HGL

ANNUAL REPORT 2016

CONTENTS

DIRECTORS' REPORT

for the year ended 30 September 2016

Your directors submit their report for the year ended 30 September 2016.

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 a member of the Nomination and Remuneration Committee.

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 Milton Corporation Ltd (since December 2011), EQT Holdings Ltd (formerly 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 and Po Valley Energy between June 2012 and April 2016.

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	48,694	11,835,015
Dr Frank Wolf	–	721,038
Kevin Eley	–	854,258
Julian Constable	200,000	5,907,534

Key Management Personnel

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

Chief Executive Officer

Henrik Thorup, BSc (Econ), GAICD

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

Chief Financial Officer & Company Secretary

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

Appointed CFO / Company Secretary in 2015, Iain has 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
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Chief Operating Officer (until 5 February 2016)

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.

Julian was appointed to the role of CEO of Hamlon Pty Ltd (SPOS) on 5 February 2016 and ceased to be a KMP of the Company on that date.

Dividends

The Directors have declared a final dividend of 1.5 cents per share fully franked. The record date for the dividend will be 10 January 2017, with a payment date of 24 January 2017.

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

	Payment Date	Cents	$000
Interim dividend for the current year on ordinary shares	19/07/16	1.00	549
Final dividend for the previous year on ordinary shares	18/12/15	1.50	810

All dividends declared or paid are fully franked at 30%

Dividend Reinvestment Plan

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

During the year the total number of shares issued under the DRP was 1,701,908 (2015: NIL).

Share buy-back

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

Principal Activities

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

Operating And Financial Review

Summary

- Group sales revenue increased by 5% to $68.0 million.
- Sales revenue from wholly owned businesses of $52.2 million
- Statutory profit $4.3 million, increase of 15.9% on prior period.
- Underlying net profit after tax $3.0 million, up 15.0%
- Cash on hand of $5.6 million, and net cash of $3.8 million
- Final dividend of 1.5 cents per share, full year dividend 2.5 cps, up 67%

Overview

For the 2016 financial year, HGL reports an increase of 15.0% in underlying net profit after tax to $3.0 million. Statutory Profit of $4.3 million is up from $3.7 million in the prior period. The statutory profit includes the re-recognition of $1.5 million in previously derecognised deferred tax assets.

Total Group revenue, including Mountcastle, increased by 5% to $68.0 million. Four of our six businesses had revenue equal to or above last year generating an increase in revenue of $5.3 million or 11.2%. JSB Lighting increased $2.2m, Mountcastle increased $2.7m, Biante increased $0.4m and SPOS remained static. Two businesses did not achieve an increase in revenue with BLC Cosmetics declining by $0.6m and Leutenegger declining by $1.8m. Sales revenue of the wholly owned businesses was $52.2 million.

The overall gross margin was stable at 44.9% (2015: 44.7%), despite cost inflations and foreign exchange rate movements.

Operating expenses were consistent with the prior period at $21.6 million, including investment in training programs and extra sales personnel in several business units. Head office savings of $0.6 million from restructuring activities were offset by investment in our start-up venture Nido Interiors during the year.

The improvement in underlying profit after tax reflects the early stage sales growth performance with strong gross margin and stable expenses achieved through the continued successful implementation of our Growth, Profit and Sustainability (GPS) Strategy Plan.

Throughout the 2016 financial year strong working capital management discipline remained a high focus. Trade debtors are up by $1.2 million due to increased sales in the 4th quarter of the 2016 financial year. Inventory levels were up on last year, as discontinued and slower moving stock lines were cleared for new range products. Trade creditors were reduced by $0.4 million compared to last year to ensure that key supplier payment terms are met, while building longer term partnership loyalty.

Dividend

The Directors have declared a final dividend of 1.5 cents per share fully franked, taking the full year dividend to 2.5 cents per share (2015: 1.5 cents per share). The record date for the dividend is 10 January 2017, with payment to be made on 24 January 2017.

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

Corporate Strategy and Operational Priorities

All business units, except the Nido Interiors start-up venture, are contributing to Group earnings. HGL is now moving into the next growth and development phase of the GPS Strategy Plan, positioning the Group for stronger and sustainable revenue growth to enhance future earnings and shareholder returns.

The operational activity plans in the growth and development phase are designed to deliver against six strategic objectives:

Expand product portfolio:

The Group targets organic revenue growth of 10% per annum. Three out of six business units achieved sales revenue growth above this target in 2016.

In the past twelve months the Group introduced 3 new brands contributing to revenue growth. Exclusive rights for four additional brands have been secured, with plans to launch in late 2016.

Superior sales execution:

Dedicated development activities has been implemented to improve the effectiveness of field sales operations, combined with investments in additional sales force personnel across the group.

HGL maintained the same number of total employees in 2016 as in prior period, but has increased the number of client facing positions, while reducing the number of back office positions. At year-end 59% of total staff were employed in sales and marketing positions compared to 48% in the prior period.

Develop intellectual property:

The intellectual property (IP) development strategy varies in each business unit. Leutenegger, Nido Interiors, Biante, Mountcastle and SPOS Group each have a high concentration of owned brands in their product portfolio and are focused on developing innovative and competitive product lines with IP rights. JSB Lighting and BLC Cosmetics predominantly promote exclusive agency brands in their product portfolio.

HGL's group objective is a total split of 50% agency products and 50% owned product lines. Currently around 30% of Group sales is derived from owned IP products and is growing year on year.

Reduce operational complexity:

Throughout the year several optimisation projects were completed to elevate operational efficiency, improve controls and reduce expenses.

Our Macquarie Park facility, shared by SPOS Group, Leutenegger, Nido Interiors, JSB Lighting and HGL head office, has provided opportunity for further integration of warehouse operations. In October 2016 the Biante warehouse relocated from Perth to Macquarie Park.

During the year the consolidation of finance and administration departments enabled shared service functionality and cost savings for multiple business units. The previously announced relocation and restructure of the HGL head office generated operational cost savings of $0.6 million in 2016.

