# HGL Limited
# Appendix 4D
# Preliminary Half-year Report
# Half-year 31 March 2021

| | |
|---|---|
| Reporting period: | 31 March 2021 |
| Previous corresponding period: | 31 March 2020 |

## Results for announcement to the market

| | | | | **Current Period 31 MAR 21 $'000** | **Previous Period 31 MAR 20 $'000** |
|---|---|---|---|---|---|
| Revenues from ordinary activities of Continuing Operations | | | | - | 19,516 |
| Profit from ordinary activities of Continuing Operations after tax attributable to members | | | | 10,157 | (10,483) |
| Net profit for the period attributable to members | | | | 10,157 | (10,483) |
| Earnings per share from Continuing Operations (cents per share) | | | | 9.9 | (17.2) |
| Net tangible assets per share (cents per share) | UP | 72% | TO | 24.8 | 14.4 |

## Explanation of results

HGL became an investment entity during the period, as defined in the accounting standards. Accordingly, the current period and prior period results are not comparable.

For more detailed information please refer to Note 2 of the Financial Statements.

## Distributions

There are no dividends paid or payable in relation to the current or previous financial period.

## Changes in controlled entities

On 23 March 2021 the Company acquired all of the equity in Supervised Investments Australia Ltd. Refer to Note 8 for more information.

## Audit

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 this report.

# HGL Limited

ABN 25 009 657 961

***Interim financial report for the half year ended 31 March 2021***

## Director's Report

Your directors present their report on the consolidated entity consisting of HGL Limited and the entities it controlled at the end of, or during, the half-year ended 31 March 2021.

**Directors**

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

Alexander (Sandy) Beard (appointed 29 October 2020)
Peter Miller
Kevin Eley
Cheryl Hayman
Joseph Constable

**Principal activities**

During the period the principal activities of the Group consisted of investing in diversified asset categories, including listed and unlisted equities, and private equity investments. HGL provides active support to those investees in which we hold a significant equity stake, including facilitation of some services and secondment of personnel.

Prior to its classification as an investment entity, the principal activities of HGL involved investing in and actively supporting an investment portfolio of wholly or partly owned small businesses, which sell or rent premium quality products under exclusive agency or company brands in diversified niche markets.

**Operating and Financial Review**

- HGL reshaped into a diversified investment company;
- Net profit before tax for the six months ended 31 March 2021 of $10.2 million;
- Earnings before revaluations for the six months ended 31 March 2021 of $1.1 million;
- Net Tangible Assets at 31 March 2021 of $32.9 million, or 24.8 cents per share;
- All major investee businesses are profitable and performing collectively $2 million ahead of the prior year, and exploring M&A opportunities;
- Establishment of Investment portfolio with above 20% per annum returns achieved since inception;
- $1 million investment in unlisted Provider Choice;
- Merger of JSB Lighting business with FOS Lighting; and
- Acquisition of the SIAL funds management business.

*This Operating and Financial review should be read in conjunction with note 2 to the financial statements.*

The period since 30 September 2020 has seen HGL reshaped into a diversified investment company with a strong balance sheet and extensive investment opportunities available to it. Multiple capital raisings and a restructure of head office costs have seen HGL fundamentally transformed, with all head entity debt repaid, significant cash balances available for investment, and a cost base now more reflective of the market capitalisation of the business.

HGL reports a Statutory Net Profit after Tax for the period of $10.2 million, resulting from unrealised valuation gains of $8.8 million. Net profit before tax and revaluations for the period was $1.1 million.

The unrealised revaluation gains during the six months ended 31 March 2021 reflect the difference between the carrying value of the consolidated net assets and liabilities reflected in the audited financial statements as at 30 September 2020, and the assessed fair value of the businesses as at 31 March 2021, for each of the key investee businesses (Mountcastle Group, Pegasus Group, SPOS Group and BLC Cosmetics).

Each of these investments are profitable, and collectively are generating Earnings Before Interest and Tax (EBIT) ahead of the prior year by over $3.5 million, which is up by more than $2.0 million when HGL's relevant ownership interest is considered. HGL believes that these businesses will continue to grow at both revenue and EBIT levels and this, coupled with various M&A opportunities under consideration for Mountcastle, Pegasus and BLC, will drive value for shareholders.

**Operating and Financial Review (continued)**

The impacts of COVID appear to have lessened compared to the majority of the previous financial year, and the current period performance has been achieved without any direct or indirect stimulus or support. It is pleasing to see that each of our key investees have come through what appears to have been the worst of the COVID impacts on the economy in a solid position.

The JSB Lighting investment was merged via a share swap with FOS Capital Ltd, owner of FOS Lighting. HGL retains a circa 10% stake in FOS, which has subsequently released a prospectus and expects to list on the ASX in June 2021.

Subsequent to balance date, an agreement was signed with the management of SPOS Group granting them an option to acquire SPOS. Under the agreement, HGL has now received a non-refundable option fee of $250,000, with a purchase price of $2.1 million payable prior to expiry in 2026.

