



**INVEST
DEVELOP
EXPAND**

Annual Report 2018

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Directors' Report

for the year ended 30 September 2018

Your directors submit their report for the year ended 30 September 2018.

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

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

Non executive Director, appointed 1985. Kevin Eley is a Chartered Accountant with significant executive and director experience, including as Chief Executive Officer of HGL Ltd from 1985 to 2010. Kevin was appointed Chair of the Audit and Risk Committee on 1 May 2018. He is a director of Milton Corporation Ltd (since December 2011), EQT Holdings Ltd (since November 2011) and Pengana Capital Group Ltd since 2017, and was a director of Po Valley Energy between 2012 and 2016, and Hunter Hall International Ltd from 2015 to 2017.

Julian Constable (Director)

Non executive Director, appointed 2003. Julian Constable has 35 years experience in the stockbroking industry, and is a senior client advisor of Bell Potter Securities Ltd. He is a member of the Nomination and Remuneration Committee and the Audit and Risk Committee. Julian is a director of Pengana International Equities Limited (since May 2010), and is Chair of their Audit Committee.

Cheryl Hayman (Director)

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

Vale Dr Frank Wolf, BA (Hons), PhD

On 18 April 2018, Dr Frank Wolf passed away following a short battle with cancer. Frank joined HGL's board of directors in 2000 and more recently fulfilled the role of Chair of HGL's Audit Committee. Over the course of his tenure, Frank's deep intellect and strong commercial acumen helped steer HGL through some challenging times. We were deeply saddened by Frank's passing and continue to miss his presence.

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

As at the date of this report, the directors held no options, and the interests of the directors in the shares of HGL Limited were:

| | Number of direct shares | Number of indirect shares |
|------------------|-------------------------|---------------------------|
| Peter Miller | 104,472 | 14,147,877 |
| Kevin Eley | – | 1,082,677 |
| Julian Constable | 215,000 | 6,408,698 |
| Cheryl Hayman | – | – |

Directors' Report

continued

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 over 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.

Dividends

The Directors have declared a final dividend of 1.5 cents per share fully franked. The record date for the dividend will be 8 January 2019, with a payment date of 22 January 2019.

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 | 24/07/18 | 1.50 | 878 |
| Final dividend for the previous year on ordinary shares | 23/01/18 | 1.50 | 860 |

All dividends declared or paid are fully franked at 30%

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

HGL invests in and actively supports a portfolio of wholly or partly-owned wholesale and distribution companies with expertise and capital. The portfolio companies are independently operated marketing and supply chain businesses, selling or renting premium quality products, under exclusive agency or company brands, in diversified niche markets.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan (DRP) was established by the directors to provide shareholders with the opportunity of reinvesting their dividends in ordinary shares in the Company. No brokerage is payable if shares are allotted under the DRP. Participation is open to shareholders with a registered address in Australia or New Zealand, and holding more than 1,000 shares.

During the year the total number of shares issued under the DRP was 1,937,877 (2017: 1,701,662).

Operating and financial review

Revenue from Continuing Operations for the twelve months ended 30 September 2018 of \$43.4 million (FY17: \$40.3 million) represents a 7.7% increase on the prior corresponding period. Continuing Operations excludes any impact from discontinued operations covering Biante, Leutenegger and Nido Interiors, as required by accounting standards.

Underlying Earnings Before Interest and Tax ("EBIT") from Continuing Operations in FY18 of \$3.9 million (FY17: \$3.6 million) represents an 8.5% increase on the prior corresponding period.

Statutory Net Profit After Tax for FY18 was \$0.8 million (FY17: \$2.7 million), and includes non-underlying costs of \$0.9 million and losses from discontinued operations totalling \$1.7 million.

Group revenue, comprising Continuing Operations and 100% of Mountcastle sales, increased by 6.6% to \$61.5 million with like-for-like sales growth recorded for the fourth consecutive year.

Gross margin in Continuing Operations increased to 51.5% (FY17: 47.9%), reflecting effective sourcing initiatives and higher gross margin levels contributed by Pegasus Healthcare.

The increase in Operating expenses primarily reflects the addition of six months of overheads from Pegasus Healthcare, partly offset by net cost savings across SPOS Group, JSB Lighting and BLC Cosmetics.

Underlying EBIT from Continuing Operations reflected growth in SPOS Group and Mountcastle, plus six months contribution from Pegasus Healthcare. Profit contribution from JSB Lighting was slightly below last year and BLC Cosmetic incurred a loss during FY18.

GPS Strategy Plan 2022

HGL's mission is to build platforms of stand-alone or integrated high-returning businesses operating in fast-growing industries through investments in partnerships based on our equity and skills principle.

The Group operates a two pronged business model:

Equity: HGL invests in and actively supports a portfolio of wholly or partly-owned wholesale and distribution companies with expertise and capital; and

Skills: Our portfolio companies are independently operated marketing and supply chain businesses, selling premium quality products, under exclusive agency or company brands, in diversified niche markets.

Our current industry sectors are Architectural Lighting, Medical Equipment, Retail Marketing, School Wear and Personal Care products.

HGL's key objective is to build the scale of its core businesses and take advantage of any acquisitions that deliver operational and revenue synergies. HGL will also pursue stand-alone acquisitions of candidates with performance results underpinning the Group's financial target metrics based on our equity and skills principle.

The continuing businesses of JSB Lighting, SPOS Group, Mountcastle, Pegasus Healthcare and BLC Cosmetics all operate in industries with the opportunity to grow both organically and via strategic acquisitions. This has been highlighted by the recent acquisitions of Pegasus Healthcare, Intralux Australia and POSM.

Funding for acquisitions will be through a combination of own funds, borrowings and capital management as appropriate.

Reposition of Company Portfolio

HGL has now completed the optimisation of its company portfolio with the disposals of Biante and Leutenegger and closure of Nido Interiors (Nido), which are collectively classified as discontinued operations in the financial statements (see Note 6.1).

Leutenegger was sold in February 2018 for \$2.0 million, with \$1.7 million of the consideration received by balance date and the remaining \$0.25 million due in February 2019. The business generated \$1.1 million cash for the year, with the proceeds offsetting the operating outflows arising from the pre-tax loss of \$0.8 million.

Following the disposal of Leutenegger, HGL decided to completely exit the homewares market and wind-down Nido. Management formed the view that Nido was unable to create a sustainable long-term position in Australia's homewares market of a scale appropriate to the Group. The business was unable to generate adequate profitability, and it was determined it was in the best interest of shareholders to free up resources to be redeployed within HGL's core portfolio.

The wind down of Nido highlighted the challenges facing this sector and clearance opportunities were limited. As a result, a significant impairment was taken against inventory values, contributing to a before tax loss of \$0.7 million for the year. Despite the impact to profit, Nido was cash positive for FY18.

Biante model cars was divested in December 2017, with proceeds of \$2.9 million received during the period and a final \$0.1 million due in December 2018. The disposal contributed a loss before tax of \$0.9 million but generated net cash of \$2.1 million courtesy of the proceeds.

Recent Acquisitions

The acquisitions of Intralux Australia (September 2017) and POSM (December 2018) have enhanced the product offering in our existing Architectural Lighting and Point-of Sale businesses, with both fully integrated into the daily business operations of JSB Lighting and SPOS Group respectively. The acquisitions have provided new potential sales opportunities, and in the case of POSM, significant operational cost synergies.

The acquisition of Pegasus Healthcare, in partnership with the existing CEO, was HGL's entry into the growing healthcare market. Pegasus continues to operate as a stand-alone business, strategically focussed on establishing new branch offices and upgrading infrastructure to underpin the current positive market share trend.

The three recently acquired businesses are expected to contribute significantly in FY19 and beyond.

Directors' Report

continued

Business unit review

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

JSB achieved revenues of \$23.5 million, slightly down on the prior year, successfully providing quality service to its extensive client base in Australia and New Zealand despite significant organisational disruption during the year. The company is progressing well, under the newly appointed management team headed up by CEO Justin Penhall, delivering strong profitability with an EBIT to Sales Margin of 16.3% in FY18.

The acquisition of Intralux has enabled JSB to consolidate production of its company owned product lines. Intralux provides further capacity to develop new product ranges with reduced production costs and market-leading technical features to enhance JSB's competitiveness. This is evidenced in the company's ability to maintain strong gross margin levels, despite currency pressures during the 12 months period.

JSB's key strategic initiatives for FY19 are the introduction of the Sammode brand, a new tubular light range specialised for technical and architectural applications, and the expansion of Intralux branded products to add further market opportunities in the indoor downlight space. The company will move its NSW-based warehouse operations from Macquarie Park to Seven Hills in February 2019 to provide additional capacity for sub-assembly and warehousing of selected product categories.

The renewed sales organisation is performing according to expectations, gaining experience and increasing its activity levels, continuing to win new project work and building the forward order pipeline of Modular and other key product lines.

The company anticipates a short-term impact with the new sales team gaining traction on a daily basis. JSB has shown operational resilience with an order bank at encouraging levels, although down from previously unseen historical highs during parts of FY18.

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

HGL acquired Pegasus in April 2018 for \$4.45 million, payable as \$3.8 million up front, with deferred payments over the following three years. The business has performed well over the six months, adding revenue scale to the Group and an immediate contribution to earnings.

Pegasus' revenues of \$4.5 million for the six months exceeded initial estimates, a trend which appears to be continuing. The company delivered EBIT of \$0.7 million with a strong EBIT margin of 14.5%, underpinned by the long-term expansion of acute, aged and primary care sectors in Australia.

The company is successfully executing its business plan under CEO Scott Nowland and his team, who are focussed on growing market share by providing high quality services with clinically proven products to assist customers with providing the best care possible.

Pegasus secured multiple new rental contract and sales opportunities to hospitals in NSW. The company recently established new operational facilities in Newcastle and Ballina to increase its service to local hospitals and provide in-home treatments under the National Disability Insurance Scheme.

Strategically in FY19, Pegasus is targeting several new mattress rental contracts with major hospitals in NSW, for which tenders have been submitted. Pegasus plans to build additional operational facilities in NSW and expand its operations into QLD, supported by upgrades to its IT platform to build capacity for future transactional growth. Pegasus recently launched a new corporate name, identity and branding for Pegasus Health Group, which will be implemented over the coming months. The Pegasus Rehab division is exploring its own branded products sourced overseas directly from manufacturers.

Pegasus' return on investment (ROI) for the six months is over 19% per annum, and is expected to be a strong performing entity in the HGL Group, contributing significant underlying earnings in FY19.

BLC Cosmetics imports and distributes high quality skincare products and devices to beauty salons, spas, wellness centres and skincare clinics in the Australia Pacific region.

The company is currently undergoing significant transformational change under the guidance of CEO Nikki Somerset, to build scale, profitability and sustainability. The execution of these strategic initiatives are well underway, yielding emerging operational benefits, but not yet delivering the expected organic performance results.

The key elements to this transformation are the renewal of the company product portfolio and execution of a new client service strategy, elevating promotional and educational activities to larger, profitable, key accounts. Sales revenue of \$5.1 million in FY18 was down 16.1% on prior period, impacted by the client rationalisation program and enduring lost revenue in its major brand Thalgo.

