 2.5% over the twelve-month period, despite the company working hard to manage underlying gross margins, through new sourcing partners and cost-out activities on standard products and bespoke custom projects.

SPOS is focussed on improving its design capabilities and offering cost-effective, bespoke product and technology solutions. A key strategic initiative for SPOS Group in 2020 is the launch of automated product dispenser solutions and LED marketing panels for petrol and convenience stores and major retail chains in Australia and New Zealand.

SPOS Group invested in additional product design capabilities and in-field sales resources in Australia and New Zealand in 2019 to drive future sales of the new product ranges and exclusively obtained technology solutions.

As a result of the decline in gross margin contribution and increased sales overheads, SPOS Group generated an Underlying EBIT result of $0.6 million, against $1.1 million in the prior corresponding period.

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

Mountcastle continues to deliver growth compared to the prior corresponding period with revenue up 10% to $20.0 million (FY18: $18.1 million).

The school wear and corporate wear segments remain attractive markets with 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.

The company is pursuing new sales initiatives in the corporate wear and headwear markets with an expanded brand offering.

Mountcastle remains focused on optimising its production capabilities and capacity in Sri Lanka and Vietnam. New improvement initiatives covering business development, sourcing, production and supply chain in Sri Lanka have delivered significantly improved factory revenue and profitability in 2019.

These factors have combined to deliver increased Underlying EBIT in Mountcastle, up 33% in 2019 compared to same period last year. The company maintained its strong profitability level with an EBIT margin of 18.0% in FY19.

The prospect of continued increases in sales volumes in school wear and new growth initiatives in corporate wear provide a promising performance outlook for Mountcastle.

CEO Transition

HGL reached an agreement with Chief Executive Officer Henrik Thorup in October 2019 to commence a transition process after being informed of his intention to step down after six years in the role.

Henrik has committed to stay in the role to assist in a smooth and orderly transition, while the Board of HGL has engaged an external recruitment partner to conduct a search for a successor who can execute our strategy to build the scale of our businesses and actively pursue bolt-on or stand-alone acquisitions.

The board acknowledges and thanks Henrik for the contribution he has made to the Group and wish him every future success.

Our People

HGL continues to invest in human resource development programs to support our employees at every level to reach their full potential.

Recognising the important link between employee engagement and business success, our HGL Thrive program was rolled out across all business units aiming to inspire our staff to create awareness and take action for positive health changes creating a culture of wellbeing to enhance employee engagement.

The board acknowledges and thanks our employees for their effort and contribution throughout the year.

Cash flow and balance sheet

Operating cash generation in the Group was $1.1 million, compared to $0.9 million in the prior corresponding period. Free cash outflow was $0.7 million, compared to a net $0.1 million inflow in the prior year, as Pegasus invested heavily in growing its fleet of mattresses as a result of contracts won.

This investment, coupled with $0.5 million deferred acquisition payments and the dividend payments, resulted in net cash at balance date of $0.2 million, down from the prior year end of $2.0 million.

Gearing levels (Gross Debt : Debt plus Equity) remain low at 9.6%, down from 10.5% at September 2018.

Working capital remains well controlled, with a reduction seen over the year as the JSB business repositioned itself for the reduced sales level, and the remaining working capital from the discontinued operations was cashed.

Risk Management

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

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 will 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 contracts

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

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

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.

Capital management

During the period the Company conducted an on-market share buyback which saw the purchase of 211,297 shares at a total cost of $85,698.

The Directors have considered the cash requirements in the group, including some potential growth opportunities under consideration, and determined that no final dividend will be payable in respect of the 2019 financial year.

Outlook

Despite a difficult FY19, the board anticipates an improvement for the new financial year as a recovery in JSB Lighting starts to take shape, combined with current strong growth opportunities in both Pegasus Health Group and Mountcastle and additional order growth in SPOS. The outcome of the strategic review of BLC is also expected to deliver a better outcome to the group during the year.

The Company continues to identify and pursue appropriate bolt-on acquisitions, based on our preferred equity and skills model, with several opportunities maturing well, potentially adding synergies and scale to existing businesses.

Significant changes in the state of affairs

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

Significant events after the balance date

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

Likely developments and expected results

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

Directors' Report

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Remuneration report (audited)

The remuneration report outlines the director and executive remuneration arrangements of the Company for the 2019 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 2019. Unless otherwise indicated, the individuals were KMP for the entire financial year.

Directors

Helen Coonan	Non-Executive Chair (Appointed 29/07/2019)
Peter Miller	Non-Executive Director
Kevin Eley	Non-Executive Director
Julian Constable	Non-Executive Director
Cheryl Hayman	Non-Executive Director

Executives

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

Subsequent to the end of the financial year, the CEO advised the board he would be leaving HGL during FY20, triggering his 12 month notice period as at Oct 1 2019. The board are conducting an executive search through Allegis Partners, a global recruitment firm, for a new CEO and are excited at the prospect of new leadership.

The Board are currently working through an orderly transition with Mr Thorup who has offered to stay as required, up until the AGM.

Remuneration governance

Remuneration committee

The Board has an established Nomination and Remuneration Committee which operates under the delegated authority of the Board of Directors. A summary of the Committee charter is included on the HGL website. In line with the Committee Charter the Remuneration Committee is Chaired by an independent non executive director. Membership of the Committee is as follows:

Cheryl Hayman	Committee Chair
Peter Miller	
Julian Constable	

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

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

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

Remuneration report (audited) (continued)

Use of remuneration consultants

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

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

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 Nomination and Remuneration Committee, when necessary, seeks the advice of external advisers in connection with the structure of remuneration packages.

During the year ended 30 September 2019, the Committee engaged Ernst & Young (EY) to provide executive market remuneration data and benchmarking services at a cost of $15,450. The Committee is satisfied there was no influence by the KMP to the services that were delivered. The services were provided directly to the Remuneration Committee Chair without KMP involvement.

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 Nomination and Remuneration Committee 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.

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 market rates for the role and the individual.

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

At risk remuneration

An Executive Incentive Scheme is operational for the HGL CEO and CFO. The scheme provides the opportunity to earn an incentive payment once minimum threshold targets are achieved. Currently, the value of the maximum incentive opportunity for the CEO is 150% of fixed annual remuneration, and 37.5% for the CFO.

Directors' Report

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Remuneration report (audited) (continued)

Key structural components

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

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

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

For the 2019 year performance measures determined by the Board were set as Group EPS and Return on Funds Employed (ROFE). The Target levels are set in advance by the Board and stem from Budget achievement.

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

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

- 'Threshold' level (generally equal to the prior year performance)
- 'Target' level (expected to be equal to the approved budget)
- 'Stretch' level (board to set performance requirements)

There are no incentive scheme payments to be made in relation to the 2019 financial year, as the threshold targets were not achieved. There were no incentive scheme payments paid in relation to the 2018 financial year.

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. The payment of any termination benefit is at the discretion of the Nomination and Remuneration Committee.