Following shareholder approval, the acquisition of Supervised Investments Australia Limited (SIAL) was completed in late March. SIAL is the investment manager of The Supervised Fund (TSF), and this acquisition supports HGL’s move into funds management through its existing AFSL. TSF is to be rebranded and remarketed as H&G High Conviction Investment Fund with a view to growing funds under management significantly from current levels, with investments to be managed by a small team of experienced investment managers. TSF has generated an unrealised monthly return in excess of 5% for the first month of management by HGL.

The balance sheet has been strengthened significantly since the start of the current financial year. Across October / November 2020, $4.1 million was raised through a Placement and 1 for 4 Rights issue at 12.5cps.

A subsequent placement during March 2021 raised $3.4 million at 20.0 cents per share (cps). Coupled with this, an additional placement and Share Purchase Plan (SPP) at 20cps has seen a further $8.4 million received during early May 2021. The SPP was significantly oversubscribed, with applications of $2.3 million received against a target amount of $1.0 million.

The Board thanks all investors who participated in these capital raisings and looks forward to creating significant value through the use of these funds.

The Group continues to analyse many investment opportunities across several asset classes, including listed and unlisted equities, commercial property and debt financing. Returns to date on the listed investment portfolio have exceeded 20% per annum, generating in excess of $750,000 in realised profits since its inception.

HGL was pleased to make a $1.0 million investment during the half in unlisted Provider Choice, a fast-growing technology provider focused on the provision of plan management solutions and online marketplace for NDIS participants.

Through a combination of the valuations of the investee businesses, and the capital raisings referenced, Net Tangible Assets (NTA) at 31 March 2021 was $32.9 million or 24.8cps. If the capital raising finalised in May had completed on the last day of the reporting period, NTA would have been 23.6cps on a fully diluted basis, which would have included circa $11 million in cash available for investing purposes.

The financial year to date has seen a substantial reduction in Head Office costs on the prior year, with headcount savings following Greg Timar’s departure as CEO, and Sandy Beard joining the board as Chair in conjunction with his cornerstone support for the capital raising undertaken in October 2021.

In addition to the stated balance sheet values, HGL retains in excess of $8 million in franking credits, $24 million in revenue losses, and $11 million in capital losses as at 31 March 2021.

**Dividends**

Whilst the NPAT for the period has been strong, cash profits are yet to accrue on a scale that would support recommencement of dividends, and the Board has elected not to declare an interim dividend for the half year. It is the current intention of the Board to reinstate dividends based on net profit before tax and revaluations and will review at the end of the financial year.

**Operating and Financial Review (continued)**

**Outlook**

Following an encouraging first half, and with a balance sheet capable of taking advantage of the opportunities available to the Company, the Directors are confident that HGL's investment strategy will support solid returns across the balance of the 2021 financial year and beyond.

The Board's focus remains on the efficient utilisation of the cash resources available to it, in pursuit of the broader investment strategy previously outlined to shareholders at the Annual General Meeting.

For the key investee businesses, the direct Australian impacts of COVID appear to be largely navigated, however supply chain disruption remains a possibility until global COVID vaccination rates reach suitable levels, and broader political and trade issues with major trading partners are resolved.

At this point in time, however, it remains premature to provide detailed guidance in relation to performance for the FY21 financial year.

**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 and Note 2 of the financial statements.

**Events since the end of the reporting period**

On 15 April 2021, HGL signed an agreement granting the management of SPOS Group an option to purchase SPOS from HGL. The payment of the option fee of $250,000 grants management an option to acquire the business at any time in the next 5 years for $2.09 million, less the amount of distributions made by SPOS to HGL. In addition, the shareholder loan balances owed to HGL of $682,000 remains payable. The value of SPOS in the financial statements as at 31 March 2021 reflects the value of the option fee receivable and the purchase price, reflecting that negotiations were effectively finalised at reporting date.

On 7 May 2021, shareholders approved the placement of 36.1 million shares at an issue price of $0.20 per share, raising $7.2 million before costs. This capital raising was part of a broader raise of $10.6 million before costs as outlined in note 7. In addition to the placement, a further $1.2 million was raised via a Share Purchase Plan undertaken in conjunction with the placement. The funds received from the placement and Share Purchase Plan are not reflected in the financial statements as at 31 March 2021.

**Likely developments and expected results of operations**

Likely developments in the operations of the Group are detailed in the Operating and Financial Review and Events subsequent to balance date.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

**Rounding of amounts**

The Company is of a kind referred to ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Director's Report and financial report. Amounts in the Director's Report and financial report have been rounded off to the nearest thousand dollars in accordance with the instrument.

This report is made in accordance with a resolution of directors.

Alexander (Sandy) Beard
Director

Sydney
26 May 2021

UHY Haines Norton
Chartered Accountants

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhnsyd.com.au
www.uhyhnsydney.com.au



**Auditor's Independence Declaration**
**Under Section 307C of the Corporations Act 2001**

To the Directors of HGL Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 March 2021, there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

(ii) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of HGL Limited and the entities it controlled during the financial period.