The company maintained a healthy gross margin and reduced its operating expenses by 5.3% in FY18, primarily through the implementation of a new client servicing strategy. Despite lower overhead expenses, BLC Cosmetics contributed an Underlying EBIT loss of \$0.3 million in FY18 as a result of reduced revenue.

The key strategic initiatives in BLC Cosmetics in FY19 are to secure new exclusive distribution rights for complimentary skincare and equipment brands, which includes the launch of the new Skin Regime cosmeceutical brand from Comfort Zone and new natural skincare brand ANDA from Kerstin Florian. Promotional activities in 2019 will include new website launches for Thalgo, Kerstin Florian and Comfort Zone.

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

SPOS achieved sales revenue of \$10.4 million and improved underlying gross margins under the leadership of CEO Julian Pidcock, through new sourcing partners and cost-out activities on standard products and bespoke custom projects. The company's profitability continues to improve through higher gross margins and reduced expenses, achieving EBIT growth of 58.2% over prior period. The EBIT to sales ratio was 11.2%, up from 6.2% last year.

SPOS Group have completed the operational integration of the POSM business with warehouse operations recently transferred from Bomaderry to Macquarie Park, NSW. Significant synergy savings derived from the integration of POSM have been realised, and cross-selling opportunities between SPOS and POSM customers and products will continue to be pursued in FY19.

The key strategic initiative for SPOS Group in FY19 is the Australian launch of Ticket-it, an automated in-store ticket management solution sold to major retail chains in Australia. SPOS is intensely focussed on improving its design capabilities and offering cost-effective, bespoke product promotions. The New Zealand operation is driving sales initiatives of new off-the-shelf products to major supermarket chains and custom project work for global brands.

Over the past three years, SPOS Group has continually elevated its competitiveness through the renewal of its product portfolio and improved operational efficiencies, while building a high-performance organisation of motivated and engaged employees. This is evidenced in the increased company profitability and employee net promoter score measuring staff engagement.

Mountcastle, HGL's 50% owned company in partnership with CEO James Baldwin, is a manufacturer and distributor of uniforms, headwear and bags to public and private schools, government and corporate clients in Australian and overseas.

Mountcastle continues to strengthen its market position, increasing sales in the private and public school wear market in Australia, recording revenue growth of 4.1% to \$18.1 million. The company maintained its strong profitability level with an EBIT margin of 14.9% in FY18.

The partnership with The School Locker retail chain continues to evolve, underpinning the growth in school uniform sales. With increasing demand for school wear and continued market share growth in Mountcastle, the company has expanded production capacity in its manufacturing facility in Vietnam to manage current and future volumes.

Mountcastle has appointed a new General Manager to the Corporate Wear business to drive new sales initiatives, with responsibility for business development, sourcing, production and supply chain functions to deliver quality headwear, garments and accessories to corporate clients. Total corporate wear sales were \$3.0m in FY18 and are anticipated to grow rapidly over the coming years.

Mountcastle's key FY19 strategic initiatives focus on expanding the corporate wear product offering into new categories, implementing a new corporate identity and branding platform for Mountcastle and Trutex school wear, and optimising production setup in Sri Lanka and Vietnam, with the implementation of new Enterprise Resource Planning systems in both manufacturing facilities.

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

HGL is finalising plans to relocate its warehouse operations from its two Macquarie Park locations into a single facility in Seven Hills, NSW. In conjunction with a planned new lease agreement for reduced office space in the existing Macquarie Park tenancy, significant operational cash savings will be generated, although the impact on reported profit will be minimal.

JSB Lighting vs Carey & Others

JSB Lighting (JSB) commenced legal proceedings in June 2018 against a former senior sales representative from WA (Mathew Carey) and his associated company, BFD Lighting. The proceedings relate to the employees' conduct in establishing a competing business in circumstances where, it is alleged, the employee acted in breach of his fiduciary duties to JSB, as well as obligations owed under both his employment agreement with JSB, and under the *Corporations Act 2001*.

Directors' Report

continued

JSB subsequently uncovered evidence that the former CEO of JSB, Dudley Hewitt, and the former CFO of HGL Limited, Andrew Whittles, were actively involved in the establishment of the BFD Lighting business, including while Mr Hewitt was employed by JSB in the position of CEO. Mr Hewitt and Mr Whittles have been joined to the proceedings as respondents for their alleged knowing participation in breaches of Mr. Carey and Mr Hewitt's fiduciary duties, tortious interference with contractual relations, and in the case of Mr Hewitt, breaches of his employment contract and his duties as an officer of JSB under the Corporations Act.

JSB has obtained injunctions against the former CEO of JSB enforcing his contractual restraints and preventing him from having any direct or indirect involvement with BFD Lighting or any other business that is competitive with JSB. JSB has applied for further court orders against BFD Lighting and selected respondents, upholding their customer solicitation obligations and seeking supply and delivery restraints against BFD Lighting on several client projects originated by JSB.

JSB is seeking significant relief against the respondents, including orders that BFD Lighting account to JSB for all profits it has made, as well as orders for payment of damages, compensation and costs. Court hearings are scheduled for late 2018, with a final hearing expected to be scheduled the first half of calendar 2019.

Our People

HGL encourages and supports leaders at every level to reach their full potential. We continue to invest in leadership, talent management and staff training in our ongoing efforts to develop high performing teams.

In FY18 we launched the new "HGL Thrive Program" supporting our commitment to health and wellbeing for all employees across the HGL group. The program aims to inspire our staff to create awareness and take action for positive health change. Also, to create a culture of wellbeing to enhance employee engagement recognising the important link between employee engagement and business success.

It is encouraging to note that our annual employee engagement survey, measuring employee net promoter score, has revealed increased engagement levels above the prior year in our business units based on the executed human resource and employee development programs over the past four years.

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

Cash flow

Operating cash generation by the continuing businesses was strong at \$2.3 million, compared to \$1.6 million in the prior corresponding period. Total operating cash generation was \$0.9 million after including the operating outflow from the discontinued operations. Free cash flow from continuing operations was \$1.5 million.

Total business sale proceeds of \$4.7 million were reinvested in our acquisitions (\$4.2 million) and capital expenditure (\$0.8 million), with a particular focus on Pegasus, which is a more capital intensive business model than the other HGL businesses due to its large fleet of lessor assets.

Cash on Hand of \$5.0 million and bank borrowings of \$3.1 million provide a Net Cash balance at 30 September 2018 of \$2.0 million, down \$0.1 million on the prior year.

Gross Gearing levels (Debt to Debt plus Equity) remain low at 11.0%.

Balance sheet

Working capital levels have decreased substantially over FY18, with the divestment of the group's three capital intensive businesses and the acquisition of Pegasus. The balance of working capital in the group was well controlled, maintaining levels consistent with the prior year.

The net assets of the group decreased to \$26.1 million from \$28.4 million, driven by the acquisitions and divestments during the year. A liability arising from the potential exercise of a put option granted to our equity partner in Pegasus has been recognised in accordance with accounting standards. The option's carrying value reflects the price payable by HGL if the option were to be exercised and the value will vary based on changes to future EBITDA, with all subsequent changes in value impacting the profit and loss statement. Excluding this item, net assets increased by \$1.0 million, driven by reductions in working capital, increased Property, Plant & Equipment acquired with the Pegasus business and intangible assets from the completed acquisitions in FY18.

Risk Management

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

Key risks for the Group include:

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

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.

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.

The Environment

Although our operations have limited environmental impact, the consequences of business decisions on the environment are seriously considered. Although we have little exposure to environmental risks, we strive to be environmentally friendly and embrace technologies and processes that limit environmental impact.

Dividend

The Directors have declared a final dividend of 1.5 cents per share fully franked, to be paid on 22 January 2019 to shareholders on the ordinary register at 5pm on 8 January 2019.

The full year dividend of 3.0 cents per share constitutes an increase of 9% and reflects the Directors' confidence in the 2019 outlook for the Group.

The dividend reinvestment plan will continue to be available to all shareholders with a registered address in Australia or New Zealand, holding over 1,000 shares.

Outlook

Pegasus Healthcare is expected to provide incremental contribution to full year earnings in FY19 and beyond. The sales force transition following organisational disruption in JSB Lighting is likely to impact short-term sales performance, but the Directors remain confident that JSB will return to, and improve on, the previous strong earnings contributions to HGL.

Over the medium term, the Group expects to deliver sustained and organic revenue, earnings and dividend growth from its continuing operations.

The management team continues to pursue suitable bolt-on and standalone acquisitions, based on our equity and skill principle, that can deliver operational and revenue synergies and add scale to its existing businesses.

Significant changes in the state of affairs

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

Significant events after the balance date

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

Likely developments and expected results

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

Directors' Report

continued

Remuneration report (audited)

The remuneration report outlines the director and executive remuneration arrangements of the Company for the 2018 financial year, in accordance with the requirements of the *Corporations Act 2001* and its Regulations. It has been audited in accordance with section 300(A) of the *Corporations Act 2001*.

Details of Key Management Personnel

Key Management Personnel (KMP) are those individuals with authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director of the parent. The list below outlines the KMP of the Group during the financial year ended 30 September 2018. Unless otherwise indicated, the individuals were KMP for the entire financial year.

Directors

| | |
|------------------|---|
| Peter Miller | Non-Executive Chair |
| Dr Frank Wolf | Non-Executive Director (ceased 18 April 2018) |
| Kevin Eley | Non-Executive Director |
| Julian Constable | Non-Executive Director |
| Cheryl Hayman | Non-Executive Director |

Executives

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

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:

| | |
|------------------|--|
| Cheryl Hayman | Committee Chair |
| Peter Miller | |
| Julian Constable | |
| Dr Frank Wolf | Resigned from Committee on 31 October 2017 |

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

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

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

Use of remuneration consultants

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

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

Remuneration report (audited) (continued)

Executive remuneration arrangements

Remuneration Policy

The Group operates from multiple locations across Australia and markets its products predominantly across Australia and New Zealand. All Executive KMP are based in Australia.

Through an effective remuneration framework, the Group aims to:

1. Provide fair and equitable rewards;
2. Align rewards to business outcomes that are linked to creation of shareholder value;
3. Stimulate a high performance culture;
4. Encourage the teamwork required to achieve business and financial objectives;
5. Attract, retain and motivate high calibre employees; and
6. Ensure that remuneration is competitive in relation to peer companies in Australia.

Principles of remuneration

The 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 and includes salary, superannuation and other benefits, with the allocation between salary and other benefits at the executive's discretion. 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

During the 2017 financial year an Executive Incentive Scheme was introduced for the HGL CEO. The scheme provides the CEO with the opportunity to earn an incentive payment once minimum threshold targets are achieved. The value of the maximum incentive opportunity is 150%

of fixed annual remuneration. The same scheme was introduced for the HGL CFO during the 2018 financial year. The maximum opportunity for the CFO was 37.5% of fixed annual remuneration.

Key structural components

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

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

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

The performance measures determined by the Board are Group EPS and Return on Funds Employed (ROFE). Target levels are set in advance by the Board.

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

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

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

There are no incentive scheme payments to be made in relation to the 2018 financial year, as the threshold targets were not achieved. There were no incentive scheme payments paid in relation to the 2017 financial year.

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.

