

# Annual Report 2015



**SUPPLYING  
MARKET  
LEADING  
BRANDED  
PRODUCTS**





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# DIRECTOR'S REPORT

for the year ended 30 September 2015

Your directors submit their report for the year ended 30 September 2015.

## Directors

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

### Peter Miller, FCA (Chairman)

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

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

Non executive Director, appointed 2000. Frank has over 30 years experience in strategic planning, financing and corporate advice. Dr Wolf was appointed Managing Director of the listed Abacus Property Group in 2006. He is Chairman of the Audit Committee, and was appointed to the Nomination and Remuneration Committee on 25 August 2015.

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

Non executive Director, appointed 1985. Kevin is a Chartered Accountant with significant executive and director experience, including as Chief Executive Officer of HGL Ltd from 1985 to 2010. Kevin is a member of the Audit Committee. He is a director of Po Valley Energy (since June 2012), Milton Corporation Ltd (since December 2011), Equity Trustees Ltd (since November 2011) and Hunter Hall International Ltd (since September 2015), and was a director of Kresta Holdings Ltd between April 2011 and February 2014.

### Julian Constable (Director)

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

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

As at the date of this report, the interests of the directors in the shares and options of HGL Limited were:

	Number of direct shares	Number of indirect shares
Peter Miller	46,163	11,225,289
Dr Frank Wolf	–	721,038
Kevin Eley	–	809,872
Julian Constable	125,000	5,600,625

## Key Management Personnel

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

### Chief Executive Officer

Henrik Thorup, BSc (Econ), GAICD

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

### Chief Operating Officer

Julian Pidcock, BSc

Appointed COO in 2013, Julian has more than 20 years executive management and business development experience with leading global corporations including Nestle, Pizza Hut and McPherson's Consumer Products.

### Chief Financial Officer and Company Secretary

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

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

# DIRECTORS REPORT

continued

## Dividends

The Directors have declared a final dividend of 1.5 cents per share fully franked, to be paid on 18 December 2015.

There were no dividends paid during the financial year ended 30 September 2015.

## 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. During the year the total number of shares issued under the DRP was nil (2014: 1,481,126).

## Share buy-back

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

## Principal Activities

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

## Operating and Financial Review

### Summary

- Sales revenue \$52.0 million, up 2.4%
- Statutory profit \$3.7 million, improvement on FY14 loss of \$21.4 million
- Underlying net profit after tax \$2.6 million, up 391%
- Net cash of \$4.7 million, up \$2.5 million
- Final dividend of 1.5 cents per share fully franked

### Overview

For the year ended 30 September 2015 HGL reports a Statutory Profit of \$3.7 million, up from a loss of \$21.4 million in the prior corresponding period.

Underlying profit was \$2.6 million, up from \$0.5 million in the prior corresponding period. Underlying profit is statutory profit excluding irregular transactions that are not part of the core or ongoing business operations. Non-underlying items increased statutory net profit after tax by \$1.1 million, with the significant non-underlying items being \$0.7 million from the release of warranties in relation to the Anitech sale in 2014, and \$0.6 million from the re-recognition of previously derecognised deferred tax assets, offset by \$0.4 million in restructuring costs. Prior year non-underlying expenses included significant asset impairments and de-recognitions totalling \$21.9 million.

A key strategic priority in 2015 was to achieve organic sales growth and reverse the declining sales trend. Total revenue of \$52.0 million improved by 2.4% from \$50.7 million in 2014.

The overall group gross margin remained strong at 44.7% (2014: 44.6%), despite cost inflation from foreign exchange rate movements.

Operating expenses reduced by 1.7% from continuous improvement programs minimising operational complexity and introducing new business process technology. The decline in operating expenses was achieved after increased investment in staff development programs and expanding sales force resources in several business units.

The positive uplift in profit performance is a result of the successful implementation of our Growth, Profit and Sustainability (GPS) Strategy Plan over the past 12 months.

The key enablers of the GPS Strategy are: driving revenue growth from additional product sales in core and new markets; increasing profitability through continuous process improvement; and ensuring sustainable performance through investment in leadership and talent management programs.

Phase one of the plan, which is substantially complete, was to rebuild foundations. Phase two is to reshape the industry footprint of the HGL Group to operate in segments with long-term growth prospects. Phase three will leverage the rebuilt company portfolio and industry dynamics to deliver enhanced shareholder returns.

## Dividend

The Directors have declared a final dividend of 1.5 cents per share fully franked, payable on 18 December 2015 to shareholders on the ordinary register at 5pm on 4 December 2015. This dividend level is in recognition of the fact that underlying profits have stabilised, and are expected to be sustainable while the businesses target earnings growth.

The dividend reinvestment plan will continue to be available to all shareholders with no discount.

## Corporate Strategy and Operational Priorities

With solid progress made on the continued transformation of HGL this financial year, we have conducted commercial and strategic planning sessions across the business units incorporating a five year horizon to 2020. The strategic plans highlight the operational priorities and required activities to achieve our near term Group financial benchmarks of 10% EBIT to Sales and 20% Return on Capital Employed, while delivering the core objectives of Growth, Profit and Sustainability in the GPS Strategy Plan.

The operational priorities are designed to build sustained competitive advantage and consistently direct management attention towards specific objectives, including:

- Expand product portfolio
- Superior sales execution
- Online market presence
- Develop intellectual property
- Reduce operational complexity
- Integrate business technology
- Increase employee engagement

The ongoing execution of the defined strategic priorities will underpin organic revenue growth, maintain strong gross margins, improve operational efficiency and increase employee retention across the HGL Group.

The restructure of the HGL head office was completed in May 2015 with the relocation to Macquarie Park in Sydney. The restructure is expected to generate operational cost savings of approximately \$0.5 million per annum.

An important element of the strategic plan is to secure HGL's position in industry sectors with long-term growth prospects to support ongoing expansion. Our portfolio acquisition strategy targets investments in profitable companies in growth industries, with emphasis on health & beauty, homewares, building products and medical devices.

To give the homewares sector greater focus, from 1 October 2015 a new entity, Nido Interiors, was created to operate a new innovative and cost effective business model, selling home décor and soft furnishing product ranges under the existing One-Duck-Two and private label brands.

## Business Unit Review

With the exception of Biante, each of the HGL business units increased its underlying earnings before interest and tax compared to the previous year.

JSB Lighting, which sells architectural lighting solutions to the commercial building market in all states through its branch network, achieved significant revenue and profit growth in 2015. Revenue grew by 29.4% to \$19.8 million. The addition of the premium Hubbell and Meyer outdoor lighting brands contributed positively to the continued expansion of JSB Lighting in 2015.

With record sales growth, solid gross margins and targeted expenditure, including investment in additional staff and premises, JSB delivered 127% growth in EBIT in 2015. The core objective for JSB Lighting is to leverage its strong market position, expand market share with specific emphasis on Melbourne, and continue to develop its product portfolio.

Leutenegger, despite revenue decline of 10.3% compared to last year, reduced its rate of sales decline by taking advantage of new business development opportunities with major retail chains like Spotlight, Lincraft and Big-W. Leutenegger returned to profit in 2015, which is encouraging after progressing its turnaround program with product range rationalisation, normalising customer service levels, improving delivery performance and developing a new competitive brand portfolio.

Leutenegger continued to develop its soft furnishing brand One-Duck-Two in the Homewares market with dedicated collections by renowned interior designer Greg Natale. With the establishment of Nido, Leutenegger will now concentrate on new revenue opportunities in the contemporary craft, fabric and kids craft toy markets with its Leutenegger and Make-it brands.

BLC Cosmetics achieved profit in 2015, improving from break-even last year. This was underpinned by expanded online trading capabilities through several new introduced websites, enhanced beauty therapist training and productivity gains from cost effective operation.