DIRECTORS' REPORT
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Integrate business technology:

Our continuous improvement programs incorporate the redesign of business processes and integration of uniform information technology, where possible.

Over the past twelve months the implementation of the NetSuite enterprise resource planning system (ERP) has occurred in Nido Interiors and Biante with plans to transition Leutenegger to the same platform in 2017. Four out of seven business units will operate on the NetSuite platform.

Increase employee engagement:

General employee satisfaction and work place welfare are an important element in the sustained improvement in business unit performance.

Employee engagement levels are surveyed every year and employee net promotor scores (E-NPS) are benchmarked to develop retention strategies and staff development activities. Business unit managers are expected to achieve continually improved E-NPS scores. Improved engagement scores were recorded in three business units directly related to dedicated development programs rolled out this year.

Business Unit Review

Biante produce, import and distribute scale model replica cars in diecast and resin formats, sold to motoring enthusiasts, supercar fans and classic car collectors in Australia.

Biante achieved an 8% increase in revenue, selling in excess of 45,000 units during the year. The increased volume was generated by delivering the planned annual production schedule on time and releasing several delayed models from last year. The company achieved EBIT to sales ratio of 5.6% in line with prior period contributing positive earnings to the Group.

Biante has signed a new exclusive partnership agreement with DJR Team Penske V8 Supercar team, allowing production of selected Ford models in special liveries used in races during the 2016 season. In October 2016 the Tekno Racing Team won the Bathurst 1000 and Biante will, for the first time in many years, be releasing a Bathurst winner in 2017 across 4 scales.

BLC Cosmetics import and distribute high quality skincare products, devices and nutritional supplements to beauty salons, spa and wellness centres as well as skincare clinics in Australia.

BLC Cosmetics experienced a difficult year with revenue declining 8.8% compared to last year. The company increased sales of its new Alpha-H, Issada and Lightstim brands launched in 2015, however, the Thalgo brand contributed lower sales than expected with limited new product releases. Despite the overall revenue decline, the company lifted its gross margin level and reduced expenses through efficiency gains, doubling its EBIT result compared to last year, which is an encouraging result.

BLC Cosmetics is increasing its brand portfolio. The company has secured the exclusive distribution rights to the Comfort Zone brand, which was launched in March 2016. A new General Manager was appointed in October 2016.

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

JSB Lighting continued its solid performance achieving revenue growth of 11.4% to $22.0 million on the back of significant revenue growth last year. The company has successfully delivered on its core objective of expanding market share with specific geographical emphasis on Sydney, Melbourne, Brisbane and Perth. The positive revenue result, achieved with solid gross margins and managed expenditure, generated a strong EBIT to sales ratio of 17.3%.

JSB Lighting is further developing its product range. The addition of the new Lumio brand will complement its existing architectural lighting portfolio. The company has employed five additional sales executives and opened new sales offices in Auckland and Christchurch to expand its presence in New Zealand. The additional business development investment is expected to contribute positively to the continued expansion of JSB Lighting in 2017.

Leutenegger and Nido Interiors design, manufacture and promote a premium portfolio of fabrics, contemporary craft products, homewares and soft furnishing ranges.

Leutenegger continues to re-engineer its business model, rationalising unprofitable product lines and concentrating on Australian content and own designed product ranges.

Leutenegger has secured new business development projects underpinning revenue growth opportunities in 2017. In October 2016 the company delivered a new design and merchandising solution for needlecraft products in Spotlight stores around the country. Furthermore, Leutenegger has obtained exclusive rights for the Florence Broadhurst craft fabric designs and other fabric ranges made by renowned Australian quilt designers. Leutenegger is expected to generate organic sales growth in 2017 based on these business development opportunities and the completion of product rationalisation.

After a twelve months start-up period, Nido Interiors is now promoting soft furnishing product lines under its own One-Duck-Two brand and other private label brands to major homewares retailers, specialist retailers and online sites, independent and department stores.

Combined, Leutenegger and Nido saw an 18.8% reduction in sales revenue from the prior period, negatively impacted by deliberate product rationalisation, although this was partly offset by improved gross margins and a continued reduction of its expense base.

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

The SPOS Group achieved sales revenue of $10.0 million in line with prior period. The company continues to execute its refocused business strategy of selling standard off-the shelf products and custom work to brand owners and national retailers. The business is now stabilised with healthy gross margins and controlled expenses delivering an EBIT to sales ratio of 4.0%.

Off-the-shelf product sales now account for 73% of total revenue. SPOS Group has won new projects with Coles and Aldi supermarkets and convenience stores in Australia as well as new custom work in New Zealand. The subsidiary in New Zealand is expanding its pipeline of work and is expected to contribute incremental revenue growth in 2017.

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

Mountcastle continued its strong growth performance increasing sales revenue by 20.9% to $15.9 million The company increased its market share in the private school uniform and bag market. The partnership with The School Locker contributed significant uplift in public school uniform sales to circa $3.0 million, up from $0.7 million in the prior period. Based on the positive revenue result, Mountcastle increased its EBIT by 12.5% in 2016.

Mountcastle is expanding its manufacturing capacity to manage the increase demand and sales volumes in both private and public school uniforms. The company has established a new manufacturing facility in Vietnam to produce the required product lines. Refurbishment of existing and new investment in additional production lines in Sri Lanka has been completed in 2016.

People and the Environment

HGL is committed to supporting our employees to reach their full potential. We continue to invest in leadership, talent management programs and staff training in our ongoing efforts to develop high performing teams. The board acknowledges and thanks our employees for their effort and contribution throughout the year.

Cash Flow

Cash on hand at 30 September 2016 was $5.6 million, with bank borrowings of $1.8 million. The current facility remains with a limit of $2.8 million, providing the group with capacity to fund growth initiatives.

Cash from operations was $0.1 million at 30 September 2016, with working capital increases across a number of areas. Trade debtors increased from strong Q4 sales, plus the receipt on 30 September 2015 of a $1.0 million debtor payment ahead of terms. Inventory volumes were marginally up on the prior year, however the carrying value increased as slow moving line items were cleared and replaced by current range products. A conscious effort was also made to reduce outstanding creditor balances as cash flows improved from the previous year.