Directors' Report

continued

Remuneration report (audited) (continued)

Executive & Board remuneration

| 2018 | Short term benefits | | | Post employment benefits | Long term benefits | | | Total \$ | Percentage variable remuneration % |
|------------------------------|---------------------|---------------------|--------------------------|--------------------------|-------------------------|-----------------------|-------------------------|-----------|------------------------------------|
| | Salary & fees \$ | Short term bonus \$ | Non monetary benefits \$ | Super-annuation \$ | Long term incentives \$ | Long service leave \$ | Termination payments \$ | | |
| Directors | | | | | | | | | |
| Peter Miller | 100,457 | - | - | 9,543 | - | - | - | 110,000 | - |
| Dr Frank Wolf ⁽¹⁾ | 37,291 | - | - | 3,543 | - | - | - | 40,834 | - |
| Julian Constable | 54,795 | - | - | 5,205 | - | - | - | 60,000 | - |
| Kevin Eley | 54,795 | - | - | 5,205 | - | - | - | 60,000 | - |
| Cheryl Hayman ⁽²⁾ | 54,795 | - | - | 5,205 | - | - | - | 60,000 | - |
| Total Directors | 302,133 | - | - | 28,701 | - | - | - | 330,834 | - |
| Executives | | | | | | | | | |
| Henrik Thorup | 483,680 | - | 28,596 | 25,121 | - | 10,349 | - | 547,746 | - |
| Iain Thompson | 255,431 | - | - | 20,169 | - | 4,655 | - | 280,255 | - |
| Total executives | 739,111 | - | 28,596 | 45,290 | - | 15,004 | - | 828,001 | - |
| Total KMP remuneration | 1,041,244 | - | 28,596 | 73,991 | - | 15,004 | - | 1,158,835 | - |

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

(2) C Hayman commenced as a director on 1 December 2016.

| 2017 | Short term benefits | | | Post employment benefits | Long term benefits | | | Total \$ | Percentage variable remuneration % |
|------------------------------|---------------------|---------------------|--------------------------|--------------------------|-------------------------|-----------------------|-------------------------|-----------|------------------------------------|
| | Salary & fees \$ | Short term bonus \$ | Non monetary benefits \$ | Super-annuation \$ | Long term incentives \$ | Long service leave \$ | Termination payments \$ | | |
| Directors | | | | | | | | | |
| Peter Miller | 100,457 | - | - | 9,543 | - | - | - | 110,000 | - |
| Dr Frank Wolf ⁽¹⁾ | 63,927 | - | - | 6,073 | - | - | - | 70,000 | - |
| Julian Constable | 54,795 | - | - | 5,205 | - | - | - | 60,000 | - |
| Kevin Eley | 52,656 | - | - | 7,344 | - | - | - | 60,000 | - |
| Cheryl Hayman ⁽²⁾ | 45,662 | - | - | 4,338 | - | - | - | 50,000 | - |
| Total Directors | 317,497 | - | - | 32,503 | - | - | - | 350,000 | - |
| Executives | | | | | | | | | |
| Henrik Thorup | 455,000 | - | 21,496 | 25,000 | - | 7,633 | - | 509,129 | - |
| Iain Thompson | 245,276 | - | - | 19,724 | - | 4,423 | - | 269,423 | - |
| Total Executives | 700,276 | - | 21,496 | 44,724 | - | 12,056 | - | 778,552 | - |
| Total KMP remuneration | 1,017,773 | - | 21,496 | 77,227 | - | 12,056 | - | 1,128,552 | - |

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

(2) C Hayman commenced as a director on 1 December 2016.

Remuneration report (audited) (continued)

Relationship between the remuneration policy and company performance

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

Underlying Profit is a non-statutory measure designed to reflect statutory profit excluding the effect of irregular transactions that are not part of the core or ongoing business operations and excluding the impact of business units which have been disposed of during the year. A reconciliation of statutory net profit after tax to underlying profit is shown in Note 4.1 of the financial statements.

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

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

| | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|----------|--------|--------|--------|--------|
| Total Revenue (\$000) ⁽¹⁾ | 50,771 | 52,000 | 38,526 | 40,301 | 43,393 |
| Underlying EBIT (\$000) ⁽¹⁾ | 533 | 2,615 | 3,136 | 3,587 | 3,892 |
| Net profit after tax (\$000) | (21,430) | 3,722 | 4,313 | 2,727 | 812 |
| Return on Funds Employed (%) | (50.7) | 19.8 | 19.1 | 10.4 | 2.9 |
| Share price at year end (\$) | 0.490 | 0.360 | 0.445 | 0.500 | 0.440 |
| Statutory Earnings per Share (cents) | (39.4) | 6.9 | 7.9 | 4.8 | 1.1 |
| Dividends – ordinary shares (cents) | 2.0 | 1.5 | 2.5 | 2.75 | 3.0 |

(1) Reported data for 2016 to 2018 represents continuing operations, 2015 & earlier is statutory result.

Non-executive director remuneration arrangements

Non-executive directors are not employed under employment contracts. Non-Executive Directors are appointed under a letter of appointment and are subject to election and rotation requirements as set out in the ASX listing rules and the Company's constitution.

The remuneration of non-executive Directors is determined by the full Board after consideration of Group performance and market rates for Directors' remuneration. Non-executive Director fees are fixed each year, and are not subject to performance-based incentives.

The maximum aggregate level of fees which may be paid to non-executive directors is required to be approved by shareholders in a general meeting. This figure is currently \$500,000, and was approved by shareholders at the Annual General Meeting on 5 February 2008. Total Non-Executive Director's remuneration including superannuation paid at the statutory prescribed rate for the year ended 30 September 2018 was \$330,834 which is within the approved amount.

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

Directors' Report

continued

Remuneration report (audited) (continued)

Key management personnel shareholdings

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

| 30 September 2018 | Opening Balance | DRP shares | Purchases | Disposals | Closing balance | Indirect Holding |
|------------------------------|-----------------|------------|-----------|-----------|-----------------|------------------|
| Executive directors | | | | | | |
| Peter Miller | 12,492,756 | 826,877 | 932,716 | - | 14,252,349 | 14,147,877 |
| Dr Frank Wolf ⁽¹⁾ | 721,038 | - | - | - | - | - |
| Kevin Eley | 898,040 | 61,375 | 123,262 | - | 1,082,677 | 1,082,677 |
| Julian Constable | 6,410,264 | 198,434 | 15,000 | - | 6,623,698 | 6,408,698 |
| Cheryl Hayman | - | - | - | - | - | - |
| Senior executives | | | | | | |
| Henrik Thorup | - | - | - | - | - | - |
| Iain Thompson | 5,597 | 359 | - | - | 5,956 | - |

(1) Ceased as a director on 18 April 2018.

- End of Audited Remuneration Report -

Indemnification and insurance of directors and officers

During the year, the Company purchased Directors' and Officers' Liability Insurance to provide cover in the event a claim is made against the directors and officers in office during the financial year and at the date of this report, as far as is allowable by the *Corporations Act 2001*. The policy also covers the Company for reimbursement of directors' and officers' expenses associated with such claims if the defence to the claim is successful. The total amount of insurance premium paid and the nature of the liability are not disclosed due to a confidentiality clause within the agreement. As at the date of this report, no amounts have been claimed or paid in respect of this indemnity and insurance, other than the premium referred to above.

The Company's Rules provide for an indemnity of Directors, executive officers and secretaries where liability is incurred in connection with the performance of their duties in those roles other than as a result of their negligence, default, breach of duty or breach of trust in relation to the Company. The Rules further provide for an indemnity in respect of legal costs incurred by those persons in defending proceedings in which judgement is given in their favour, they are acquitted or the Court grants them relief.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Deloitte Touche Tohmatsu, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Deloitte Touche Tohmatsu during or since the financial year.

Auditor independence and non-audit services

The directors have received a declaration from the auditor of HGL Limited. This has been included on page 15.

Non-audit services

The following non-audit services were provided by the entity's auditor, Deloitte Touche Tohmatsu. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Deloitte Touche Tohmatsu received or are due to receive the following amounts for the provision of non-audit services:

| | Consolidated entity \$ |
|-------------------------|------------------------------|
| Tax compliance services | 9,450 |

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 any other group entity. All options remained outstanding at the date of this report.

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

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

Directors' Report

continued

Directors' meetings

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

| | Directors' meetings | Meetings of committees | |
|-------------------------------------|---------------------|------------------------|-----------------------------|
| | | Audit | Nomination and Remuneration |
| Number of meetings held: | 13 | 3 | 4 |
| Number of meetings attended: | | | |
| Peter Miller | 13 | 3 | 4 |
| Dr Frank Wolf ⁽¹⁾ | 6 | 1 | 1 |
| Kevin Eley | 13 | 3 | – |
| Julian Constable | 13 | 1 | 4 |
| Cheryl Hayman | 12 | – | 4 |

(1) Dr Wolf attended all meetings held prior to 6 April 2018.

Corporate governance

The Company's Corporate Governance Statement for the year ended 30 September 2018 is effective and was approved by the Directors on 21 November 2018. The Corporate Governance Statement is available on the HGL Ltd website at www.hgl.com.au/about/corporate-governance.

Rounding

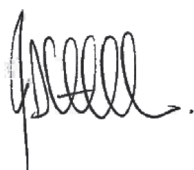
The amounts contained in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) where noted (\$000) under the option available to the Company under ASIC Corporations (Rounding in Financial / Directors' Reports) Instrument 2016/191. The Company is an entity to which the class order applies.

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

On behalf of the Directors



Kevin Eley
Director



Julian Constable
Director

Sydney, 21 November 2018

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

21 November 2018

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

Dear Board Members

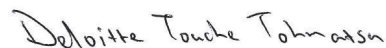
HGL Limited

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 2018, 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



Carlo Pasqualini
Partner
Chartered Accountants

Consolidated Statement of Profit or Loss

for the year ended 30 September 2018

| | Notes | Consolidated entity | |
|--|-------|---------------------|----------------|
| | | 2018 \$'000 | 2017 \$'000 |
| Continuing Operations | | | |
| Sales revenue | 9.1 | 43,393 | 40,301 |
| Cost of sales | | (21,051) | (20,994) |
| Gross profit | | 22,342 | 19,307 |
| Other income | 9.4 | 76 | 65 |
| Sales, marketing and advertising expenses | | (8,176) | (7,839) |
| Occupancy expenses | | (1,535) | (1,211) |
| Freight and distribution expenses | | (2,592) | (1,161) |
| Administration and other expenses | | (8,094) | (6,664) |
| Finance costs | 9.3 | (197) | (134) |
| Share of profit of an associate | 13 | 976 | 942 |
| Profit before tax | | 2,800 | 3,305 |
| Income tax (expense) / benefit | 10 | (332) | 319 |
| Profit for the year from continuing operations | | 2,468 | 3,624 |
| Loss after tax for the year from Discontinued Operations | 6 | (1,656) | (897) |
| Profit for the year | | 812 | 2,727 |
| Attributable to: | | | |
| Equity holders of the parent | | 620 | 2,727 |
| Non-controlling interests | | 192 | - |
| Total Profit | | 812 | 2,727 |
| | | Cents | Cents |
| Earnings per share | | | |
| Basic EPS from Continuing Operations | | 3.9 | 6.4 |
| Basic EPS from Discontinued Operations | | (2.8) | (1.6) |
| Basic EPS from Continuing and Discontinued Operations | | 1.1 | 4.8 |
| Diluted EPS from Continuing Operations | | 3.9 | 6.4 |
| Diluted EPS from Discontinued Operations | | (2.8) | (1.6) |
| Diluted EPS from Continuing and Discontinued Operations | | 1.1 | 4.8 |