# DIRECTORS REPORT

continued

With multiple new brands successfully launched during 2015, including Alpha-H cosmeceutical skincare, Issada mineral make-up and Lightstim LED light therapy devices, BLC Cosmetics delivered revenue growth of 6% over the prior corresponding period. This was an important milestone for BLC Cosmetics and the leadership team plans for further revenue growth in 2016, having secured the exclusive distribution rights to the Jbronze tanning brand and Fusion mesotherapy product lines in the Australian spa and salon market.

SPOS Group improved sales in the second half of financial year 2015. Despite full year sales decline of \$2.5 million, total gross margin ratio rose, impacted by the refocused business strategy of selling standard shelving product lines to brand owners and national retailers.

The discontinuation of non-profitable revenue and reduced operating expenses improved efficiency and profit performance in SPOS achieving EBIT to sales ratio of 5.2% in 2015. This demonstrates SPOS's potential to compete profitably in its core market and reflects progress made, except securing overall sales growth, which is a key strategic improvement point in 2016.

Biante delivered revenue in line with the previous year, however manufacturing delays on several planned models postponed their release dates. The depreciation of the Australian dollar compared to US dollar during 2015 reduced gross margins compared to the prior year, impacting the overall profitability of the business. The company remains profitable, but achieved a lower EBIT to sales margin.

Biante renewed its exclusive agreement with the factory backed Holden Racing Team to produce dedicated V8 supercars, including models from the recently launched Star Wars franchise partnership between Holden and Disney. Biante will launch the delayed V8 supercar and other road car models in 2016, which is expected to increase the profit level this year.

Our 50% joint venture with Mountcastle had another solid year. The company increased its market share in the school uniform and bag market with expanded product ranges and sales force across the country. A new partnership with The School Locker, a Harvey Norman owned specialist retail chain, assisted the total revenue growth of 9.8% compared to the prior period.

Mountcastle is in the final stage of launching a new online ordering portal for its school uniform clients to enhance efficiency, demand planning and customer satisfaction. During 2015 Mountcastle entered into a new partnership to manufacture for the School Locker partnership. Mountcastle increased its EBIT by 6.6% in 2015, maintaining its solid EBIT to sales margin as in previous years.

## People and the Environment

Our employees are our most important resource and HGL is committed to supporting them to reach their full potential. We continue to develop high performing teams across our businesses and invest in leadership, talent management programs and staff training. The board acknowledges and thanks our employees for their effort and contribution throughout the year.

## Cash Flow

During the year the net cash balance increased by \$2.5 million to \$4.7 million after the repayment in full of the bank borrowings at balance date. The current facility remains with a limit of \$2.8 million, providing the group with capacity to fund growth initiatives.

Cash flow from operations was \$2.8 million at 30 September 2015 incorporating additional sales force resource investments, improved profits, strong working capital discipline and improved collection practices.

## Balance Sheet

The net assets of the group have increased by \$3.7 million to \$22.5 million during the year. The increase in net assets was largely due to the improved cash position, repayment of debt, and a targeted increase in working capital to support contracted service levels with major customers. Net tangible assets increased 43.8% to 23.0 cents per share.

## Executive Incentive Scheme

The Board is considering an Executive Incentive Plan for HGL executives based on company strategies and to focus management on controllable outcomes and manage risk. It is the intention of the board to present the plan for shareholder approval if required.

## **Risk Management**

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

Key risks for the Group include:

*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 being managed through the use of distribution agreements for key suppliers, ongoing development of long term supplier relationships, and the use of complimentary product range brands to decrease percentage contribution from important suppliers

*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

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

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

## **Outlook**

HGL is directing its priorities from rebuilding foundations towards profitable revenue growth and employee capability development with investments in new brand introductions, human resource training programs and targeted marketing activities.

We remain cautious but optimistic in the outlook for the trading conditions with prevailing low consumer and business confidence.

The Board is confident in the positive outlook of the Group and the continued execution of the GPS Strategy Plan, underpinned by growth opportunities and clear operational plans, to improve profit for the coming year, and allow the reinstatement of regular dividends.

## **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

continued

## Remuneration Report (audited)

The remuneration report provides an overview of the Group remuneration policies and practices and explains the links between rewards and Company performance. The report also gives detailed information about the remuneration arrangements for the key management personnel of the Company. The remuneration report has been audited.

### 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 2015. Unless otherwise indicated, the individuals were KMP for the entire financial year.

#### Directors

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

#### Executives

Henrik Thorup	Chief Executive Officer
Julian Pidcock	Chief Operating Officer
Iain Thompson	Chief Financial Officer & Company Secretary (appointed 29 May 2015)
Andrew Whittles	Chief Financial Officer (ceased 29 May 2015)

### Remuneration Governance

#### Remuneration Committee

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

Peter Miller	Non-Executive Chair
Julian Constable	Non-Executive Director
Dr Frank Wolf	Non-Executive Director (appointed to the Committee 25 August 2015)

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 and superannuation arrangements;
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.



### *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.

During the financial year, the Committee approved the engagement of Godfrey Remuneration Group (GRG) as remuneration consultants to provide information regarding potential short term and long term incentive schemes for senior executives. The fees paid to GRG for the remuneration recommendations were \$11,000.

Remuneration recommendations were provided to the Committee as an input into decision making only. The Committee considered the recommendations in conjunction with other factors in making its remuneration determinations.

The Committee is satisfied the advice received from GRG is free from undue influence from the KMP to whom the remuneration recommendations apply, as GRG were engaged by, and reported to, the Chair of the Nomination and Remuneration Committee.

### **Executive Remuneration Arrangements**

#### *Principles of Remuneration*

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

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

#### *Components of Remuneration*

##### *Not at risk remuneration*

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

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

##### *At risk remuneration*

There was no formal incentive scheme in place during the 2015 financial year. The Nomination and Remuneration Committee has reviewed the performance of the KMP employed at 30 September 2015, and short term incentives totalling \$162,000 were approved on 10 November 2015 in relation to performance during the 2015 financial year. This amount has been accrued at balance date, however payment of cash incentives is not made until following completion of the audit for the relevant financial year.

During the financial year the Nomination and Remuneration Committee obtained advice in relation to potential formalised incentive plans for the 2016 financial year and beyond. These plans had not been finalised at year end, however the board intends to present the plans for shareholder approval if required.

No cash incentives were paid or accrued for 2014.

##### *Employment contracts*

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

# DIRECTORS REPORT

continued

## Executive & Board Remuneration

2015	Short term benefits				Post employ- ment benefits	Long term benefits			Total	Percent- age variable remune- ration
	Salary & fees	Short term bonus	Non mone- tary benefits	Annual leave	Super- annua- tion	Long term incen- tives	Long service leave	Termi- nation payments		
<b>Directors</b>										
Peter Miller	100,457	-	-	-	9,543	-	-	-	110,000	-
Dr Frank Wolf	63,927	-	-	-	6,073	-	-	-	70,000	-
Julian Constable	54,795	-	-	-	5,205	-	-	-	60,000	-
Kevin Eley	54,795	-	-	-	5,205	-	-	-	60,000	-
Total Directors	273,974	-	-	-	26,026	-	-	-	300,000	-
<b>Executives</b>										
Henrik Thorup	455,000	100,000	18,895	36,923	25,000	-	7,672	-	643,490	15.5
Julian Pidcock	278,749	42,000	-	23,365	25,000	-	5,174	-	374,288	11.2
Andrew Whittles <sup>(1)</sup>	184,144	-	-	-	20,000	-	-	142,692	346,836	-
Iain Thompson <sup>(2)</sup>	95,320	20,000	-	7,944	7,958	-	1,601	-	132,823	15.1
Total executives	1,013,213	162,000	18,895	68,232	77,958	-	14,447	142,692	1,497,437	
	1,287,187	162,000	18,895	68,232	103,984	-	14,447	142,692	1,797,437	

(1) A Whittles ceased employment on 29 May 2015. Termination benefits include payment of accrued leave entitlements

(2) I Thompson commenced employment on 5 May 2015 and became KMP from 29 May 2015