Chief Executive Officer

HGL's CEO, Henrik Thorup, has given notice which was effective from October 1, 2019. His employment contract has a 12 month notice period which the Board have acknowledged. The terms by which he is departing the Company will see Henrik Thorup continuing as the CEO in a full time working capacity, offered and agreed at the Board's discretion until the HGL Annual General Meeting in February 2020, subject to the appointment and commencement of a full time replacement into the role.

The board has engaged Allegis Partners to assist their recruitment of the new CEO. The new CEO will be appointed under a salary package including base salary, superannuation and other benefits, plus the opportunity to earn both a short term incentive (cash) and long term incentive (equity). The specific details of the plan will be negotiated upon the selection of the new CEO.

Remuneration report (audited) (continued)

Executive & Board remuneration

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 $	Long term benefits: Termination payments $	Total $	Percentage variable remunera-tion %
Directors									
The Hon. Helen Coonan[1]	16,274	–	–	1,546	–	–	–	17,820	–
Peter Miller	92,846	–	–	8,820	–	–	–	101,666	–
Julian Constable	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	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	

(1) Helen Coonan was appointed on 29/07/2019.

Note: there are no additional Director fees for Committee Chairs.

2018	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 $	Long term benefits: Termination payments $	Total $	Percentage variable remunera-tion %
Directors									
Peter Miller	100,457	–	–	9,543	–	–	–	110,000	–
Dr Frank Wolf[2]	37,291	–	–	3,543	–	–	–	40,834	–
Julian Constable	54,795	–	–	5,205	–	–	–	60,000	–
Kevin Eley	54,795	–	–	5,205	–	–	–	60,000	–
Cheryl Hayman	54,795	–	–	5,205	–	–	–	60,000	–
Total Directors	302,133	–	–	28,701	–	–	–	330,834	–
Executives									
Henrik Thorup	483,680	–	28,596	25,121	–	10,349	–	547,746	–
Iain Thompson	255,431	–	–	20,169	–	4,655	–	280,255	–
Total Executives	739,111	–	28,596	45,290	–	15,004	–	828,001	
Total KMP remuneration	1,041,244	–	28,596	73,991	–	15,004	–	1,158,835	

(2) Dr Wolf ceased as a director on 18 April 2018.

Directors' Report

continued

Remuneration report (audited) (continued)

Relationship between the remuneration policy and company performance

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

Underlying Profit is a non-statutory measure designed to reflect statutory profit excluding the effect of irregular transactions that are not part of the core or ongoing business operations 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 profit is shown in Note 4.1 of the financial statements.

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

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

	2015	2016	2017	2018	2019
Total Revenue ($000)(1)	52,000	38,526	40,301	43,393	39,220
Underlying EBIT ($000)(1)	2,615	3,136	3,587	3,892	605
Net profit after tax ($000)	3,722	4,313	2,727	812	1,461
Return on Funds Employed (%)	19.8	19.1	10.4	2.9	5.9
Share price at year end ($)	0.360	0.445	0.500	0.440	0.320
Statutory Earnings per Share (cents)	6.9	7.9	4.8	1.1	1.9
Dividends – ordinary shares (cents)	1.5	2.5	2.75	3.0	0.75

(1) Reported data for 2016 to 2019 represents continuing operations, 2015 is statutory result.

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 2019 was $299,486 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 will be paid fixed Director Fees of $100,000 per annum. Subject to shareholder approval at the 2020 Annual General Meeting, the Chair will also receive 1,000,000 options, exercisable at 45 cents, with an expiry date three years from appointment. Full details of the proposed options will be provided in the explanatory information for the Annual General Meeting.

Individual Non-Executive Directors fees have not changed since October 2007.

There are no additional fees paid to Committee Chairs.

Remuneration report (audited) (continued)

Key management personnel shareholdings

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

30 September 2019	Opening Balance	DRP shares	Purchases	Disposals	Closing balance	Indirect Holding
Executive directors						
The Hon. Helen Coonan[(1)]	–	–	–	–	–	
Peter Miller	14,252,349	806,982	–	–	15,059,331	14,951,756
Kevin Eley	1,082,677	61,661	–	–	1,144,338	1,144,338
Julian Constable	6,623,698	134,072	–	–	6,757,770	6,538,417
Cheryl Hayman	–	–	–	–	–	–
Senior executives						
Henrik Thorup	–	–	–	–	–	–
Iain Thompson	5,956	340	–	–	6,296	–

(1) Appointed on 29/07/2019.

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 or 4.3 times 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). If the options are exercised, Nido will issue 4,350 ordinary shares at 10c per share to CMK. The option will lapse at the end of November 2019, and does not give rights to CMK to participate in any share issue or interest in any other group entity. All options remained outstanding at the date of this report.

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:

		Meetings of committees	
	Directors' meetings	Audit and Risk	Nomination and Remuneration
Number of meetings held:	16	4	7
Number of meetings attended:			
Helen Coonan (1)	3	–	–
Peter Miller	14	3	5
Kevin Eley	16	4	–
Julian Constable	16	4	7
Cheryl Hayman	16	–	7

(1) Helen Coonan attended all meetings held since her appointment.

Corporate governance

The Company's Corporate Governance Statement for the year ended 30 September 2019 is effective and was approved by the Directors on 28 November 2019. 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

Helen Coonan
Chair

Kevin Eley
Director

Sydney, 28 November 2019

Auditor's Independence Declaration

Deloitte.

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Australia

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28 November 2019

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

Dear Board Members

HGL Limited

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

As lead audit partner for the audit of the financial statements of HGL Limited for the financial year ended 30 September 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 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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

Consolidated Statement of Profit or Loss

for the year ended 30 September 2019

	Notes	Consolidated entity 2019 $'000	Consolidated entity 2018 $'000
Continuing Operations			
Sales revenue	8.1	33,791	40,748
Rental revenue	8.1	5,429	2,645
Cost of sales		(18,280)	(21,051)
Gross profit		**20,940**	**22,342**
Other income	8.4	843	76
Sales, marketing and advertising expenses		(7,672)	(8,176)
Occupancy expenses		(2,032)	(1,535)
Freight and distribution expenses		(3,360)	(2,592)
Administration and other expenses		(9,515)	(8,094)
Changes in fair value of financial instruments		1,506	–
Finance costs	8.3	(205)	(197)
Share of profit of an associate	12	1,564	976
Profit before tax		**2,069**	**2,800**
Income tax expense	9	(610)	(332)
Profit for the year from continuing operations		**1,459**	**2,468**
Profit/(loss) after tax for the year from discontinued operations	5.3	2	(1,656)
Profit for the year		**1,461**	**812**
Attributable to:			
Equity holders of the parent		1,145	620
Non-controlling interests		316	192
Total Profit		**1,461**	**812**

	Cents	Cents
Earnings per share		
Basic EPS from Continuing Operations	1.9	3.9
Basic EPS from Discontinued Operations	0.0	(2.8)
Basic EPS from Continuing and Discontinued Operations	1.9	1.1
Diluted EPS from Continuing Operations	1.9	3.9
Diluted EPS from Discontinued Operations	0.0	(2.8)
Diluted EPS from Continuing and Discontinued Operations	1.9	1.1

