ASX Appendix 4D

Lodged with the ASX in accordance with Listing Rule 4.3A

HGL LIMITED (ASX code HNG)

A.B.N. 25 009 657 961

Half Year Report
Results for announcement to the market

Reporting period: **6 months to 31 March 2020**

Previous corresponding period: 6 months to 31 March 2019

		CURRENT PERIOD 31 MAR 20	PREVIOUS PERIOD 31 MAR 19
Revenues from ordinary activities of Continuing Operations($000's)	DOWN 1% TO	19,516	19,715
Profit / (loss) from ordinary activities of Continuing Operations after tax attributable to members ($000's)	DOWN 2,009% TO	(10,483)	549
Net profit / (loss) for the period attributable to members ($000's)	DOWN 1,864% TO	(10,483)	594
Earnings per share from Continuing Operations (cents per share)	DOWN 2,011% TO	(17.2)	0.9
Net tangible assets per share (cents per share)		14.4	19.1

Comments on above results

- Results negatively impacted by COVID-19
- Non-cash impairments and write-downs impacted NPAT result

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

DIVIDENDS **Ordinary shares**	Amount per security (cents)	Franked amount per security (cents)	Total amount paid / payable ($000's)	Foreign source dividend per security (cents)
Proposed interim ordinary dividend	**0.00**	**0.00**	0	0.0
Record date for determining entitlements to the dividend				
Previous corresponding period	0.75	0.75	452	0.0

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

HGL Limited
ABN 25 009 657 961
Financial report for the
half-year ended 31 March 2020

Directors' report

Your directors submit their report for the half-year ended 31 March 2020.

Directors

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

Helen Coonan
Peter Miller
Kevin Eley
Julian Constable
Cheryl Hayman

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

Operating and financial review

Trading Overview

Underlying Earnings Before Interest and Tax (EBIT) from Continuing Operations for the group of $0.05 million was down from $1.0 million on the prior corresponding period (pcp). This was a result of weaker performance by SPOS Group, JSB Lighting and Pegasus Healthcare. Mountcastle and BLC Cosmetics improved their performance compared to the pcp.

Revenue from Continuing Operations for the group of $19.5 million was in line with the pcp.

Statutory Net Loss after Tax for the group of $10.4 million for the six months ended 31 March 2020, compared to $0.8 million profit for the pcp, impacted by a number of one-off items.

COVID-19

In response to COVID-19, costs have been curtailed across all business units to reflect reductions in revenues. Staff in impacted business units, along with the Directors and HGL head office employees, have also taken temporary voluntary reductions in salary. The board appreciates the dedication of our employees and publicly thanks them for their efforts.

Impacted business units have applied for available COVID-19 related relief, including various state and federal government assistance packages, and rental reductions. The benefit of these measures will be seen in results across the second half of the financial year.

Pegasus Healthcare sales revenue of $5.1 million was 4.2% ahead of the pcp, resulting from business development efforts in the alternating pressure mattress segment. Growth in revenues reflects the commencement of the new mattress contract for Westmead Hospital in Sydney.

Pegasus achieved an Underlying EBIT of $0.2 million (2019: $0.6 million). The decrease in Underlying EBIT reflects additional depreciation expense from the ongoing investment in the renewal of the alternating mattress rental fleet.

Pegasus has been affected by the cessation of elective surgeries during COVID-19.

SPOS Group results were affected by COVID-19, with delays in the supply of goods from China impacting second quarter revenues. Revenue was down from $5.7 million to $4.8 million.

Gross margins in the business also contracted slightly with the weakening of the AUD compared to the pcp. SPOS recorded an Underlying EBIT of $0.1 million, down from the pcp result of $0.5 million.

Since balance date, SPOS has seen a good recovery in revenues as supply constraints eased. SPOS has been able to leverage opportunities to supply new COVID-19 related products, such as sneeze guards.

JSB Lighting experienced a growth in revenue to $6.8 million compared to $6.4 million in the pcp.

Underlying EBIT in JSB Lighting was a loss of $0.4 million, compared with $0.2 million profit in the pcp. While margins remained at similar levels to last year, costs increased as the business invested in additional expenditure for business growth and Intralux manufacturing costs.

Directors' report (continued)

Operating and financial review (continued)

A decision was made to impair the carrying value of goodwill in the JSB business, given recent slower trading conditions. This non-underlying, non-cash amount of $7.2 million reflects an anticipated slow-down in the construction sector post COVID-19.

BLC Cosmetics delivered an 8.5% improvement in sales with revenues increasing to $2.9 million in the half. The securing of the HydroPeptide brand in March 2020 is expected to assist in improving sales.

A small decrease in margins from a fall in the AUD combined with good cost control, saw Underlying EBIT improve from a $0.2 million loss last year to a $0.1 million loss in the current half.

BLC's recovery has been significantly interrupted by COVID-19, with its core customer base of spas and salons forced to close due to social distancing requirements. The industry is adjusting with rapid changes in servicing models and a shift toward online purchasing. BLC's revenues at the start of the second half of the year have declined.