2014	Short term benefits				Post employ- ment benefits	Long term benefits			Total	Percent- age variable remune- ration
	Salary & fees	Short term bonus	Non mone- tary benefits	Annual leave	Super- annua- tion	Long term incen- tives	Long service leave	Termi- nation payments		
<b>Directors</b>										
Peter Miller	100,629	-	-	-	9,371	-	-	-	110,000	-
Dr Frank Wolf	64,037	-	-	-	5,963	-	-	-	70,000	-
Julian Constable	54,889	-	-	-	5,111	-	-	-	60,000	-
Kevin Eley	54,889	-	-	-	5,111	-	-	-	60,000	-
Total Directors	274,444	-	-	-	25,556	-	-	-	300,000	-
<b>Executives</b>										
Henrik Thorup	395,000	-	23,013	-	25,000	-	8,925	-	451,938	-
Julian Pidcock	270,000	-	-	-	25,000	-	4,915	-	299,915	-
Andrew Whittles <sup>(1)</sup>	269,167	-	-	-	25,833	-	4,915	-	299,915	-
Total executives	934,167	-	23,013	-	75,833	-	18,755	-	1,051,768	
	1,208,611	-	23,013	-	101,389	-	18,755	-	1,351,768	

(1) A Whittles ceased employment on 29 May 2015. Termination benefits include payment of accrued leave entitlements

### Relationship between the Remuneration Policy and Company Performance

Short term incentives are largely determined by the profits of the Group, so aligning the incentive of the executive with the creation of value for the HGL shareholders. No portion of any incentive schemes are solely linked to the HGL share price. Instead incentives are based primarily on underlying profit as an increase in the underlying profit leads to an increase in the dividend. 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. The Board is focused on increasing shareholder value through increasing dividends.

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 an analysis of the figures below illustrates the stabilisation of performance over the last four years, including the divestment of under-performing businesses. The last two years particularly show a return to profitability for the group before non-underlying items. There were no incentive payments made for the financial years ended 30 September 2012 to 2014, with the exception of a payment to Mr Thorup in 2013 for the achievement of specific elements of the strategic plan.

	2011	2012	2013	2014	2015
Total Revenue (\$'000)	163,431	118,237	68,986	50,771	52,000
Underlying profit (\$'000)	7,150	(457)	(421)	533	2,615
Net profit after tax (\$'000)	(57)	(4,601)	(8,772)	(21,430)	3,722
Share price at year end (\$)	1.03	0.545	0.525	0.49	0.36
Underlying Earnings Per Share (cents)	13.9	(0.9)	(0.8)	1.0	4.8
Dividends – ordinary shares (cents)	11.5	6.0	4.0	2.0	1.5

### Non-executive Director Remuneration Arrangements

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. Non-executive directors are not employed under employment contracts.

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. Fees paid to non-executive directors have not increased since 1 October 2008.

### 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 2015	Balance at beginning of period	Purchases	Disposals <sup>(3)</sup>	Balance at end of period	Balance held indirectly
<b>Directors</b>					
Peter Miller	11,055,452	216,000	–	11,271,452	11,225,289
Dr Frank Wolf	721,038	–	–	721,038	721,038
Kevin Eley	809,872	–	–	809,872	809,872
Julian Constable	5,644,625	81,000	–	5,725,625	5,600,625
<b>Senior executives</b>					
Henrik Thorup	–	–	–	–	–
Julian Pidcock	–	–	–	–	–
Iain Thompson <sup>(1)</sup>	–	–	–	–	–
Andrew Whittles <sup>(2)</sup>	64,064	–	(64,064)	–	–

(1) Became a Key Management Person in May 2015

(2) Ceased to be a Key Management Person in May 2015

(3) Disposals includes no longer being designated as KMP

### Employee Share Scheme

The HGL Ltd Employee Share Scheme, and the associated Loans, were cancelled during the 2014 financial year with no cash effects.

There was no share scheme in place during the 2015 financial year.

## End of 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 respect of claims 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 12.

No other material services were provided by the auditor during the year.

## Options

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

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

## Directors' Meetings

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

	Directors' meetings	Meetings of committees	
		Audit	Nomination and Remuneration
<b>Number of meetings held:</b>	15	6	1
<b>Number of meetings attended:</b>			
Peter Miller	15	6	1
Dr Frank Wolf	15	6	—*
Kevin Eley	15	6	N/A
Julian Constable	15	N/A	1

\* Dr Wolf was appointed to the Nomination and Remuneration Committee on 25 August 2015. There were no Committee meetings subsequent to his appointment.

## Corporate Governance

The Company's Corporate Governance Statement for the year ended 30 September 2015 is effective 24th November 2015 and was approved by the Directors on 24th November 2015. The Corporate Governance Statement is available on the HGL Ltd website at [www.hgl.com.au/about/corporate-governance](http://www.hgl.com.au/about/corporate-governance).

## Rounding

The amounts contained in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$'000) under the option available to the Company under ASIC CO 98/0100. The Company is an entity to which the class order applies.

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

On behalf of the Directors



Peter Miller  
**Chairman**

Sydney, 24 November 2015



Dr Frank Wolf  
**Director**

# AUDITOR'S INDEPENDENCE DECLARATION

**Deloitte.**

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

24 November 2015

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 2015, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Tara Hill  
Partner  
Chartered Accountants

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the year ended 30 September 2015

	Notes	Consolidated entity	
		2015 \$'000	2014 \$'000
Sales revenue	4.1	52,000	50,771
Cost of sales		(28,781)	(30,491)
<b>Gross profit</b>		<b>23,219</b>	<b>20,280</b>
Other income	4.4	189	134
Sales, marketing and advertising expenses		(7,522)	(7,756)
Occupancy expenses		(1,266)	(4,266)
Freight and distribution expenses		(2,301)	(2,864)
Administration and other expenses		(9,706)	(17,099)
Finance costs	4.3	(211)	(308)
Share of profit/(loss) of an associate		772	(2,513)
<b>Profit/(loss) before tax</b>		<b>3,174</b>	<b>(14,392)</b>
Income tax benefit/(expense)	5	548	(7,038)
<b>Profit/(loss) for the year</b>		<b>3,722</b>	<b>(21,430)</b>
Attributable to:			
Equity holders of the Parent		3,722	(21,430)
		<b>Cents</b>	<b>Cents</b>
Earnings per share			
Basic	7	6.9	(39.4)
Diluted	7	6.9	(39.4)

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

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 September 2015

	Consolidated entity	
	2015 \$'000	2014 \$'000
<b>Profit/(loss) for the year</b>	3,722	(21,430)
<b>Other comprehensive income</b>		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Exchange differences on translation of foreign operations	23	(83)
<b>Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods</b>	23	(83)
<b>Total comprehensive income/(loss) for the year, net of tax</b>	<b>3,745</b>	<b>(21,513)</b>
Total comprehensive income attributable to:		
Equity holders of the Parent	3,745	(21,513)
	<b>3,745</b>	<b>(21,513)</b>

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



# BALANCE SHEET

as at 30 September 2015

	Notes	Consolidated entity	
		2015 \$'000	2014 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	19	4,683	4,985
Trade and other receivables	8	7,954	8,763
Inventories	9	5,223	4,101
Prepayments		1,451	1,370
<b>Total current assets</b>		<b>19,311</b>	<b>19,219</b>
<b>Non current assets</b>			
Investment in associates	10	4,444	4,172
Property, plant and equipment	11	918	1,016
Intangible assets	12	10,166	10,166
Deferred tax assets	5	611	–
<b>Total non current assets</b>		<b>16,139</b>	<b>15,354</b>
<b>Total assets</b>		<b>35,450</b>	<b>34,573</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	13	8,763	8,473
Interest bearing loans and borrowings	14	–	2,800
Provisions	15	2,606	2,385
Income tax payable		63	–
<b>Total current liabilities</b>		<b>11,432</b>	<b>13,658</b>
<b>Non-current liabilities</b>			
Provisions	15	1,469	2,111
<b>Total non current liabilities</b>		<b>1,469</b>	<b>2,111</b>
<b>Total liabilities</b>		<b>12,901</b>	<b>15,769</b>
<b>Net assets</b>		<b>22,549</b>	<b>18,804</b>
<b>Equity</b>			
Issued capital	16	36,802	36,802
Other capital reserves	18	(1,078)	1,341
Accumulated losses		(13,175)	(19,339)
<b>Total equity</b>		<b>22,549</b>	<b>18,804</b>