UHY Haines Norton

**Mark Nicholaeff**
Partner
Sydney
Dated: 26 May 2021

**UHY Haines Norton**
Chartered Accountants

## Consolidated Statement of Profit or Loss

| | Notes | Consolidated entity 31 March 2021 $'000 | 31 March 2020 $'000 |
|---|---|---|---|
| Net realised and unrealised gains / (losses) on investments | 4 | **7,986** | - |
| Other income | 3(a) | **2,447** | 366 |
| Sale of goods | | **-** | 16,498 |
| Rental income | | **-** | 3,018 |
| Cost of sales of goods | | **-** | (9,662) |
| Distribution costs | | **-** | (1,849) |
| Sales, marketing and advertising | | **-** | (3,949) |
| Occupancy | | **-** | (335) |
| Changes in fair value of derivative financial instruments | | **799** | 149 |
| Impairment of goodwill | | **-** | (7,186) |
| Administration and other expenses | | **(1,164)** | (4,496) |
| Depreciation expenses | | **(115)** | (1,292) |
| Borrowing costs | 3(b) | **(40)** | (264) |
| Share of profit/(loss) from associates | | **-** | 1,168 |
| **Profit/(loss) before income tax** | | **9,913** | (7,834) |
| Income tax benefit / (expense) | | **244** | (2,567) |
| **Profit/(loss) for the period** | | **10,157** | (10,401) |
| Profit is attributable to: | | | |
| Owners of HGL Limited | | **10,157** | (10,483) |
| Non-controlling interests | | **-** | 82 |
| | | **10,157** | (10,401) |
| | | **Cents** | Cents |
| **Earnings per share attributable to the ordinary equity holders of the Company:** | | | |
| Basic earnings per share | | **9.9** | (17.2) |
| Diluted earnings per share | | **9.8** | (17.2) |

*The above Consolidated Statement of Profit or Loss should be read in conjunction with the accompanying notes.*

## Consolidated Statement of Comprehensive Income

| | Consolidated entity | |
|---|---|---|
| | **31 March 2021 $'000** | 31 March 2020 $'000 |
| **Profit / (loss) for the period** | **10,157** | (10,401) |
| **Other comprehensive income** | | |
| *Items that may be reclassified to profit or loss* | | |
| Exchange differences on translation of foreign operations | **-** | 42 |
| Share of associate exchange difference on translation of foreign operations | **-** | 50 |
| **Other comprehensive income for the period, net of tax** | **-** | 92 |
| **Total comprehensive income for the period** | **10,157** | (10,309) |
| Total comprehensive income for the period is attributable to: | | |
| Owners of HGL Limited | **10,157** | (10,391) |
| Non-controlling interests | **-** | 82 |
| | **10,157** | (10,309) |

*The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

## Consolidated Balance Sheet

| | Notes | Consolidated entity 31 March 2021 $'000 | 30 September 2020 $'000 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | **3,083** | 3,858 |
| Trade receivables | | **33** | 4,965 |
| Loans to related party | | **2,795** | - |
| Inventories | | **-** | 4,613 |
| Prepayments | | **46** | 348 |
| Financial assets at fair value through profit and loss | 6 | **1,686** | - |
| Current tax receivables | | **-** | 471 |
| **Total current assets** | | **7,643** | 14,255 |
| **Non-current assets** | | | |
| Investments accounted for using the equity method | | **-** | 8,159 |
| Property, plant and equipment | | **93** | 4,537 |
| Right-of-use assets | | **491** | 4,377 |
| Intangible assets | | **712** | 3,669 |
| Financial assets at fair value through profit and loss | 6 | **26,496** | 11 |
| Other financial assets | 6 | **144** | 916 |
| **Total non-current assets** | | **27,936** | 21,669 |
| **Total assets** | | **35,579** | 35,924 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | **525** | 7,822 |
| Borrowings | | **-** | 2,335 |
| Lease liabilities | | **218** | 1,298 |
| Provisions | | **41** | 1,366 |
| Other financial liabilities | 6 | **712** | 2,314 |
| Current tax liabilities | | **-** | 224 |
| **Total current liabilities** | | **1,496** | 15,359 |
| **Non-current liabilities** | | | |
| Lease liabilities | | **422** | 3,387 |
| Provisions | | **27** | 312 |
| Other financial liabilities | | **-** | 229 |
| Deferred tax liabilities | | **-** | 129 |
| **Total non-current liabilities** | | **449** | 4,057 |
| **Total liabilities** | | **1,945** | 19,416 |
| **Net assets** | | **33,634** | 16,508 |
| **EQUITY** | | | |
| Share capital | 7 | **51,142** | 42,477 |
| Other capital reserves | | **335** | (1,135) |
| Accumulated losses | | **(14,494)** | (23,369) |
| Other components of equity | | **(3,349)** | (3,349) |
| Non-controlling interests | | **-** | 1,884 |
| **Total equity** | | **33,634** | 16,508 |