Balance Sheet

The net assets of the group have increased by $3.8 million to $26.3 million during the year. The increase in net assets was largely due to the increase in working capital to support sales growth. An ongoing focus on working capital levels, and improved operational efficiencies, should result in a reduction of working capital in future periods.

The strength of the profit performance also resulted in the re-recognition of $1.5 million in deferred tax assets that had been written off in prior periods.

Net tangible assets increased 8.1% to 29.0 cents per share.

Executive Incentive Plan

The Board is completing an executive incentive scheme for selected HGL executives. The scheme is designed to retain senior management and reward shareholder value creation through achieving defined financial objectives measured on an annual basis.

DIRECTORS' REPORT

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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.

Board Appointment

After an independent search, the Board has approved the appointment of an additional Non-Executive Director with a sales and marketing background. Cheryl Hayman will join the Board effective 1 December 2016, bringing extensive strategic and marketing experience to further strengthen the future of the company.

Cheryl will retire at the 2017 Annual General Meeting in accordance with the HGL Ltd Constitution, and will seek re-election from shareholders.

Outlook

It has been another transformative year for HGL, with the company continuing to make solid progress against its Growth, Profit and Sustainability (GPS) strategy plan. Delivering a second year of consecutive earnings improvement, after a phase of rebuilding its foundations, the Group is now fully focussed on growing revenue and increasing profitability.

The Board is confident in the positive outlook of the Group, albeit the continued low consumer environment prevailing, which is underpinned by the continuing successful execution of the strategy plan and taking advantage of new growth opportunities with clear operational plans.

Significant Changes in the State of Affairs

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

Significant Events after the Balance Date

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

Likely Developments and Expected Results

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

Remuneration Report (audited)

The remuneration report 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 2016. 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
Iain Thompson	Chief Financial Officer & Company Secretary
Julian Pidcock	Chief Operating Officer (ceased as KMP on 5 February 2016)

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

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.

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Remuneration Report (audited) (continued)

Use of Remuneration Consultants

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

During the financial year, the Committee approved the engagement of Guerdon's Associate Pty Ltd (Guerdons) as remuneration consultants to provide information regarding potential short term and long term incentive schemes for senior executives. The fees paid to Guerdons for the remuneration recommendations were $27,420.

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 Guerdons is free from undue influence from the KMP to whom the remuneration recommendations apply, as Guerdons 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 2016 financial year. The Nomination and Remuneration Committee has reviewed the performance of the KMP employed as at 30 September 2016, and short term incentives totalling $110,000 were approved on 25th October 2016 in relation to performance during the 2016 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.

Short term incentives totalling $162,000 were paid in relation to the 2015 financial year.

During the financial year the Nomination and Remuneration Committee obtained advice in relation to potential formalised incentive plans for the 2017 financial year and beyond. The Committee is in the process of finalising these plans, and will seek shareholder approval if required.

Employment Contracts

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

Executive & Board Remuneration

2016	Short term benefits Salary & fees $	Short term bonus $	Non monetary benefits $	Annual leave $	Post employment benefits Super-annuation $	Long term benefits Long term incentives $	Long service leave $	Termination payments $	Total $	Percentage variable remuner-ation %
Directors										
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	–
Executives										
Henrik Thorup	455,000	80,000	12,097	36,923	25,000	–	7,653	–	616,673	13.0
Julian Pidcock(1)	107,642	–	–	3,144	8,901	–	–	–	119,687	–
Iain Thompson(2)	230,615	30,000	–	19,231	19,385	–	3,835	–	303,066	9.9
Total executives	793,257	110,000	12,097	59,298	53,286	–	11,488	–	1,039,426	
Total KMP remuneration	1,067,231	110,000	12,097	59,298	79,312	–	11,488	–	1,339,426	

2015	Short term benefits Salary & fees $	Short term bonus $	Non monetary benefits $	Annual leave $	Post employment benefits Super-annuation $	Long term benefits Long term incentives $	Long service leave $	Termination payments $	Total $	Percentage variable remuner-ation %
Directors										
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	
Executives										
Henrik Thorup	455,000	100,000	18,895	36,923	25,000	–	7,672	–	643,490	15.5
Julian Pidcock(1)	278,749	42,000	–	23,365	25,000	–	5,174	–	374,288	11.2
Andrew Whittles(3)	184,144	–	–	–	20,000	–	–	142,692	346,836	–
Iain Thompson(2)	95,320	20,000	–	7,944	7,958	–	1,601	–	132,823	15.0
Total Executives	1,013,213	162,000	18,895	68,232	77,958	–	14,447	142,692	1,497,437	
Total KMP remuneration	1,287,187	162,000	18,895	68,232	103,984	–	14,447	142,692	1,797,437	

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

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

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

DIRECTORS' REPORT

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Remuneration Report (audited) (continued)

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. A reconciliation of statutory net profit after tax to underlying profit is shown in Note 4.5 of the financial statements. 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.

	2012	2013	2014	2015	2016
Total Revenue ($000)	118,237	68,986	50,771	52,000	52,252
Underlying profit ($000)	(457)	(421)	533	2,615	3,008
Net profit after tax ($000)	(4,601)	(8,772)	(21,430)	3,722	4,313
Share price at year end ($)	0.545	0.525	0.490	0.360	0.445
Underlying Earnings Per Share (cents)	(0.9)	(0.8)	1.0	4.8	7.9
Dividends – ordinary shares (cents)	6.0	4.0	2.0	1.5	2.5

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.

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 2016	Opening Balance	DRP shares	Purchases	Disposals	Closing balance	Indirect Holding
Executive directors						
Peter Miller	11,271,452	612,257	–	–	11,883,709	11,835,015
Dr Frank Wolf	721,038	–	–	–	721,038	721,038
Kevin Eley	809,872	44,386	–	–	854,258	854,258
Julian Constable	5,725,625	310,736	71,173	–	6,107,534	5,907,534
Senior executives						
Henrik Thorup	–	–	–	–	–	–
Iain Thompson	–	123	5,200	–	5,323	–
Julian Pidcock(1)	–	–	–	–	–	–

(1) Ceased to be a Key Management Person in February 2016

End of Remuneration Report

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 13.