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

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2015

For the year ended 30 September 2015	Attributable to the equity holders of the parent							
	Issued capital (Note 16) \$'000	Foreign Currency Reserve (Note 18) \$'000	Employee Share Scheme Reserve (Note 18) \$'000	Other Reserve (Note 18) \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
Balance at beginning of year	36,802	(200)	2,442	(901)	(19,339)	18,804	–	18,804
Profit for the year	–	–	–	–	3,722	3,722	–	3,722
Translation of overseas controlled entities	–	23	–	–	–	23	–	23
Total comprehensive income	–	23	–	–	3,722	3,745	–	3,745
Transfer (to) / from Retained earnings	–	–	(2,442)	–	2,442	–	–	–
<b>Balance at end of year</b>	<b>36,802</b>	<b>(177)</b>	<b>–</b>	<b>(901)</b>	<b>(13,175)</b>	<b>22,549</b>	<b>–</b>	<b>22,549</b>

For the year ended 30 September 2014	Attributable to the equity holders of the parent							
	Issued capital (Note 16) \$'000	Foreign Currency Reserve (Note 18) \$'000	Employee Share Scheme Reserve (Note 18) \$'000	Other Reserve (Note 18) \$'000	Retained earnings \$'000	Total \$'000	Non-controlling interests \$'000	Total equity \$'000
Balance at beginning of year	36,624	(117)	2,442	(901)	4,254	42,302	885	43,187
Loss for the year	–	–	–	–	(21,430)	(21,430)	–	(21,430)
Translation of overseas controlled entities	–	(83)	–	–	–	(83)	–	(83)
Total comprehensive income	–	(83)	–	–	(21,430)	(21,513)	–	(21,513)
Dividend paid (Note 6)	–	–	–	–	(2,163)	(2,163)	–	(2,163)
Disposal of controlled entities	–	–	–	–	–	–	(885)	(885)
ESS shares issued	35	–	–	–	–	35	–	35
Shares issued under DRP	777	–	–	–	–	777	–	777
ESS shares bought back and cancelled	(634)	–	–	–	–	(634)	–	(634)
<b>Balance at end of year</b>	<b>36,802</b>	<b>(200)</b>	<b>2,442</b>	<b>(901)</b>	<b>(19,339)</b>	<b>18,804</b>	<b>–</b>	<b>18,804</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2015

	Notes	Consolidated entity	
		2015 \$'000	2014 \$'000
<b>Operating activities</b>			
Cash receipts in the course of operations		58,675	59,333
Cash payments in the course of operations		(56,293)	(56,204)
Interest received		99	32
Interest paid		(211)	(307)
Dividends received from associates		555	550
<b>Net cash flows from operating activities</b>	19	<b>2,825</b>	<b>3,404</b>
<b>Investing activities</b>			
Proceeds from sale of property, plant and equipment		–	130
Purchase of property, plant and equipment	11	(327)	(431)
Net proceeds from disposal of subsidiary		–	710
<b>Net cash flows (used in)/from investing activities</b>		<b>(327)</b>	<b>409</b>
<b>Financing activities</b>			
(Repayments)/Proceeds from borrowings		(2,800)	50
Loans repaid to associates		–	(2,289)
Dividends paid		–	(1,386)
<b>Net cash flows used in financing activities</b>		<b>(2,800)</b>	<b>(3,625)</b>
Net (decrease)/increase in cash and cash equivalents		(302)	188
Net foreign exchange difference		–	1
Cash and cash equivalents at 1 October	19	4,985	4,796
<b>Cash and cash equivalents at 30 September</b>	19	<b>4,683</b>	<b>4,985</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 September 2015

## 1. Corporate Information

The consolidated financial statements of HGL Limited and its subsidiaries (collectively, the Group) for the year ended 30 September 2015 were authorised for issue in accordance with a resolution of the directors on 24th November 2015.

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

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

## 2. Summary of Significant Accounting Policies

### 2.1 Basis of Preparation

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

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

The consolidated financial statements provide comparative financial information in respect of the previous period. Certain comparative amounts have been reclassified to conform with current years presentation.

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

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

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

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

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

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

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

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

The Group has early adopted AASB2014-9 'Amendments to Australian Accounting Standards - Equity method in separate financial statements', which allows the parent entity to equity account its investment in Mountcastle Pty Ltd. There is no change to the Consolidated financial statements as a result of adopting this accounting standard, as the Group already uses equity accounting for associates on consolidation.

The impact of this standard at 30 September 2015 has been an increase in Non-current assets for the parent (Note 20) of \$710,000 (2014 \$497,000), and a corresponding increase in Equity of the same amount. Net profit after tax for the parent has increased by \$231,000 (2014 \$497,000).

#### *(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 2015. The directors have not early adopted any of these new or amended standards or interpretations. The directors have not yet fully assessed the impact of these new or amended standards (to the extent relevant to the Group) and interpretations.

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

	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 September 2019
AASB 15 'Revenue from Contracts with Customers'	1 January 2017	30 September 2018
AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016	30 September 2017
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	1 January 2016	30 September 2017
AASB 2015-3 'Amendments to Australian Accounting Standards arising from the withdrawal of AASB 1031 Materiality'	1 July 2015	30 September 2016

### 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 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

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

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

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

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

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

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

#### (b) Business Combinations and Goodwill

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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

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

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised either in either profit or loss or as a change to other comprehensive income (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 in control or joint control over those policies.

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

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

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

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

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

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

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

### *(d) Foreign Currency Translation*

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

### *Transactions and Balances*

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

### *Group Companies*

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

### *(e) Revenue Recognition*

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

### *Sale of Goods*

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

### *Rendering of Services*

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

### *Interest Income*

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

### *Dividends*

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

### *(f) Taxes*

#### *Current Income Tax*

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

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

#### *Deferred Tax*

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

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

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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

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
- When receivables and payables are stated with the amount of GST included

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

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

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

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

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

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

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

### *Depreciation*

Items of plant and equipment are depreciated over their estimated useful lives using the straight line and reducing balance method. The estimated useful lives and depreciation method is reviewed at the end of each reporting period.

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

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

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



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

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.

### (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 (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

##### *Financial Assets at Fair Value through Profit or Loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by AASB 139.

The Group has not designated any financial assets at fair value through 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 8.

##### *Held-to-Maturity Investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held-to-maturity investments are measured at amortised cost less impairment. The Group did not have any held-to-maturity investments during the year.

##### *AFS Financial Assets*

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those that are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Group did not have AFS financial assets during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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

### *Impairment of Financial Assets*

The Group assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

### *Financial Assets carried at Amortised Cost*

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

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

### *(ii) Financial Liabilities*

#### *Initial Recognition and Measurement*

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

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

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

### *Subsequent Measurement*

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

#### *Loans and Borrowings*

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

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

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

#### *De-recognition*

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

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

#### *Initial Recognition and Subsequent Measurement*

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

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

### *(n) Inventories*

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

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

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

### *(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.

### *(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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

### (s) Fair Value Measurement

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

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

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

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

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

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

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

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

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

There are no level 3 categorised items in the Group.

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.

### (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 after allocation of central administration costs. 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, are listed separately in the segment note as 'unallocated' items.

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

## 3. Significant Accounting Judgements, Estimates and Assumptions

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

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

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

### Deferred Tax Assets (Note 5)

Determining the extent to which deferred tax asset balances should be recognised requires an estimation of future taxable profits. The key assumptions in the estimation are future profitability and sales growth rates, together with changes in margins and expenses. These assumptions will be closely monitored and adjustments made in future periods if such adjustments are appropriate.