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

Consolidated Statement of Other Comprehensive Income

for the year ended 30 September 2019

	Consolidated entity	
	2019 $'000	**2018 $'000**
Profit for the year	1,461	812
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	6	(2)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	6	(2)
Total comprehensive income for the year, net of tax	**1,467**	**810**
Total comprehensive income attributable to:		
Equity holders of the Parent	1,151	618
Non-controlling interests	316	192

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

Balance Sheet

as at 30 September 2019

	Notes	Consolidated entity 2019 $'000	Consolidated entity 2018 $'000
Assets			
Current assets			
Cash and cash equivalents	21	3,097	5,044
Trade and other receivables	10	5,587	7,529
Inventories	11	4,768	4,639
Prepayments		297	453
Other current financial assets	5.2	–	350
Current tax receivable		354	32
Total current assets		**14,103**	**18,047**
Non current assets			
Investment in associates	12	5,961	4,897
Property, plant and equipment	13	4,095	3,284
Intangible assets	14	14,869	14,878
Deferred tax assets	9	2,439	2,963
Other financial assets	16.3	1,019	–
Other investments		11	4
Total non current assets		**28,394**	**26,026**
Total assets		**42,497**	**44,073**
Current liabilities			
Trade and other payables	15	6,473	6,858
Interest bearing loans and borrowings	16.1	3,008	3,162
Provisions	17	1,437	2,334
Other current financial liabilities	16.2	276	500
Total current liabilities		**11,194**	**12,854**
Non-current liabilities			
Interest-bearing loans and borrowings	16.1	172	178
Provisions	17	494	416
Other financial liabilities	16.2, 16.3	3,781	4,544
Total non current liabilities		4,447	5,138
Total liabilities		15,641	17,992
Net assets		**26,856**	**26,081**
Equity			
Issued capital	18	40,064	39,408
Other capital reserves	20	(1,073)	(1,079)
Accumulated losses		(10,358)	(10,155)
Other components of equity		(3,349)	(3,349)
Non-controlling interests	19	1,572	1,256
Total equity		**26,856**	**26,081**

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 18) $'000	Foreign Currency Reserve (Note 20) $'000	Other Reserve (Note 20) $'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 (Note 6)	–	–	–	(1,348)	–	–	(1,348)
As at 30 September 2019	**40,064**	**(172)**	**(901)**	**(10,358)**	**1,572**	**(3,349)**	**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 2018

	Attributable to the equity holders of the parent						
	Issued capital (Note 18) $'000	Foreign Currency Reserve (Note 20) $'000	Other Reserve (Note 20) $'000	Retained Earnings / Accumulated losses $'000	Non-controlling interests $'000	Other components of equity $'000	Total equity $'000
As at 1 October 2017	38,496	(176)	(901)	(9,037)	–	–	28,382
Shares issued under a Dividend Reinvestment Plan	919	–	–	–	–	–	919
Costs associated with issues of shares	(7)	–	–	–	–	–	(7)
Profit for the year	–	–	–	620	192	–	812
Translation of overseas controlled entities	–	(2)	–	–	–	–	(2)
Total comprehensive income	–	(2)	–	620	192	–	810
Dividend paid (Note 6)	–	–	–	(1,738)	–	–	(1,738)
Acquisition of a subsidiary	–	–	–	–	–	(3,349)	(3,349)
Non-controlling interest arising on a business combination	–	–	–	–	1,064	–	1,064
As at 30 September 2018	**39,408**	**(178)**	**(901)**	**(10,155)**	**1,256**	**(3,349)**	**26,081**

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

Consolidated Statement of Cash Flows

for the year ended 30 September 2019

	Notes	Consolidated entity 2019 $'000	Consolidated entity 2018 $'000
Operating activities			
Cash receipts in the course of operations		44,271	54,946
Cash payments in the course of operations		(43,041)	(54,520)
Interest received		34	59
Interest paid		(205)	(195)
Income tax paid		(469)	(433)
Dividends received from associates		500	1,073
Net cash flows from operating activities	21	**1,090**	**930**
Investing activities			
Proceeds from sale of property, plant and equipment		–	19
Purchase of property, plant and equipment	13	(1,718)	(795)
Acquisition of subsidiaries, net of cash acquired		(500)	(4,161)
Proceeds from disposal of subsidiaries	5.3	234	4,667
Purchase of investment		(7)	–
Net cash flows used in investing activities		**(1,991)**	**(270)**
Financing activities			
Payment of finance lease liabilities[1]		(142)	–
Proceeds from borrowings		1,500	825
Repayment of borrowings		(1,725)	–
Buyback of shares		(86)	–
Dividends paid	6.1	(599)	(819)
Net cash flows (used in)/from financing activities		**(1,052)**	**6**
Net (decrease)/increase in cash and cash equivalents		(1,953)	666
Cash and cash equivalents at 1 October	21	5,044	4,381
Effect of exchange rate changes on the balance of cash		6	(3)
Cash and cash equivalents at 30 September	21	**3,097**	**5,044**

(1) Payment for obligations under finance leases.

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

Notes to the Consolidated Financial Statements

for the year ended 30 September 2019

1. Corporate information

The consolidated financial statements of HGL Limited and its subsidiaries (collectively, the Group) for the year ended 30 September 2019 were authorised for issue in accordance with a resolution of the directors on 28 November 2019.

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 Level 2, 68 Waterloo Road, Macquarie Park, NSW, 2113. Further information on the nature of the operations and principal activities of the Group is provided in the directors' report.

2. Summary of significant accounting policies

2.1 Basis of preparation

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

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

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

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

2.2 Compliance with International Financial Reporting Standards (IFRS)

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

2.3 Changes in accounting policies, disclosures, standards and interpretations

(i) Changes in accounting policies, new and amended standards and interpretations

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

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

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.

Notes to the Consolidated Financial Statements

continued

2. Summary of significant accounting policies (continued)

2.3 Changes in accounting policies, disclosures, standards and interpretations (continued)

(i) Changes in accounting policies, new and amended standards and interpretations (continued)

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.

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 is applicable to the Group for the reporting period commencing 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 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.

Sales of goods

The Group derives its revenue from the transfer of goods at a point in time, predominantly through 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 to 60 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.

(ii) Accounting Standards and Interpretations issued but not yet effective

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ended 30 September 2019. The directors have not early adopted any of these new or amended standards or interpretations.

2. Summary of significant accounting policies (continued)

2.3 Changes in accounting policies, disclosures, standards and interpretations (continued)

(ii) Accounting Standards and Interpretations issued but not yet effective (continued)

AASB 16 Leases

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

AASB 16 introduces a single, on balance sheet lease accounting model for lessees. A lessee recognises a right of use asset representing its right to use the underlying asset, and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short term leases and leases of low value items.

The Group is a lessee under a number of arrangements currently classified as operating leases, mainly based around property leases of offices and warehouses. The Group will recognise new assets and liabilities for these leases, and there will be a change to the expense pattern associated with the leases, with the 'rent' expense recognised under the previous lease standard now being split into depreciation and interest components, increasing both EBIT and EBITDA profit measures.