Mountcastle generated a normalised equity accounted profit contribution of $1.6 million after excluding the impact of the LW Reid acquisition costs, ahead of the pcp of $1.1 million. This result reflects three months contribution of LW Reid, along with growth in the Mountcastle business.

Since the end of the reporting period, Mountcastle's earnings have been impacted by forced shutdowns of its Sri Lankan based manufacturing operations as a result of COVID-19 and with schools effectively operating online models across Australia.

Significant Items

The board assesses business performance using "Underlying EBIT", 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. A reconciliation of Underlying EBIT to the statutory Net Loss after Income Tax is as follows:

	$000
Underlying EBIT	48
Finance costs	(264)
Underlying tax expense	(22)
Non-underlying items before tax (3.2)	(7,617)
Write down of deferred tax asset	(2,546)
Statutory net loss after income tax	(10,401)

Corporate Strategy and Company Portfolio Changes

HGL's key objectives continue to be building scale in our existing businesses, to secure bolt-on acquisitions that will deliver operational and revenue synergies and actively pursue stand-alone acquisitions through our equity and skills model. In the short-term however, our focus is to trade successfully through the current uncertain conditions and most importantly ensure the health and welfare of our employees.

Dividend

In view of the trading results of the group, the board has elected not to declare an interim dividend.

Outlook

The COVID-19 pandemic has significantly impacted the group's businesses. While the various federal, state and territory governments have announced their intention to commence re-opening the Australian economy, uncertainty remains as to the resultant recovery profile for each sector.

Directors' report (continued)

Significant events after the balance date

The Novel Coronavirus (COVID-19) was declared a pandemic in March 2020 by the World Health Organisation. Subsequent to the end of the half-financial year there have been considerable economic impacts in Australia and globally arising from the outbreak of COVID-19 and Government action to reduce the spread of the virus. The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in early 2020 have caused disruption to businesses and economic activity.

COVID-19 has had an impact on the operations of the Group. The businesses in the Group continue to operate, albeit not at our original planned or expected levels due to the reduced demand for products in some of the businesses. At present the Group’s ability to ship and receive goods has not been significantly impacted, but this could change as government requirements evolve.

As at the date of this report, the Group has factored in its forecasts the anticipated impacts of COVID-19 on its operations based on conditions at this time, including gradual delayering of the previous restrictions by federal and state governments with an objective to increase the level of commerce and economic activity.

However, notwithstanding the aforementioned actions by government, we are not able to predict the overall impact on customers and vendors and therefore, the extent of any future impact of COVID-19 on the Group’s operational and financial performance.

On 14 April 2020 the Company announced a 5 for 16 accelerated pro-rata non-renounceable entitlement offer of new shares at an offer price of $0.20 per new share. The accelerated component was finalised on 17 April 2020, and resulted in the issue of 10,349,331 new shares, raising $2.07 million. The retail component was finalised on 15 May 2020 with the issue of a further 3,137,102 new shares, raising a further $552,000. This capital raising has not been reflected in the financial statements as at 31 March 2020.

Shareholder loans provided during January 2020 and outstanding at 31 March 2020 were converted to ordinary equity in April 2020, through the company’s 5 for 16 rights issue.

No other matter or circumstance has arisen since 31 March 2020 other than the one disclosed in note 1 that has significantly affected, or may significantly affect the Group’s operations, the results of those operations, or the Group’s state of affairs in future financial years.

Auditor independence declaration

The directors have received a declaration from the auditor of HGL Limited. This has been included on page 5.

Rounding

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

Signed in accordance with a resolution of the directors made pursuant to s.306(3) of the Corporations Act 2001.

Helen Coonan
Chair

Directors' report (continued)

Kevin Eley
Director

Sydney
30 May 2020

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

30 May 2020

Dear Board Members

HGL Limited

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

As lead audit partner for the review of the financial statements of HGL Limited for the half-year ended 31 March 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Carlo Pasqualini
Partner
Chartered Accountants

Consolidated income statement

For the half-year ended 31 March 2020

	Notes	Consolidated entity 31 March 2020 $000	31 March 2019 $000
Continuing operations			
Sales revenue		16,498	17,079
Cost of sales		(9,662)	(9,281)
Gross profit		**6,836**	**7,798**
Equipment rental revenue		3,018	2,636
Other income		366	827
Sales, marketing and advertising expenses		(3,949)	(3,836)
Occupancy expenses		(335)	(1,023)
Freight and distribution expenses		(1,849)	(1,666)
Changes in fair value of financial instruments		(468)	-
Change in value of put option liability		617	-
Depreciation & amortisation expense		(1,292)	(485)
Impairment of intangibles	5	(7,186)	-
Administration and other expenses		(4,496)	(4,048)
Finance costs		(264)	(106)
Share of profit of associates	7	1,168	1,053
(Loss)/profit before tax		**(7,834)**	**1,150**
Income tax expense		(2,567)	(386)
(Loss)/profit for the period from continuing operations		**(10,401)**	**764**
Profit after tax for the period from discontinued operations	10	-	45
(Loss)/profit for the period		**(10,401)**	**809**
Attributable to:			
Equity holders of the parent		(10,483)	594
Non-controlling interests		82	215
Total Profit / (Loss)		**(10,401)**	**809**
		Cents	**Cents**
Basic earnings per share			
Basic EPS from Continuing Operations		(17.2)	0.9
Basic EPS from Discontinued Operations		-	0.1
Basic EPS from Continuing and Discontinued Operations		(17.2)	1.0
Diluted earnings per share			
Diluted EPS from Continuing Operations		(17.2)	0.9
Diluted EPS from Discontinued Operations		-	0.1
Diluted EPS from Continuing and Discontinued Operations		(17.2)	1.0