### Inventories (Note 9)

The key assumptions in estimating the net realisable value of inventories require the use of management judgement and are reviewed annually. Analysis of the Group's inventories involves consideration of physical stock levels, months in stock and future saleability.

### 3. Significant Accounting Judgements, Estimates and Assumptions (continued)

#### Intangibles (Note 12)

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

The key assumptions for the value in use calculations are those regarding discount rates, long term growth rates, expected changes in margins and expenses. The assumptions regarding long term growth rates, together with changes in margins and expenses are based on past experience and expectations of changes in the market. Note 12 (Intangible assets) contains details of the specific assumptions made in calculating the value in use.

The key assumptions will be closely monitored and adjustments made in future periods if such adjustments are appropriate.

#### Provisions (Note 15)

When assessing surplus lease space, key assumptions are the ability to sublet and the extent to which the business may grow or reconfigure and so utilise the space. In the absence of a firm subletting proposal there is no benefit recognised for any potential subletting income.

### 4. Profit from Operations

#### 4.1 Revenue

	Consolidated entity	
	2015 \$'000	2014 \$'000
Sales revenue	52,000	50,771

#### 4.2 Expenses

##### Depreciation

Plant and equipment	288	929
---------------------	-----	-----

##### Employee benefit expenses

Salary and wages	13,371	14,109
Defined contribution superannuation expense	873	944
	14,244	15,053

Bad and doubtful debts – trade debtors	16	153
Write down of inventories to net realisable value	(39)	2,687
Operating lease expenses – minimum lease payments	1,433	1,966
Foreign exchange loss/(gain)	(100)	86

#### 4.3 Finance Costs

Financial institutions	211	275
Associates	–	33
<b>Total finance costs</b>	<b>211</b>	<b>308</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 4. Profit from Operations (continued)

### 4.4 Other Income

	Consolidated entity	
	2015 \$'000	2014 \$'000
<b>Interest</b>		
Associate (Note 10)	16	19
Financial Institutions	83	65
Employee share scheme – key management personnel	–	50
<b>Total interest</b>	<b>99</b>	<b>134</b>
Dividends	55	–
Other income	35	–
Other income	90	–
<b>Total other income</b>	<b>189</b>	<b>134</b>

### 4.5 Significant Items

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

#### Non-underlying items

Impairment of goodwill <sup>(1)</sup>	–	(5,516)
Inventory provisions <sup>(2)</sup>	–	(2,358)
Surplus lease provisions <sup>(3)</sup>	200	(2,300)
Impairment of fixed assets <sup>(1)</sup>	–	(1,555)
Loss and impairment of equity accounted associate <sup>(1, 4)</sup>	728	(2,658)
Restructuring costs <sup>(1)</sup>	(432)	(133)
Other non-underlying items <sup>(1)</sup>	–	(14)
Total non-underlying items before tax	496	(14,534)
Recognition/(derecognition) of deferred tax assets	611	(7,429)
<b>Total non-underlying items after tax</b>	<b>1,107</b>	<b>(21,963)</b>

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

(2) Disclosed in "Cost of goods sold" in statement of profit and loss

(3) Disclosed in "Occupancy expenses" in statement of profit and loss

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

## 5. Income Tax

The major components of income tax expense for the years ended 30 September 2015 and 2014 are:

### Consolidated statement of profit or loss

	Consolidated entity	
	2015 \$'000	2014 \$'000
<b>Current income tax:</b>		
Current income tax charge	63	(436)
Prior year under/(over) provision	–	45
Derecognition/(Re-recognition) of deferred tax assets	(611)	7,429
	<b>(548)</b>	<b>7,038</b>
Prima facie income tax benefit on profit/(loss) from ordinary activities at 30% (2014: 30%)	948	(4,318)
Differences in overseas tax rates	4	–
Equity accounted investments	(232)	754
Impairment of associate	–	60
(Recognition)/Derecognition of deferred tax assets	(611)	7,429
Current year temporary differences not brought to account	(627)	1,298
Impairment of goodwill	–	1,655
Income on scheme loans recognised directly in equity	–	29
Tax effect on disposal of controlled entities	–	77
Non allowable expenses	137	9
Prior year under/(over) provision	–	45
Recognition of previously unrecognised tax losses	(167)	–
	<b>(548)</b>	<b>7,038</b>
<b>Current tax assets</b>		
<b>Income tax payable attributable to:</b>		
Parent entity	–	–
Entities in the tax consolidated group	–	–
Other entities not in the tax consolidated group	–	–
Income tax payable	(63)	–
	<b>(63)</b>	<b>–</b>
<b>Deferred tax</b>		
<b>Deferred tax assets comprises</b>		
Employee benefits	611	–
	<b>611</b>	<b>–</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 5. Income Tax (continued)

Consolidated entity	Employee provisions \$'000
<b>2015</b>	
Opening balance	–
Charged to income	611
Charged to equity	–
<b>Total</b>	<b>611</b>

Consolidated entity	Employee Provisions \$'000	Other provisions \$'000	Tax losses - capital realised \$'000	Tax losses - revenue realised \$'000
<b>2014</b>				
Opening balance	804	1,946	95	4,584
Charged to income	(804)	(1,946)	(95)	(4,584)
Charged to equity	–	–	–	–
<b>Total</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

Accounting standards require probable use for deferred tax assets. In view of trading results, \$1.9 million of additional deferred tax assets in respect of temporary differences have not been recognised in the financial statements. In addition, the Group has approximately \$18.0 million of gross revenue losses and \$11.0 million of gross capital losses which have not been brought to account at 30 September 2015.



## 6. Dividends Paid and Proposed

	Consolidated entity	
	2015 \$'000	2014 \$'000
<b>Cash dividend on ordinary shares declared and paid:</b>		
Final dividend for 2014: nil cents per share (2013: 2.0 cents per share)	–	1,073
Interim dividend for 2015: nil cents per share (2014: 2.0 cents per share)	–	1,090
	<b>–</b>	<b>2,163</b>
Dividends paid in cash or satisfied by the issue of shares under the Dividend Reinvestment Plan:		
Paid in Cash	–	1,386
Satisfied by issue of shares	–	777
<b>Dividends paid</b>	<b>–</b>	<b>2,163</b>
<b>Proposed dividends on ordinary shares:</b>		
Proposed final dividend of 1.5 cents per share not recognised as a liability as at 30 September (2014: Nil)	809	–
<b>Franking credit balance</b>		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2014: 30%)	10,168	9,930
Franking credits that arise from the payment of income tax payable as at the end of the financial year	–	–
Franking debits that will arise from the payment of dividends subsequent to the end of the financial year	(347)	–
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date	–	–
	<b>9,821</b>	<b>9,930</b>

### Dividend Reinvestment Plan

Brief details of the Plan are:

- shareholders are eligible to participate, except where local legislation prevents it;
- participation is optional;
- full or partial participation is available;
- payment is made through the allotment of shares, rather than cash, at a discount 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 the income and share data used in the basic and diluted EPS computations:

	Consolidated entity	
	2015 \$'000	2014 \$'000
Profit attributable to ordinary equity holders of basic EPS	3,722	(21,430)
Profit attributable to ordinary equity holders for diluted EPS	3,722	(21,430)
Weighted average number of ordinary shares for basic EPS	53,956,011	54,433,050
Weighted average number of ordinary shares for diluted EPS	53,956,011	54,433,050
	Consolidated entity	
	2015 Cents	2014 Cents
Basic Earnings per Share	6.9	(39.4)
Diluted Earnings per Share	6.9	(39.4)

## 8. Trade and Other Receivables

	Consolidated entity	
	2015 \$'000	2014 \$'000
Trade receivables	7,816	8,542
Allowance for doubtful debts	(302)	(329)
Net trade receivables	7,514	8,213
Other debtors	440	550
<b>Total receivables</b>	<b>7,954</b>	<b>8,763</b>
<b>Movement in allowance for doubtful debts</b>		
Opening balance	(329)	(424)
Additional provisions	(16)	(153)
Amounts written off	43	82
Transfers to/(from) other provisions	–	106
Disposal of controlled entities	–	60
	<b>(302)</b>	<b>(329)</b>
<b>Trade receivables past due</b>		
Not yet due	6,527	6,656
Past due 0-30 days	818	1,277
Past due 31-60 days	208	243
Past due 61-90 days	101	253
Past due greater than 90 days	162	113
	<b>7,816</b>	<b>8,542</b>