*The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.*

## Consolidated Statement of Changes in Equity

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | **Attributable to owners of HGL Limited** | | | | | | |
| **Consolidated entity** | Notes | **Issued capital $'000** | **Foreign currency reserve $'000** | **Employee share scheme reserve $'000** | **Other reserves $'000** | **Accum. losses $'000** | **Other component of equity $'000** | **Attributable to owners of HGL Ltd $000** | **Non-controlling interests $'000** | **Total equity $'000** |
| **Balance at 30 September 2020** | | 42,477 | (159) | 41 | (1,017) | (23,369) | (3,349) | 14,624 | 1,884 | 16,508 |
| Profit for the half-year | | - | - | - | - | 10,157 | - | 10,157 | - | 10,157 |
| **Total comprehensive income for the half-year** | | **-** | **-** | **-** | **-** | **10,157** | **-** | 10,157 | **-** | **10,157** |
| **Transactions with owners in their capacity as owners:** | | | | | | | | | | |
| Issue of share capital | | 8,909 | - | - | - | - | - | 8,909 | - | 8,909 |
| Costs associated with issues of shares | | (244) | - | - | - | - | - | (244) | - | (244) |
| Employee share schemes - value of employee services | | - | - | 29 | - | - | - | 29 | - | 29 |
| | | 8,665 | - | 29 | - | - | - | 8,694 | - | 8,694 |
| Transfer to retained earnings | | - | - | - | 1,282 | (1,282) | - | - | - | - |
| Other movements | | - | 159 | - | - | - | - | 159 | (1,884) | (1,725) |
| **Balance at 31 March 2021** | | **51,142** | **-** | **70** | **265** | **(14,494)** | **(3,349)** | **33,634** | **-** | **33,634** |

*The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

## Consolidated Statement of Changes in Equity

| Consolidated entity | Issued capital $'000 | Foreign currency reserve $'000 | Other reserves $'000 | Accum. losses $'000 | Other component of equity $'000 | Attributable to owners of HGL Ltd $'000 | Non-controlling interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|
| | Attributable to owners of HGL Limited | | | | | | | |
| **Balance at 1 October 2019** | 40,064 | (172) | (901) | (10,358) | (3,349) | 25,284 | 1,572 | 26,856 |
| Profit for the half-year | - | - | - | (10,483) | - | (10,483) | 82 | (10,401) |
| Share of associates movement in reserves | - | 50 | - | - | - | 50 | - | 50 |
| Translation of overseas controlled entities | - | 42 | - | - | - | 42 | - | 42 |
| **Total comprehensive income for the half-year** | **-** | **92** | **-** | **(10,483)** | **-** | **(10,391)** | **82** | **(10,309)** |
| **Balance at 31 March 2020** | **40,064** | **(80)** | **(901)** | **(20,841)** | **(3,349)** | **14,893** | **1,655** | **16,548** |

# Consolidated Statement of Cash Flows

| | Notes | Consolidated entity Half-year 31 March 2021 $'000 | 31 March 2020 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **-** | 21,046 |
| Payments to suppliers and employees | | **(1,418)** | (22,754) |
| Other revenue | | **364** | - |
| Interest received | | **-** | 4 |
| Interest paid | | **(26)** | (219) |
| Income taxes paid | | **-** | (19) |
| Dividends received | | **955** | 448 |
| **Net cash outflow from operating activities** | | **(125)** | (1,494) |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(7)** | (980) |
| Payment for acquisition of subsidiary, net of cash acquired | 8 | **-** | (81) |
| Purchase of investments | | **(3,374)** | (500) |
| Proceeds from disposal of investments | | **687** | - |
| **Net cash outflow from investing activities** | | **(2,694)** | (1,561) |
| **Cash flows from financing activities** | | | |
| Payment of lease liabilities | | **(595)** | (624) |
| Proceeds from issues of shares and before issue costs | 7 | **8,189** | - |
| Proceeds from borrowings | | **-** | 3,850 |
| Repayment of borrowings | | **(1,553)** | (1,000) |
| Loans with related parties | | **(182)** | - |
| **Net cash inflow from financing activities** | | **5,859** | 2,226 |
| **Net increase/(decrease) in cash and cash equivalents** | | **3,040** | (829) |
| Effects of exchange rate changes on cash and cash equivalents | | **-** | 43 |
| Cash and cash equivalents at the beginning of the half-year | | **3,858** | 3,097 |
| Cash derecognised on deconsolidation of subsidiaries | | **(3,815)** | - |
| **Cash and cash equivalents at end of the half-year** | | **3,083** | 2,311 |

*The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.*

## 1 Basis of preparation of half-year report

This condensed consolidated Interim Financial Report for the half-year reporting period ended 31 March 2021 have been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The interim report does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this Report is to be read in conjunction with the Annual Report for the year ended 30 September 2020 and any public announcements made by HGL Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except set out in Note 2 below.

## 2 Classification as an Investment Entity

During the half year ended 31 March 2021, the Company became an "Investment Entity" as outlined in paragraph 27 of AASB10: Consolidated Financial Statements.

This position is consistent with the strategy adopted during the period and outlined to shareholders at the Annual General Meeting held in February 2021, and reflects an investment oriented approach, with performance of the Group being assessed based on a combination of earnings from share trading, distributions from and realisation of private equity investments, and increases in the underlying value of those investments.