These statements should be read in conjunction with the accompanying notes

Consolidated statement of comprehensive income

For the half-year ended 31 March 2020

	Consolidated entity	
	31 March 2020	31 March 2019
	$000	$000
(Loss)/profit for the period	**(10,401)**	**809**
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):		
Exchange differences on translation of foreign operations	42	30
Share of associate exchange difference on translation of foreign operations	50	-
Net other comprehensive income to be reclassified to profit or loss in subsequent periods	**92**	**30**
Total comprehensive (loss)/income for the half year, net of tax	**(10,309)**	**839**
Total comprehensive income attributable to:		
Equity holders of the Parent	(10,391)	624
Non-controlling interests	82	215
	(10,309)	**839**

These statements should be read in conjunction with the accompanying notes

Consolidated balance sheet

As at 31 March 2020

	Notes	Consolidated entity 31 March 2020 $000	30 September 2019 $000
Assets			
Current assets			
Cash and cash equivalents		2,311	3,097
Trade and other receivables		5,280	5,587
Inventories		4,164	4,768
Prepayments		602	297
Current tax receivable		278	354
Total current assets		**12,635**	**14,103**
Non-current assets			
Investment in associates	7	7,565	5,961
Property, plant and equipment		4,022	4,095
Right of Use Assets	2	7,441	-
Intangible assets	5	7,602	14,869
Deferred tax assets		-	2,439
Other financial assets	9	758	1,019
Other investments		11	11
Total non current assets		**27,399**	**28,394**
Total assets		**40,034**	**42,497**
Liabilities			
Current liabilities			
Trade and other payables		4,943	6,473
Interest bearing loans and borrowings	6	5,700	2,850
Lease Liabilities	2	1,436	158
Provisions		1,326	1,437
Other financial liabilities	9	253	276
Total current liabilities		**13,658**	**11,194**
Non-current liabilities			
Lease Liabilities	2	6,139	172
Provisions		343	494
Other financial liabilities	9	3,313	3,781
Deferred tax liabilities		33	-
Total non current liabilities		**9,828**	**4,447**
Total liabilities		**23,486**	**15,641**
Net Assets		**16,548**	**26,856**
Equity			
Issued capital	8	40,064	40,064
Other capital reserves		(981)	(1,073)
Accumulated losses		(20,841)	(10,358)
Other components of equity		(3,349)	(3,349)
Non-controlling interests		1,655	1,572
Total equity		**16,548**	**26,856**

These statements should be read in conjunction with the accompanying notes

Consolidated statement of changes in equity

For the half-year ended 31 March 2020

Consolidated entity	Issued capital	Foreign Currency Reserve	Other Reserve	Accumulated losses	Non-controlling interests	Other component of equity	Total equity
	Attributable to the equity holders of the parent						
	$000	$000	$000	$000	$000	$000	$000
As at 1 October 2019	**40,064**	**(172)**	**(901)**	**(10,358)**	**1,572**	**(3,349)**	**26,856**
Profit / (loss) for the year	-	-	-	(10,483)	82	-	(10,401)
Share of Associates movement in Reserves	-	50	-	-	-	-	50
Translation of overseas controlled entities	-	42	-	-	-	-	42
Total comprehensive income for the half year	-	92	-	(10,483)	82	-	(10,309)
At 31 March 2020	**40,064**	**(80)**	**(901)**	**(20,841)**	**1,655**	**(3,349)**	**16,548**

These statements should be read in conjunction with the accompanying notes

Consolidated statement of changes in equity (continued)

For the half-year ended 31 March 2019

Consolidated entity	Issued capital	Foreign Currency Reserve	Other Reserve	Accumulated losses	Other component of equity	Non-controlling interests	Total equity
	Attributable to the equity holders of the parent						
	$000	**$000**	**$000**	**$000**	**$000**	**$000**	**$000**
As at 1 October 2018	**39,408**	**(178)**	**(901)**	**(10,155)**	**(3,349)**	**1,256**	**26,081**
Profit / (loss) for the year	-	-	-	594	-	215	809
Translation of overseas controlled entities	-	30	-	-	-	-	30
Total comprehensive income for the half year	-	30	-	594	-	215	839
Dividend paid (Note 4)	-	-	-	(889)	-	-	(889)
Shares issued under a Dividend Reinvestment Plan (Note 8)	466	-	-	-	-	-	466
Costs associated with issues of shares	(4)	-	-	-	-	-	(4)
Shares bought back and cancelled under on-market buy-back	(54)	-	-	-	-	-	(54)
At 31 March 2019	**39,816**	**(148)**	**(901)**	**(10,451)**	**(3,349)**	**1,471**	**26,438**

