



## **HRL HOLDINGS LIMITED**

### **Appendix 4E FY2020 Final Report**

### **Results for Announcement to the Market**

#### **1. Company Details and Reporting Period**

Name of Entity:	HRL Holdings Limited
ABN:	99 120 896 371
Reporting Period:	30 June 2020
Previous Corresponding Period:	30 June 2019

<b>2. Results for Announcement to the Market</b>	<b>\$</b>
Revenue from ordinary activities up 7% to:	32,823,441
Underlying net profit/(loss) for the period up 61% to:	2,464,451
Net loss for the period attributable to members improved to:	(2,495,031)

Refer to pages 9 to 14 of the Financial Statements for the operational and financial review of the Entity.

#### **3. Statement of Comprehensive income with Notes to the Statement**

Refer to Page 33 of the 2020 Financial Statements and accompanying Notes.

#### **4. Balance Sheet with Notes to the Statement**

Refer to Page 34 of the 2020 Financial Statements and accompanying Notes.

#### **5. Statement of Cash Flows with Notes to the Statement**

Refer to Page 36 of the 2020 Financial Statements and accompanying Notes.

#### **6. Dividends**

No dividends were paid or payable during the period.

#### **7. Statement of Changes in Equity**

Refer to Page 35 of the 2020 Financial Statements and accompanying Notes.

#### **8. Net Tangible Assets per Security**

2020	\$0.016
2019	\$0.016



**9. Entities over which Control has been Gained or Lost during the Period.**

Refer to Page 70 of the 2020 Financial Statements.

**10. Associates and Joint Venture Entities**

Refer to Page 66 of the 2020 Financial Statements.

**11. Other Significant Information**

Not applicable.

**12. Accounting Standards used for Foreign Entities**

Not applicable.

**13. Commentary on the Results for the Period**

Refer to pages 9 to 14 of the Financial Statements for the operational and financial review of the Entity.

**14. Status of Audit**

The attached 2020 Financial Statements have been audited.

**15. Dispute or Qualifications if not yet audited**

Not applicable.

**16. Dispute or Qualifications if audited**

Not applicable.

**Authorised by the Board**

**Paul Marshall**  
**Company Secretary**  
**30 July 2020**



**HRL HOLDINGS LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED**

**30 JUNE 2020**

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# CEO'S LETTER

Dear Shareholders,

Your Directors and I have much pleasure in presenting the 2020 Annual Financial Statements for the HRL Group.

## Introduction and the past year in review

HRL returned strong performance for the first 9 months of FY2020 ahead of internal budgets and on track to achieve full year broker consensus at the time, however, the fourth quarter (Q4) was heavily impacted by the effects of COVID-19. The stage 4 lockdown in New Zealand resulted in most of HRL's New Zealand operations being unable to trade, and demand weakened in the Australian businesses. Despite this Q4 disruption the overall financial performance of the group was an improvement on FY2019 across all key metrics:

- Revenue \$32.8M (up 7%, FY2019: \$30.8M)
- Underlying NPAT \$2.5M (up 60%, FY2019: \$1.5M)
- Underlying EBITDA \$5.9M (up 33%, FY2019: \$4.5M)
- Cashflow from operations \$6.6M (up 138%, FY2019: \$2.7M, excluding subsidies received and vendor earnouts)

*(all figures stated on a pre-AASB 16 basis)*

In last year's annual report, I wrote about the strategic objectives for this past year, and I am pleased to report that those objectives have been partially fulfilled including:

**1. Increase organic service development with a focus on scalable laboratory-based services;**

- New microbiology, GLP and expanded environmental services launched in New Zealand  
New microbiology and HAZMAT services launched in Australia

**2. Integrate the business units HR, IT, finance and support services;**

- Single HR platform implemented for the group
- IT infrastructure realignment in progress
- Environmental and HAZMAT laboratories now utilising same LIMS system
- Finance systems fully integrated and consistent across Group

**3. Grow earnings from the data management / software division;**

- Software revenues have increased to \$888k (up 21%, FY2019: \$735k)
- Underlying EBITDA has increased to \$460k (up 87%, FY2019: \$246k). EBITDA margin has increased to 52%
- The expansion in revenue has come from both existing module take-up and releasing new software modules

**4. Secure new laboratory facilities for HRL's main Hamilton NZ operation to facilitate long term growth and improve workflow efficiencies;**

- New laboratory areas on Hamilton campus have been negotiated
- Take up of space has been deferred to minimise cost while sample volumes remain lower due to COVID-19 uncertainty