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

Consolidated Statement of Other Comprehensive Income

for the year ended 30 September 2018

| | Consolidated entity | |
|---|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Profit for the year | 812 | 2,727 |
| Other comprehensive income | | |
| <i>Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods (net of tax):</i> | | |
| Exchange differences on translation of foreign operations | (2) | (31) |
| Net other comprehensive loss to be reclassified to profit or loss in subsequent periods | (2) | (31) |
| Total comprehensive income for the year, net of tax | 810 | 2,696 |
| Total comprehensive income attributable to: | | |
| Equity holders of the Parent | 618 | 2,696 |
| Non-controlling interests | 192 | - |

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

Balance Sheet

as at 30 September 2018

| | Notes | Consolidated entity | |
|---------------------------------------|-------|---------------------|----------------|
| | | 2018 \$'000 | 2017 \$'000 |
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 22 | 5,044 | 4,381 |
| Trade and other receivables | 11 | 7,529 | 9,754 |
| Inventories | 12 | 4,639 | 6,950 |
| Prepayments | | 453 | 1,445 |
| Other current financial assets | 6 | 350 | - |
| Total current assets | | 18,015 | 22,530 |
| Non current assets | | | |
| Investment in associates | 13 | 4,897 | 4,994 |
| Property, plant and equipment | 14 | 3,284 | 1,261 |
| Intangible assets | 15 | 14,507 | 12,066 |
| Deferred tax assets | 10 | 3,335 | 2,817 |
| Other investments | | 4 | - |
| Total non current assets | | 26,027 | 21,138 |
| Total assets | | 44,042 | 43,668 |
| Current liabilities | | | |
| Trade and other payables | 16 | 6,859 | 7,687 |
| Interest bearing loans and borrowings | 17 | 3,162 | 2,250 |
| Provisions | 18 | 2,334 | 2,795 |
| Other current financial liabilities | 17 | 500 | - |
| Income tax payable | | (32) | - |
| Total current liabilities | | 12,823 | 12,732 |
| Non-current liabilities | | | |
| Interest-bearing loans and borrowings | 17 | 178 | - |
| Provisions | 18 | 416 | 852 |
| Other financial liabilities | 17 | 1,195 | 1,702 |
| Other financial instruments | 17 | 3,349 | - |
| Total non current liabilities | | 5,138 | 2,554 |
| Total liabilities | | 17,961 | 15,286 |
| Net assets | | 26,081 | 28,382 |
| Equity | | | |
| Issued capital | 19 | 39,408 | 38,496 |
| Other capital reserves | 21 | (1,079) | (1,077) |
| Accumulated losses | | (10,155) | (9,037) |
| Other components of equity | | (3,349) | - |
| Non-controlling interests | 20 | 1,256 | - |
| Total equity | | 26,081 | 28,382 |

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

Consolidated Statement of Changes in Equity

for the year ended 30 September 2018

| | Attributable to the equity holders of the parent | | | | | | Total equity \$'000 |
|---|--|---|---|---|--|---|------------------------|
| | Issued capital (Note 19) \$'000 | Foreign Currency Reserve (Note 21) \$'000 | Other Reserve (Note 21) \$'000 | Retained Earnings / Accumulated losses \$'000 | Non- controlling interests \$'000 | Other component of equity \$'000 | |
| As at 1 October 2017 | 38,496 | (176) | (901) | (9,037) | – | – | 28,382 |
| Shares issued under a Dividend Reinvestment Plan | 919 | – | – | – | – | – | 919 |
| Costs associated with issues of shares | (7) | – | – | – | – | – | (7) |
| Profit for the year | – | – | – | 620 | 192 | – | 812 |
| Translation of overseas controlled entities | – | (2) | – | – | – | – | (2) |
| Total comprehensive income | – | (2) | – | 620 | 192 | – | 810 |
| Dividend paid (Note 7) | – | – | – | (1,738) | – | – | (1,738) |
| Acquisition of a subsidiary (Note 5) | – | – | – | – | – | (3,349) | (3,349) |
| Non-controlling interest arising on a business combination (Note 5) | – | – | – | – | 1,064 | – | 1,064 |
| As at 30 September 2018 | 39,408 | (178) | (901) | (10,155) | 1,256 | (3,349) | 26,081 |

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

Consolidated Statement of Changes in Equity

for the year ended 30 September 2017

| | Attributable to the equity holders of the parent | | | | Total equity \$'000 |
|--|--|---|---|---|------------------------|
| | Issued capital (Note 19) \$'000 | Foreign Currency Reserve (Note 21) \$'000 | Other Reserve (Note 21) \$'000 | Retained Earnings / Accumulated losses \$'000 | |
| As at 1 October 2016 | 37,582 | (145) | (901) | (10,221) | 26,315 |
| Shares issued under a Dividend Reinvestment Plan | 922 | - | - | - | 922 |
| Costs associated with issues of shares | (8) | - | - | - | (8) |
| Profit for the year | - | - | - | 2,727 | 2,727 |
| Translation of overseas controlled entities | - | (31) | - | - | (31) |
| Total comprehensive income | - | (31) | - | 2,727 | 2,696 |
| Dividend paid (Note 7) | - | - | - | (1,543) | (1,543) |
| As at 30 September 2017 | 38,496 | (176) | (901) | (9,037) | 28,382 |

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

Consolidated Statement of Cash Flows

for the year ended 30 September 2018

| | Notes | Consolidated entity | |
|---|-----------|---------------------|----------------|
| | | 2018 \$'000 | 2017 \$'000 |
| Operating activities | | | |
| Cash receipts in the course of operations | | 54,946 | 56,035 |
| Cash payments in the course of operations | | (54,520) | (56,962) |
| Interest received | | 59 | 63 |
| Interest paid | | (195) | (134) |
| Income tax paid | | (433) | - |
| Dividends received from associates | | 1,073 | 800 |
| Net cash flows from/(used in) operating activities | 22 | 930 | (198) |
| Investing activities | | | |
| Proceeds from sale of property, plant and equipment | | 19 | 3 |
| Purchase of property, plant and equipment | 14 | (795) | (368) |
| Acquisition of subsidiaries, net of cash acquired | 5 | (4,161) | (511) |
| Proceeds from disposal of subsidiaries | 6 | 4,667 | - |
| Net cash flows used in investing activities | | (270) | (876) |
| Financing activities | | | |
| Proceeds from borrowings | | 825 | 450 |
| Dividends paid | 7 | (819) | (621) |
| Net cash flows from/(used in) financing activities | | 6 | (171) |
| Net increase/(decrease) in cash and cash equivalents | | 666 | (1,245) |
| Cash and cash equivalents at 1 October | 22 | 4,381 | 5,626 |
| Effect of exchange rate changes on the balance of cash | | (3) | - |
| Cash and cash equivalents at 30 September | 22 | 5,044 | 4,381 |

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

Notes to the Consolidated Financial Statements

for the year ended 30 September 2018

1. Corporate information

The consolidated financial statements of HGL Limited and its subsidiaries (collectively, the Group) for the year ended 30 September 2018 were authorised for issue in accordance with a resolution of the directors on 21 November 2018.

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

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

2. Summary of significant accounting policies

2.1 Basis of preparation

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

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

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

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

2.2 Compliance with International Financial Reporting Standards (IFRS)

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

2.3 Changes in accounting policies, disclosures, standards and interpretations

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

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

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

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

(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 2018. The directors have not early adopted any of these new or amended standards or interpretations.

AASB 9 Financial Instruments

This standard is applicable to the Group for the reporting period commencing 1 October 2018.

The Group has determined there will not be a material impact of this standard on the financial statements of the group.

AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost, if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, which arise on specified dates and solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in OCI. For financial liabilities at fair value, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' model to recognise an allowance. The standard introduces additional new disclosures.

2. Summary of significant accounting policies (continued)

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

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

AASB 15 Revenue from Contracts with Customers

This standard is applicable to the Group for the reporting period commencing 1 October 2018.

The Group has assessed that there will not be a material impact of this standard on the financial statements of the group. The Group transacts predominantly through repeating individual sales of goods which are not subject to supply contracts beyond standard trading terms of sale.

The core principle of this standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The standard requires contracts and their included separate performance obligations to be identified, the determination of the transaction price in the contract, and the allocation of the transaction price to the separate performance obligations identified as if each obligation was standalone. Revenue is then recognised when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied.

AASB 16 Leases

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

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

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 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

continued

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(a) Basis of consolidation (continued)

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

(b) Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 139 *Financial Instruments: Recognition and Measurement*, is measured at fair value with changes in fair value recognised 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.

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(c) Investment in associates (continued)

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

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence 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 OCI. On disposal of a foreign operation, the components of OCI relating to that particular foreign operation is recognised in Profit or Loss.

(e) Revenue recognition

Revenue is recognised 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.

Rental Income

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

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 the record date of 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.

Notes to the Consolidated Financial Statements

continued

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(f) Taxes (continued)

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

Goods and services tax (GST)

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

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

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

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

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

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

(h) Property, plant and equipment

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

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

Depreciation

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

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

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

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

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(h) Property, plant and equipment (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 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.

Notes to the Consolidated Financial Statements

continued

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

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

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 11.

Impairment of financial assets

Financial assets carried at amortised cost

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

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

(ii) Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

Loans and borrowings

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

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

This category generally applies to interest-bearing loans and borrowings. For more information refer to Note 17.

Fair value through Profit and Loss

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

Put Option Liabilities

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

De-recognition

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

(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.

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(n) Inventories

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

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

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

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

(o) Impairment of non-financial assets

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

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

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

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGUs recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the

assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

Goodwill is tested for impairment annually as at 30 September and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the statement of profit or loss. Impairment losses relating to goodwill cannot be reversed in future periods.

(p) Cash and short-term deposits

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

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

(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.

Notes to the Consolidated Financial Statements

continued

2. Summary of significant accounting policies (continued)

2.4 Significant accounting policies (continued)

(q) Provisions (continued)

Onerous contracts provisions

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

(r) Employee benefits

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

Contributions to defined contribution superannuation plans are expensed when incurred.

(s) Fair value measurement

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

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

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

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

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

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

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

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

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

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There were no transfers between category levels during the current or prior financial year.

(t) Operating segments

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

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

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

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

3. Significant accounting judgements, estimates and assumptions

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

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

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

Acquisition accounting (Note 5)

An assessment of the fair value of assets acquired and liabilities assumed, on the acquisition of business operations, requires assumptions to be made on the future use of those assets and liabilities. In addition, the identification of separate identifiable intangible assets, along with their fair values, requires an assessment of the relative components of intangible assets acquired.

Calculation of deferred contingent consideration requires assumptions surrounding future performance of the portion of the business acquired, potentially covering a number of years into the future.