These statements should be read in conjunction with the accompanying notes

Consolidated statement of cash flows

For the half-year ended 31 March 2020

	Notes	Consolidated entity 31 March 2020 $000	31 March 2019 $000
Operating activities			
Cash receipts in the course of operations		21,046	24,183
Cash payments in the course of operations		(22,754)	(23,179)
Interest received		4	22
Interest paid		(219)	(106)
Income tax paid		(19)	(187)
Dividends received from associates		448	200
Net cash flows (used in)/from operating activities		**(1,494)**	**933**
Investing activities			
Purchase of property, plant and equipment		(980)	(683)
Acquisition of subsidiaries, net of cash acquired		(81)	(300)
Proceeds from disposal of subsidiaries	10	-	234
Purchase of investment	7	(500)	(7)
Net cash flows used in investing activities		**(1,561)**	**(756)**
Financing activities			
Payment of lease liabilities		(624)	(64)
Proceeds from borrowings		3,850	1,000
Repayment of borrowings		(1,000)	(250)
Dividends paid		-	(423)
Buyback of shares		-	(54)
Net cash flows from financing activities		**2,226**	**209**
Net (decrease)/increase in cash and cash equivalents		(829)	386
Net foreign exchange difference		43	30
Cash and cash equivalents at 1 October		3,097	5,044
Cash and cash equivalents at 31 March		**2,311**	**5,460**

These statements should be read in conjunction with the accompanying notes

Notes to the consolidated financial statements

For the half-year ended 31 March 2020

1 Basis of preparation

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

The interim financial statements of HGL Limited and its subsidiaries (collectively, the Group) for the half-year ended 31 March 2020 were authorised for issue in accordance with a resolution of the directors on 30 May 2020.

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

The condensed half year general purpose financial report does not include full disclosures of the type normally included in an annual financial report, and as such this financial report should be read in conjunction with the annual financial report for the year ended 30 September 2019, and any public announcements made by HGL Limited and its controlled entities during the half year in accordance with continuous disclosure requirements arising under the Corporations Act 2001.

Going concern

The Group has prepared the financial statements for the half year ended 31 March 2020 on the going concern basis, which assumes continuity of current business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

For the six months ended 31 March 2020, the Group recorded a net loss of $10,401,000 (prior comparative period net profit of $809,000), had net cash outflows from operating, investing and financing activities of $829,000 (prior comparative period net cash inflows of $386,000) and a working capital deficiency of $1,023,000. At 31 March 2020 the Group had cash and cash equivalents of $2,311,000 (30 September 2019: $3,097,000).

Total net assets at 31 March 2020 are $16,548,000 (30 September 2019: $26,856,000).

As a result of the Earnings Before Interest and Tax (‘EBIT’) performance for the period, including from the impacts of COVID-19, the Group has not met its financial covenant requirements for the 31 March 2020 reporting quarter required under the ANZ borrowing facility.

The Group has been in ongoing discussions with ANZ in relation to these matters, and these discussions have been received positively. ANZ have indicated that, in line with the general COVID-19 relief measures as outlined by the banking industry generally, there is no intention to take any action in relation to these breaches of financial covenants for the period of governmental COVID-19 relief measures at least up to 30 September 2020.

The Group has prepared financial forecasts for the next twelve months which include the impact of COVID-19 and also relies on the continuing support of its bankers. The directors have concluded that it is appropriate to prepare the financial statements on the going concern basis, after considering the following:

- The capital raising supported by the two largest substantial shareholding groupings;
- The receipt of government assistance, including JobKeeper;
- Management has undertaken a number of cost reduction measures across the Group commensurate with the current environment with the potential of further costs savings not included in the forecasts;
- In addition to obtaining new contracts, the Group has implemented strategic initiatives to improve its revenue including changing its pricing structures. Further, one of the businesses has been able to leverage opportunities in the current environment by supplying COVID-19 related products to its customers;
- The forecasts contemplate a planned reduction of overall debt over the next 12 months; and
- The Group continues to have the continuing support of its bank and access to undrawn facilities.

Accordingly, on the basis of the expected outcome from the above, the directors believe that the Group will continue to receive support from its bankers, the Group will comply with its future financial covenants and be able to pay its debts as and when they become due and payable from cash flows from operations and other available sources for at least 12 months from the date of signing the financial statements.

Notes to the consolidated financial statements (continued)

For the half-year ended 31 March 2020

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

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

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

AASB 16 Leases

On 1 October 2019, the Group adopted AASB 16 Leases using the modified retrospective transition option which allows them to measure the right-of-use asset on the date of initial application at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease. Accordingly, the comparative information in this half year financial report has not been restated.