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

Options

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

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

Directors' Meetings

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

		Meetings of committees	
	Directors' meetings	Audit	Nomination and Remuneration
Number of meetings held:	11	3	3
Number of meetings attended:			
Peter Miller	11	3	3
Dr Frank Wolf	11	3	3
Kevin Eley	11	3	N/A
Julian Constable	11	N/A	3

DIRECTORS' REPORT

continued

Corporate Governance

The Company's Corporate Governance Statement for the year ended 30 September 2016 is effective 22 November 2016 and was approved by the Directors on 22 November 2016. The Corporate Governance Statement is available on the HGL Ltd website at www.hgl.com.au/about/corporate-governance.

Rounding

The amounts contained in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) where noted ($000) under the option available to the Company under ASIC Class Order 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

Dr Frank Wolf
Director

Sydney, 22 November 2016

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

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

22 November 2016

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

Dear Board Members

HGL Limited

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

As lead audit partner for the audit of the financial statements of HGL Limited for the financial year ended 30 September 2016, 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 2016

	Notes	Consolidated entity 2016 $'000	2015 $'000
Sales revenue	4.1	52,252	52,000
Cost of sales		(28,792)	(28,781)
Gross profit		**23,460**	**23,219**
Other income	4.4	103	189
Sales, marketing and advertising expenses		(9,232)	(8,063)
Occupancy expenses		(1,404)	(1,266)
Freight and distribution expenses		(2,495)	(2,472)
Administration and other expenses		(8,459)	(8,994)
Finance costs	4.3	(133)	(211)
Share of profit of an associate	10	957	772
Profit before tax		**2,797**	**3,174**
Income tax benefit	5	1,516	548
Profit for the year		**4,313**	**3,722**
Attributable to:			
Equity holders of the Parent		4,313	3,722

		Cents	Cents
Earnings per share			
Basic	7	7.9	6.9
Diluted	7	7.9	6.9

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 30 September 2016

	Consolidated entity	
	2016 $'000	**2015 $'000**
Profit for the year	4,313	3,722
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):		
Exchange differences on translation of foreign operations	32	23
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	32	23
Total comprehensive income for the year, net of tax	**4,345**	**3,745**
Total comprehensive income attributable to:		
Equity holders of the Parent	4,345	3,745
	4,345	**3,745**

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

BALANCE SHEET

as at 30 September 2016

		Consolidated entity	
	Notes	2016 $'000	2015 $'000
Assets			
Current assets			
Cash and cash equivalents	18	5,626	4,683
Trade and other receivables	8	9,137	7,954
Inventories	9	5,813	5,223
Prepayments		1,180	1,451
Total current assets		**21,756**	**19,311**
Non current assets			
Investment in associates	10	4,852	4,444
Property, plant and equipment	11	1,410	918
Intangible assets	12	10,166	10,166
Deferred tax assets	5	2,065	611
Total non current assets		**18,493**	**16,139**
Total assets		**40,249**	**35,450**
Current liabilities			
Trade and other payables	13	8,386	8,763
Interest bearing loans and borrowings	14	1,800	–
Provisions	15	2,560	2,606
Income tax payable		–	63
Total current liabilities		**12,746**	**11,432**
Non-current liabilities			
Provisions	15	1,188	1,469
Total non current liabilities		1,188	1,469
Total liabilities		13,934	12,901
Net assets		**26,315**	**22,549**
Equity			
Issued capital	16	37,582	36,802
Other capital reserves	17	(1,046)	(1,078)
Accumulated losses		(10,221)	(13,175)
Total equity		**26,315**	**22,549**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 30 September 2016

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

For the year ended 30 September 2015	Attributable to the equity holders of the parent					
	Issued capital (Note 16) $'000	Foreign Currency Reserve (Note 17) $'000	Employee Share Scheme Reserve (Note 17) $'000	Other Reserve (Note 17) $'000	Retained earnings/ (Accum. losses) $'000	Total equity $'000
As at 1 October 2014	36,802	(200)	2,442	(901)	(19,339)	18,804
Profit for the year	–	–	–	–	3,722	3,722
Translation of overseas controlled entities	–	23	–	–	–	23
Total comprehensive income	–	23	–	–	3,722	3,745
Transfer (to)/from Retained earnings	–	–	(2,442)	–	2,442	–
As at 1 October 2015	**36,802**	**(177)**	**–**	**(901)**	**(13,175)**	**22,549**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 30 September 2016

	Notes	Consolidated entity 2016 $'000	2015 $'000
Operating activities			
Cash receipts in the course of operations		57,704	58,675
Cash payments in the course of operations		(58,077)	(56,293)
Interest received		59	99
Interest paid		(133)	(211)
Dividends received from associates		550	555
Net cash flows from operating activities	18	**103**	**2,825**
Investing activities			
Proceeds from sale of property, plant and equipment		40	–
Purchase of property, plant and equipment	11	(427)	(327)
Net cash flows used in investing activities		**(387)**	**(327)**
Financing activities			
(Repayments)/Proceeds from borrowings		1,800	(2,800)
Dividends paid		(573)	–
Net cash flows from/(used in) financing activities		**1,227**	**(2,800)**
Net increase/(decrease) in cash and cash equivalents		943	(302)
Cash and cash equivalents at 1 October	18	4,683	4,985
Cash and cash equivalents at 30 September	18	**5,626**	**4,683**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 30 September 2016

1. Corporate Information

The consolidated financial statements of HGL Limited and its subsidiaries (collectively, the Group) for the year ended 30 September 2016 were authorised for issue in accordance with a resolution of the directors on 22 November 2016.

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

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

2. Summary of Significant Accounting Policies

2.1 Basis of Preparation

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

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

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

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

2.2 Compliance with International Financial Reporting Standards (IFRS)

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

2.3 Changes in Accounting Policies, Disclosures, Standards and Interpretations

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

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

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

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

During the 2015 financial year, the Group 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.