The key assumption for the calculation of deferred contingent consideration for Intralux relates to projected future sales of Intralux developed products. Estimates have been based on historical sales levels, size of the sales force, channels to market and size of market.

Deferred tax assets (Note 10)

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

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

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

Intangible assets (Note 15)

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

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

Notes to the Consolidated Financial Statements

continued

4. Underlying profit and segment information

4.1 Significant items

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

| | Consolidated entity | |
|---|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Underlying EBIT from continuing operations | 3,892 | 3,587 |
| Non-underlying items before tax ⁽¹⁾ | (894) | (148) |
| Interest expense | (197) | (134) |
| Net profit before tax from Continuing Operations | 2,801 | 3,305 |
| Tax (expense) / benefit | (333) | 319 |
| Net profit after tax from continuing operations | 2,468 | 3,624 |
| Net profit after tax from discontinued operations | (1,656) | (897) |
| Statutory profit after tax | 812 | 2,727 |

(1) Non-underlying items include legal fees, business acquisition costs, restructuring costs and other costs.

4.2 Segment information

| | Revenue | | Depreciation | | EBIT | |
|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 30 September 2018 \$'000 | 30 September 2017 \$'000 | 30 September 2018 \$'000 | 30 September 2017 \$'000 | 30 September 2018 \$'000 | 30 September 2017 \$'000 |
| Continuing Operations | | | | | | |
| Retail Marketing | 10,365 | 10,358 | 17 | 9 | 1,164 | 643 |
| Building Products | 23,409 | 23,850 | 232 | 203 | 3,821 | 4,208 |
| Personal care | 5,110 | 6,093 | 74 | 40 | (314) | 43 |
| Healthcare | 4,509 | - | 279 | - | 655 | - |
| Total | 43,393 | 40,301 | 602 | 252 | 5,326 | 4,894 |
| Continuing segment EBIT | | | | | 5,326 | 4,894 |
| Share of profit from equity accounted investments | | | | | 976 | 942 |
| Finance costs | | | | | (197) | (134) |
| Significant items | | | | | (894) | (148) |
| Other unallocated expenses | | | | | (2,410) | (2,249) |
| Net profit before tax from Continuing Operations | | | | | 2,801 | 3,305 |

4. Underlying profit and segment information (continued)

4.2 Segment information (continued)

| | Revenue | | Depreciation | | EBIT | |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | 30 September 2018 \$'000 | 30 September 2017 \$'000 | 30 September 2018 \$'000 | 30 September 2017 \$'000 | 30 September 2018 \$'000 | 30 September 2017 \$'000 |
| Discontinued Operations | | | | | | |
| (Note 6) | | | | | | |
| Homewares | 4,195 | 7,771 | 100 | 69 | (1,480) | (1,122) |
| Collectables | 1,022 | 3,989 | 6 | 87 | (912) | (143) |
| Total | 5,217 | 11,760 | 106 | 156 | (2,392) | (1,265) |
| Discontinued Segment EBIT | | | | | (2,392) | (1,265) |
| Finance costs | | | | | (3) | - |
| Loss before income tax from Discontinued Operations | | | | | (2,395) | (1,265) |
| Profit / (Loss) before income tax | | | | | 406 | 2,040 |

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

Continuing segments:

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

Discontinued segments:

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

The Group has a large number of customers to which it provides products. There are no individual customers that account for more than 10% of external revenues. The Group operates predominately in Australia with some operations in New Zealand. Total revenues from sales outside Australia for the financial year were \$3.1 million (2017: \$4.2 million)

Notes to the Consolidated Financial Statements

continued

5. Business combinations and acquisition of non-controlling interests

Acquisitions in 2018

POSM Solution

On 4 December 2017, the Group acquired the business and assets of POSM, a distributor of point of sale solutions. The acquisition was complementary to the SPOS business, providing additional sales revenue while generating significant synergies.

The purchase price was settled through the payment of \$662,000 cash, plus contingent amounts payable on achievement of agreed Gross Margin contribution over six and twelve month periods. The fair value of the obligation at acquisition date was \$555,000, with the fair value of remaining future consideration at balance date \$300,000.

Upon acquisition, POSM was operationally integrated within the existing Retail Marketing segment, making it impractical to separate profit contribution for the year. Sales between acquisition and balance date were \$1,218,000.

Assets acquired and liabilities assumed

| | \$'000 |
|--|--------------|
| Purchase consideration | |
| Cash paid | 662 |
| Contingent consideration | 555 |
| Total consideration | 1,217 |
| Assets and liabilities | |
| Inventories | 162 |
| Net DTA | 4 |
| Fair value of net assets acquired | 166 |
| Goodwill arising on acquisition | 1,051 |
| Fair value of net assets acquired | 1,217 |

The acquisition accounting has been finalised at balance date.

The Group incurred acquisition costs of \$14,000, which are included in administration and other expenses.

Pegasus Healthcare

On 1 April 2018, the Group acquired 70% of the business and assets of Pegasus Healthcare, a provider of medical equipment to hospitals, aged care facilities and retail customers, on a hire or sale basis. Pegasus has been consolidated into HGL's accounts from that date.

Up front consideration of \$3.8 million was funded through an additional \$1.9 million cash advance provided by HGL's bankers, with the balance through internal funding. Further consideration totalling \$0.65 million cash is payable over 3 years subject to any warranty claims on the business.

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

Assets acquired and liabilities assumed (continued)

| | \$'000 |
|--|--------------|
| Purchase consideration | |
| Cash paid | 3,800 |
| Contingent consideration | 650 |
| Total consideration | 4,450 |
| Assets and liabilities | |
| Cash and cash equivalents | 464 |
| Trade and other receivables | 1,240 |
| Inventories | 526 |
| Property, plant and equipment | 2,543 |
| Goodwill | 624 |
| Other intangible assets | 1,687 |
| Available for sale financial assets | 4 |
| Trade and other creditors | (699) |
| Provisions | (329) |
| Income tax payable | (284) |
| Interest bearing loans and borrowings | (262) |
| Non Controlling Interest | (1,064) |
| Fair value of net assets acquired | 4,450 |

The acquisition accounting has been prepared on a provisional basis. A portion of the Intangible assets acquired has been recognised as Goodwill, after separating other identifiable intangibles. Goodwill is recognised as the acquisition of Pegasus gives HGL access to the strong growth sectors of acute, aged and primary care, providing an expansion of the industry footprint of HGL.

Sales between acquisition and balance date were \$4,509,000, and NPAT contribution was \$606,000.

The Group incurred acquisition costs of \$280,000, which are included in administration and other expenses, and recognised as non-underlying expenses.

6. Discontinued operations

6.1 Classification

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

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

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

Notes to the Consolidated Financial Statements

continued

6. Discontinued operations (continued)

6.1 Classification (continued)

Biante

On 4 December 2017, the group disposed of the business operations and assets of Biante Pty Ltd, being the whole of the Collectables segment of the business. The disposal was considered an opportunity to release cash from a non-core business unit, and at the same time removing the need for significant future cash investment in production opportunities.

Disposal proceeds of \$1.75 million were received on completion, plus further payments of \$1.5 million over the twelve months to December 2018 subject to future winding out of stock purchase commitments of \$1.4 million over a similar period, plus any potential sale warranties. At balance date, a receivable of \$0.1 million is recognised on the balance sheet in relation to deferred consideration receivable.

Leutenegger

On 12 February 2018, the group disposed of the business operations and assets of J. Leutenegger Pty Ltd, a distributor of traditional sewing and craft supplies, and part of the Homewares segment. The disposal followed a strategic review of the business which identified it did not have sufficient scale to profitably compete in this sector.

Disposal proceeds of \$1.2 million were received on completion, plus further payments of \$0.75 million over the twelve months to February 2019 subject to any potential sale warranties. At balance date, a receivable of \$0.25 million is recognised on the balance sheet in relation to deferred consideration receivable.

Nido Interiors

Following the disposal of Leutenegger, HGL decided to completely exit the homewares segment and wind-down Nido Interiors Pty Ltd (Nido). The company determined that Nido did not have the scale to create a sustainable long-term position in Australia's homewares market. The business was unable to generate an adequate return and it's in the best interest of shareholders to free-up invested capital to be redeployed within HGL's core portfolio.

HGL will cease its funding of Nido after fulfilling any remaining customer orders, and expects to have finalised the wind-down by March 2019.

6.2 Other financial assets

| | Consolidated entity | |
|-----------------------------------|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Current | | |
| Deferred consideration receivable | 350 | - |

6.3 Financial performance

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

Cash flows from discontinued operations

| | | |
|------------------------------------|--------------|-----------|
| Operating cash flow | (1,351) | (1,802) |
| Investing cash flow | 4,655 | (298) |
| Financing cash flow ⁽¹⁾ | (3,617) | 2,162 |
| Net cash (outflow)/inflow | (313) | 62 |

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

6. Discontinued operations (continued)

6.3 Financial performance (continued)

| | Consolidated entity | |
|--|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Profit/(Loss) for the year from discontinued operations | | |
| Revenue | 5,217 | 11,761 |
| Expenses | (7,501) | (13,025) |
| Operating profit/(loss) from discontinued operations | (2,284) | (1,264) |
| Loss on disposal of discontinued operations | (111) | - |
| Profit/(Loss) before tax from discontinued operations | (2,395) | (1,264) |
| Tax from Discontinued Operations | 739 | 367 |
| Profit/(Loss) for the year from discontinued operations | (1,656) | (897) |

7. Dividends

7.1 Dividends paid and proposed

Declared and paid during the year:

| | | |
|---|--------------|--------------|
| Final dividend for 2017: 1.5 cents per share (2016: 1.5 cents) | 860 | 835 |
| Interim dividend for 2018: 1.5 cents per share (2017: 1.25 cents) | 878 | 708 |
| | 1,738 | 1,543 |

Dividends paid in cash or satisfied by the issue of shares under the Dividend Reinvestment Plan:

| | | |
|--|--------------|--------------|
| Paid in cash | 819 | 621 |
| Satisfied by issue of shares under DRP | 919 | 922 |
| Dividends paid | 1,738 | 1,543 |

Proposed dividends on ordinary shares:

| | | |
|---|-----|-----|
| Proposed Final dividend of 1.5 cents per share not recognised as a liability as at 30 September (2017: 1.5 cents per share) | 889 | 860 |
|---|-----|-----|

7.2 Franking account balance

Franking credit balance

The amount of franking credits available for the subsequent financial year are:

| | | |
|---|--------------|--------------|
| Franking account balance as at the end of the financial year at 30% (2017: 30%) | 9,090 | 9,417 |
| Franking debits that will arise from the payment of dividends subsequent to the end of the financial year | (381) | (369) |
| | 8,709 | 9,048 |

Notes to the Consolidated Financial Statements

continued

7. Dividends (continued)

7.3 Dividend reinvestment plan

Brief details of the Plan are:

- shareholders with a minimum holding requirement of 1,000 ordinary shares and a registered address in Australia or New Zealand are eligible to participate;
- participation is optional;
- full or partial participation is available;
- payment is made through the allotment of shares, rather than cash, at a discount determined by the Directors at the date of declaration of up to 7.5% on the average market price of the Company's ordinary shares;
- no brokerage, commission, stamp duty, or administration costs are payable by shareholders; and
- participants may withdraw from the plan at any time by notice in writing to the Registry.