The standard removes the current distinction between operating and finance leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for new lease contracts. The Group is a lessee under a number of property lease arrangements previously classified as operating leases.

i Nature of the effect of adoption of AASB 16

The lease liabilities recognised upon transition at 1 October 2019 can be reconciled to the operating lease commitments as of 30 September 2019 as follows:

	$ 000
Operating lease commitments as 30 September 2019	$3,548
Weighted average incremental borrowing rate as at 1 October 2019	4.00%
Discounted operating lease commitments at 1 October 2019	$3,356
Add:	
Reasonably certain extension options	$1,799
Finance leases previously recognised	$330
Lease liability as at 1 October 2019	$5,485

ii Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application:

<u>Right-of-use-assets</u>

The Group recognises right-of-use assets at the commencement of the lease (i.e. the date the underlying asset is available for use). The initial measurement of right-of-use assets includes the amount of liabilities recognised and lease payments made at or before the commencement date, less any incentives received. Right-of-use assets are subsequently measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities.

Unless the Group is reasonably certain to obtain the ownership of the leased asset at the end of the lease term, the right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment assessments under AASB 136 Impairments of Assets.

Notes to the consolidated financial statements (continued)

For the half-year ended 31 March 2020

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

ii Summary of new accounting policies (continued)

Lease liabilities

At the commencement of a lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or rate, and amounts expected to be paid under residual value guarantees. The lease payments also include renewal periods where the Group is reasonably certain to exercise the renewal option.

Outgoings and other variable lease payments that do not depend on an index or a rate are recognised as expense as incurred.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Group has made use of the practical expedient available on transition to AASB16 not to reassess whether a contract is or contains a lease. Accordingly the definition of a lease in accordance with AASB117 and interpretation 4 will continue to be applied to those leases entered or changed before 1 October 2019.

Short-term lease and leases of low-value assets

The Group applies a recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies a recognition exemption to leases that are considered of low value.

Lease payments on short-term and low-value leases are recognised as expense on a straight-line basis over the lease term.

Judgements in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

After initial recognition, the Group reassesses the lease term if there is a significant event or change in circumstances that is within control and affects its ability to exercise (or not to exercise) the option to renew.

Notes to the consolidated financial statements (continued)

For the half-year ended 31 March 2020

3. Segment and significant information

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

3.1 Segment information

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

	Revenue		EBIT	
	31 March 2020 $000	**31 March 2019 $000**	**31 March 2020 $000**	**31 March 2019 $000**
Continuing Operations				
Retail Marketing	4,763	5,738	78	542
Building Products	6,750	6,406	(431)	165
Health & Beauty	2,890	2,663	(92)	(209)
Healthcare	5,113	4,908	161	601
Total	**19,516**	**19,715**	**(284)**	**1,099**

Continuing segment EBIT	(284)	1,099
Share of underlying profit from equity accounted investments	1,639	1,053
Finance costs	(265)	(106)
Significant items	(7,617)	300
Other unallocated expenses	(1,307)	(1,196)
Profit / (Loss) before tax from continuing operations	**(7,834)**	**1,150**

	Revenue		EBIT	
	31 March 2020 $000	**31 March 2019 $000**	**31 March 2020 $000**	**31 March 2019 $000**
Discontinued Operations (Note 7)				
Homewares	-	444	-	133
Collectables	-	-	-	(67)
Total	**-**	**444**	**-**	**66**

Discontinued Segment EBIT	-	66
Finance costs	-	(1)
Profit / (Loss) before income tax from Discontinued Operations	**-**	**65**
Income tax benefit / (expense) (continuing and discontinued operations)	(2,567)	(406)
Profit / (Loss) after Income Tax	**(10,401)**	**809**

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

Notes to the consolidated financial statements (continued)

For the half-year ended 31 March 2020

3. Segment and significant information (continued)

3.1 Segment information (continued)

Continuing operations for the period include:

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

Discontinued operations during the prior period were:

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

3.2 Significant items

The following items are individually significant to the performance of the business, and are included in the "Significant items" line in the Segment Information table:

	Consolidated entity	
	31 March 2020	31 March 2019
	$000	$000
Significant items		
Impairment of goodwill (1)	(7,186)	-
Share of associates acquisition costs (2)	(471)	-
Deemed profit on dilution of ownership in Associate (3)	335	-
Stock write-downs (4)	(201)	-
Changes in value of financial assets and liabilities (5)	149	-
JSB settlement (net of related cost)	-	494
Other significant items (6)	(243)	(194)
Total significant items before income tax	(7,617)	300

Notes:
(1) Non-cash write down in carrying value of Goodwill associated with JSB Lighting.
(2) HGL's shares of Mountcastle's costs associated with the LW Reid acquisition. Disclosed in "Share of profit of associates" in the income statement.
(3) Non-cash profit arising from dilution of HGL's interest in Mountcastle. Disclosed in "Other income" in the income statement.
(4) Recognition of a provision for inventory items unlikely to turn prior to their 'best before' dates due to COVID-19 sales slowdown in BLC Cosmetics. Disclosed in "Cost of sales" in the income statement.
(5) Net revaluation gain from change in value of the Pegasus Put & Call options and Intrlaux contingent consideration estimates.
(6) Other non-recurring items, including termination related payments for outgoing HGL Ltd CEO. Disclosed in "Administration and other expenses" in the income statement.