# CEO'S LETTER

**5. Support HRL's JV investments and partners to realise their strategic potential;**

- Foodlab Pacific remains on track with green fielding the new dairy product testing laboratory. Supported activities include laboratory establishment, method development, accreditation applications and early sales and marketing activities. First revenues expected in calendar 2021
- CAIQTest Pacific continues to develop export testing and certification of dairy powders. Supported activities has seen increased internal development, and strong sales growth over the second half of the year

**6. Focus on a return to FY2018 levels of profitability by continuing to replace the earnings gap from the decline in demand for property contamination testing;**

- HRL was on-track pre-COVID to hit the full year broker consensus figure which was equivalent to FY2018 underlying EBITDA
- The Q4 COVID-19 interruptions (full shutdown of our NZ HAZMAT division, partial shutdown of NZ laboratories and Australian weakening) has delayed the achievement of this objective

HRL has successfully improved its social responsibility focus this year with no reportable injuries in the second half. We are proud of our diverse workforce which now includes 48% female representation. Recycling and diversion initiatives at our laboratories continue to drive waste reduction. We have chosen three key charities to support throughout the year.

## Outlook for FY2021

HRL has built a strong balance sheet with just \$1.1M net debt at year end. The Analytica vendor earnout was completed during the year, allowing for free cashflow to be used to accelerate organic growth.

The Group will continue to evaluate acquisition opportunities of high-quality businesses within the food, agriculture and environmental services sectors and across other complimentary industries.

In closing, I would like to take this opportunity to thank our Chairman and Board for their guidance over the past year and also thank all HRL Group's employees for their dedication and hard work. My thanks also to you, our shareholders for your ongoing support throughout FY2020. I look forward to reporting a stronger FY2021 and achieving significant progress on the execution of our Strategic Plan.



Steven Dabelstein  
CEO

# DIRECTORS' REPORT

## DIRECTORS' REPORT

Your Directors present their report on the Consolidated Entity consisting of HRL Holdings Limited ("HRL" or "Company") and the entities it controlled (together referred to as the "Consolidated Entity" or "Group") at the end of, or during, the year ended 30 June 2020.

## DIRECTORS

The following persons were directors of HRL Holdings Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Name	Position	Period of Directorship
Greg Kilmister	Non-Executive Chairman	Appointed 11 February 2019
Steve Howse	Executive Director	Appointed 1 March 2018
James Todd	Non-Executive Director	Appointed 1 March 2018
Tracy Dare	Non-Executive Director	Appointed 1 November 2019
John Taylor	Non-Executive Director	Appointed 25 November 2014, Retired 18 October 2019
Darren Anderson	Non-Executive Director	Appointed 15 September 2014, Retired 7 February 2020

### Greg Kilmister

*Non-Executive Chairman*

*B Sc (Hons), FRACI, CCEO*

Mr Kilmister was the Managing Director and Chief Executive Officer of ALS Limited, a global provider of laboratory testing, inspection, certification and verification solutions from 2005 until his retirement in July 2017. He is recognised as the pivotal force in the growth and transformation of ALS (formerly Campbell Brothers Limited) from a diversified industrial group to a globally respected Testing, Inspection & Certification (TIC) player and an ASX100 company. During his tenure ALS's market cap grew from \$381 million in 2005 to over \$3 billion in 2017 and the staff numbers increased from approximately 4,000 to over 13,000 worldwide when he retired.

He has vast experience in operating laboratory focused businesses in the Environmental, Food, Pharmaceutical, Life Sciences, Minerals, Energy and Industrial sectors in more than seventy countries in Africa, Europe, Asia, Australia, and North and South America.

Mr Kilmister was Director of ALS Limited until retirement in July 2017. He has not been a Director of any other Australian listed company in the last three years.

### Steve Howse

*Executive Director*

*B Agr Sci Honours*

Mr Howse was a former shareholder and director of Analytica Laboratories Limited. He continues his role with Analytica as a General Manager with a particular responsibility for strategy, clients, and business development.

Mr Howse has an honours degree in Agricultural Science from Massey University, and has over 25 years' executive experience working in NZ science and technology businesses, with a focus on agribusiness and commercial analytical testing. He was a director of Synlait Farms Ltd leading up to its sale in 2014, and was deputy chair from 2014 to 2018 of Waikato Institute of Technology in New Zealand. He is a member of the New Zealand Institute of Directors.

He has not been a Director of any other Australian listed company in the last three years.

# DIRECTORS' REPORT

## **James Todd**

*Non-Executive Director*

*B Comm, LLB, F FIN, MAICD, FINSIA*

Mr Todd is an experienced company director, corporate adviser and investor. He commenced his career in investment banking, and has taken active roles with, and invested in, a range of public and private companies. He was until recently Managing Director of Wolseley Private Equity, an independent private equity firm he co-founded in 1999.