(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 2016. The directors have not early adopted any of these new or amended standards or interpretations. The directors have not yet fully assessed the impact of these new or amended standards (to the extent relevant to the Group) and interpretations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2. Summary of Significant Accounting Policies (continued)

	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' and the relevant amending standards	1 January 2018	30 September 2019
AASB 16 'Leases'	1 January 2019	30 September 2020

The impact of the following relevant accounting standards, with an application date to the Group of 30 September 2017, have been assessed as follows:

AASB 2014-3 'Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations'	No change anticipated to the financial statements
AASB 2015-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101'	No impact on accounting policies or calculations. Some existing disclosures within the financial statements may change or be removed completely.
AASB 2016-1 'Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses'	Not relevant to the group. No impact on accounting policies or calculations.
AASB 2016-2 'Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107'	No impact on accounting policies or calculations. Some existing disclosures within the financial statements may change.

2.4 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 2016. 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.

2. Summary of Significant Accounting Policies (continued)

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

(b) Business Combinations and Goodwill

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

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

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

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

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

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

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

(c) Investment in Associates

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2. Summary of Significant Accounting Policies (continued)

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate 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.

(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.

2. Summary of Significant Accounting Policies (continued)

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

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

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

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

Tax Consolidation Legislation

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

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

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

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

Goods and Services Tax (GST)

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

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

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

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

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

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

(h) Property, Plant and Equipment

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

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

Depreciation

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

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

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

– Plant and equipment	3 to 10 years
– Leased plant and equipment (typically 3 to 5 years)	the lease term

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

2. Summary of Significant Accounting Policies (continued)

Leased Assets

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

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

(i) Leases

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

Group as a Lessee

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

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

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

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

(j) Borrowing Costs

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

(k) Intangible Assets

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

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

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

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

(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.

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

Loans and Receivables

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

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

2. Summary of Significant Accounting Policies (continued)

Impairment of Financial Assets

Financial Assets carried at Amortised Cost

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

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

(ii) Financial Liabilities

Initial Recognition and Measurement

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

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

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

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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2. Summary of Significant Accounting Policies (continued)

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.

(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.

2. Summary of Significant Accounting Policies (continued)

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 of future profitability are sales growth rates, changes in selling margins, and future expenses. The amount of profits from non-taxable sources is also considered.

The amount of taxable income created, and the consistency of generating taxable income over a number of historical periods, is a key consideration in the recognition of deferred tax assets associated with revenue losses available to the group. The accounting profit generated over the last two periods has been offset by the deductibility of available timing differences, resulting in a net increase in revenue losses over that period.

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

Inventories (Note 9)

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

An allowance is made against the cost of inventory items where evidence indicates that product ranges are no longer on range, or volumes on hand exceed reasonable sale periods (generally 3-4 months). An allowance is also made when historical selling prices approach cost, to reflect the potential requirement for discounting product to clear.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

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.

4. Profit from Operations

4.1 Revenue

	Notes	Consolidated entity 2016 $'000	 2015 $'000
Sales revenue		52,252	52,000

4.2 Expenses

	Notes	2016 $'000	2015 $'000
Depreciation			
Expensed to profit and loss – Plant and Equipment		309	288
Absorbed to inventory		224	–
Total depreciation	11	533	288
Employee benefit expenses			
Salary and wages		13,237	13,371
Defined contribution superannuation expense		889	873
		14,126	14,244
Bad debts		(42)	16
Write down of inventories to net realisable value		(631)	(39)
Operating lease expenses – minimum lease payments		1,318	1,433
Foreign exchange loss/(gain)		(9)	(100)

4.3 Finance Costs

	Notes	2016 $'000	2015 $'000
Financial institutions		133	211
Total finance costs		133	211

4. Profit from Operations (continued)

4.4 Other Income

	Consolidated entity	
	2016 $'000	**2015 $'000**
Interest		
Associate (Note 10)	–	16
Financial Institutions	60	83
Total interest	**60**	**99**
Dividends	–	55
Other income	43	35
Other income	43	90
Total other income	**103**	**189**

4.5 Significant Items

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

Underlying profit	3,008	2,615
Non-underlying items		
Surplus lease provisions(2)	–	200
Non-underlying profit from equity accounted associate(1,3)	90	728
Restructuring costs(1)	(238)	(432)
Total non-underlying items before tax	(148)	496
Recognition of deferred tax assets	1,453	611
Total non–underlying items before tax	1,305	1,107
Statutory profit after tax	**4,313**	**3,722**

(1) Disclosed in “Administration expenses” in statement of profit and loss
(2) Disclosed in “Occupancy expenses” in statement of profit and loss
(3) Disclosed in “Share of associates profit/(loss)” in statement of profit and loss

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. Income Tax

The major components of income tax expense for the years ended 30 September 2016 and 2015 are:

Consolidated statement of profit or loss

	Consolidated entity	
	2016 $'000	2015 $'000
Current tax		
In respect of the current year	–	63
In respect of prior years	(63)	–
	(63)	**63**
Deferred tax		
In respect of the current year	470	–
Reversals of previous write-downs of deferred tax assets	(1,923)	(611)
	(1,453)	**(611)**
Total income tax expense recognised in the current year relating to continuing operations	**(1,516)**	**(548)**
Prima facie income tax benefit on profit from ordinary activities at 30% (2015: 30%)	839	948
Differences in overseas tax rates	(3)	4
Equity accounted investments	(122)	(232)
Recognition of deferred tax assets	(1,923)	(611)
Current year temporary differences not brought to account	–	(627)
Non allowable expenses	89	137
Recognition of previously unrecognised tax losses	(328)	(167)
Over provision	(63)	–
Other	(5)	–
	(1,516)	**(548)**

Deferred tax

Deferred tax assets comprises

Consolidated entity	Provisions $000	Plant & Equipment $000	Other $000	Total $000
2016				
Opening balance	611	–	–	611
Charged to income	1,150	161	143	1,454
Total	**1,761**	**161**	**143**	**2,065**
2015				
Charged to income	611	–	–	611
Total	**611**	**–**	**–**	**611**

Accounting standards require probable use for deferred tax assets. Following the improved financial performance of the group during the year, deferred tax assets of $1.5 million were recognised this year relating to tax temporary differences. The Group has approximately $18.0 million of gross revenue losses, and $11.1 million of gross capital losses, which have not been brought to account at 30 September 2016.