4. Dividends paid and proposed

	Consolidated entity 31 March 2020 $000	31 March 2019 $000
Declared and paid during the year:		
Dividends on ordinary shares:		
No final dividend for 2019 (2018: 1.5 cents per share)	-	889
	-	**889**
Dividends paid in cash or satisfied by the issue of shares under the Dividend Reinvestment Plan:		
Paid in cash	-	423
Satisfied by issue of shares	-	466
	-	889
Dividends proposed not paid		
There is no interim dividend proposed for the half year (31 March 2019: 0.75 cents, not recognised as a liability at period end)	-	452

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

5. Intangible assets

	Consolidated entity 31 March 2020 $000	30 September 2019 $000
Intangible Assets		
Gross value	13,177	13,177
Accumulated impairment	(7,186)	-
Carrying amount of goodwill	**5,991**	**13,177**
Designs with definite useful life	175	175
Accumulated amortisation	(60)	(49)
Carrying amount of patents	**115**	**126**
Other intangible assets	1,606	1,606
Accumulated amoritisation	(110)	(40)
Carrying amount of other intangible assets	**1,496**	**1,566**
Net carrying amount	**7,602**	**14,869**

Notes to the consolidated financial statements (continued)

For the half-year ended 31 March 2020

5. Intangible assets (continued)

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

Goodwill		
At start of period	13,177	13,125
Acquisition of business	-	52
Gross book value at end of financial period	**13,177**	**13,177**
Impairment of intangibles during period	(7,186)	-
Net book value at end of period	**5,991**	**13,177**
Designs with definite useful life		
At start of period	175	175
Accumulated amortisation at start of period	(49)	(28)
Amortisation for the period	(11)	(21)
Net book value at end of period	**115**	**126**
Other intangible assets		
At start of period	1,606	1,606
Accumulated amortisation at start of period	(40)	-
Amortisation for the period	(70)	(40)
Net book value at end of period	**1,496**	**1,566**

Other intangible assets include customer relationships and trademarks.

Allocation of goodwill

The carrying value of goodwill is allocated between Cash Generating Units (CGU's) to building products ($3.6 million), retail marketing ($1.1 million) and healthcare ($1.3 million) (30 September 2019: $10.7 million, $1.1 million and $1.3 million respectively).

Impairment testing

With the outbreak of COVID-19 during the reporting period, and the overall impact of the pandemic on both the local and global economies, HGL assessed that there had been a sufficient indicator of impairment to undertaking an impairment assessment across all CGU’s in the Group.

Key inputs to the Value in Use (VIU) model used to undertaking the impairment assessment were reassessed to factor in any immediately visible negative impact on revenues from COVID-19 and other performance factors, along with the potential future impact on industries or sectors serviced by the respective CGU’s.

The VIU calculations supported the carrying value of the operating and intangible assets within each of the CGU’s with the exception of the Building Products CGU. This CGU predominantly supplies high quality lighting solutions into commercial and high-end residential markets in both Australia and New Zealand.

HGL anticipates a material slowdown in the construction sector as a result of COVID-19, particularly in commercial projects, a key market sector for this CGU. Other key market segments such as work in hospitality and higher education are also expected to be impacted as a result of the pandemic.

An impairment of goodwill totalling $7.2 million has been recognised in the Building Products reportable segment. A pre-tax discount rate of 17.5% was used for the VIU model, which is above the rate used for the previous VIU estimate at 30 September 2019 of 16.4%, reflecting greater uncertainty with respect to future sector performance.

For the half-year ended 31 March 2020

5. Intangible assets (continued)

Impairment testing (continued)

The VIU calculation is sensitive to key inputs, specifically the Weighted Average Cost of Capital (WACC), the Long Term Growth Rate (LTGR), projected EBITDA and projected Terminal Value EBITDA. Adverse movements in the assumptions used to prepare the VIU calculation may result in further impairment, as set out in the table below:

Assumption	Movement	Impact on VIU
WACC	1.0% increase	($0.4m)
LTGR	0.5% decrease	($0.1m)
Average Annual EBIT	5% decrease	($0.1m)
Terminal Value EBIT	5% decrease	($0.2m)

The Directors believe that the business continues to hold good prospects for longer term recovery and growth at both revenue and EBIT level, though not to the same absolute levels within the valuation time frame expected pre COVID-19. A LTGR of 2.0% (30 September 2019: 2.5%) has been applied to the VIU model, reflecting belief in the underlying long-term fundamentals of the industry. As such, the impairment is a reflection of headwinds against the industry rather than any concern over the underlying business.