The Group has yet to complete a detailed assessment on the potential impact on its consolidated financial statements resulting from the application of AASB 16; however, the following impacts are expected:

- The total assets and liabilities on the balance sheet will increase with a gross up of assets and liabilities of approximately $3.3 million at transition date (1 October 2019), due to the recognition of the right of use asset and lease liability for leases previously classified as operating leases. These balance sheet items will reduce at different rates due to the depreciation of right of use assets being on a straight-line basis whilst the lease liability reduces by the principal amount of repayments;
- Interest expense will increase due to the unwinding of the effective interest rate implicit in the lease liability. Interest expense will be greater earlier in a lease's life, due to the higher principal value, causing profit variability over the term of lease. This effect may be partially mitigated due to the number of leases held by the Group at various stages of their terms; and
- Operating cash flows will be higher and financing cash flows will be lower, as repayment of the principal portion of all lease liabilities will be classified as financing activities

2.4 Significant accounting policies

(a) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 September 2019. 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.

Notes to the Consolidated Financial Statements

continued

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

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

(b) Business combinations and goodwill

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

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

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

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

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

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

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

(c) Investment in associates

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

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

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

The statement of profit or loss reflects the Group's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associate are eliminated to the extent of the interest in the associate.

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

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(c) Investment in associates (continued)

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

(d) Foreign currency translation

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

Transactions and balances

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

Group companies

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

(e) Revenue recognition

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 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.

Interest income

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

(f) Taxes

Current income tax

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

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

Deferred tax

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

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

Notes to the Consolidated Financial Statements

continued

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(f) Taxes (continued)

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.

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.

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

(g) Cash dividend and non-cash distribution to equity holders of the parent

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

(h) Property, plant and equipment

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

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

Depreciation

Items of plant and equipment are depreciated over their estimated useful lives using the straight line 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.

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(h) Property, plant and equipment (continued)

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

– Plant and equipment	3 to 10 years
– Lessor assets	2 to 7 years
– Leased plant and equipment	the lease term (typically up to 5 years)

Leased assets

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

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

(i) Leases

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

Group as a lessee

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

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

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

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

(j) Borrowing costs

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

(k) Intangible assets

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

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

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

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

– Customer relationships	10 years
– Patent	8 years

(l) Financial instruments - initial recognition and subsequent measurement

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

(i) Financial assets

Initial recognition and measurement

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

Notes to the Consolidated Financial Statements

continued

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(l) Financial instruments - initial recognition and subsequent measurement (continued)

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.

Loans and receivables

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

This category generally applies to trade and other receivables. For more information on receivables, refer to Note 10.

Impairment of financial assets

Financial assets carried at amortised cost

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

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

(ii) Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and other payables, loans and borrowings, contingent consideration and Put Option liabilities.

Subsequent measurement

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

Loans and borrowings

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

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

This category generally applies to interest-bearing loans and borrowings. For more information refer to Note 16.

Fair value through Profit and Loss

This category relates to contingent consideration payable on the acquisition of business combinations. After an initial assessment of the estimated future variable consideration, a reassessment of this consideration is made at each subsequent balance date, with gains or losses recognised in the profit or loss in the period.

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.

De-recognition

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

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(m) Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

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

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

(n) Inventories

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

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

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

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

(o) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or 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.

(p) Cash and short-term deposits

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

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

Notes to the Consolidated Financial Statements

continued

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(q) Provisions

General

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

Restructuring provisions

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

Onerous contracts provisions

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

(r) Employee benefits

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

Contributions to defined contribution superannuation plans are expensed when incurred.

(s) Fair value measurement

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

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

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

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

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

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

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data 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 transfers between category levels during the current or prior financial year.

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(t) Operating segments

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

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

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

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

3. Significant accounting judgements, estimates and assumptions

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

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

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

Deferred tax assets (Note 9)

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

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

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

Intangible assets (Note 14)

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.

Notes to the Consolidated Financial Statements

continued

4. Reconciliation of segment EBIT to statutory net profit after tax

4.1 Significant items

The board manages the business using Underlying EBIT from continuing operations, 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 for continuing operations is a key consideration used by the board when determining short term incentive payments for key management personnel, and also when determining the level of any dividends declared. A summary of the items considered to be non-underlying, and a reconciliation from Underlying EBIT from continuing operations to reported net profit after tax is as follows:

	Consolidated entity	
	2019 $'000	2018 $'000
Underlying EBIT from continuing operations	**605**	**3,892**
Non-underlying items		
Changes in fair value of financial instruments[1]	1,506	–
Legal claims / (expenses)[2]	508	(367)
Acquisition costs[3]	(186)	(205)
Other non-underlying items[4]	(159)	(322)
Total non-underlying items before tax	1,669	(894)
Interest expense	(205)	(197)
Net profit before tax from Continuing Operations	2,069	2,801
Tax expense	(610)	(333)
Net profit after tax from continuing operations	1,459	2,468
Net profit / (loss) after tax from discontinued operations	2	(1,656)
Statutory profit after tax	**1,461**	**812**

(1) Changes in fair value of financial instruments includes revaluation adjustments to Other Financial Assets and Liabilities (Note 16.2 and 16.3) and are non-cash adjustments.
(2) Legal claim includes settlement proceeds less costs associated with pursuing the claim and other matters arising from the legal claim.
(3) Acquisition costs includes costs associated with both the successful and abandoned pursuit of acquisition targets.
(4) Other non-underlying items includes other one-off costs not directly attributable to ongoing profit performance, including restructuring costs

4.2 Segment information

	Revenue		Depreciation		EBIT	
	30 September 2019 $'000	30 September 2018 $'000	30 September 2019 $'000	30 September 2018 $'000	30 September 2019 $'000	30 September 2018 $'000
Continuing Operations						
Retail Marketing	10,264	10,365	51	17	568	1,164
Building Products	13,918	23,409	220	232	384	3,821
Health & Beauty	5,114	5,110	94	74	(573)	(314)
Healthcare	9,924	4,509	702	279	893	655
Total	**39,220**	**43,393**	**1,067**	**602**	**1,272**	**5,326**

Continuing segment EBIT	1,272	5,326
Share of profit from equity accounted investments	1,564	976
Finance costs	(205)	(197)
Significant items	1,669	(894)
Other unallocated expenses	(2,231)	(2,410)
Net profit before tax from Continuing Operations	**2,069**	**2,801**

4. Reconciliation of segment EBIT to statutory net profit after tax (continued)

4.2 Segment information (continued)

	Revenue		Depreciation		EBIT	
	30 September 2019 $'000	**30 September 2018 $'000**	**30 September 2019 $'000**	**30 September 2018 $'000**	**30 September 2019 $'000**	**30 September 2018 $'000**
Discontinued Operations (Note 5)						
Homewares	441	4,195	–	100	131	(1,480)
Collectables	–	1,022	–	6	(67)	(912)
Total	**441**	**5,217**	**–**	**106**	**64**	**(2,392)**
Discontinued Segment EBIT					64	(2,392)
Finance costs					(1)	(3)
Profit / (Loss) before income tax from Discontinued Operations					**63**	**(2,395)**
Profit before income tax					**2,132**	**406**

The reported revenue represents revenue generated from external customers. There were no inter-segment sales during the year.