6. Dividends Paid and Proposed

	Consolidated entity	
	2016 $'000	**2015 $'000**
Declared and paid during the year:		
Final dividend for 2015: 1.5 cents per share (2014: nil)	810	–
Interim dividend for 2016: 1.0 cents per share (2015: nil)	549	–
	1,359	**–**
Dividends paid in cash or satisfied by the issue of shares under the Dividend Reinvestment Plan:		
Paid in Cash	573	–
Satisfied by issue of shares	786	–
Dividends paid	**1,359**	**–**
Proposed dividends on ordinary shares:		
Proposed final dividend of 1.5 cents per share not recognised as a liability as at 30 September (2015: 1.5 cents per share)	835	810
Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30% (2015: 30%)	9,822	10,168
Franking debits that will arise from the payment of dividends subsequent to the end of the financial year	(358)	(347)
	9,464	**9,821**

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

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7. Earnings Per Share

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

	Consolidated entity	
	2016 $'000	**2015 $'000**
Profit attributable to ordinary equity holders of basic EPS	4,313	3,722
Profit attributable to ordinary equity holders for diluted EPS	4,313	3,722
	Number	**Number**
Weighted average number of ordinary shares for basic EPS	54,851,549	53,956,011
Weighted average number of ordinary shares for diluted EPS	54,851,549	53,956,011
	Cents	**Cents**
Basic Earnings per Share	7.9	6.9
Diluted Earnings per Share	7.9	6.9

8. Trade and Other Receivables

	Consolidated entity	
	2016 $'000	**2015 $'000**
Trade receivables	9,008	7,816
Allowance for doubtful debts	(237)	(302)
Net trade receivables	8,771	7,514
Other debtors	366	440
Total receivables	**9,137**	**7,954**
Movement in allowance for doubtful debts		
Opening balance	(302)	(329)
Additional provisions	42	(16)
Amounts written off	23	43
	(237)	**(302)**
Trade receivables past due		
Not yet due	7,032	6,527
Past due 0-30 days	1,351	818
Past due 31-60 days	336	208
Past due 61-90 days	145	101
Past due greater than 90 days	144	162
	9,008	**7,816**

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	
	2016 $'000	2015 $'000
Finished goods (at lower of cost or net realisable value)	**5,813**	**5,223**

10. Investment in Associates

	Ownership interest %	Carrying value $'000	Profit contribution $'000
2016			
Mountcastle Pty Ltd	50	4,762	867
Createc Pty Ltd	50	90	90
		4,852	**957**
2015			
Mountcastle Pty Ltd	50	4,444	772
Createc Pty Ltd	50	–	–
		4,444	**772**

Mountcastle Pty Ltd

The principal activity of Mountcastle was headwear and uniform distribution.

	Consolidated entity	
	2016 $'000	2015 $'000
Current assets	11,720	10,176
Non-current assets	717	749
Current liabilities	(2,708)	(1,833)
Non-current liabilities	(206)	(203)
Net Assets	**9,523**	**8,889**
Ownership interest	50%	50%
Carrying amount of the investment	**4,762**	**4,444**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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10. Investment in Associates (continued)

	Consolidated entity	
	2016 $'000	**2015 $'000**
The above amounts of assets and liabilities include the following:		
Cash and cash equivalent	1,149	497
Current financial liabilities	(1,191)	(272)
Revenues	15,900	13,154
Profit after income tax from continuing operations	1,735	1,544
Dividends received	550	500
The above profit for the year includes the following:		
Depreciation and amortisation	74	75
Interest expenses	28	16
Interest income	5	5
Income tax expense	743	640

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 2015, HGL received $55,000 in cash following release of warranties in relation to the sale. All warranties provided at the time of the sale have now been released, with $0.2 million of deferred consideration (HGL share $0.1 million) received during the current year.

Current assets	217	(2)
Current liabilities	(17)	(18)
Net Assets/(Liabilities)	**200**	**(20)**
Ownership Interest	50%	50%
Carrying amount of the investment	**90**	**–**

The carrying value of the investment reflects the expected distribution available to the group in the event of liquidation of Createc.

10. Investment in Associates (continued)

	Consolidated entity	
	2016 $'000	2015 $'000
The above amounts of assets and liabilities include the following:		
Cash and cash equivalent	182	7
Profit after income tax from continuing operations	220	–
Dividends received	–	55

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	2,879	1,704
Accumulated depreciation	(1,469)	(786)
Net carrying value	**1,410**	**918**

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	918	1,016
Additions	427	327
Transfers from prepayments	599	–
Disposals	–	(137)
Depreciation expense	(533)	(288)
Exchanges differences	(1)	–
Net book value at the end of the financial year	**1,410**	**918**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. Intangible Assets

	Consolidated entity	
	2016 $'000	**2015 $'000**
Goodwill		
At cost	10,166	10,166
	10,166	**10,166**

Allocation of Goodwill

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

Impairment Testing

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

Impairment Charges

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

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 pre tax discount rate, based on the pre-tax WACC, of 13.8% (2015: 14.8%) was applied to the cash flow projections.

Long term growth rates used were between 2.5% (sales) and 5% (costs) (2015: 2.5% and 5%).

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

13. Trade and Other Payables

Trade payables and accruals	8,386	8,763

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

	Notes	Consolidated entity 2016 $'000	2015 $'000
Current			
Secured at amortised cost			
Variable rate bank loans		1,800	–

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. The values of assets pledged as security are as presented on the balance sheet.

Interest is payable based on floating rates determined with reference to the 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 17) and accumulated losses/retained earnings.