6. Interest bearing loans

Interest-bearing loans

		Consolidated entity	
	Maturity	31 March 2020	30 September 2019
		$000	$000
Secured bank loan		3,700	2,850
Unsecured loans from related parties		2,000	-
Total interest-bearing loans		**5,700**	**2,850**

Loans

On 30 January 2020, the two major shareholder groups provided short-term loans to the Company. The loans had a 3 month term, with interest payable at 6.0% per annum. Subsequent to balance date, these loans were converted to issued capital under the accelerated pro-rata non-renounceable entitlement offer (refer note 9).

Notes to the consolidated financial statements (continued)

For the half-year ended 31 March 2020

7. Investment in an associate

On 19 December 2019, HGL Ltd subscribed for $500,000 equity in its 50% owned Mountcastle Pty Ltd. As a result of other shareholders also subscribing for additional equity, HGL's interest in Mountcastle remained unchanged. The investment was used by Mountcastle to partly fund the purchase of shares in LW Reid Pty Ltd, a Sydney based distributor of school uniforms. The acquisition approximately doubled the size of the Mountcastle group by revenues and will contribute significantly increased earnings to the HGL group on an annualised basis. Mountcastle and LW Reid are highly complementary businesses, with minimal overlap on customers, products and suppliers. The acquisition is expected to deliver minor product based synergies over time as the businesses become fully integrated, although the financial success of the transaction is not dependent on achieving a particular level of savings.

On 3 February 2020, Mountcastle issued fresh equity to new investors, with the effect of diluting HGL's investment in Mountcastle to 44.8%, giving rise to a deemed disposal of HGL's investment in Mountcastle. A profit on the deemed disposal of $335,000 has been recognised in the financial statements as at 31 March 2020.

8. Issued capital

	2020 31 March		2019 30 September	
Ordinary shares issued and fully paid	**Number**	**$000**	**Number**	**$000**
Balance at the beginning of the financial period	60,949,585	40,064	59,297,458	39,408
Allotted pursuant to HGL dividend reinvestment plan	-	-	1,863,424	749
Employee Loan Funded Share Plan	1,200,000	-	-	-
Shares bought back and cancelled	-	-	(211,297)	(86)
Costs associated with shares issued and share buyback	-	-	-	(7)
Balance at the end of the financial period	**62,149,585**	**40,064**	**60,949,585**	**40,064**

Key Management Personnel Equity

At the AGM on 28 February 2020, shareholders approved the issuance of equity to HGL's Key Management Personnel.

Employee Loan Funded Share Plan

Under the plan, up to 3,000,000 ordinary shares in HGL may be issued to HGL's management team at the Director's discretion. The shares will be issued as new shares in the company based on a 20 day VWAP prior to the issue date, with an interest free loan granted to the employee of an equal amount. The shares are held in escrow until the loan is repaid, with voluntary repayments allowed by the employee, and the after tax component of any dividends declared by the company required to be used to repay a portion of the loan. The shares are forfeited on termination by the employee, to the extent any of the employee loan remains unpaid at the termination date.

Following approval at the AGM, 1,000,000 shares were issued to Mr Greg Timar (HGL CEO), and 200,000 shares were issued to Mr Iain Thompson (HGL CFO / Company Secretary), at an issue price of 27 cents per share, with loans payable to the Company of $324,000.

Subsequent to balance date, a further 312,500 shares were issued to Mr Timar and 62,500 shares were issued to Mr Thompson under the pro-rata entitlement offer, at the offer price of 20 cents per share, with a corresponding increase in the loans owing of $75,000.

Notes to the consolidated financial statements (continued)

For the half-year ended 31 March 2020

8. Issued capital (continued)

Key Management Personnel Equity (continued)

The loans are recognised as in substance options under AASB 2 for accounting purposes

Options

The Hon. Helen Coonan was granted 1,000,000 options in the company, giving her the right to subscribe for HGL ordinary shares in exchange for cash at any point within 3 years from grant date. The options are exercisable in two tranches, with 500,000 options having an exercise price of 45 cents, and 500,000 options having an exercise price of 50 cents.

The options remained unexercised at 31 March 2020.

9. Fair value measurement

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

Fair value measurement hierarchy for assets as at 31 March 2020:

	Fair value measurement using			
Consolidated Entity	**Total**	**Quoted prices in active markets (Level 1)**	**Significant observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
	$000	**$000**	**$000**	**$000**
Assets measured at fair value:				
Call Option Asset (1)	758	-	-	758

There have been no transfers between Level 1 and Level 2 during the period.

(1) The Call Option Asset is valued at the present value of the difference between the exercise price payable under the Pegasus call option and the estimated value of the minority interest if owned by the Group. This is calculated with reference to the difference between the contracted multiple for the exercise of the option, and the potential earnings multiple if the business was sold, multiplied by the EBITDA for the relevant calculation period. EBITDA projections are based on significant unobservable inputs, particularly estimated future revenues and expenses of the business. Potential earnings multiples are estimated based on observed comparable transactions. If the projected EBITDA used in the valuation was 10% higher / lower while other variables were held constant, the carrying amount of the asset would increase / decrease by 10%.