Previously, the Company measured performance of the Group on the basis of the combined operational results of each controlled business unit, plus the equity accounted contribution from entities over which it has significant influence.

The Board consider the investment entity basis of accounting creates more reliable and useful information for investors as it provides a better reflection of the underlying value of the Company, and recognises that future distributions will be derived from surplus cash generated from the income from and sale of the underlying portfolio of investments.

As a result of this change, a net revaluation gain of $7.98 million has been recognised in relation to BLC Cosmetics, SPOS Group, Pegasus Health Group, Mountcastle Group, and JSB Lighting during the period (refer notes 4 and 6).

**Impact on consolidated (controlled) entities**

The impact of the change to investment entity status is that the individual assets and liabilities of each operating business have been 'derecognised' as if the business had been disposed of, and the fair value of the business unit is recognised as a single investment value in the balance sheet. Subsequent movements in the assessed fair value of the businesses are recognised as 'Net realised and unrealised gains on investments' in profit and loss. Group revenue arising from these businesses now reflects distributions made to the head entity in its capacity as a shareholder of that business, rather than the underlying trading income and profits previously shown.

Revaluation gains of during the six months ended 31 March 2021 reflects the difference between the carrying value of the consolidated net assets and liabilities reflected in the audited financial statements as at 30 September 2020, and the assessed fair value of the businesses as at 31 March 2021, as outlined in Note 6(c)(ii).

**Impact on equity accounted investments**

The change to the investment entity basis of accounting has also been reflected in the accounting for the investment in Mountcastle Pty Ltd, which has historically been accounted for as an Equity Accounted Associate under AASB128: Investments in Associates and Joint Ventures. At the date of adoption of the Investment Entity status, the carrying value of the investment has been de-recognised as an "Investment in Associate", and restated as being a Financial Asset at Fair Value Through Profit or Loss (FVTPL). The difference between the carrying value of Mountcastle as reflected in the audited financial statements as at 30 September 2020, and the assessed fair value of the business as at 31 March 2021 and outlined in Note 6(c)(ii), has been reflected as a component of the revaluation gain on the face of the Profit and Loss statement.

**Impact on equity accounted investments (continued)**

The directors determined it was impracticable to retrospectively apply the fair value approach to the Mountcastle group for the comparative accounting period, as the valuations use a number of significant unobservable inputs and are classified as 'Level 3' under AASB13: Fair Value Measurement. Fair value has therefore been assessed as at the end of the reporting period. The Directors consider this treatment is appropriate, particularly given the impact on the clarity of the financial statements if reported earnings reflected multiple accounting treatments within the one reporting period.

**Accounting Policy - Financial instruments at fair value through profit or loss**

- **Initial recognition and measurement**

  Financial assets and financial liabilities are recognised when the Company becomes party to the contractual provisions of the instrument. For financial assets, trade date accounting is adopted, which is equivalent to the date that the Company commits itself to purchase or sell the assets.

  Financial instruments are initially measured at fair value. Transaction costs related to financial instruments are expensed to the Statement of Profit or Loss.

  Financial instruments are subsequently measured at fair value. Where available, fair value is based on current market prices for all quoted investments. For all listed or unlisted investments which are not traded in an active market, valuation techniques are applied to determine fair value, including capitalisation of future maintainable earnings, recent arm's length transactions and reference to similar instruments.

- **Classification and subsequent measurement**

  The Company classifies its financial instruments into the following categories:

  (i) *Financial assets at fair value through profit or loss*

  Financial assets are classified 'at fair value through profit or loss' when their performance is evaluated on a fair value basis in accordance with the Company’s strategy. Realised and unrealised gains and losses arising from changes in fair value from the date of initial recognition are included in the Statement of Profit or Loss in the period in which they arise, within “Net realised and unrealised gains / (losses) on investments”

  (ii) *Financial liabilities at fair value through profit or loss*

  Financial liabilities stock are classified 'at fair value through profit or loss'. Realised and unrealised gains and losses arising from changes in fair value are included in the Statement of Profit or Loss in the period in which they arise.

- **Derecognition**

  Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Company no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or have expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in the Statement of Profit or Loss.

## 3 Other income and expense items

### (a) Other income

| | Consolidated entity | |
|---|---|---|
| | **31 March 2021 $'000** | 31 March 2020 $'000 |
| Dividends received | **955** | - |
| Other income | **1,492** | 366 |
| | **2,447** | 366 |

### (b) Finance income and costs

| | Consolidated entity | |
|---|---|---|
| | **31 March 2021 $'000** | 31 March 2020 $'000 |
| *Finance costs* | | |
| Interest and finance charges paid/payable for lease liabilities and financial liabilities not at fair value through profit or loss | **(40)** | (264) |
| **Finance costs expensed** | **(40)** | (264) |

## 4 Profit and loss information

The Group has identified a number of items which are material due to the significance of their nature and/or amount. These are listed separately here to provide a better understanding of the financial performance of the Group.

| | **31 March 2021 $'000** | **31 March 2020 $'000** |
|---|---|---|
| Net profit before tax | **9,913** | **-** |
| Net realised and unrealised gains / (losses) on investments | **(7,986)** | **-** |
| Changes in fair value of derivative financial instruments | **(799)** | **-** |
| Net Profit before tax and revaluation gains | **1,128** | **-** |

Profit before revaluation gains reflects the earnings of the group after excluding any unrealised (non-cash) increase or decrease in the aggregated value of the portfolio of unlisted businesses (BLC Cosmetics, SPOS Group, Pegasus Health Group and Mountcastle Group) and any movement in the value of derivative financial instruments.