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

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

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

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

Financial assets			
Cash at bank and on hand		5,626	4,683
Trade receivables	8	9,008	7,816
		14,634	**12,499**
Financial liabilities			
Trade and other payables	13	8,386	8,763
Borrowings - Variable rate loans	14.1	1,800	–
		10,186	**8,763**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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14. Financial Assets and Financial Liabilities (continued)

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

Liquidity Risk

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

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

	Consolidated entity	
	2016 $'000	**2015 $'000**
Credit facilities	2,800	2,800
Amount utilised	1,800	–
Unused credit facility	**1,000**	**2,800**

The Group has a $2.8 million (2015: $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	8,386	8,763
	8,386	**8,763**
	%	**%**
Weighted average interest rate		
Trade payables and accruals	–	–
Borrowings - Variable rate loans	4.17	–

Currency Risk

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

Exchange rate exposure is managed utilising forward foreign exchange contracts and foreign exchange bank accounts. At year end the Group has $2,544,000 (2015: $3,080,000) of foreign currencies monetary liabilities mainly in USD and Euro. The Group has $555,000 (2015: $1,207,000) of foreign currencies monetary assets mainly in USD and Euro.

In addition the Group has $2,629,000 (2015: $623,000) of foreign currency forward contracts outstanding at balance date, in a net liability fair value position $22,000 (2015: net asset fair value $14,000) that were classed as level 2 financial instruments.

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

The Group used a 10% sensitivity analysis and concluded there was no material impact on the 2016 and 2015 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 $18,000 higher or lower respectively (2015: $28,000).

15. Provisions

	Consolidated entity	
	2016 $'000	**2015 $'000**
Current		
Employee benefits	2,081	2,135
Surplus lease and make good provisions	479	471
	2,560	**2,606**
Non current		
Employee benefits	389	202
Surplus lease and make good provisions	799	1,267
	1,188	**1,469**

	Surplus lease provisions 2016 $'000
Balance at beginning of financial year	1,738
Reductions arising from payments	(460)
Balance at the end of financial year	1,278
Current	479
Non-current	799
	1,278

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
continued

16. Issued Capital

	2016		2015	
Ordinary shares issued and fully paid	**Number**	**$'000**	**Number**	**$'000**
Balance at the beginning of the financial year	53,956,011	36,802	53,956,011	36,802
Allotted pursuant to HGL dividend reinvestment plan	1,701,908	786	–	–
Costs associated with shares issued	–	(6)	–	–
Balance at the end of the financial year	**55,657,919**	**37,582**	**53,956,011**	**36,802**

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

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

17. Reserves

	Consolidated entity	
	2016 $'000	**2015 $'000**
Foreign currency translation reserve	(145)	(177)
Other reserve	(901)	(901)
	(1,046)	**(1,078)**

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

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

18. Cash Flow Information

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

Cash at banks and on hand	5,626	4,683
Cash and cash equivalents	**5,626**	**4,683**

18. Cash Flow Information (continued)

	Consolidated entity 2016 $'000	2015 $'000
Reconciliation of cash flow from operations with operating profit after income tax		
Profit before tax from continuing operations	4,313	3,722
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation	533	288
Losses / (profits) on sale of property, plant and equipment	(40)	137
Share of profits of associates not received as dividends	(407)	(272)
Changes in assets and liabilities		
(Increase) / decrease in trade and term debtors	(1,182)	809
(Increase) / decrease in inventories	(590)	(1,122)
(Increase) / decrease in prepayments	(327)	(81)
(Increase) / decrease in deferred taxes	(1,453)	(611)
Increase / (decrease) in trade creditors and accruals	(355)	(395)
Increase / (decrease) in provision for income tax	(63)	63
Increase / (decrease) in other current provisions	(54)	928
Increase / (decrease) in other non-current provisions	(272)	(641)
Net cash flows from operating activities	**103**	**2,825**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

19. Information Relating to HGL Limited (parent)

	Parent entity	
	2016 $'000	**2015 $'000**
Current assets	683	233
Non current assets	20,374	15,651
Total assets	21,057	15,884
Current liabilities	2,205	544
Non current liabilities	3,280	2,316
Total liabilities	5,485	2,860
Net assets	15,572	13,024
Issued capital	37,582	36,802
Reserves	380	380
Accumulated losses	(58,030)	(58,030)
Retained earnings	35,640	33,872
Total equity	**15,572**	**13,024**
Total comprehensive income of the Parent entity	**2,169**	**5,001**

As noted above, there is a working capital deficiency of $1,522,000 (2015: $311,000). The Group has undistributed profits within wholly owned subsidiaries which will be received by the Parent entity in the form of cash dividends subsequent to balance date.

20. Segment Information

2016	Retail marketing $'000	Homewares $'000	Collectables $'000	Building products $'000	Health & beauty $'000	Aggregated segments $'000
Revenue from sales to external customers	10,051	7,747	5,849	22,018	6,587	52,252
Depreciation	8	6	49	204	28	295
Segment EBIT	402	(380)	329	3,806	158	4,315

2015						
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	801	161	323	3,668	99	5,052

Reconciliation of Profit or Loss

	2016 $'000	2015 $'000
Segment Earnings Before Interest and Tax (EBIT)	4,315	5,251
Unallocated items of income and expenditure		
Share of profit from equity accounted investments	867	772
Finance costs	(73)	(112)
Significant items	(148)	496
Other unallocated expenses	(2,164)	(3,233)
Profit before tax	**2,797**	**3,174**

- 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 $2.8 million (2015: $3.2 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

continued

21. Related Party Disclosures

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

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

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

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

Compensation of Key Management Personnel of the Group

	Consolidated entity	
	2016 $	**2015 $**
Short-term employee benefits	1,248,626	1,536,314
Post-employment benefits	79,312	103,984
Other long-term benefits	11,488	14,447
Termination benefits	–	142,692
Total compensation paid to key management personnel	**1,339,426**	**1,797,437**

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

22. Commitments and Contingencies

Operating Lease Commitments – Group as Lessee

	Consolidated entity	
	2016 $000	**2015 $000**
Within one year	1,491	1,386
After one year but not more than five years	2,449	2,362
	3,940	**3,748**

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

Capital Commitments

There are no significant capital expenditure commitments at balance date.