The movement in these assumptions during the period resulted in a reduction in profit at 31 March 2020 of $261,000.

Notes to the consolidated financial statements (continued)

For the half-year ended 31 March 2020

9. Fair value measurement (continued)

Fair value measurement hierarchy for liabilities as at 31 March 2020:

Consolidated Entity	Total	Fair value measurement using Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	$000	$000	$000	$000
Liabilities measured at fair value:				
Put option liability (2)	1,790	-	-	1,790
Contingent consideration (3)	1,325	-	-	1,325

(2) The Put Option Liability is valued at the present value of the redemption amount of the Pegasus Put Option, which is at a fixed multiple of EBITDA for the relevant calculation period. EBITDA projections are based on significant unobservable inputs, particularly estimated future revenues and expenses of the business. If the projected EBITDA used in the valuation was 10% higher / lower while other variables were held constant, the carrying amount of the liability would increase / decrease by 10%.

The movement in these assumptions during the period resulted in an increase in profit at 31 March 2020 of $617,000.

(3) The Contingent Consideration is valued using a discounted cash flow of probability adjusted revenues for Intralux branded products. If the projected revenue used in the valuation was 10% higher / lower while other variables were held constant, the carrying amount of the liability would increase / decrease by approximately 20%.

The movement in these assumptions during the period resulted in a reduction in profit at 31 March 2020 of $207,000.

10. Discontinued operations

During the 2018 Financial Year, the group disposed of the Biante and Leutenegger businesses, and closed the Nido Interiors businesses. There were no business operations remaining in these businesses at the start of the financial year.

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

	Consolidated entity 31 March 2020	31 March 2019
	$000	$000
Cash flows from discontinued operations		
Operating	-	(64)
Investing	-	234
Financing (1)	-	(148)
Net cash inflow	**-**	**22**

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

Notes to the consolidated financial statements (continued)

For the half-year ended 31 March 2020

10. Discontinued operations (continued)

	Consolidated entity	
	31 March 2020	**31 March 2019**
	$000	**$000**
Profit / (Loss) for the year from discontinued operations		
Revenue	-	441
Expenses	-	(376)
Operating profit / (loss) of discontinued operations	**-**	**65**
Profit / (Loss) before tax from a discontinued operation	-	65
Tax expense related to current loss	-	(20)
Profit / (Loss) for the year from discontinued operations	**-**	**45**

11. Significant events after the balance date

The Novel Coronavirus (COVID-19) was declared a pandemic in March 2020 by the World Health Organisation. Subsequent to the end of the half-financial year there have been considerable economic impacts in Australia and globally arising from the outbreak of COVID-19 and Government action to reduce the spread of the virus. The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in early 2020 have caused disruption to businesses and economic activity.

COVID-19 has had an impact on the operations of the Group. The businesses in the Group continue to operate, albeit not at our original planned or expected levels due to the reduced demand for products in someof the businesses. At present the Group's ability to ship and receive goods has not been significantly impacted, but this could change as government requirements evolve.

As at the date of this report, the Group has factored in its forecasts the anticipated impacts of COVID-19 on its operations based on conditions at this time, including gradual delayering of the previous restrictions by federal and state governments with an objective to increase the level of commerce and economic activity.

However, notwithstanding the aforementioned actions by government, we are not ableto predict the overall impact on customers and vendors and therefore, the extent of any future impact of COVID-19 on the Group's operational and financial performance.

On 14 April 2020 the Company announced a 5 for 16 accelerated pro-rata non-renounceable entitlement offer of new shares at an offer price of $0.20 per new share. The accelerated component was finalised on 17 April 2020, and resulted in the issue of 10,349,331 new shares, raising $2.07 million. The retail component was finalised on 15 May 2020 with the issue of a further 3,137,102 new shares, raising a further $552,000. This capital raising has not been reflected in the financial statements as at 31 March 2020.

Shareholder loans provided during January 2020 and outstanding at 31 March 2020 were converted to ordinary equity in April 2020, through the company's 5 for 16 rights issue.

No other matter or circumstance has arisen since 31 March 2020 other than the one disclosed in note 1 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Directors' declaration

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

1. In the opinion of the directors:

    (a) the interim financial statements and notes of HGL Limited for the half-year ended 31 March 2020 are in accordance with the *Corporations Act 2001*, including:

    (i) giving a true and fair view of the consolidated entity's financial position as at 31 March 2020 and of its performance for the half-year on that date; and

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

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

On behalf of the board

Helen Coonan
Chair

Kevin Eley
Director

Sydney
30 May 2020

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

We have reviewed the accompanying half-year financial report of HGL Limited (the "Entity"), which comprises the consolidated statement of financial position as at 31 March 2020, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Entity and the entities it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 March 2020 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of HGL Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Auditor's Independence Declaration

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 March 2020 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Carlo Pasqualini
Partner
Chartered Accountants
Sydney, 30 May 2020