Mr Todd holds a Bachelor of Commerce and Bachelor of Laws from the University of New South Wales, and a Graduate Diploma from the Financial Services Institute of Australia (FINSIA), where he is a Fellow. He is a member of the Australian Institute of Company Directors.

Mr Todd is currently a director of the following other ASX listed companies:

- IVE Group Limited (appointed June 2015)
- Coventry Group Limited (appointed September 2018)

## **Tracy Dare**

*Non-Executive Director*

*BBus(Accy), GradDip (AdvAccy), CAANZ, GAICD, FIML*

Tracy Dare is a Chartered Accountant and a former Partner of KPMG, following which she led the Corporate Banking team at Suncorp before moving into various senior commercial executive roles.

A senior executive with a focus on inspirational leadership, development and implementation of strategy, M&A, customer and markets, business growth, improvement and turnarounds. She has substantial experience in customer facing sectors, industries undergoing disruptive change and in highly capital intensive businesses.

Tracy is also an experienced non-executive director with a particular focus on strategy, governance, business growth commercialisation and performance, risk and financial management.

She has not been a Director of any other Australian listed company in the last three years.

## **Darren Anderson (retired 7 February 2020)**

*Former Non-Executive Director*

Prior to joining HRL Holdings Limited, Mr Darren Anderson was the Executive Director and Chief Operating Officer of Diversified Mining Services Limited, an unlisted public company that at its peak in mid-2012 had consolidated revenue in excess of \$200 million and 850 personnel.

He has not been a Director of any other Australian listed company in the last three years.

## **John Taylor (retired 18 October 2019)**

*Former Non-Executive Director*

*LLB, Grad Dip ACG, MAICD*

Mr Taylor is the founding partner of Taylors Solicitors, Mackay, a member of the Queensland Law Society and has over 40 years' experience in commercial and property transactions and litigation. Mr Taylor holds a Bachelor of Laws degree, a post Graduate Diploma in Applied Corporate Governance and is a member of the Australian Institute of Company Directors.

He has not been a Director of any other Australian listed company in the last three years.

# DIRECTORS' REPORT

## DIRECTOR INTERESTS IN THE SHARES AND PERFORMANCE RIGHTS OF THE CONSOLIDATED ENTITY

As at the date of this report, the interests of the Directors in the shares and performance rights of HRL Holdings Limited are shown in the table below:

Director	Fully Paid Ordinary Shares	Performance Rights
Greg Kilmister	1,100,000	-
Tracy Dare	90,681	-
Steve Howse	12,190,297	226,215
James Todd	500,000	-

## MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2020 and the number of meetings attended by each Director.

	Directors Meetings		Audit and Risk Committee Meetings		People and Culture Committee Meetings		Nomination Committee Meetings	
	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend
Greg Kilmister	15	15	4	4	3	3	1	1
Tracy Dare	11	11	3	3	2	2	1	1
Steve Howse	15	15	3	3	-	-	-	-
James Todd	15	15	4	4	3	3	1	1
Darren Anderson	7	8	-	-	1	1	-	-
John Taylor	3	4	1	1	1	1	-	-

## COMMITTEE MEMBERSHIP

As at the date of this report, the Group has an Audit and Risk Committee, People and Culture Committee and a Nomination Committee.

Members acting on the Committees of the Board at the date of this report were:

Audit and Risk Committee	People and Culture Committee	Nomination Committee
Tracy Dare (Chair)	James Todd (Chair)	Greg Kilmister (Chair)
Greg Kilmister	Greg Kilmister	James Todd
James Todd	Tracy Dare	Tracy Dare

## SENIOR MANAGEMENT

**Paul Marshall**  
Company Secretary

LLB, ACA

Mr Marshall holds a Bachelor of Laws degree, a post Graduate Diploma in Accounting and is a Chartered Accountant. He has more than thirty years' experience initially with Ernst & Young and subsequently twenty years spent in commercial roles as Company Secretary and CFO for a number of listed and unlisted companies mainly in the resources sector. He has extensive experience in all aspects of company financial reporting, corporate regulatory and governance areas, business acquisition and disposal due diligence, capital raising and company listings and company secretarial responsibilities.

# DIRECTORS' REPORT

## **Steven Dabelstein**

*Chief Executive Officer*

*BComm, CPA, Member AICD*

Mr Dabelstein has been the CEO for the HRL Group since 2015. Under his leadership HRL has grown from a small Brisbane based firm to the current Australian and New Zealand testing, inspection and certification business with over 200 staff and greater than \$30mil of revenues. He has experience with acquisitions, capital markets, developing strategy and leading a diverse and high performing team.

Mr Dabelstein has a strong financial and operational background in various roles, including previously a General Manager with Diversified Mining Services Limited. Previous roles have provided exposure to large-scale international businesses reporting through and working with companies in the USA, Asia and Europe.