## 8. Trade and Other Receivables (continued)

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

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

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

## 9. Inventories

	Consolidated entity	
	2015 \$'000	2014 \$'000
Finished goods (at lower of cost or net realisable value)	5,223	4,101

## 10. Investment in Associates

	Ownership interest %	Carrying value \$'000	Profit contribution \$'000
<b>2015</b>			
Mountcastle Pty Ltd	50	4,444	772
Createc Pty Ltd	50	–	–
		<b>4,444</b>	<b>772</b>
<b>2014</b>			
Mountcastle Pty Ltd	50	4,172	725
Createc Pty Ltd	50	–	(3,238)
		<b>4,172</b>	<b>(2,513)</b>

### Mountcastle Pty Ltd

The principal activity of Mountcastle was headwear and uniform distribution.

	Consolidated entity	
	2015 \$'000	2014 \$'000
Current assets	10,176	9,344
Non-current assets	749	757
Current liabilities	(1,833)	(1,582)
Non-current liabilities	(203)	(175)
<b>Net Assets</b>	<b>8,889</b>	<b>8,344</b>
Ownership interest	50%	50%
<b>Carrying amount of the investment</b>	<b>4,444</b>	<b>4,172</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 10. Investment in Associates (continued)

	Consolidated entity	
	2015 \$'000	2014 \$'000
The above amounts of assets and liabilities include the following:		
Cash and cash equivalent	497	615
Current financial assets	(272)	(274)
Non-current financial assets	–	(174)
Revenues	13,154	11,983
Profit after income tax from continuing operations	1,544	1,450
Dividends received	500	550
The above profit for the year includes the following:		
Depreciation and amortisation	75	79
Interest expenses	16	16
Interest income	5	8
Income tax expense	640	621

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

### Createc Pty Ltd

The principal activity of Createc was wide format printing distribution. In September 2014 Createc sold its business and most of its assets. No cash was received by HGL at that time. During the year, HGL received \$55,000 in cash following release of warranties in relation to the sale. The balance of warranties provided at the time of the sale will be released over the next twelve months, with a further \$0.2 million of deferred consideration (HGL share \$0.1 million) payable over that period.

Current assets	(2)	2,602
Current liabilities	(18)	(1,990)
Non-current liabilities	–	(1,270)
<b>Net Liabilities</b>	<b>(20)</b>	<b>(658)</b>
Ownership Interest	50%	50%
<b>Carrying amount of the investment</b>	<b>–</b>	<b>–</b>

## 10. Investment in Associates (continued)

	Consolidated entity	
	2015 \$'000	2014 \$'000
The above amounts of assets and liabilities include the following:		
Cash and cash equivalent	7	962
Current financial liabilities	–	(897)
Non-current financial liabilities	–	(35)
Revenues	–	16,712
Loss after income tax from continuing operations	–	(6,476)
Dividends received	55	–
The above profit for the year includes the following:		
Depreciation and amortisation	–	261
Interest expenses	–	29
Interest income	–	36
Income tax expense	–	2,071

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

## 11. Property, Plant and Equipment

### *Plant and equipment*

At cost	1,704	1,617
Accumulated depreciation	(786)	(601)
<b>Net carrying value</b>	<b>918</b>	<b>1,016</b>

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

#### Plant and equipment

#### **Written down value**

Net book value at the beginning of the financial year	1,016	3,491
Additions	327	430
Disposals	(137)	(247)
Depreciation expense	(288)	(929)
Disposal of controlled entities	–	(174)
Impairment of Fixed Assets	–	(1,555)
<b>Net book value at the end of the financial year</b>	<b>918</b>	<b>1,016</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 12. Intangible Assets

	Consolidated entity	
	2015 \$'000	2014 \$'000
<i>Goodwill</i>		
At cost	10,166	15,682
Accumulated impairment	–	(5,516)
	<b>10,166</b>	<b>10,166</b>
<i>Reconciliation of carrying amounts at the beginning and the end of the year</i>		
<i>Goodwill</i>		
Net book value at the beginning of the financial year	10,166	15,682
Impairment of health & beauty segment goodwill	–	(2,408)
Impairment of retail marketing segment goodwill	–	(2,815)
Impairment of homewares segment goodwill	–	(293)
	<b>10,166</b>	<b>10,166</b>

### Allocation of Goodwill

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

### Impairment Testing

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

### Impairment Charges

There were no impairment charges in the current financial year.

Prior period impairments of \$5.5 million were recognised for the health & beauty, retail marketing, and homewares CGUs, as forecast sales and cash flows were insufficient to support the carrying value of goodwill.

### Key Assumptions

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

A post tax discount rate, based on the pre-tax WACC, of 14.8% (2014: 14.8%) was applied to the cash flow projections.

Long term growth rates used were between 2.5% (sales) and 5% (costs) (2014: 1% and 3%).

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

## 13. Trade and Other Payables

Trade payables and accruals	8,763	8,473
-----------------------------	-------	-------

Payables have carrying amounts that reasonably approximate fair value.

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

## 14. Financial Assets and Financial Liabilities

### 14.1 Borrowings

	Consolidated entity	
	2015 \$'000	2014 \$'000
<b>Current</b>		
<b>Secured at amortised cost</b>		
Variable rate bank loans	–	2,800

#### *Secured Bank Loan*

The borrowing facility is a \$2.8 million cash advance facility with an annual review in January each year, secured under a fixed and floating charge over all present and future assets, undertakings and unpaid or uncalled capital of the Group.

Interest is payable based on floating rates determined with reference to the BBR rate at each drawdown.

The carrying amounts of borrowings reasonably approximate fair value.

### 14.2 Financial Risk Management Objectives and Policies

#### *Capital Management*

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

The capital structure consists of net debt, which includes borrowings (Note 14.1) less cash and cash equivalents, and total equity, which includes issued capital (Note 16), reserves (Note 18) and accumulated losses/retained earnings.

#### *Financial Risk Management*

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

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

#### *Significant Accounting Policies*

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

#### *Categories of Financial Instruments*

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

	Notes		
<b>Financial assets</b>			
Cash at bank and on hand	19	4,683	4,985
Trade receivables	8	7,816	8,542
		<b>12,499</b>	<b>13,527</b>
<b>Financial liabilities</b>			
Trade and other payables	13	8,763	8,473
Borrowings - Variable rate loans	14.1	–	2,800
		<b>8,763</b>	<b>11,273</b>

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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

### 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	
	2015 \$'000	2014 \$'000
Credit facilities	2,800	2,800
Amount utilised	–	2,800
Unused credit facility	2,800	–

The Group has a \$2.8 million (2014: \$2.8 million) cash advance facility with the Australia and New Zealand Banking Group Limited (ANZ), which is subject to an annual review. The facility is subject to covenant testing at specific measurement dates.

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

### Maturing in 1 year or less

Trade payables and accruals	8,763	8,473
Borrowings - Variable rate loans	–	2,814
	8,763	11,287

	%	%
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### Weighted average interest rate

Trade payables and accruals	–	–
Borrowings - Variable rate loans	–	2.68

### 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 \$3,080,000 (2014: \$2,318,000) of foreign currencies monetary liabilities mainly in USD and Euro. The Group has \$1,207,000 (2014: \$1,482,000) of foreign currencies monetary assets mainly in USD and EUR.

In addition the Group has \$623,000 (2014: \$1,178,000) of foreign currency forward contracts outstanding at balance date, with fair values of \$14,000 (2014: \$25,000) that were classed as level 2 financial instruments.