Continuing segments:

- 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 equipments into hospitals, aged care facilities and the retail market

Discontinued segments:

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

The Group has a large number of customers to which it provides products. There are no individual customers that account for more than 10% of external revenues. The Group operates predominately in Australia with some operations in New Zealand. Total revenues from sales outside Australia for the financial year were $4.3 million (2018: $3.1 million).

5. Discontinued operations

5.1 Classification

A business is classified as a Discontinued Operation when a decision is made to dispose of, or close down, the whole or a substantial part of that business unit. Assets and liabilities of the business unit are subsequently measured at anticipated selling price, less estimated costs to sell.

The operating profit or loss, plus any impairment of asset values associated with the discontinuation of the business, is recorded separately on the Statement of Profit and Loss. Comparative information is restated to reflect the same treatment, notwithstanding that the business was considered a Continuing Operation at the prior balance date.

Profit from Continuing Operations will therefore reflect the performance of the Group's ongoing business units, providing financial statement users with better information regarding potential future performance.

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.

Notes to the Consolidated Financial Statements

continued

5. Discontinued operations (continued)

5.2 Other financial assets

	Consolidated entity 2019 $'000	Consolidated entity 2018 $'000
Current		
Deferred consideration receivable	–	350

5.3 Financial performance

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

	2019	2018
Cash flows from discontinued operations		
Operating cash flow	(226)	(1,351)
Investing cash flow	234	4,655
Financing cash flow[1]	(418)	(3,617)
Net cash (outflow)	**(410)**	**(313)**

(1) Financing cash flows reflect transfer of funds and dividends between the discontinued operations and other wholly owned Group entities

	Consolidated entity 2019 $'000	Consolidated entity 2018 $'000
Profit/(Loss) for the year from discontinued operations		
Revenue	441	5,217
Expenses	(378)	(7,501)
Operating profit/(loss) from discontinued operations	63	(2,284)
Loss on disposal of discontinued operations	–	(111)
Profit/(Loss) before tax from discontinued operations	63	(2,395)
Tax from Discontinued Operations	(61)	739
Profit/(Loss) for the year from discontinued operations	**2**	**(1,656)**

6. Dividends

6.1 Dividends paid and proposed

	Consolidated entity 2019 $'000	2018 $'000
Declared and paid during the year:		
Final dividend for 2018 : 1.5 cents per share (2017: 1.5 cents)	889	860
Interim dividend for 2019 : 0.75c cents per share (2018: 1.5 cents)	459	878
	1,348	**1,738**
Dividends paid in cash or satisfied by the issue of shares under the Dividend Reinvestment Plan:		
Paid in cash	599	819
Satisfied by issue of shares under DRP	749	919
Dividends paid	**1,348**	**1,738**
Proposed dividends on ordinary shares:		
There is no proposed final dividend for the year ended 30 September 2019 (2018: 1.5 cents per share)	–	889

6.2 Franking account balance

	2019 $'000	2018 $'000
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 at 30% (2018: 30%)	8,727	9,090
Franking debits that will arise from the payment of dividends subsequent to the end of the financial year	–	(381)
	8,727	**8,709**

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.

Notes to the Consolidated Financial Statements

continued

7. 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	
	2019 $'000	**2018 $'000**
Net Profit after tax	1,461	812
Profit attributable to Non-Controlling Interests	316	192
Profit attributable to equity holders of the parent	1,145	620
Profit / (Loss) from discontinued operations	2	(1,656)
Profit from continuing operations	1,143	2,276
Weighted average number of ordinary shares	60,089,466	58,302,520

	Cents	**Cents**
Basic Earnings per Share from Continuing and Discontinued Operations	1.9	1.1
Diluted Earnings per Share from Continuing and Discontinued Operations	1.9	1.1

8. Profit from operations

8.1 Revenue

	Consolidated entity	
	2019 $'000	**2018 $'000**
Sales revenue	33,791	40,748
Rental revenue	5,429	2,645
Total revenue	**39,220**	**43,393**

8. Profit from operations (continued)

8.2 Expenses

	Consolidated entity 2019 $'000	2018 $'000
Depreciation and Amortisation		
Expensed to profit and loss		
– Plant and Equipment	1,070	591
– Intangibles	61	28
Total depreciation and amortisation	1,131	619
Employee benefit expenses		
Salary and wages	12,921	12,333
Defined contribution superannuation expense	927	809
	13,848	13,142
Bad debts	86	18
Write (back) / down of inventories to net realisable value	(309)	43
Operating lease expenses - minimum lease payments	1,703	1,173
Foreign exchange gain / (loss)	13	(83)

8.3 Finance costs

Financial institutions - interest expense and line fees	184	177
Finance charges payable under finance leases and hire purchase contracts	21	20
Total finance costs	**205**	**197**

8.4 Other income

Interest		
Financial Institutions	34	59
Total Interest	**34**	**59**
Other income	809	17
Total other income	**843**	**76**

Notes to the Consolidated Financial Statements

continued

9. Income tax

The major components of income tax expense for the years ended 30 September 2019 and 2018 are:

Consolidated statement of profit or loss

	Consolidated entity	
	2019 $'000	**2018 $'000**
Current tax		
In respect of the current year	113	–
Prior year under / (over) provision	32	(41)
	145	(41)
Deferred tax		
In respect of the current year	141	1,068
Prior year under / (over) statement of DTA	52	–
Effect of change in tax rate	272	–
Relating to origination and reversal of temporary differences	–	(114)
Re-recognition of deferred tax assets	–	(581)
	465	**373**
Total income tax expense recognised in the current year relating to continuing operations	**610**	**332**
Prima facie income tax expense on profit from ordinary activities at 27.5% (2018: 30%)	568	840
Differences in overseas tax rates	2	2
Equity accounted investments	(293)	–
Recognition of deferred revenue losses	–	(581)
Non allowable expenses	157	98
Non assessable items	(759)	–
Over provision of prior years	52	(41)
Current year tax loss not recognised in DTA	929	–
Other	(46)	14
Total Income Tax	**610**	**332**

Deferred tax

	Consolidated entity	
	2019 $'000	**2018 $'000**
Deferred tax assets	2,810	3,335
Deferred tax liability	(371)	(371)
Net deferred tax assets	**2,439**	**2,964**

9. Income tax (continued)

Deferred tax assets comprises:

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**
2018					
Opening balance	1,505	39	119	1,154	2,817
Charged to income	(345)	(17)	299	581	518
Total	**1,160**	**22**	**418**	**1,735**	**3,335**

Deferred tax liability comprises:

Consolidated entity	Provisions $'000	Plant & Equipment $'000	Other $'000	Revenue Losses $'000	Total $'000
2019					
Opening balance	–	–	(371)	–	(371)
Total	**–**	**–**	**(371)**	**–**	**(371)**
2018					
Opening balance	–	–	–	–	–
Business acquisition	–	–	(371)	–	(371)
Total	**–**	**–**	**(371)**	**–**	**(371)**

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised.

The group has a further $17.3 million of gross revenue losses, and $10.2 million of gross capital losses, which have not been brought to account at 30 September 2019.