8. Earnings per share (EPS)

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

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

| | Consolidated entity | |
|--|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Net Profit after tax | 812 | 2,727 |
| Profit attributable to Non-Controlling Interests | 192 | - |
| Profit attributable to equity holders of the parent | 620 | 2,727 |
| Loss from discontinued operations | (1,656) | (897) |
| Profit from continuing operations | 2,276 | 3,623 |
| Weighted average number of ordinary shares | 58,302,520 | 56,487,167 |
| | Cents | Cents |
| Basic Earnings per Share from Continuing and Discontinued Operations | 1.1 | 4.8 |
| Diluted Earnings per Share from Continuing and Discontinued Operations | 1.1 | 4.8 |

9. Profit from operations

9.1 Revenue

| | Consolidated entity | |
|---------------|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Sales revenue | 43,393 | 40,301 |

9. Profit from operations (continued)

9.2 Expenses

| | Consolidated entity | |
|--|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Depreciation and Amortisation | | |
| Expensed to profit and loss | | |
| – Plant and Equipment | 591 | 265 |
| – Intangibles | 28 | – |
| Total depreciation and amortisation | 619 | 265 |
| Employee benefit expenses | | |
| Salary and wages | 12,333 | 10,834 |
| Defined contribution superannuation expense | 809 | 680 |
| | 13,142 | 11,514 |
| Bad debts | 18 | 13 |
| Write down of inventories to net realisable value | 43 | 8 |
| Operating lease expenses - minimum lease payments | 1,173 | 1,450 |
| Foreign exchange loss | (83) | (46) |
| 9.3 Finance costs | | |
| Financial institutions - interest expense and line fees | 177 | 134 |
| Finance charges payable under finance leases and hire purchase contracts | 20 | – |
| Total finance costs | 197 | 134 |
| 9.4 Other income | | |
| Interest | | |
| Financial Institutions | 59 | 62 |
| Total Interest | 59 | 62 |
| Other income | 17 | 3 |
| Total other income | 76 | 65 |

Notes to the Consolidated Financial Statements

continued

10. Income tax

The major components of income tax expense for the years ended 30 September 2018 and 2017 are:

Consolidated statement of profit or loss

| | Consolidated entity | |
|--|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Current tax | | |
| Over provision In respect of prior years | (41) | (8) |
| | (41) | (8) |
| Deferred tax | | |
| In respect of the current year | 1,068 | 880 |
| Relating to origination and reversal of temporary differences | (114) | (37) |
| Re-recognition of deferred tax assets | (581) | (1,154) |
| | 373 | (311) |
| Total income tax expense recognised in the current year relating to continuing operations | 332 | (319) |
| Prima facie income tax benefit on profit from ordinary activities at 30% (2017: 30%) | 840 | 991 |
| Differences in overseas tax rates | 2 | 3 |
| Equity accounted investments | - | (43) |
| Recognition of deferred revenue losses | (581) | (1,154) |
| Non allowable expenses | 98 | 25 |
| Over provision of prior years | (41) | (8) |
| Other | 14 | (133) |
| Total Income Tax | 332 | (319) |

Deferred tax

Deferred tax assets comprises:

| Consolidated entity | Provisions \$'000 | Plant & Equipment \$'000 | Other \$'000 | Revenue Losses \$'000 | Total \$'000 |
|---------------------|----------------------|--------------------------------|-----------------|-----------------------------|-----------------|
| 2018 | | | | | |
| Opening balance | 1,505 | 39 | 119 | 1,154 | 2,817 |
| Charged to income | (345) | (17) | 299 | 581 | 518 |
| Total | 1,160 | 22 | 418 | 1,735 | 3,335 |
| 2017 | | | | | |
| Opening balance | 1,761 | 161 | 143 | - | 2,065 |
| Charged to income | (256) | (122) | (24) | 1,154 | 752 |
| Total | 1,505 | 39 | 119 | 1,154 | 2,817 |

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

The group has a further \$13.8 million of gross revenue losses, and \$11.1 million of gross capital losses, which have not been brought to account at 30 September 2018.

11. Trade and other receivables

| | Consolidated entity | |
|---|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Trade receivables | 7,451 | 9,471 |
| Allowance for doubtful debts | (129) | (159) |
| Net trade receivables | 7,322 | 9,312 |
| Other debtors | 207 | 442 |
| Total receivables | 7,529 | 9,754 |
| Movement in allowance for doubtful debts | | |
| Opening balance | (159) | (237) |
| Additional provisions | (18) | 57 |
| Amounts written off | 48 | 21 |
| | (129) | (159) |
| Trade receivables past due | | |
| Not yet due | 3,932 | 7,806 |
| Past due 0-30 days | 2,555 | 971 |
| Past due 31-60 days | 496 | 272 |
| Past due 61-90 days | 308 | 216 |
| Past due greater than 90 days | 160 | 206 |
| | 7,451 | 9,471 |

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.

12. Inventories

| | | |
|---|--------------|--------------|
| Raw materials (at cost) | 910 | - |
| Finished goods (at lower of cost or net realisable value) | 3,729 | 6,950 |
| | 4,639 | 6,950 |

Notes to the Consolidated Financial Statements

continued

13. Investment in associates

| | Ownership interest % | Carrying value \$'000 | Profit contribution \$'000 |
|----------------------------------|----------------------|-----------------------|----------------------------|
| 2018 | | | |
| Mountcastle Pty Ltd | 50 | 4,897 | 976 |
| | | 4,897 | 976 |
| 2017 | | | |
| Mountcastle Pty Ltd | 50 | 4,896 | 934 |
| Createc Pty Ltd (in liquidation) | 50 | 98 | 8 |
| | | 4,994 | 942 |

Mountcastle Pty Ltd

The principal activity of Mountcastle was headwear and uniform distribution.

| | Consolidated entity | |
|--|---------------------|--------------|
| | 2018 \$'000 | 2017 \$'000 |
| Current assets | 11,198 | 11,111 |
| Non-current assets | 810 | 747 |
| Current liabilities | (2,017) | (1,810) |
| Non-current liabilities | (197) | (257) |
| Net Assets | 9,794 | 9,791 |
| Ownership interest | 50% | 50% |
| Carrying amount of the investment | 4,897 | 4,896 |

The above amounts of assets and liabilities include the following:

| | | |
|-----------------------------------|-------|-------|
| Cash and cash equivalent | 815 | 1,018 |
| Current financial liabilities | (491) | (649) |
| Non-current financial liabilities | (42) | (58) |

| | | |
|-------------------------|--------|--------|
| Revenues | 18,150 | 17,433 |
| Profit after income tax | 1,952 | 1,868 |
| Share of dividends paid | 975 | 800 |

The above profit for the year includes the following:

| | | |
|-------------------------------|-----|-----|
| Depreciation and amortisation | 73 | 86 |
| Interest expenses | 25 | 39 |
| Interest income | 7 | 5 |
| Income tax expense | 741 | 800 |

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

13. Investment in associates (continued)

Createc Pty Ltd

During the 2017 financial year, Createc Pty Ltd was placed into voluntary liquidation by the members and was deregistered on 21 March 2018. The carrying value at 30 September 2017 reflected the expected distribution to shareholders on winding up, and this amount was received in cash during the 2018 financial year.

| | Consolidated entity | |
|--|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Current assets | - | 197 |
| Net Assets | - | 197 |
| Ownership Interest | | 50% |
| Carrying amount of the investment | - | 98 |

14. Property, plant and equipment

| | | |
|----------------------------|--------------|--------------|
| <i>Plant and equipment</i> | | |
| At cost | 3,555 | 3,243 |
| Accumulated depreciation | (2,381) | (1,982) |
| Net carrying value | 1,174 | 1,261 |
| <i>Rental equipment</i> | | |
| At cost | 3,992 | - |
| Accumulated depreciation | (1,882) | - |
| Net carrying value | 2,110 | - |
| Net carrying value | 3,284 | 1,261 |

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

| | | |
|--|--------------|--------------|
| <i>Plant and equipment</i> | | |
| Written down value | | |
| Net book value at the beginning of the financial year | 1,261 | 1,410 |
| Additions | 466 | 368 |
| Acquisitions of a subsidiary | 529 | 44 |
| Expensed to COGS | (31) | 72 |
| Disposals | (589) | - |
| Depreciation expense | (464) | (630) |
| Exchange differences | 2 | (3) |
| Net book value at the end of the financial year | 1,174 | 1,261 |
| <i>Rental equipment</i> | | |
| Written down value | | |
| Additions | 329 | - |
| Acquisitions of a subsidiary | 2,014 | - |
| Depreciation expense | (233) | - |
| Net book value at the end of the financial year | 2,110 | - |

Notes to the Consolidated Financial Statements

continued

15. Intangible assets

| | Consolidated entity | |
|--|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| <i>Intangible Assets</i> | | |
| Goodwill | 12,417 | 12,066 |
| Other intangible assets | 1,943 | - |
| Designs with definite useful life | 175 | - |
| Accumulated amortisation | (28) | - |
| Carrying amount of patent | 147 | - |
| Net carrying amount | 14,507 | 12,066 |
| Reconciliation of carrying amounts at the beginning and the end of the year | | |
| Goodwill | | |
| At 1 October | 12,066 | 10,166 |
| Acquisition of business | 1,739 | 1,900 |
| Changes in goodwill | (1,388) | - |
| Net book value at 30 September | 12,417 | 12,066 |
| <i>Designs with definite useful life</i> | | |
| Acquisition of business | 175 | - |
| Amortisation | (28) | - |
| Net book value at 30 September | 147 | - |
| <i>Other intangible assets</i> | | |
| Acquisition of business | 1,943 | - |
| Net book value at 30 September | 1,943 | - |

Other intangible assets include customer contracts and trademarks.

Allocation of Goodwill

The carrying value of goodwill is allocated to the building products, retail marketing and healthcare segments. 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.

15. Intangible assets (continued)

Key assumptions

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.

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 16.0% (2017: 13.6%) was applied to the cash flow projections.

Long term growth rates used were between 2.5% (sales) and 5% (costs) (2017: 2.5% and 5%).

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

16. Trade and other payables

| | Consolidated entity | |
|-----------------------------|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Trade payables and accruals | 6,859 | 7,687 |

Payables have carrying amounts that reasonably approximate fair value.

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

17. Financial assets and financial liabilities

17.1 Interest-bearing loans and borrowings

Secured bank loan

Current

Secured at amortised cost

| | | |
|--|--------------|--------------|
| Obligations under finance leases and hire purchase contracts | 87 | - |
| Variable rate bank loans | 3,075 | 2,250 |
| Total current | 3,162 | 2,250 |

Non-current

Secured at amortised cost

| | | |
|--|------------|----------|
| Obligations under finance leases and hire purchase contracts | 178 | - |
| Total non-current | 178 | - |

Notes to the Consolidated Financial Statements

continued

17. Financial assets and financial liabilities (continued)

17.1 Interest-bearing loans and borrowings (continued)

The borrowing facilities comprise of a \$2.3 million (2017: \$2.8 million) cash advance and trade finance facility with an annual review in January each year, and \$1.775 million (2017: Nil) reducing limit floating rate loan facility, which amortises quarterly until expiry on 5 April 2021.