The Group used a 10% sensitivity analysis and concluded there was no material impact on the 2015 and 2014 net outstanding foreign currency exposure.



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

### *Credit Risk*

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

### *Interest Rate Risk*

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

If interest rates had been +/- 1% per annum throughout the year, with all other variables held constant, the operating profit after income tax would have been \$28,000 higher or lower respectively (2014: \$28,000).

## 15. Provisions

	Consolidated entity	
	2015 \$'000	2014 \$'000
<b>Current</b>		
Employee benefits	2,135	1,907
Surplus lease provisions	471	478
	<b>2,606</b>	<b>2,385</b>
<b>Non current</b>		
Employee benefits	202	166
Surplus lease provisions	1,267	1,945
	<b>1,469</b>	<b>2,111</b>
		<b>Surplus lease provisions 2015 \$'000</b>
Balance at beginning of financial year		2,423
Additional lease provisions recognised		10
Reductions arising from payments		(495)
Unused amounts reversed		(200)
<b>Balance at the end of financial year</b>		<b>1,738</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 16. Issued Capital

	2015		2014	
	Number	\$'000	Number	\$'000
<b>Ordinary shares issued and fully paid</b>				
Balance at the beginning of the financial year	53,956,011	36,802	53,647,751	36,624
Allotted pursuant to HGL dividend reinvestment plan	–	–	1,481,126	777
Shares issued to employee share scheme participants	–	–	63,152	35
ESS Shares bought back and cancelled	–	–	(1,236,018)	(634)
<b>Balance at the end of the financial year</b>	<b>53,956,011</b>	<b>36,802</b>	<b>53,956,011</b>	<b>36,802</b>

During the current and prior year no ordinary shares were purchased pursuant to the on market share buy back.

Details of the HGL Limited Dividend Reinvestment Plan are disclosed in Note 6 on page 31.

## 17. Non Controlling Interests

	Consolidated entity	
	2015 \$'000	2014 \$'000
Balance at beginning of financial year	–	855
Disposal of non controlling interest	–	(855)
	–	–

## 18. Reserves

Employee share scheme reserve	–	2,442
Foreign currency translation reserve	(177)	(200)
Other reserve	(901)	(901)
	<b>(1,078)</b>	<b>1,341</b>

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

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

The Employee Share Scheme (ESS) reserve balance was transferred to retained earnings during the year following cancellation of the ESS in the 2014 financial year. The reserve initially arose from the vesting of ESS shares issued in prior years.

## 19. Cash Flow Information

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

	Consolidated entity	
	2015 \$'000	2014 \$'000
Cash at banks and on hand	4,683	4,985
<b>Cash and cash equivalents</b>	<b>4,683</b>	<b>4,985</b>

### Reconciliation of cash flow from operations with operating profit after income tax

Reconciliation of net profit after tax to net cash flows from operations:

Profit before tax from continuing operations	3,722	(21,430)
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation	288	929
Write down of plant & equipment to recoverable value	–	1,555
Losses / (profits) on sale of property, plant and equipment	137	117
Impairment of goodwill	–	5,516
Profit on disposal of controlled entity	–	(53)
Share of profits of associates not received as dividends	(272)	3,262
Changes in assets and liabilities		
(Increase) / decrease in trade and term debtors	809	2,220
(Increase) / decrease in inventories	(1,122)	3,972
(Increase) / decrease in prepayments	(81)	–
(Increase) / decrease in deferred taxes	(611)	7,429
Increase / (decrease) in trade creditors and accruals	(395)	(618)
Increase / (decrease) in provision for income tax	63	–
Increase / (decrease) in other current provisions	928	(593)
Increase / (decrease) in other non-current provisions	(641)	1,098
<b>Net cash flows from operating activities</b>	<b>2,825</b>	<b>3,404</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 20. Information Relating to HGL Limited (parent)

	Parent entity	
	2015 \$'000	2014 \$'000
Current assets	233	4,224
Non current assets	15,651	15,381
<b>Total assets</b>	<b>15,884</b>	<b>19,605</b>
Current liabilities	544	3,742
Non current liabilities	2,316	7,839
<b>Total liabilities</b>	<b>2,860</b>	<b>11,581</b>
<b>Net assets</b>	<b>13,024</b>	<b>8,024</b>
Issued capital	36,802	36,802
Reserves	380	2,822
Accumulated losses	(58,030)	(60,471)
Retained earnings	33,872	28,871
<b>Total equity</b>	<b>13,024</b>	<b>8,024</b>
Total comprehensive income of the Parent entity	<b>5,001</b>	<b>(55,498)</b>

The negative comprehensive income in the prior year arose from the parent entity applying consistent impairment principles with the consolidated group, resulting in non-cash charges of \$55.1 million. \$50.1 million of this amount was eliminated on consolidation and hence had no impact on group profit.

## 21. Segment Information

2015	Retail marketing \$'000	Homewares \$'000	Collectables \$'000	Building products \$'000	Health & beauty \$'000	Aggregated segments \$'000
Revenue from sales to external customers	10,066	9,537	5,411	19,761	7,225	52,000
Depreciation	5	1	50	197	12	265
Segment EBIT	520	83	168	1,904	51	2,726
<b>2014</b>						
Revenue from sales to external customers	12,613	10,636	5,443	15,267	6,812	50,771
Depreciation	4	1	25	181	8	219
Segment EBIT	(147)	(34)	262	840	7	928

### Reconciliation of Profit or Loss

	2015 \$'000	2014 \$'000
Segment Earnings Before Interest and Tax (EBIT)	2,726	928
<b>Unallocated items of income and expenditure</b>		
Share of profit from equity accounted investments	772	(54)
Finance costs (Note 4.3)	(112)	(175)
Significant items	496	(14,534)
Other unallocated expenses	(708)	(557)
<b>Profit before tax</b>	<b>3,174</b>	<b>(14,392)</b>

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

The Group has a large number of customers to which it provides products. There are no individual customers that account for more than 10% of external revenues. The Group operates predominately in Australia with some operations in New Zealand. Total revenues from sales outside Australia for the financial year were \$3.2 million (2014: \$3.3 million).

## 22. Related Party Disclosures

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

## 22. Related Party Disclosures (continued)

Compensation of key management personnel of the Group

	Consolidated entity	
	2015 \$	2014 \$
Short-term employee benefits	1,536,314	1,231,624
Post-employment benefits	103,984	101,389
Other long-term benefits	14,447	18,755
Termination benefits	142,692	–
<b>Total compensation paid to key management personnel</b>	<b>1,797,437</b>	<b>1,351,768</b>

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

## 23. Employee Share Scheme

There was no Employee Share Scheme in place during the 2015 Financial Year.

In August 2014 the Board made the decision to call all remaining Employee Share Scheme Loans (Scheme Loans). Subsequently in accordance with the Employee Share Scheme (Scheme) rules the Scheme Shares were bought back by the company and cancelled with no cash effects.

At 30 September 2015 there were no Scheme Shares or Scheme Loans (2014: nil).

### Buy back and Cancellation of Scheme Shares

Following the decision by the Board to call in all remaining Scheme Loans in August 2014, and in accordance with the Scheme rules, 3,625,857 shares at the market price of \$0.5130 per share were bought back by the Company and cancelled with no cash effects. The proceeds were insufficient to discharge the limited recourse Scheme Loans consequently \$3,206,000 equity settled options were derecognised with no effect on profit or equity.

The market values of two scheme loans were below the carrying value of the security at the point they were called in. Accordingly, these loans were impaired and a provision of \$14,000 was raised during the 2014 Financial Year to record them at their fair value.

## 24. Commitments and Contingencies

### Operating Lease Commitments - Group as Lessee

Within one year	1,386	1,459
After one year but not more than five years	2,362	3,303
	<b>3,748</b>	<b>4,762</b>

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

### Capital Commitments

There are no significant capital expenditure commitments at balance date.

### Contingent Liabilities

There are no significant contingent liabilities at balance date.