## **Michael Harvey**

*Chief Finance Officer*

*BBus, B AppSci, Grad Dip ICAA, Grad Dip CSA, CA, GAIA*

Mr Harvey is a Chartered Accountant and Chartered Secretary. Mr Harvey holds Bachelor degrees in Business and Property Economics and post Graduate Diplomas in Accounting and Corporate Governance.

He has more than 20 years in the accountancy profession in Australia, having worked in audit, and commercial roles as financial controller for several listed companies. Mr Harvey has experience in all aspects of company financial reporting, internal control, corporate regulatory and governance areas, business acquisition and disposal, due diligence, and company secretarial responsibilities.

## **PRINCIPAL ACTIVITIES**

The HRL Group is a diversified environmental and laboratory service provider with offices and laboratory facilities across Australia and New Zealand.

The Group offers services including:

- analytical chemistry laboratory testing specialising in mass spectroscopy analysis to the milk, honey, drugs of abuse and environmental markets;
- industrial hygiene, with a focus on asbestos and hazardous materials management;
- geotechnical testing and engineering services;
- property contamination testing and workplace drug testing;
- environmental services (air, water and soil including contaminated land);
- environmental and property management software solutions; and
- specialised NATA/IANZ - accredited laboratory analysis and on-site testing and monitoring.

## **ENVIRONMENTAL REGULATION AND PERFORMANCE**

The Company's operations are subject to environmental regulations in relation to its consulting and laboratory activities. The Directors are not aware of any breaches during the period covered by this report.

# DIRECTORS' REPORT

## REVIEW OF OPERATIONS

### COVID-19 Impacts

#### New Zealand Lockdowns

FY2020 was heavily influenced by the COVID-19 pandemic. The HRL Group was impacted primarily through the lockdowns put in place throughout New Zealand.

In late March through to the end of April, the New Zealand Government introduced strict Alert Level 4 nationwide lockdowns. Under Level 4 only business approved as "essential services" by the New Zealand government were allowed to open.

For HRL this meant that Precise was completely closed during Level 4 and Analytica was only allowed to operate its food and water testing service lines (which is approximately 50% of Analytica's turnover). Precise and Analytica staff from non-essential service lines were stood down on reduced pay. Both Precise and Analytica received wage subsidies totalling NZ\$1.2M from the New Zealand Government to assist in covering wage costs.

Following the reduction of the COVID-19 related restrictions to Alert Level 3 in late April most New Zealand staff were able return to work. Alert Level 3 continued to impose a range of restrictions on domestic travel and site access which continued to impact trading conditions. Precise staff were unable to access many client sites due to ongoing health and safety restrictions whilst Analytica's environmental service line remained weak as its clients faced similar restrictions.

New Zealand restrictions were further relaxed to Alert Level 2 in mid-May and all Precise and Analytica staff returned to work by early June. Precise workloads steadily improved through June but have yet to return to pre-COVID levels of trade. Similarly, Analytica's environmental service line saw an improvement in volumes in June, but have yet to return to normal trading volumes.

Analytica's food service business lines remained strong throughout the lockdown period, as it was permitted to continue operating, however there were efficiency losses as enhanced social distancing and health and safety procedures were put in place.

From 8 June 2020 New Zealand reverted to Alert Level 1 which saw all domestic restrictions removed.

#### Australian Restrictions

The bulk of HRL's Australian operations are located in Queensland and the Northern Territory.

OCTIEF performed well during Q4 with most of its workload being from government departments and utility providers. There were some minor access issues for remote sites, particularly in the Northern Territory. All work was carried out following enhanced social distancing and health and safety procedures of both OCTIEF and site owners.

OCTFOLIO operations continued uninterrupted in Q4 however business development was slowed as access to clients was limited. The OCTFOLIO team used the opportunity to focus on software development and enhancements. OCTFOLIO staff worked remotely when possible and followed enhanced social distancing and health and safety procedures when at the workplace.

Morrison Geotechnic experienced a sharp decline in revenues in Q4. Morrison Geotechnic is directly exposed to the residential development sector of South East Queensland. From March several developers began to delay or postpone planned releases of residential subdivision projects which comprise a major component of Morrison Geotechnic's workload. Offsetting this to a small extent was the award of some small public works projects, primarily from local councils. The other major component of Morrison Geotechnic's historical revenues have come from large infrastructure projects such as highway redevelopments. The Queensland Government has now started to release tenders for these projects.

OCTIEF and OCTFOLIO did not receive any subsidies beyond the universally available ATO cashflow boost scheme and QLD government payroll tax refunds. Morrison Geotechnic is registered for the JobKeeper program and received the ATO cashflow boost scheme and QLD government payroll tax refund. No staff were stood down during Q4. Morrison Geotechnic staff took extra leave during May and June and overtime was significantly reduced to manage payroll costs.