The Directors consider that the inclusion of this measure of performance provides shareholders with a guide to the operating performance of the Group, which is a better reflection of the cash generation capability of the Group. This profit measure will be a key input for the Board when considering the declaration of future dividends.

More information regarding these valuations can be found in notes 2 and 6.

## 5 Cash flow information

**Reconciliation of profit after income tax to net cash inflow from operating activities**

| | Notes | Consolidated entity<br>**31 March 2021 $'000** | 31 March 2020 $'000 |
|---|---|---|---|
| Profit for the period | | **10,157** | (10,439) |
| Adjustment for | | | |
| Depreciation and amortisation | | **115** | 1,212 |
| Impairment of goodwill | | **-** | 5,215 |
| Capitalised costs on issue of equity | 7 | **(244)** | - |
| Loan forgiveness from related party | | **(1,118)** | - |
| Net (gains)/losses on assets and liabilities at fair value through profit or loss | 4 | **(8,785)** | (356) |
| Share of profits of associates and joint ventures | | **-** | (1,055) |
| Change in operating assets and liabilities, net of impact of changes to consolidated entities: | | | |
| Increase/(decrease) in trade receivables | | **181** | 307 |
| Increase/(decrease) in inventories | | **-** | 604 |
| Increase/(decrease) in deferred tax assets | | **-** | 2,472 |
| Increase/(decrease) in other operating assets | | **98** | (165) |
| Increase/(decrease) in trade creditors | | **(502)** | 960 |
| Increase/(decrease) in income taxes payable | | **-** | 76 |
| Increase/(decrease) in other provisions | | **(27)** | (325) |
| Net cash inflow (outflow) from operating activities | | **(125)** | (1,494) |

## 6 Fair value measurements of financial instruments

| | **31 March 2021 $'000s** | **30 September 2020 $'000s** |
|---|---|---|
| **Financial assets at fair value through profit and loss** | | |
| **Current** | | |
| Listed equities | **743** | - |
| Unlisted investments | **943** | - |
| | **1,686** | - |
| **Non-current** | | |
| Listed equities | **-** | 11 |
| Unlisted investments | **26,496** | - |
| Derivative financial instruments | **144** | 916 |
| | **26,640** | 927 |
| **Financial liabilities** | | |
| **Current** | | |
| Deferred Consideration | **(250)** | (281) |
| Derivative financial liabilities | **(462)** | (2,033) |
| | **(712)** | (2,314) |
| **Non-current** | | |
| Deferred Consideration | **-** | (229) |
| | **-** | (229) |

## Fair value measurements of financial instruments

### (a) Fair value hierarchy

To provide an indication about the reliability of the inputs used in determining fair value, the Group classifies its financial instruments into the three levels prescribed under the accounting standards.

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy (consistent with the hierarchy applied to financial assets and financial liabilities):

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

**Level 1:** The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

**Level 2:** The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**Level 3:** If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.There were no transfers between the levels of the fair value hierarchy in the six months to 31 March 2021.

### (b) Assets and liablities at fair value

| Consolidated entity - At 31 March 2021 | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Financial assets at fair value through profit or loss (FVPL) | | | | |
| Australian listed equity securities | 743 | - | - | 743 |
| Unlisted shares | - | 1,943 | 25,496 | 27,439 |
| **Total financial assets** | **743** | **1,943** | **25,496** | **28,182** |
| **Financial Liabilities** | | | | |
| Put option liability | - | - | (462) | (462) |
| **Total financial liabilities** | **-** | **-** | **(462)** | **(462)** |

### (c) Fair value measurements using significant unobservable inputs (level 3)

*(i) Valuation techniques used to determine fair values of Level 3 assets*

Specific valuation techniques used to value unlisted assets include:

- business units with a history of generating profits have been valued based on a capitalisation of future maintainable earnings methodology, having regard to observable comparable transactions or quoted prices for similar enterprises;
- business units at lower levels of profitability have been valued based on the book value of net assets, or assessed recoverable value based on sale or discounted cash flows;
- business units for which a sale transaction has been agreed at balance date, or an agreement is considered imminent at that date, are valued at the recoverable value of that business under the agreed terms of the sale; and

**(c) Fair value measurements using significant unobservable inputs (level 3) (continued)**

*(i) Valuation techniques used to determine fair values of Level 3 assets (continued)*

- minority interests in unlisted assets have been valued at cost where those investments have been made in close proximity to balance date, and the investment opportunity is determined to have been at arms length as part of a broader capital raising approach by the investee.