## 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	
	2015 \$	2014 \$
<i>Amounts received or due and receivable by Deloitte Touche Tohmatsu for:</i>		
An audit or review of the financial report of the entity and any other entity in the consolidated group	244,600	277,400
Other non-audit services in relation to the entity and any other entity in the consolidated group *	–	90,000
	244,600	367,400
<i>Amounts received by other audit firms:</i>		
Audit and review of the financial report	–	14,740

\* In September 2014 Deloitte Touche Tohmatsu were engaged to provide strategic review services. These services were carried out during the 2015 financial year and the value of these services was \$85,000.

## 27. Investment in Controlled Entities

### Significant controlled entities

	Country of incorporation	Ownership interest	
		2015 %	2014 %
Baker & McAuliffe Holdings Pty Limited (trading as JSB Lighting)	Australia	100	100
Biante Pty Limited	Australia	100	100
BLC Cosmetics Pty Limited	Australia	100	100
Hamlon Pty Limited (trading as SPOS)	Australia	100	100
J Leutenegger Pty Limited	Australia	100	100
Nido Interiors Pty Ltd*	Australia	100	N/A
The Point-of-Sale Centre (New Zealand) Limited	New Zealand	100	100

\* Incorporated 11 June 2015

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.

### Controlled Entities Acquired

There were no business acquisitions during the current or prior period.

### Controlled Entities Disposed of

In October 2013 HGL Limited disposed of its 50% interests in Kinsole Pty Ltd and BOC Ophthalmic Instruments Unit Trust. Total proceeds on disposal of \$1.560 million were received in cash. A profit on disposal of \$53,000 was recognised for the year ended 30 September 2014.

# DIRECTOR'S 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 2015 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 2015 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 2015.

On behalf of the board



Peter Miller  
**Chairman**

Sydney, 24 November 2015



Dr Frank Wolf  
**Director**



# INDEPENDENT AUDITOR'S REPORT

to the members of HGL Limited

## Deloitte.

Deloitte Touche Tohmatsu  
ABN 74 490 121 060

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

### Report on the Financial Report

We have audited the accompanying financial report of HGL Limited, which comprises the statement of financial position as at 30 September 2015, the statement of profit or loss, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 13 to 46.

### *Directors' Responsibility 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 Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Member of Deloitte Touche Tohmatsu Limited  
Liability limited by a scheme approved under Professional Standards Legislation.

# INDEPENDENT AUDITOR'S REPORT

to the members of HGL Limited continued

## Deloitte.

### *Auditor's Independence Declaration*

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

### *Opinion*

In our opinion:

- (a) the financial report of HGL Limited is 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 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

### **Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 6 to 9 of the directors' report for the year ended 30 September 2015. 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.

### *Opinion*

In our opinion the Remuneration Report of HGL Limited for the year ended 30 September 2015, complies with section 300A of the *Corporations Act 2001*.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Tara Hill  
Partner  
Chartered Accountants  
Sydney, 24 November 2015

# 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 30 October 2015.

## (a) Distribution of Equity Securities

### (i) Ordinary Share Capital

Range	Number of shareholders	Number of shares
1 – 1,000	656	181,223
1,001 – 5,000	498	1,378,934
5,001 – 10,000	207	1,591,841
10,001 – 100,000	369	11,362,257
100,001 and over	62	39,441,756
	1,792	53,956,011

- 53,956,011 fully paid ordinary shares are held by 1,792 individual shareholder.
- Number of shareholders holding less than a marketable parcel (1,389 shares) is 743.

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

## (b) Twenty Largest Holders of Quoted Equity Securities

Ordinary shareholders	Fully paid	
	Number	%
Sery Pty Limited	9,298,178	17.2
IJV Investments Pty Ltd	5,600,000	10.4
JP Morgan Nominees Australia Limited	3,097,533	5.7
LPO Investments Pty Ltd	1,782,727	3.3
ANZ Trustees Limited <Queensland Common Fund A/C>	1,419,088	2.6
Equitas Nominees Pty Ltd <3021524 A/C>	1,411,004	2.6
Kitwood Pty Ltd	1,075,764	2.0
Mr George Edward Curphey	1,009,367	1.9
KJE Superannuation Pty Ltd <KJE Superannuation S/F A/C>	809,872	1.5
Jennifer Ann Drummond	773,159	1.4
FM Wolf Pty Limited <FM Wolf superfund A/C>	721,038	1.3
Mr Robert Julian Constable + Mrs Janet Marie Constable <RJ Realty Provident Fund A/C>	668,328	1.2
Aramda Trading Pty Limited	655,850	1.2
Aramda Trading Pty Ltd	627,613	1.2
Extra Edge Pty Ltd	600,000	1.1
Oscarsborg Fort Pty Ltd	500,409	0.9
Mr Alister John Forsyth	476,094	0.9
HSBC Custody Nominees (Australia) Limited	420,985	0.8
Ms Elizabeth Rasmussen	403,626	0.8
National Nominees Limited	400,014	0.7
	31,750,649	58.8

## (c) Substantial Holders

Ordinary shareholders	Fully paid Number
Sery Pty Limited and its associates	12,061,030
Mrs Ida Constable and her associates	10,190,127

# FIVE YEAR SUMMARY

## HGL Limited and Controlled Entities

	2015	2014	2013	2012	2011
<b>Total Revenue</b>	<b>52,000</b>	<b>50,771</b>	<b>68,986</b>	<b>118,237</b>	<b>163,431</b>
<b>Underlying profit/(loss) (\$'000)</b>	<b>2,615</b>	<b>533</b>	<b>(421)</b>	<b>(457)</b>	<b>7,150</b>
Significant items (\$'000)	1,107	(21,963)	(8,500)	(4,692)	(9,575)
<b>Reported profit/(loss) (\$'000)</b>	<b>3,722</b>	<b>(21,430)</b>	<b>(8,921)</b>	<b>(5,149)</b>	<b>(2,425)</b>
Underlying earnings per share (cents)	4.8	1.0	(0.8)	(0.9)	13.9
Underlying return on shareholders' funds (%) <sup>(a)</sup>	13.9	1.2	(0.7)	(0.6)	(10.0)
Reported earnings per share (cents)	6.9	(39.4)	(16.8)	(9.9)	(4.7)
Return on shareholders' funds (%) <sup>(b)</sup>	19.8	(50.7)	(16.6)	(8.2)	(4.0)
<b>Dividend per share (cents)</b>	<b>1.5</b>	<b>2.0</b>	<b>4.0</b>	<b>6.0</b>	<b>12.0</b>
Shares on issue	53,956,011	53,956,011	53,647,751	52,484,316	51,663,671
Total shareholders' equity (\$'000)	22,550	18,804	43,157	64,348	78,697
HGL shareholders' equity (\$'000)	22,550	18,804	42,302	53,607	62,784
Net cash/(debt) (\$'000)	4,683	2,185	1,941	5,010	6,581

(a) Underlying profit divided by opening HGL shareholders equity

(b) Reported profit divided by opening HGL shareholders equity

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# CORPORATE INFORMATION

ABN 25 009 657 961

## **Directors**

Peter Miller  
Dr Frank Wolf  
Kevin Eley  
Julian Constable

## **Chief Executive Officer**

Henrik Thorup

## **Chief Operating Officer**

Julian Pidcock

## **Company Secretary & Chief Financial Officer**

Iain Thompson

## **Chief People Officer**

Robin Elliott

## **Registered Office and Principle Place of Business**

Level 2  
68-72 Waterloo Road  
Macquarie Park NSW 2113  
Australia  
Phone: +61 2 8667 4660  
Fax: +61 2 8667 4669

## **Share Register**

Computershare Investor Services Pty Ltd  
Level 4, 60 Carrington St  
Sydney NSW 2000  
Phone: 1300 855 080  
Fax: +61 3 9415 4000

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

## **Bankers**

ANZ Banking Group Limited

## **Auditors**

Deloitte Touche Tohmatsu



HGL Limited

**ASX CODE:** HNG

ABN 25 009 657 961

Incorporated in Queensland

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