The Group also received other COVID-19 related benefits in the form of government loans and payment deferrals. Refer to page 13 of this report for details.

# DIRECTORS' REPORT

## Trading Review and Outlook

### Food and Environmental Laboratory Services

The Food and Environmental Laboratory division incorporates the New Zealand based Analytica business unit.

Despite the impact of COVID-19 during Q4, Analytica continues to perform well with revenue up 14% compared with the prior period, highlighted by:

- Honey revenues were up 9% on the prior year due to a combination of high production from apiaries and strong overseas demand for Manuka honey. Honey testing continued throughout all stages of the lockdown.
- Milk testing was again strong with revenues growing 17% on prior year. There was no material impact on testing volumes due to COVID-19. Beta casein testing increased markedly with Analytica now established as the clear market leader in this field.
- Food origin testing continues to grow with revenues up 16% on the prior year. Demand for origin testing continued through Q4 however receipt of international samples is experiencing some delays.
- Environmental testing services (laboratory testing of air, water and soil) continued its development with strong growth in revenues before the lockdowns. This service line was on track to become Analytica's largest segment in FY20 but was shut down during Level 4 lockdowns as it was not classed as an "essential service" by the New Zealand government. Despite this setback revenues grew 34% on the prior year. A large portion of the testing samples came from land redevelopment projects which may take time to return to pre-COVID levels.
- Other services lines (timber and drugs of abuse) fell slightly (2 – 5%) because of the lockdowns.

The outlook for FY21 is mixed across the service lines. Food testing services such as honey and dairy held up well during the lockdowns with little change in sample volumes. These markets will be more influenced by the underlying production seasons and the overall demand for products, especially from international markets.

Environmental sample volumes are likely to be impacted by wider economic performance across New Zealand, especially in housing and construction. Like many countries New Zealand is expecting a weakening in economic growth over the short term. Government infrastructure spending will have an influence with projects expected to be announced in the lead up to the New Zealand federal election in September.

Analytica continues to invest in new service offerings and business development initiatives to capitalise on both short-term opportunities and secure growth over the longer term.

### HAZMAT

The HAZMAT division, which incorporates the OCTIEF business unit in Australia and the Precise business in New Zealand, had a very positive year with earnings substantially higher than prior year despite Precise being shut down for a large part of Q4.

Up until the end of March the Precise business performed above expectations and generated strong profits. Precise was able to return to normal operations from late May. However, demand was low as clients re-established their operations with tendering opportunities increasing through late June and July.

Australian operations for OCTIEF also enjoyed a positive year with HAZMAT revenues up on prior year due to increased demand from the Queensland and Northern Territory Governments and major utility providers. This demand continued through Q4 with only minor impact from COVID-19. During the year OCTIEF undertook a large-scale asbestos and lead paint laboratory contract from a major utility provider which was completed in February.

The outlook for FY21 is cautiously optimistic. Precise has positioned itself as the leading asbestos consulting firm in New Zealand which gives it a strong presence in tendered opportunities and its wide branch network offers some protection from region specific downturns. Since returning to work from lockdowns the team has re-engaged with current and prospective clients to market its services aggressively. Precise services are tied to the housing and construction sectors with the overall performance of those sectors impacting the asbestos and HAZMAT client demand. Government stimulus (or lack thereof) for the housing and construction sector will also likely have an impact on the outlook for Precise.

OCTIEF revenues have remained consistent over the last six months and are likely to remain so in the immediate short-term. A large portion of OCTIEF's revenues are derived from the Queensland Government and Government controlled utility providers. The Queensland elections are to be held at the end of October and changes to either the Government, spending programs or policies may have a direct impact on OCTIEF, either positive or negative.

# DIRECTORS' REPORT

## Software

The Software division incorporates the OCTFOLIO business unit which is Australian based but has existing contracts and clients in both Australia and New Zealand.

OCTFOLIO continued its rapid growth trajectory highlighted with the securing of a 5 year, \$1.5M contract with a key government agency. Software revenues grew by 21% on the prior year. COVID-19 did impact OCTFOLIO's ability to engage with clients in Q4 but with restrictions easing the team is now ramping up business development activities.

The outlook for FY21 is positive, with the software platform being upgraded to target a wider range of industries and smaller commercial operators. OCTFOLIO is cognisant that IT budgets for many businesses may be constrained in the short-term which may moderate growth opportunities.

## Geotechnical

The Geotechnical division incorporates the Morrison Geotechnic business unit in Australia. Revenues for Morrison Geotechnic fell 15% from the prior year, largely attributed to the loss of a number of senior engineering staff late in the first half of the year and a sharp slowdown in Q4 as many land subdivision projects were put on hold by developers.