*(ii) Valuation inputs and relationships to fair value*

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

**(c) Fair value measurements using significant unobservable inputs (level 3) (continued)**

*(ii) Valuation inputs and relationships to fair value (continued)*

| Investment | 31 March 2021 $000 | Basis of valuation | Unobservable inputs | Range of inputs | Relationship of unobservable inputs to fair value |
|---|---|---|---|---|---|
| Mountcastle (40% interest) | $16,694 | Capitalisation of future maintainable earnings | Maintainable earnings | $10.0m - $10.5m | 5% increase / (decrease) in forecast underlying earnings would result in an increase / (decrease) in fair value by $2.3 million |
| | | | Capitalisation multiple | 4.0x - 4.5x | 0.25x increase / (decrease) in capitalisation multiple would result in an increase / (decrease) in fair value by $1.0 million |
| Pegasus (70% interest) | $5,762 | Capitalisation of future maintainable earnings | Maintainable earnings | $1.9m - $2.0m | 10% increase / (decrease) in forecast underlying earnings would result in an increase / (decrease) in fair value by $0.7 million |
| | | | Capitalisation multiple | 4.0 – 4.5x | 0.5x increase / (decrease) in capitalisation multiple would result in an increase / (decrease) in fair value by $0.7 million |
| SPOS Group | $2,340 | Sale Value * | N/A | N/A | N/A |
| BLC Cosmetics | $100 | Net Asset Value * | N/A | N/A | N/A |
| Other unlisted Investments | $600 | Expectation of IPO value | | | |
| Total | $25,496 | | | | |

*The carrying values shown above exclude any net shareholder loan balances receivable from the investee. The net value of these investments in the financial statements, including shareholder loans receivable, are Retail Marketing $3,022,000 and Health and Beauty $1,746,000.

**(c) Fair value measurements using significant unobservable inputs (level 3) (continued)**

*(iii) Valuation processes*

The main level 3 inputs used by the Group in measuring the fair value of financial instruments are derived and evaluated as follows:

- Future maintainable earnings: these are assessed based on historical earnings performance and board approved budgets and forecasts, after adjusting for non-recurring or significant one off items, and typically are only up to 12 months in advance

- Capitalisation rates: these are determined using a comparator group of publicly available transactions, adjusted for relevant factors such as control premiums or minority discounts, liquidity discounts and market size

## 7 Equity securities issued

**(a) Ordinary shares**

| | **31 March 2021 Shares** | **31 March 2021 $'000** | 30 September 2020 Shares | 30 September 2020 $'000 |
|---|---|---|---|---|
| **Balance at the beginning of the financial year** | **75,622,581** | **42,477** | 60,949,585 | 40,064 |
| Placement and underwritten rights in Oct, Nov 2020 | **33,085,208** | **4,105** | - | - |
| Further private placement | **4,000,000** | **491** | - | - |
| Issue for acquisition of Supervised Investments Australia Ltd (net of transaction costs) | **3,000,000** | **716** | - | - |
| Placement in Mar 2021 | **16,906,168** | **3,353** | - | - |
| Issued under ANREO announced 17 April 2020 | **-** | **-** | 13,472,996 | 2,620 |
| Employee loan funded share plan | **-** | **-** | 1,200,000 | - |
| Costs associated with shares issued and share Issued for no consideration: | **-** | **-** | - | (207) |
| | **132,613,957** | **51,142** | 75,622,581 | 42,477 |

- On 21 October 2020, the Company announced a Private Placement and 1 for 4 Accelerated Non-Renounceable Entitlement Offer (ANREO) at 12.5 cents per share (collectively the “first capital raising”). The company raised $4.14 million before costs through the issue of 33,085,208 shares. Shareholders ratified the issuance of these shares at the HGL Annual General Meeting on 24 February 2021 (the “AGM”).

- At the AGM shareholders approved the issue of 4,000,000 shares at 12.5 cents per share as a further Private Placement, as announced on 21 October 2020 as part of the first capital raising, which was subject to shareholder approval. These shares were issued on 8 March 2021.

- On 23 March 2021, the Company issued 3,000,000 shares at 24.0 cents per share as part of the acquisition of Supervised Investments Australia Limited (refer note 7). Shareholders had approved the issuance of these shares at the AGM.

- On 22 March 2021, the Company announced a $10.6 million Private Placement at 20.0 cents per share, split into two tranches. The first tranche was completed on 26 March 2021, and resulted in the issue of 16,906,168 shares for $3.4 million before costs. This tranche is reflected in the financial statements at 31 March 2021. The balance of shares to be issued under the second tranche are not reflected in the financial statements at 31 March 2021, and are outlined further below.

**(a) Ordinary shares (continued)**

The following share issues occurred subsequent to 31 March 2021, and are not reflected in the financial statements:

- On 22 March 2021, the Company announced a $10.6 million Private Placement at 20.0 cents per share, split into two tranches. The second tranche was completed on 14 May 2021 and raised $7.2 million before costs. Shareholders approved the issuance of 36,093,832 shares at the HGL Extraordinary General Meeting on 7 May 2021.