Contingent Liabilities

There are no significant contingent liabilities at balance date.

23. Events after the Reporting Period

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

24. Auditors' Remuneration

The auditor of HGL Limited is Deloitte Touche Tohmatsu.

	Consolidated entity	
	2016 $	2015 $
Amounts received or due and receivable by Deloitte Touche Tohmatsu for:		
An audit or review of the financial report of the entity and any other entity in the consolidated group	237,600	244,600

25. Investment in Controlled Entities

Significant Controlled Entities

		Ownership interest	
	Country of incorporation	2016 %	2015 %
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[1]	Australia	100	N/A
The Point-of-Sale Centre (New Zealand) Limited	New Zealand	100	100
JSB Lighting (New Zealand) Limited[2]	New Zealand	100	N/A

(1) Incorporated 11 June 2015
(2) Incorporated 2 June 2016

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

DIRECTORS' DECLARATION

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

1. In the opinion of the directors:
    a. the consolidated financial statements and notes of HGL Limited for the financial year ended 30 September 2016 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 2016 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 2016.

On behalf of the board

Peter Miller	Dr Frank Wolf
Chairman	**Director**

Sydney, 22 November 2016

INDEPENDENT AUDITOR'S REPORT

to the members of HGL Limited

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney, NSW, 2000
Australia

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

Independent Auditor's Report to the 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 2016, 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 14 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 1, 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.

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 2016 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 7 to 10 of the directors' report for the year ended 30 September 2016. 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 2016, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Tara Hill
Partner
Chartered Accountants
Sydney, 22 November 2016

ASX ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 October 2016.

(a) Distribution of equity securities

(i) Ordinary share capital

Range	Number of shareholders	Number of shares
1 – 1,000	644	175,007
1,001 – 5,000	461	1,251,203
5,001 – 10,000	205	1,562,815
10,001 – 100,000	342	10,574,561
100,001 and over	60	42,094,333
	1,712	55,657,919

- 55,657,919 fully paid ordinary shares are held by 1,712 individual shareholders
- Number of shareholders holding less than a marketable parcel (1,112 shares) is 665.

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

(b) Twenty largest holders of quoted equity securities

	Number	%
Sery Pty Limited	9,807,767	17.6
IJV Investments Pty Ltd	5,906,909	10.6
J P Morgan Nominees Australia Limited	5,159,580	9.3
LPO Investments Pty Limited	1,837,301	3.3
Kitwood Pty Ltd	1,446,799	2.6
ANZ Trustees Limited <Queensland Common Fund A/C>	1,419,088	2.6
HSBC Custody Nominees (Australia) Limited	1,194,598	2.2
Mr George Edward Curphey	1,064,686	1.9
Jennifer Ann Drummond	907,469	1.6
Armada Trading Pty Limited	903,057	1.6
KJE Superannuation Pty Ltd <KJE Superannuation S/F A/C>	854,258	1.5
F M Wolf Pty Limited <F M 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
Armada Trading Pty Ltd	662,010	1.2
Extra Edge Pty Ltd	550,527	1.0
Mr Alister John Forsyth	502,188	0.9
Ms Elizabeth Rasmussen	403,626	0.7
John Rainone Pty Ltd <Rainone Super Fund A/C>	398,280	0.7
Australasian & General Securities Ltd	372,111	0.7
Miengrove Pty Ltd <G J & P K Bird Super A/C>	370,000	0.7
	35,149,620	63.2

(c) Substantial holders

	Fully paid
Ordinary shareholders	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

	2016	2015	2014	2013	2012
Total Revenue	52,252	52,000	50,771	68,986	118,237
Underlying profit/(loss) ($000)	**3,008**	**2,615**	**533**	**(421)**	**(457)**
Significant items ($000)	1,305	1,107	(21,963)	(8,500)	(4,692)
Reported profit/(loss) ($000)	**4,313**	**3,722**	**(21,430)**	**(8,921)**	**(5,149)**
Underlying earnings per share (cents)	5.4	4.8	1.0	(0.8)	(0.9)
Underlying return on shareholders' funds (%)[(a)]	13.3	13.9	1.2	(0.7)	(0.6)
Reported earnings per share (cents)	7.9	6.9	(39.4)	(16.8)	(9.9)
Return on shareholders' funds (%)[(b)]	19.1	19.8	(50.7)	(16.6)	(8.2)
Dividend per share (cents)	**2.5**	**1.5**	**2.0**	**4.0**	**6.0**
Shares on issue	55,657,919	53,956,011	53,956,011	53,647,751	52,484,316
Total shareholders' equity ($000)	26,315	22,550	18,804	43,157	64,348
HGL shareholders' equity ($000)	26,315	22,550	18,804	42,302	53,607
Net cash/(debt) ($000)	3,825	4,683	2,185	1,941	5,010

(a) Underlying profit divided by opening HGL shareholders equity
(b) Reported profit divided by opening HGL shareholders equity

CORPORATE INFORMATION

ABN 25 009 657 961

Directors
Peter Miller
Dr Frank Wolf
Kevin Eley
Julian Constable
Cheryl Hayman

Chief Executive Officer
Henrik Thorup

Company Secretary & Chief Financial Officer
Iain Thompson

Registered Office and Principle Place of Business
Level 2, 68-72 Waterloo Road
Macquarie Park NSW 2113
Australia

Phone: +61 2 8667 4660
Fax: +61 2 8667 4669

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

Phone: 1300 855 080
Fax: +61 3 9415 4000

HGL Limited shares are listed on the Australian Stock Exchange **(ASX: HNG)**

Bankers
ANZ Banking Group Limited

Auditors
Deloitte Touche Tomatsu

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

Level 2, 68-72 Waterloo Rd
Macquarie Park NSW 2113

PO Box 1445
Macquarie Centre NSW 2113

P +61 2 8667 4660
F +61 2 8667 4669
E info@hgl.com.au
W www.hgl.com.au