The outlook for FY21 is flat. Project tender opportunities are down on historical levels with increased competition amongst geotechnical firms. Of late Morrison Geotechnic has been successful in winning smaller public works programs, however forward visibility on these programs is low. Key opportunities for Morrison Geotechnic are in upcoming large infrastructure projects such as highway redevelopments. Queensland Government policy and the election process will dictate the number and scale of the projects released.

## **Joint Ventures**

### CAIQTest (Pacific) Limited

The Group has a 26% interest in CAIQTest (Pacific) Limited, a New Zealand based laboratory providing pre-shipment testing services for clients exporting goods from Australasia to China, assisting greatly with supply chain bottlenecks. Trading for CAIQTest (Pacific) Limited during second half of the year was very encouraging with both revenues and profit showing strong improvements.

### Foodlab Pacific Limited

During the prior year HRL entered into an agreement with MilkTestNZ to create a new 50:50 joint venture company which will provide analytical testing services to the New Zealand dairy products industry. The joint venture agreement represents an expansion of the existing strategic alliance between HRL and MilkTestNZ, which focusses on liquid milk testing.

During the year, Foodlab continued method development with its foundation technical staff. This green field venture will progressively work through method development, certification/accreditation and marketing activities, with first revenues expected in calendar 2021.

## **Other Key Milestones**

### **Analytica Earnout Completed**

As part of the acquisition of Analytica Laboratories, the vendors had the opportunity to achieve an earnout payment of up to NZ\$11M. Analytica easily exceeded the maximum threshold EBITDA target of NZ\$4,850,000 for the 12 months ended 30 November 2018. Payment of the remaining earn-out consideration (\$2,584,092) was completed during the year.

# DIRECTORS' REPORT

## FINANCIAL REVIEW

Key financial headlines of the HRL Group's 30 June 2020 results are:

- Revenues of \$32,823,441
- Underlying EBITDA of \$6,866,509
- Underlying profit after tax of \$2,464,451 <sup>1</sup>
- Statutory loss after tax of \$2,495,031
- Cashflow provided by operations of \$6,313,486. Excluding Analytica earn-out payments and government subsidies received, cashflows provided by operations were \$7,408,851
- Net cash/(borrowings) of (\$1,076,750)

<sup>1</sup> Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited.

The following table summarises key reconciling items between the Group's statutory profit and underlying profit after tax:

	June 2020 (Pre AASB 16) \$	June 2019 (Pre AASB 16) \$	June 2020 (Post AASB 16) \$
Underlying EBITDA <sup>1</sup>	5,903,855	4,450,775	6,866,509
Operating depreciation and amortisation	(2,257,428)	(2,194,245)	(3,100,938)
Borrowing costs (net of interest income)	(244,823)	(135,507)	(363,967)
Operating tax	(937,153)	(586,693)	(937,153)
<b>Underlying profit after tax</b>	<b>2,464,451</b>	<b>1,534,330</b>	<b>2,464,451</b>
<i><u>Non-operating adjustments</u></i>			
Acquisition and joint venture establishment expenses	-	(22,113)	-
Amortisation of intangible assets from acquisitions	(2,539,667)	(3,602,257)	(2,539,667)
Earn-out expenses/adjustments	(2,157,570)	(5,069,621)	(2,157,570)
Lapsed expired management performance shares	(41,441)	(62,355)	(41,441)
Impairment of goodwill (OCTIEF ACT branch closure)	-	(661,357)	-
One-off restructure costs	-	(348,433)	-
Equity accounted share of profits/(loss)	(512,895)	2,847	(512,895)
Non-operating tax	292,091	1,102,201	292,091
<b>Statutory profit/(loss) after income tax</b>	<b>(2,495,031)</b>	<b>(7,126,758)</b>	<b>(2,495,031)</b>

<sup>1</sup> During the period the Group transitioned to AASB 16 using the modified retrospective approach, where the right-of-use asset is recognised at the date of initial application at an amount equal to the lease liability, using the entity's incremental borrowing rate at 1 July 2019. FY2020 EBITDA has been shown above calculated under both AASB 16 and the previous AASB 117 to provide a comparison with FY2019.

<sup>2</sup> In the opinion of the Directors, the Group's underlying profit reflects the results generated from ongoing operating activities and is calculated in accordance with AICD/Finsia principles. The non-operating adjustments outlined above are considered to be non-recurring in nature. These items are included in the Group's consolidated statutory result but excluded from the underlying result.