The facilities are secured under a fixed and floating charge over all present and future assets, undertakings and unpaid or uncalled capital of the wholly owned Group. The values of assets pledged as security are as presented on the balance sheet.

Interest is payable based on floating rates determined with reference to the Bank Bill Rate at each drawdown.

The carrying amounts of borrowings reasonably approximate fair value.

17.2 Other financial liabilities

Contingent consideration

| | Consolidated entity | |
|---------------------------------------|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Current | | |
| Contingent consideration | 500 | – |
| Non current | | |
| Contingent consideration | 1,195 | 1,702 |
| Total contingent consideration | 1,695 | 1,702 |

POSM

As part of the purchase agreement with the previous owners of POSM, an amount of contingent consideration has been agreed. The consideration is dependent on the Gross Margin contribution of POSM during the period from acquisition to 30 November 2018 (see Note 5).

The final deferred consideration payment is due for payment no later than 31 December 2018, and the maximum remaining consideration under the purchase agreement is \$450,000. There are no reasonably foreseeable circumstances which could result in a material change in fair value.

Pegasus Healthcare

As part of the purchase agreement with the previous owners of Pegasus Healthcare, a portion of the consideration is deferred over a 3 year period from completion, ending on 1 April 2021. The payments are subject to any warranty claims arising under the purchase agreement.

Intralux

As part of the purchase agreement with the previous owner of Intralux Australia, an amount of contingent consideration has been agreed. The consideration is dependant on the sales of Intralux during a 7 year period following acquisition.

The contingent consideration was estimated using the discounted cash flow method to capture the present value of the expected future cash outflows arising from the transaction. Future royalty payments to the vendor are based on sales revenues from branded product ranges over a base level of sales. Probability-adjusted revenues range from a low point of \$1,500,000 in the first year to a high of \$6,500,000 in the final year of the agreement. Reasonably foreseeable variations in the sales forecasts, and their associated probabilities used, could result in a material change in fair value.

The fair value of future contingent consideration has been adjusted during the year to reflect lower sales over the period, reflecting a conservative approach following the establishment of a new competitor in the lighting market.

17. Financial assets and financial liabilities (continued)

17.3 Other financial instruments

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

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

| | Consolidated entity | |
|----------------------|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Non-current | | |
| Put option liability | 3,349 | – |

17.4 Financial risk management objectives and policies

Capital management

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

The capital structure consists of net debt, which includes borrowings (Note 17.1) less cash and cash equivalents, and total equity, which includes issued capital (Note 19), reserves (Note 21) 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.

Notes to the Consolidated Financial Statements

continued

17. Financial assets and financial liabilities (continued)

17.4 Financial risk management objectives and policies (continued)

Categories of financial instruments

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

| | Notes | Consolidated entity | |
|----------------------------------|-------|---------------------|----------------|
| | | 2018 \$'000 | 2017 \$'000 |
| Financial assets | | | |
| Cash at bank and on hand | 22 | 5,044 | 4,381 |
| Trade receivables | 11 | 7,451 | 9,471 |
| Other investments | | 4 | - |
| Other current financial assets | 6 | 350 | - |
| | | 12,849 | 13,852 |
| Financial liabilities | | | |
| Creditors and accruals | 16 | 6,859 | 7,687 |
| Borrowings - Variable rate loans | 17.1 | 3,075 | 2,250 |
| Lease Liabilities | 17.1 | 265 | - |
| Contingent consideration | 17.2 | 1,695 | 1,702 |
| Derivative financial instruments | 17.3 | 3,349 | - |
| | | 15,243 | 11,639 |

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 | |
|------------------------|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Credit facilities | 4,075 | 2,800 |
| Amount utilised | 3,075 | 2,741 |
| Unused credit facility | 1,000 | 59 |

The Group has a \$2.3 million (2017: \$2.8 million) cash advance and trade finance facility with the Australia and New Zealand Banking Group Limited (ANZ), which is subject to an annual review, and a \$1.775 million (2017: Nil) reducing limit floating rate loan facility, which amortises quarterly until expiry on 5 April 2021. The facilities are subject to covenant testing at specific measurement dates.

In addition to the above, Pegasus Healthcare has a standalone \$1.0 million multi-purpose facility with ANZ, which is subject to an annual review. The Group acts as a Guarantor for the facility. At balance date this facility was drawn to \$0.3 million, used to fund finance leases.

17. Financial assets and financial liabilities (continued)

17.4 Financial risk management objectives and policies (continued)

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

| | Creditors and accruals \$'000 | Bank borrowings \$'000 | Contingent consideration \$'000 | Finance lease liabilities \$'000 | Put option liability \$'000 | Total \$'000 |
|---------------------------------|-------------------------------------|------------------------------|---------------------------------------|---|-----------------------------------|-----------------|
| 2018 | | | | | | |
| Financial Maturity table | | | | | | |
| Less than 1 year | 6,858 | 1,850 | 505 | 87 | – | 9,300 |
| 1 - 2 year | – | 700 | 237 | 91 | – | 1,028 |
| 2 - 3 years | – | 525 | 324 | 87 | 3,349 | 4,285 |
| 3 - 4 years | – | – | 93 | – | – | 93 |
| 4 - 5 years | – | – | 110 | – | – | 110 |
| Longer than 5 years | – | – | 427 | – | – | 427 |
| Total | 6,858 | 3,075 | 1,696 | 265 | 3,349 | 15,243 |
| 2017 | | | | | | |
| Financial Maturity table | | | | | | |
| Less than 1 year | 7,687 | 2,250 | – | – | – | 9,937 |
| Total | 7,687 | 2,250 | – | – | – | 9,937 |

| | Consolidated entity | |
|---------------------------------------|---------------------|-----------|
| | 2018 % | 2017 % |
| Weighted average interest rate | | |
| Trade payables and accruals | – | – |
| Borrowings - Variable rate loans | 4.82 | 4.16 |
| Finance lease | 4.75 | – |

Currency risk

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

Exchange rate exposure is managed utilising forward foreign exchange contracts and foreign exchange bank accounts. At year end the Group has \$1,668,000 (2017: \$2,621,000) of foreign currencies monetary liabilities mainly in USD and Euro. The Group has \$1,652,000 (2017: \$1,629,000) of foreign currencies monetary assets mainly in USD and NZD.

In addition the Group has \$874,000 (2017: \$1,879,000) of foreign currency forward contracts outstanding at balance date, in a net asset fair value position of \$6,000 (2017: \$25,000 net liability) 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 2018 and 2017 net outstanding foreign currency exposure.

Notes to the Consolidated Financial Statements

continued

17. Financial assets and financial liabilities (continued)

17.4 Financial risk management objectives and policies (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 \$ 21,000 higher or lower respectively (2017: \$19,000).

18. Provisions

| | Consolidated entity | |
|---|---------------------|------------------------|
| | 2018 \$'000 | 2017 \$'000 |
| Current | | |
| Employee benefits | 1,960 | 2,316 |
| Surplus lease and make good provisions | 374 | 479 |
| | 2,334 | 2,795 |
| Non current | | |
| Employee benefits | 365 | 523 |
| Surplus lease and make good provisions | 51 | 329 |
| | 416 | 852 |
| Surplus lease provisions | | 2018 \$'000 |
| Balance at beginning of financial year | | 808 |
| Additional lease provisions recognised | | 87 |
| Reductions arising from payments | | (470) |
| Balance at the end of financial year | | 425 |

19. Issued capital

| Ordinary shares issued and fully paid | 2018 | | 2017 | |
|---|-------------------|---------------|-------------------|---------------|
| | Number | \$'000 | Number | \$'000 |
| Balance at the beginning of the financial year | 57,359,581 | 38,496 | 55,657,919 | 37,582 |
| Allotted pursuant to HGL dividend reinvestment plan | 1,937,877 | 919 | 1,701,662 | 922 |
| Costs associated with shares issued | - | (7) | - | (8) |
| Balance at the end of the financial year | 59,297,458 | 39,408 | 57,359,581 | 38,496 |

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 7.3.

20. Non controlling interests

| | Consolidated entity | |
|--|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Non controlling interests from acquisition | 1,064 | - |
| Profit attributable to non controlling interests | 192 | - |
| | 1,256 | - |

21. Reserves

| | Consolidated entity | |
|--------------------------------------|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Foreign currency translation reserve | (178) | (176) |
| Other reserve | (901) | (901) |
| | (1,079) | (1,077) |

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.

Notes to the Consolidated Financial Statements

continued

22. Cash flow information

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

| | Consolidated entity | |
|----------------------------------|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Cash at banks and on hand | 5,044 | 4,381 |
| Cash and cash equivalents | 5,044 | 4,381 |

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

| | | |
|---|------------|--------------|
| Profit after tax from continuing operations | 2,468 | 3,624 |
| Profit/(loss) after tax from discontinued operations | (1,656) | (897) |
| Operating profit after income tax | 812 | 2,727 |
| Adjustments to reconcile profit before tax to net cash flows: | | |
| Depreciation | 757 | 633 |
| Losses / (profits) on sale of property, plant and equipment | (41) | (3) |
| Profit on disposal of controlled entity | (111) | - |
| Share of profits of associates not received as dividends | 97 | (142) |
| Changes in assets and liabilities | | |
| (Increase) / decrease in trade and term debtors | 3,470 | (618) |
| (Increase) / decrease in inventories | (816) | (715) |
| (Increase) / decrease in prepayments | 172 | (265) |
| (Increase) / decrease in deferred taxes | (523) | (754) |
| Increase / (decrease) in trade creditors and accruals | (1,404) | (736) |
| Increase / (decrease) in provision for income tax | (316) | - |
| Increase / (decrease) in other current provisions | (606) | 155 |
| Increase / (decrease) in other non-current provisions | (561) | (480) |
| Net cash flows from/(used in) operating activities | 930 | (198) |

23. Information relating to HGL Limited (parent)

| | Parent entity | |
|--|----------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Current assets | 1,495 | 600 |
| Non current assets | 23,265 | 19,128 |
| Total assets | 24,760 | 19,728 |
| Current liabilities | 4,186 | 2,419 |
| Non current liabilities | 1,355 | 45 |
| Total liabilities | 5,541 | 2,464 |
| Net assets | 19,219 | 17,264 |
| Issued capital | 39,408 | 38,496 |
| Reserves | 381 | 381 |
| Accumulated losses | (58,030) | (59,220) |
| Retained earnings | 37,460 | 37,607 |
| Total equity | 19,219 | 17,264 |
| Total comprehensive income/(loss) of the Parent entity | 2,782 | 6,641 |

As noted above, there is a working capital deficiency of \$2,691,000 (2017: \$1,864,000). 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.

24. Related party disclosures

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

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

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

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

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

Compensation of key management personnel of the Group

| | Consolidated entity | |
|--|---------------------|------------------|
| | 2018 \$ | 2017 \$ |
| Short-term employee benefits | 1,069,840 | 1,039,269 |
| Post-employment benefits | 73,991 | 77,227 |
| Other long-term benefits | 15,004 | 12,056 |
| Total compensation paid to key management personnel | 1,158,835 | 1,128,552 |

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

Notes to the Consolidated Financial Statements

continued

25. Commitments and contingencies

25.1 Contingent Assets

The Group, through its wholly owned subsidiary Baker & McAuliffe Holdings Pty Ltd ("JSB"), is currently the Applicant in ongoing proceedings in the Federal Court against a number of former employees of the Group, in relation to alleged breaches of duties owed to JSB by those employees. The actions of these employees has caused significant operational disruption to JSB, and there have been a number of impacts on the financial results for 30 September 2018.