- In conjunction with the Private Placement announced on 22 March 2021, the Company instigated a Share Purchase Plan (SPP) at 20.0 cents per share, with a target to raise $1.0 million before costs. The SPP closed on 7 May 2021 with applications for over $2.3 million from 152 shareholder, which were subsequently scaled back to $1.24 million (6,200,000 shares) based on shareholders eligible holding at the record date. The SPP did not require shareholder approval.

**(b) Options**

At the AGM Shareholders approved the issuance of 8,000,000 options to various parties who had participated in the Private Placement announced on 21 October 2020. Each option grants the holder the right to subscribe for 1 fully paid ordinary share in exchange for 15.0 cents cash, at any point prior to 24 February 2024. The options hold no voting or dividend rights.

At balance date, none of the options had been exercised.

The options are included in the calculation of Diluted Earnings Per Share.

## 8 Business combinations

On 23 March 2021, HGL acquired 100% of the equity of Supervised Investments Australia Limited (SIAL). SIAL is the investment manager of The Supervised Fund, an unlisted investment fund which had approximately $14 million funds under management. The acquisition was undertaken in line with HGL's revised investment entity strategy, providing HGL with an investment management business with an existing AFSL and associated structures.

The purchase price was settled through the issuance of 3 million HGL Ltd shares at an issue price of $0.24 per share, as approved by shareholders at the Annual General Meeting.

Goodwill has been recognised on the acquisition, reflecting the value of the AFSL to HGL, its importance to HGL's strategy of diversifying investment income sources, and the ability to generate management and performance fees on an established fund. It is HGL's intention to re-market The Supervised Fund and grow funds under management over the coming periods including adding new investment funds and products.

Given the proximity of the acquisition to balance date, there has been no revenue or profit recognised for the half year ended 31 March 2021.

Acquisition costs of $15,000 have been incurred in relation to the acquisition as at 31 March 2021. The assets and liabilities recognised as a result of the acquisition are shown below, and have been prepared are on a provisional basis at 31 March 2021.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| **Consolidated entity** | **$'000** |
|---|---|
| **Purchase consideration** | |
| Cash paid | **-** |
| Debt assumed and repaid | **720** |
| **Total purchase consideration** | **720** |

## Business combinations

| Consolidated entity | Fair value $'000 |
|---|---|
| Other debtors | **13** |
| Employee liabilities | **(5)** |
| Goodwill | **712** |
| **Net assets** | **720** |

## 9 Events occurring after the reporting period

On 15 April 2021, HGL signed an agreement granting the management of SPOS Group an option to purchase SPOS from HGL. The payment of the option fee of $250,000 grants management an option to acquire the business at any time in the next 5 years for $2.09 million, less the amount of distributions made by SPOS to HGL. In addition, the shareholder loan balances owed to HGL of $682,000 remains payable. The value of SPOS in the financial statements as at 31 March 2021 reflects the value of the option fee receivable and the purchase price, reflecting that negotiations were effectively finalised at reporting date.

On 7 May 2021, shareholders approved the placement of 36.1 million shares at an issue price of $0.20 per share, raising $7.2 million before costs. This capital raising was part of a broader capital raise of $10.6 million before costs as outlined in note 6. In addition to the placement, a further $1.2 million was raised via a Share Purchase Plan undertaken in conjunction with the placement. The funds received from the placement and Share Purchase Plan are not reflected in the financial statements as at 31 March 2021.

There have been no other 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.

## 10 Segment and revenue information

As outlined in Note 2 of this financial report, HGL became an investment entity during the financial year. Consequently, all income and expenses for the new Group are derived from and incurred for the generation of investment income. As a result, and with effect from 1 October 2020, HGL operates as a single segment, Investing, and there are no separate reportable operating segments for the current period.

## Director's Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 1 to 22 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

   (ii) 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) there are reasonable grounds to believe that HGL Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Alexander (Sandy) Beard
Director

Sydney
26 May 2021

UHY Haines Norton
Chartered Accountants

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhnsyd.com.au
www.uhyhnsydney.com.au



**INDEPENDENT AUDITOR'S REVIEW REPORT**

**To the members of HGL Limited**

**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of HGL Limited ("the Company"), which comprises the consolidated statement of financial position as at 31 March 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, a statement of significant accounting policies, other selected explanatory notes, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year.

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 2021 and of its performance for the half-year ended on that date; and

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

**Basis for Conclusion**

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the Auditor's Responsibilities for the Review of the Financial Report section of our report. We are independent of the Company 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 (including Independence Standards) (the Code) that are relevant to our audit of the annual 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 review report.

**Responsibility of the Directors for the 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 controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility for the Review of the Financial Report**

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether 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 Company's financial position as at 31 March 2021 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*.

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.

UHY Haines Norton

**Mark Nicholaeff**

Partner

Sydney

Dated: 26 May 2021

**UHY Haines Norton**

Chartered Accountants