# DIRECTORS' REPORT

## Comparison with the Prior Period

Underlying profit after tax for the year increased by +61% compared with the prior year. The key reasons for the increase were:

### Factors increasing profits:

- Higher earnings from Analytica on the back of 14% revenue growth;
- Higher earnings from the HAZMAT division, primarily due to:
  - strong asbestos consulting revenues in both New Zealand and Australia; and
  - large-scale asbestos and lead paint laboratory contract from a major utility provider
- Decreased corporate overhead costs.

### Factors decreasing profits:

- Lost revenues related to New Zealand COVID-19 lockdowns and weaker trade in Australia, offset in part by government wage subsidies received;
- Weaker trading conditions for Geotechnic services;
- Higher borrowing costs.

## COVID-19 Assistance and Support Received

### Subsidies

During the year, the Group received several COVID-19 related support subsidies from Australia and New Zealand Governments as outlined below:

Government Subsidy	Start Date	Program Duration	Subsidy FY2020	Estimated Subsidy FY2021
New Zealand COVID-19 Wage Subsidy	25 March 2020	12 weeks	1,146,331	-
Australia JobKeeper	30 March 2020	6 months	144,000	432,000
QLD payroll tax refund	One-time refund of 2 months payroll tax	NA	54,396	-
ATO cashflow boost	31 March 2020	6 months	172,729	170,000
			<b>1,517,456</b>	<b>602,000</b>

### Government Loans

The Group has two government support loans facilities:

#### QLD Government

\$250,000 loan with the QLD Government with a fixed interest rate of 2.10% per annum. The loan is repayable over 10 years. The loan is secured by a \$250,000 charge against OCTIEF Pty Ltd.

#### New Zealand Government

NZ \$55,000 loan with a fixed interest rate of 3.00% per annum. The loan is repayable over 2 years. The loan is unsecured.

# DIRECTORS' REPORT

## Payment Deferrals

### Loans

Westpac Australia has granted 6-month payment deferrals on bank bills and equipment finance leases. The amount of loan principal and interest deferred at 30 June 2020 was \$500,250. Repayments on deferred loans recommence in October with the initial loan periods extended by 6 months.

### Other Payables

The Australian Tax Office has granted 6-month payment deferrals of certain GST and PAYG employee tax liabilities due for repayment in November 2020. The amount accrued at 30 June 2020 was \$574,564.

Similarly, the QLD Office of State Revenue has granted 12-month payment deferrals of payroll tax liabilities due for repayment in January 2021. The amount accrued at 30 June 2020 was \$134,698.

## Liquidity and Funding

During the financial year, Australia & New Zealand have been impacted by the worldwide pandemic, COVID-19. The World Health Organisation (WHO) announced a global health emergency on 31 January 2020. During the year Australia and New Zealand went into lock downs in late March 2020, where only essential businesses were able to operate during this time. At 30 June 2020, the Group had net current liabilities of \$842,116. Included in current liabilities is:

- An interest only bank loan drawn to \$806,180. This facility has no expiry date but is subject to annual review by Westpac;
- Contract liabilities of \$170,702 representing revenue received in advance for services to be provided in the coming year; and
- Lease liabilities relating to building premises of \$716,757 which will be progressively paid over the coming 12 months. These liabilities arose upon adoption of the new leasing standard *AASB 16*.

Working capital excluding these amounts is \$851,453.

The Group has undrawn bank facilities of \$4,252,520 and comfortably met all banking covenants during the period.

During the year, the Group generated operating cashflows of \$6,313,486. After excluding Analytica earn-out payments which are now complete, and COVID-19 related subsidies, cashflows provided by operations were \$7,408,851.

Based upon its cash reserves, undrawn finance facilities and expected ongoing earnings, the Group is comfortable it has sufficient funding capacity to continue to grow the business organically and meet all its obligations.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes during the year, except for the impacts of COVID-19 as discussed in this report.

## LIKELY DEVELOPMENTS AND FUTURE OPERATIONS

During FY2021, the Group will focus on returning to pre-COVID levels of operations as soon as possible through:

- Increasing business development at Analytica for:
  - Environmental testing;
  - Beta Casein services;
  - Food testing; and
  - GLP and other contract research and development services for clients.
- Aggressive tendering for major HAZMAT projects;
- Continuing enhancement OCTFOLIO software platform with a view to moving into new customer segments; and
- A strong focus on cost control and working capital management.

In addition, the Group will continue to evaluate acquisition opportunities of high-quality testing, inspection and certification businesses.

# DIRECTORS' REPORT

## INDEMNIFICATION OF OFFICERS OR AUDITOR

Each of the Directors and the Secretary of the Company has entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company and certain indemnification to those Directors and Secretary.

The Company has insured all of the Directors of HRL Holdings Limited. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. *The Corporations Act 2001* does not require disclosure of the information in these circumstances.