10. Trade and other receivables

	Consolidated entity 2019 $'000	Consolidated entity 2018 $'000
Trade receivables	5,143	7,451
Allowance for expected credit losses	(140)	(129)
Net trade receivables	5,003	7,322
Other debtors	584	207
Total receivables	**5,587**	**7,529**

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

Notes to the Consolidated Financial Statements

continued

10. Trade and other receivables (continued)

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.

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
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**

11. Inventories

	Consolidated entity 2019 $'000	Consolidated entity 2018 $'000
Raw materials (at cost)	744	910
Finished goods (at lower of cost or net realisable value)	4,024	3,729
	4,768	**4,639**

12. Investment in associates

	Ownership interest %	Carrying value $'000	Profit contribution $'000
2019			
Mountcastle Pty Ltd	50	5,961	1,564
		5,961	**1,564**

2018			
Mountcastle Pty Ltd	50	4,897	976
		4,897	**976**

Mountcastle Pty Ltd
The principal activity of Mountcastle was headwear and uniform distribution.

	Consolidated entity	
	2019 $'000	2018 $'000
Current assets	13,364	11,198
Non-current assets	3,101	810
Current liabilities	(3,417)	(2,017)
Non-current liabilities	(183)	(197)
Non-controlling interest	(943)	–
Net Assets	**11,922**	**9,794**
Ownership interest	50%	50%
Carrying amount of the investment	**5,961**	**4,897**

The above amounts of assets and liabilities include the following:		
Cash and cash equivalent	2,204	815
Current financial liabilities	(1,229)	(491)
Non-current financial liabilities	–	(42)

Revenues	22,599	18,150
Profit after income tax	3,128	1,952
Share of dividends paid	500	975
The above profit for the year includes the following:		
Depreciation and amortisation	122	73
Interest expenses	116	25
Interest income	6	7
Income tax expense	861	741

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

Notes to the Consolidated Financial Statements

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13. Property, plant and equipment

	Consolidated entity	
	2019 $'000	**2018 $'000**
Plant and equipment		
At cost	4,318	3,555
Accumulated depreciation	(2,772)	(2,381)
Net carrying value	**1,546**	**1,174**
Rental equipment		
At cost	4,991	3,992
Accumulated depreciation	(2,442)	(1,882)
Net carrying value	2,549	2,110
Net carrying value	**4,095**	**3,284**

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	1,174	1,261
Additions	881	466
Acquisitions of a subsidiary	–	529
Expensed to COGS	–	(31)
Disposals	(3)	(589)
Depreciation expense	(505)	(464)
Exchange differences	(1)	2
Net book value at the end of the financial year	**1,546**	**1,174**

Rental equipment		
Written down value		
Net book value at the beginning of the financial year	2,110	–
Additions	1,013	329
Acquisitions of a subsidiary	–	2,014
Disposals	(9)	–
Depreciation expense	(565)	(233)
Net book value at the end of the financial year	**2,549**	**2,110**

14. Intangible assets

	Consolidated entity	
	2019 $'000	**2018 $'000**
Intangible Assets		
Goodwill	13,177	13,125
Other intangible assets	1,606	1,606
Accumulated amortisation	(40)	–
Designs with definite useful life	175	175
Accumulated amortisation	(49)	(28)
Carrying amount of patent	126	147
Net carrying amount	**14,869**	**14,878**
Reconciliation of carrying amounts at the beginning and the end of the year		
Goodwill		
At 1 October	13,125	12,066
Acquisition of business	52	2,447
Changes in goodwill	–	(1,388)
Net book value at 30 September	**13,177**	**13,125**
Designs with definite useful life		
At 1 October	175	–
Acquisition of business	–	175
At 1 October	(28)	–
Amortisation for the period	(21)	(28)
Net book value at 30 September	**126**	**147**
Other intangible assets		
At 1 October	1,606	–
Acquisition of business	–	1,606
Amortisation for the period	(40)	–
	1,566	**1,606**

Other intangible assets include customer contracts and trademarks.

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

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.

Allocation of Goodwill

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

Notes to the Consolidated Financial Statements

continued

14. Intangible assets (continued)

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.

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 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 30 September 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	0.29% increase
LTGR	0.45% decrease
Annual cashflow and terminal value EBITDA	1.63% decrease

15. Trade and other payables

	Consolidated entity	
	2019 $'000	**2018 $'000**
Trade payables and accruals	**6,473**	**6,858**

Payables have carrying amounts that reasonably approximate fair value.

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

16. Financial assets and financial liabilities

16.1 Interest-bearing loans and borrowings

Secured bank loan

	Consolidated entity	
	2019 $'000	2018 $'000
Current		
Secured at amortised cost		
Obligations under finance leases and hire purchase contracts	158	87
Variable rate bank loans	2,850	3,075
Total current	**3,008**	**3,162**
Non-current		
Secured at amortised cost		
Obligations under finance leases and hire purchase contracts	172	178
Total non-current	**172**	**178**

The borrowing facilities comprise $3.3 million (2018: $2.3 million). Cash advance, trade finance and asset finance facilities with an annual review in January each year, and $1.05 million (2018:$1.775 million) reducing limit floating rate loan facility, which amortises quarterly until expiry on 5 April 2021.

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.

16.2 Other financial liabilities

Contingent and deferred consideration

	Consolidated entity	
	2019 $'000	2018 $'000
Contingent consideration		
Current		
Contingent consideration	76	–
Non current		
Contingent consideration	1,123	745
Total contingent consideration	**1,199**	**745**
Deferred consideration		
Current		
Deferred consideration	200	500
Non current		
Deferred consideration	250	450
Total deferred consideration	**450**	**950**

Notes to the Consolidated Financial Statements

continued

16. Financial assets and financial liabilities (continued)

16.2 Other financial liabilities (continued)

Pegasus Healthcare

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 1 April 2021. The payments are subject to any warranty claims arising under the purchase agreement. At balance date, a maximum of $450,000 remains outstanding.

Intralux

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 from a low point of $2,750,000 in the first year to a high of $5,500,000 in the final year of the agreement. Reasonably foreseeable variations in the sales forecasts, and their associated probabilities used, could result in a material change in fair value.

Non-cash movement in the carrying value of the contingent consideration are recognised in profit and loss as non-underlying items.

16.3 Other financial assets and liabilities

As part of the acquisition of Pegasus Healthcare, a Put and Call Option was granted over the remaining interest not held by the Parent entity. Under the terms of the agreement, the Put option gives the right to the minority shareholder 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. Under the call option, HGL has the right 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.

Neither the put or the call option may be exercised prior to 1 April 2021, and the carrying value of the assets and liability represents the fair value of the potential purchase price of the NCI on the earliest date the option can be exercised.

Movement in carrying value of the asset and liability are recognised in profit and loss as non-underlying items.

	Consolidated entity	
	2019 $'000	2018 $'000
Non-current		
Put option liability	(2,408)	(3,349)
Call option assets	1,019	–

16.4 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 16.1) less cash and cash equivalents, and total equity, which includes issued capital (Note 18), reserves (Note 20) 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.