Legals costs to date have been expensed as non-underlying costs in the Profit and Loss statement, which the Company will be seeking to recover as part of the proceedings. HGL is cautiously optimistic of its chances of recovering these costs in any settlement, however due to the inherent uncertainty surrounding court proceedings and the unknown financial situation of the defendants no asset has been recorded in the balance sheet at balance date.

As a result of the actions of the defendants, a reassessment was made of the potential short term performance of JSB. The Company believes there is been no impairment on the carrying value of any of the assets in the Building Products CGU, however the headroom in the fair value calculations has been significantly reduced as a result of the potential impact of these actions. This reassessment has, however, resulted in a reduction in the initial assessment of deferred consideration payable in relation to the Intralux acquisition, with a corresponding decrease in goodwill arising from this acquisition.

The Group remains very positive for the medium to long term outlook of JSB, notwithstanding the actions giving rise to the court case.

25.2 Operating lease commitments - Group as lessee

| | Consolidated entity | |
|---|---------------------|----------------|
| | 2018 \$'000 | 2017 \$'000 |
| Within one year | 1,173 | 1,459 |
| After one year but not more than five years | 698 | 1,365 |
| | 1,871 | 2,824 |

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.

25.3 Capital commitments

There are no significant capital expenditure commitments at balance date.

25.4 Contingent liabilities

There are no significant contingent liabilities at balance date.

26. 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.

27. Auditors' remuneration

The auditor of HGL Limited is Deloitte Touche Tohmatsu.

| | Consolidated entity | |
|---|---------------------|------------|
| | 2018 \$ | 2017 \$ |
| <i>Amounts received or due and receivable by Deloitte Touche Tohmatsu for:</i> | | |
| An audit or review of the financial report of the entity and any other entity in the consolidated group | 238,220 | 244,600 |
| Other non-audit services in relation to the entity and any other entity in the consolidated group | 9,450 | 18,750 |

28. Investment in controlled entities

Significant controlled entities

| | Country of Incorporation | Ownership Interest | |
|--|--------------------------|--------------------|--------|
| | | 2018 % | 2017 % |
| Baker & McAuliffe Holdings Pty Limited (trading as JSB Lighting) | Australia | 100 | 100 |
| ACN 067 134 409 Pty Limited (formerly Biante Pty Limited) | Australia | 100 | 100 |
| BLC Cosmetics Pty Limited | Australia | 100 | 100 |
| Hamlon Pty Limited (trading as SPOS) | Australia | 100 | 100 |
| ACN 056 414 647 Pty Limited (formerly J Leutenegger Pty Limited) | Australia | 100 | 100 |
| Nido Interiors Pty Ltd | Australia | 100 | 100 |
| Eniax Pty Ltd | Australia | 70 | 0 |
| Certitude Healthcare Trust | Australia | 70 | 0 |
| The Point-of-Sale Centre (New Zealand) Limited | New Zealand | 100 | 100 |
| JSB Lighting (New Zealand) Limited | New Zealand | 100 | 100 |

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

Directors' Declaration

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

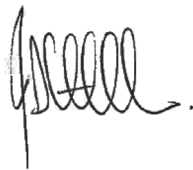
1. In the opinion of the directors:
 - a. the consolidated financial statements and notes of HGL Limited for the financial year ended 30 September 2018 are in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the consolidated entity's financial position as at 30 September 2018 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 2018.

On behalf of the board



Kevin Eley
Director

Sydney, 21 November 2018



Julian Constable
Director

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
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Independent Auditor's Report to the Members of HGL Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of HGL Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated balance sheet as at 30 September 2018, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 September 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Key Audit Matters

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

Independent Auditor's Report

to the members of HGL Limited continued

Deloitte.

| Key Audit Matter | How the scope of our audit responded to the Key Audit Matter |
|---|---|
| <p>Accounting for Acquisitions</p> <p>As disclosed in Note 5 <i>Business Combinations and Acquisition of Non-controlling Interests</i>, the Group acquired:</p> <ul style="list-style-type: none"> • A controlling interest in Pegasus Healthcare Group on 1 April 2018, which was accounted for on a provisional basis; and • The assets and business of Point of Sales Material on 4 December 2017. <p>Accounting for acquisitions is a complex and judgemental exercise, requiring management to determine:</p> <ul style="list-style-type: none"> • the fair value of the total purchase consideration, including any deferred or contingent amounts; and • the fair value of call and put options included in the acquisition agreement. <p>In addition, the Group is required to reassess the fair value of contingent consideration outstanding in relation to previous acquisitions.</p> | <p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Understanding the process that management and the directors have undertaken to account for the acquisitions; • Critically assessing management's accounting treatment, including the determination of contingent consideration, by obtaining a detailed understanding of the terms and conditions of the purchase contracts; • Challenging the reasonableness of the valuation methods used, in conjunction with our valuation specialists; • Challenging the assumptions used in management forecasts and the discount rate applied to calculate the fair value of the call and put options, and contingent consideration; and • Assessing management's provisional purchase price allocation, relating specifically to any likely identified intangibles. <p>We also assessed the appropriateness of the disclosures included in Note 5.</p> |

Other Information

The directors are responsible for the other information. The other information comprises the Director's Report included in the Group's annual report for the year ended 30 September 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Deloitte

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

to the members of HGL Limited continued

Deloitte.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on the Remuneration Report

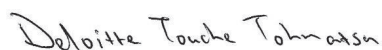
Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the Directors' Report for the year ended 30 September 2018.

In our opinion, the Remuneration Report of HGL Limited, for the year ended 30 September 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



DELOITTE TOUCHE TOHMATSU



Carlo Pasqualini
Partner
Chartered Accountants, 21 November 2018

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 2018.

(a) Distribution of equity securities

(i) Ordinary share capital

| | Total Holders | Units |
|------------------|---------------|-------------------|
| 1 - 1,000 | 361 | 153,437 |
| 1,001 - 5,000 | 401 | 1,083,132 |
| 5,001 - 10,000 | 171 | 1,319,081 |
| 10,001 - 100,000 | 312 | 9,565,336 |
| 100,001 and over | 62 | 47,176,472 |
| Total | 1,307 | 59,297,458 |

- 59,297,458 fully paid ordinary shares are held by 1,307 individual shareholders
- Number of shareholders holding less than a marketable parcel (1,334 shares) is 411.

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

(b) Twenty largest holders of quoted equity securities

| | Units | % of Units |
|---|-------------------|-------------|
| Sery Pty Limited | 10,971,012 | 18.5 |
| J P Morgan Nominees Australia Limited | 6,701,567 | 11.3 |
| IJV Investments Pty Ltd | 6,408,073 | 10.8 |
| LPO Investments Pty Limited | 2,103,460 | 3.6 |
| HSBC Custody Nominees (Australia) Limited | 1,849,084 | 3.1 |
| Kitwood Pty Limited | 1,668,655 | 2.8 |
| ANZ Trustees Limited <Queensland Common Fund A/C> | 1,419,088 | 2.4 |
| Mr George Edward Curphey | 1,190,964 | 2.0 |
| KJE Superannuation Pty Ltd <KJE Superannuation S/F A/C> | 1,082,677 | 1.8 |
| Jennifer Ann Drummond | 1,015,101 | 1.7 |
| Fiske Plc | 1,000,000 | 1.7 |
| Dr Ida Constable | 680,000 | 1.2 |
| Sery Pty Ltd | 670,229 | 1.1 |
| Mr Alister John Forsyth | 552,752 | 0.9 |
| John Rainone Pty Ltd <Rainone Super Fund A/C> | 493,962 | 0.8 |
| Mr Robert Julian Constable + Mrs Janet Marie Constable <RJ Realty Provident Fund A/C> | 418,328 | 0.7 |
| Donald Cant Pty Ltd | 410,729 | 0.7 |
| Ms Elizabeth Rasmussen | 403,626 | 0.7 |
| MIENGROVE PTY LTD <G J & P K BIRD SUPER A/C> | 400,000 | 0.7 |
| Australasian & General Securities Ltd | 372,111 | 0.6 |
| Total | 39,811,418 | 67.1 |

(c) Substantial holders

| Ordinary shareholders | Fully paid Number |
|--------------------------------------|-------------------|
| Sery Pty Limited and its associates | 15,480,805 |
| Mrs Ida Constable and her associates | 14,284,384 |

Five Year Summary

HGL Limited and Controlled Entities

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|------------|------------|------------|------------|------------|
| Revenue from Continuing Operations ^(a) | 43,393 | 40,301 | 38,526 | 52,000 | 50,771 |
| Underlying profit/(loss) from Continuing Operations (\$000) ^(a) | 3,891 | 3,587 | 3,136 | 2,615 | 533 |
| Underlying earnings per share (cents) | 6.7 | 6.4 | 5.7 | 4.8 | 1.0 |
| Underlying return on shareholders' funds (%) ^(b) | 13.7 | 13.6 | 13.9 | 13.9 | 1.2 |
| Dividend per share (cents) | 3.00 | 2.75 | 2.50 | 1.50 | 2.00 |
| Shares on issue | 59,297,458 | 57,359,581 | 55,657,919 | 53,956,011 | 53,647,751 |
| Reported profit/(loss) (\$'000) | 812 | 2,727 | 4,313 | 3,723 | (21,430) |
| Reported earnings per share (cents) | 1.1 | 4.8 | 7.9 | 6.9 | (39.4) |
| Return on shareholders' funds (%) ^(c) | 2.9 | 10.4 | 19.1 | 19.8 | (50.7) |
| Total shareholders' equity (\$000) | 26,080 | 28,380 | 26,315 | 22,551 | 18,804 |
| HGL shareholders' equity (\$000) | 24,826 | 28,380 | 26,315 | 22,551 | 18,804 |
| Net cash/(debt) (\$000) | 1,882 | 2,131 | 3,825 | 4,683 | 2,185 |

(a) Reported numbers from 2016 to 2018 represents contributions from Continuing Operations. 2015 and prior periods are statutory reported results.

(b) Underlying profit divided by opening HGL shareholders equity.

(c) Reported profit divided by opening HGL shareholders equity.

Corporate Information

ABN 25 009 657 961

Directors

Peter Miller
Kevin Eley
Julian Constable
Cheryl Hayman

Chief Executive Officer

Henrik Thorup

Company Secretary & Chief Financial Officer

Iain Thompson

Registered office and Principle place of business

Level 2
68 Waterloo Road
Macquarie Park
NSW 2113 Australia

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

Share registrar

Computershare Investor Services Pty Ltd

Level 4, 60 Carrington St
Sydney NSW 2000

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

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

Bankers

ANZ Banking Group Limited

Auditors

Deloitte Touche Tohmatsu



HGL Limited

ASX CODE: HNG

ABN 25 009 657 961

Incorporated in Queensland

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