16. Financial assets and financial liabilities (continued)

16.4 Financial risk management objectives and policies (continued)

Significant accounting policies

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

Categories of financial instruments

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

		Consolidated entity	
	Notes	2019 $'000	2018 $'000
Financial assets			
Cash at bank and on hand	21	3,097	5,044
Trade receivables	10	5,143	7,451
Other investments		11	4
Deferred consideration		–	350
Other non current financial assets	16.3	1,019	–
		9,270	**12,849**
Financial liabilities			
Creditors and accruals	15	6,473	6,858
Borrowings - Variable rate loans	16.1	2,850	3,075
Lease Liabilities	16.1	330	265
Other financial liability	16.2, 16.3	4,057	5,044
		13,710	**15,242**

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

Liquidity risk

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

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

	Consolidated entity	
	2019 $'000	2018 $'000
Credit facilities	4,350	4,075
Amount utilised	3,180	3,075
Unused credit facility	**1,170**	**1,000**

The group has $2.3 million (2018: $2.3 million) cash advance, trade finance and asset finance with the Australia and New Zealand Banking Group Limited (ANZ), which is subject to annual review, and a $1.050 million (2018: $1.775 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 $1.0 million multi-purpose facility with ANZ, which is subject to an annual review. The Group acts as a Guarantor for the facility. At balance date this facility was drawn to $0.8 million, used to fund finance lease and other equipment purchases.

Notes to the Consolidated Financial Statements

continued

16. Financial assets and financial liabilities (continued)

16.4 Financial risk management objectives and policies (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	Finance lease liabilities $'000	Put option liability $'000	Total $'000
2019						
Financial Maturity table						
Less than 1 year	6,210	2,325	276	170	-	8,981
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	**6,210**	**2,850**	**1,649**	**346**	**2,408**	**13,463**
2018						
Financial Maturity table						
Less than 1 year	6,858	1,850	505	87	–	9,300
1 - 2 year	–	700	237	91	–	1,028
2 - 3 years	–	525	324	87	3,349	4,285
3 - 4 years	–	–	93	–	–	93
4 - 5 years	–	–	110	–	–	110
Longer than 5 years	–	–	427	–	–	427
Total	**6,858**	**3,075**	**1,696**	**265**	**3,349**	**15,243**

	Consolidated entity	
	2019 %	**2018 %**
Weighted average interest rate		
Trade payables and accruals	–	–
Borrowings - Variable rate loans	4.12	4.82
Finance lease	4.75	4.75

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 $1,743,000 (2018: $1,668,000) of foreign currencies monetary liabilities mainly in USD and Euro. The Group has $1,353,000 (2018: $1,652,000) of foreign currencies monetary assets mainly in USD and NZD.

In addition the Group has $852,000 (2018: $874,000) of foreign currency forward contracts outstanding at balance date, in a net liability fair value position of $368 (2018: $6,000 net asset) that were classed as level 2 financial instruments.

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

16. Financial assets and financial liabilities (continued)

16.4 Financial risk management objectives and policies (continued)

The Group used a 10% sensitivity analysis and concluded there was no material impact on the 2019 and 2018 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 $32,000 higher or lower respectively (2018: $21,000).

17. Provisions

	Consolidated entity	
	2019 $'000	**2018 $'000**
Current		
Employee benefits	1,428	1,960
Surplus lease and make good provisions	9	374
	1,437	**2,334**
Non current		
Employee benefits	419	365
Surplus lease and make good provisions	75	51
	494	**416**

Surplus lease provisions	2019 $'000
Balance at beginning of financial year	425
Additional lease provisions recognised	(55)
Reductions arising from payments	(286)
Balance at the end of financial year	**84**

Notes to the Consolidated Financial Statements

continued

18. Issued capital

Ordinary shares issued and fully paid	2019 Number	2019 $'000	2018 Number	2018 $'000
Balance at the beginning of the financial year	59,297,458	39,408	57,359,581	38,496
Allotted pursuant to HGL dividend reinvestment plan	1,863,424	749	1,937,877	919
Shares bought back and cancelled	(211,297)	(86)	–	–
Costs associated with shares issued and share buyback	–	(7)	–	(7)
Balance at the end of the financial year	**60,949,585**	**40,064**	**59,297,458**	**39,408**

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.

19. Non controlling interests

	Consolidated entity 2019 $'000	Consolidated entity 2018 $'000
Balance at beginning of financial year	1,256	–
Non controlling interests from acquisition	–	1,064
Profit attributable to non controlling interests	316	192
	1,572	**1,256**

20. Reserves

	Consolidated entity 2019 $'000	Consolidated entity 2018 $'000
Foreign Currency Reserve	(172)	(178)
Other Reserve	(901)	(901)
	(1,073)	**(1,079)**

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

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

21. Cash flow information

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

	Consolidated entity	
	2019 $'000	2018 $'000
Cash at banks and on hand	3,097	5,044
Cash and cash equivalents	**3,097**	**5,044**
Reconciliation of cash flow from operations with operating profit after income tax		
Profit after tax from continuing operations	1,459	2,468
Profit/(loss) after tax from discontinued operations	2	(1,656)
Operating profit after income tax	**1,461**	**812**
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation	1,070	757
Losses / (profits) on sale of property, plant and equipment	12	(41)
Amortisation and impairment of intangible assets	61	–
Profit on disposal of controlled entity	–	(111)
Share of profits of associates not received as dividends	(1,064)	97
Change in fair value of financial instruments	(1,506)	–
Changes in assets and liabilities		
(Increase) / decrease in trade and term debtors	2,315	3,470
(Increase) / decrease in inventories	(129)	(816)
(Increase) / decrease in prepayments	155	172
(Increase) / decrease in deferred taxes	524	(523)
Increase / (decrease) in trade creditors and accruals	(669)	(1,404)
Increase / (decrease) in provision for income tax	(322)	(316)
Increase / (decrease) in other current provisions	(896)	(606)
Increase / (decrease) in other non-current provisions	78	(561)
Net cash flows from operating activities	**1,090**	**930**

22. Information relating to HGL Limited (parent)

	Parent entity	
	2019 $'000	2018 $'000
Current assets	476	1,495
Non current assets	24,577	23,265
Total assets	**25,053**	**24,760**
Current liabilities	3,390	4,186
Non current liabilities	4,351	1,355
Total liabilities	**7,741**	**5,541**
Net assets	**17,312**	**19,219**
Issued capital	40,064	39,408
Reserves	381	381
Accumulated losses	(58,030)	(58,030)
Retained earnings	34,897	37,460
Total equity	**17,312**	**19,219**
Total comprehensive income/(loss) of the Parent entity	**(1,217)**	**2,782**

Notes to the Consolidated Financial Statements

continued

22. Information relating to HGL Limited (parent) (continued)

As noted above, there is a working capital deficiency of $2,914,000 (2018: $2,691,000). The Group has undistributed profits within wholly owned subsidiaries which will be received by the Parent entity in the form of cash dividends subsequent to balance date.

23. 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.

An amount is included in other creditors of $0.2 million payable to the NCI in Pegasus arising from completion of the acquisition. There is no fixed repayment date.

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.

Compensation of key management personnel of the Group

	Consolidated entity	
	2019 $	**2018 $**
Short-term employee benefits	1,073,094	1,069,840
Post-employment benefits	71,630	73,991
Other long-term benefits	16,034	15,004
Total compensation paid to key management personnel	**1,160,758**	**1,158,835**

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

24. Commitments and contingencies

24.1 Operating lease commitments - Group as lessee

	Consolidated entity	
	2019 $'000	**2018 $'000**
Within one year	958	1,173
After one year but not more than five years	2,590	698
	3,548	**1,871**

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

24.2 Capital commitments

There are no significant capital expenditure commitments at balance date.

24.3 Contingent liabilities

There are no significant contingent liabilities at balance date.

25. Events after the reporting period

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

26. Auditors' remuneration

The auditor of HGL Limited is Deloitte Touche Tohmatsu.

	Consolidated entity	
	2019 $	**2018 $**
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	238,220
Other non-audit services in relation to the entity and any other entity in the consolidated group	10,500	9,450

27. Investment in controlled entities

Significant controlled entities

		Ownership Interest	
	Country of Incorporation	**2019 %**	**2018 %**
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 Ltd	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) ltd	New Zealand	100	0

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.

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 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 30 September 2019 and of its performance for the year ended on that date; and
      ii. complying with Accounting Standards and the *Corporations Regulations 2001*;
   b. the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.2; and
   c. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 September 2019.

On behalf of the board

Helen Coonan
Chair

Kevin Eley
Director

Sydney, 28 November 2019

Independent Auditor's Report

to the members of HGL Limited

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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 statement of financial position as at 30 September 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 30 September 2019 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Key Audit Matters

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

Independent Auditor's Report

to the members of HGL Limited continued

Deloitte.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Carrying Value of Goodwill As at 30 September 2019 the Group has recognised goodwill amounting to A$13.2 million, contained within three cash generating units (CGUs). Disclosed in Note 14 'Non-Current Assets - Intangibles', in relation to JSB CGU, management has specifically identified that a change in key assumptions used in the value in use impairment model could result in an impairment charge to goodwill. As at 30 September 2019, $10,7 million of goodwill was attributable to the JSB CGU. The determination of the net present value of future cash flows involves significant judgement. For the JSB CGU, significant judgement was required in determining certain assumptions used in the value in use model including the discount rate applied and the forecast EBITDA growth rate.	In conjunction with valuation specialists, our procedures included, but were not limited to: • Understanding and evaluating management's impairment process, including the controls in respect of the preparation and review of forecasts; • Evaluating the discounted cash flow model developed by management to assess the recoverable value of the JSB CGU. This included assessing the following key assumptions used within the model: o discount rate - through comparison with an independently calculated discount rate; and o forecast EBITDA, with reference to historical performance; • Testing the mathematical accuracy of the value in use model for the JSB CGU; • Assessing the historical accuracy of management's cash flow forecasts; • Performing sensitivity analysis on a number of assumptions, in particular discount rates, expected EBITDA growth, and • Assessing the appropriateness of disclosures included 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 2019, 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.

Deloitte.

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 matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Independent Auditor's Report

to the members of HGL Limited continued

Deloitte.

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 2019.

In our opinion, the Remuneration Report of HGL Limited, for the year ended 30 September 2019, 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, 28 November 2019

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 October 2019.

(a) Distribution of equity securities

(i) Ordinary share capital

	Total Holders	Units
1 -1,000	352	147,452
1,001 - 5,000	368	986,172
5,001 - 10,000	162	1,262,329
10.001 - 100,000	292	9,455,861
100,001 and over	62	49,097,771
Total	**1,236**	**60,949,585**

- 60,949,585 fully paid ordinary shares are held by 1,236 individual shareholders
- Number of shareholders holding less than a marketable parcel (1,516 shares) is 432.

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	12,304,224	20.2
J P Morgan Nominees Australia Limited	7,268,806	11.9
IJV Investments Pty Ltd	6,537,792	10.7
LPO Investments Pty Limited	2,223,256	3.7
Kitwood Pty Ltd	1,763,687	2.9
HSBC Custody Nominees (Australia) Limited	1,467,990	2.4
ANZ Trustees Limited <Queensland Common Fund A/C>	1,419,088	2.3
Mr George Edward Curphey	1,233,815	2.0
KJE Superannuation Pty Ltd <KJE Superannuation S/F A/C>	1,144,338	1.9
Jennifer Ann Drummond	1,072,913	1.8
Fiske Plc	1,003,730	1.7
Dr Ida Constable	693,766	1.1
John Rainone Pty Ltd <Rainone Super Fund A/C>	558,484	0.9
Mr Alister John Forsyth	552,752	0.9
MIENGROVE PTY LTD <G J & P K BIRD SUPER A/C>	461,000	0.8
Donus Australia Foundation Limited	440,000	0.7
Donald Cant Pty Ltd	425,507	0.7
Mr Robert Julian Constable + Mrs Janet Marie Constable <RJ Realty Provident Fund A/C>	418,328	0.7
Ms Elizabeth Rasmussen	403,626	0.7
Australasian & General Securities Ltd	372,111	0.6
Total	**41,765,213**	**68.6**

(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	15,480,805
Mrs Ida Constable and her associates	15,397,993

Five Year Summary

HGL Limited and Controlled Entities

	2019	2018	2017	2016	2015
Revenue from Continuing Operations[(a)]	**39,220**	**43,393**	**40,301**	**38,526**	**52,000**
Underlying profit/(loss) from Continuing Operations ($000)[(a)]	**605**	**3,891**	**3,587**	**3,136**	**2,615**
Underlying earnings per share (cents)	1.0	6.7	6.4	5.7	4.8
Underlying return on shareholders' funds (%)[(b)]	2.3	13.7	13.6	13.9	13.9
Dividend per share (cents)	**0.75**	**3.00**	**2.75**	**2.50**	**1.50**
Shares on issue	60,949,585	59,297,458	57,359,581	55,657,919	53,956,011
Reported profit/(loss) ($'000)	1,461	812	2,727	4,313	3,723
Reported earnings per share (cents)	1.9	1.1	4.8	7.9	6.9
Return on shareholders' funds (%)[(c)]	5.9	2.9	10.4	19.1	19.8
Total shareholders' equity ($000)	26,856	26,080	28,380	26,315	22,551
HGL shareholders' equity ($000)	25,284	24,826	28,380	26,315	22,551
Net cash/(debt) ($000)	89	1,882	2,131	3,825	4,683

(a) Reported numbers from 2016 to 2019 represents contributions from Continuing Operations. 2015 and prior periods are statutory reported results.
(b) Underlying profit divided by opening HGL shareholders equity.
(c) Reported profit divided by opening HGL shareholders equity.

Corporate Information

ABN 25 009 657 961

Directors
Helen Coonan (appointed 29 July 2019)
Peter Miller
Kevin Eley
Julian Constable
Cheryl Hayman

Chief Executive Officer
Henrik Thorup

Company Secretary & Chief Financial Officer
Iain Thompson

Registered office and Principle place of business
Level 2
68 Waterloo Road
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NSW 2113 Australia

Phone: +61 2 8667 4660
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Share registrar
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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
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Incorporated in Queensland

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