The Company has not indemnified its auditor.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purposes of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

## SHARE OPTIONS AND PERFORMANCE SHARES

Details of options are set out below:

Expiry Date	Exercise Price	Movements				30 June 2020
		1 July 2019	Issued	Exercised	Expired	
31 December 2019	\$0.18	1,600,000	-	-	(1,600,000)	-
31 December 2019	\$0.20	1,600,000	-	-	(1,600,000)	-
31 December 2019	\$0.23	1,600,000	-	-	(1,600,000)	-
		4,800,000	-	-	(4,800,000)	-

Details of performance rights issued, exercised and expired during the financial year are set out below:

Expiry Date	Tranche	Vesting Condition	Performance period <sup>1</sup>	Movements				30 June 2020	Vested at end of year
				1 July 2019	Issued	Exercised	Lapsed / Forfeited		
30 June 2022	A	EPS	3 years	-	1,220,240	-	(36,132)	1,184,108	-
30 June 2022	A	EBITDA	3 years	-	1,220,240	-	(36,132)	1,184,108	-
30 June 2022	A	TSR	3 years	-	1,220,240	-	(36,132)	1,184,108	-
30 June 2022	A	ROCE	3 years	-	1,220,240	-	(36,132)	1,184,108	-
30 June 2021	B	Budget	2 years	-	294,669	-	-	294,669	-
30 June 2021	B	EBITDA	2 years	-	294,669	-	-	294,669	-
30 June 2021	B	TSR	2 years	-	294,669	-	-	294,669	-
30 June 2021	B	ROCE	2 years	-	294,669	-	-	294,669	-
30 June 2020	C	Budget	1 year	-	147,335	-	(147,335)	-	-
30 June 2020	C	EBITDA	1 year	-	147,335	-	(147,335)	-	-
30 June 2020	C	TSR	1 year	-	147,335	-	-	147,335	147,335
30 June 2020	C	ROCE	1 year	-	147,335	-	(147,335)	-	-
30 June 2020	C	Discretionary	1 year	-	227,273	-	-	227,273	227,273
				-	6,876,249	-	(586,533)	6,289,716	374,608

<sup>1</sup> Represents the relevant period of time to which both the performance vesting condition is measured and the period of time the recipient must remain employed with the Group.

Refer to page 25 for details on vesting conditions.

# DIRECTORS' REPORT

## **AFTER BALANCE DATE EVENTS**

There have been no events since 30 June 2020 that impact upon the financial report.

## **REMUNERATION REPORT**

The Remuneration Report set out on pages 17 to 29 provides details of the remuneration and equity holdings of the Directors and Key Management Personnel, including details of equity instruments issued or exercised during the financial year, or outstanding at the date of this report, and forms part of the Directors' Report.

# REMUNERATION REPORT - AUDITED

This report details the nature and amount of remuneration for Directors and Key Management Personnel of the Consolidated Entity.

## Remuneration Policy

The performance of the Company depends upon the quality of its Directors and Executives. To prosper, the Company must attract, motivate and retain highly skilled Directors and Executives.

## Remuneration Committee

The full Board is responsible for determining and reviewing compensation arrangements for the Directors and the Executive team.

The Board assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team.

Officers are given the opportunity to receive their base emoluments in a variety of forms including cash and fringe benefits. It is intended that the manner of payments chosen will be optimal for the recipient without creating undue cost for the company.

## Remuneration structure

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high-quality Board and Executive team by remunerating Directors and other Key Management Personnel fairly and appropriately with reference to relevant employment market conditions.

To assist in achieving this objective, the Board considers the nature and amount of Executive Directors' and Officers' emoluments alongside the company's financial and operational performance. The expected outcomes of the remuneration structure are the retention and motivation of key Executives, the attraction of quality management to the Company and performance incentives which allow Executives to share the rewards of the success of the company.

In accordance with best practice corporate governance, the structure of Executive and Non-Executive Director remuneration is separate and distinct.

## Non-Executive Director Remuneration

The Board seeks to set aggregate remuneration at a level which provides the company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution of HRL Holdings Limited and the ASX Listing Rules specify that the Non-Executive Directors are entitled to remuneration as determined by the Company in a General Meeting to be apportioned among them in such manner as the Directors agree and, in default of agreement, equally. The maximum aggregate remuneration currently approved by shareholders for Directors' fees is for a total of \$400,000 per annum.

If a Non-Executive Director performs extra services, which in the opinion of the Directors are outside the scope of the ordinary duties of the Director, the Company may remunerate that Director by payment of a fixed sum determined by the Directors in addition to or instead of the remuneration referred to above. Non-Executive Directors are entitled to be paid travel and other expenses properly incurred by them in attending Directors or General Meetings of the Company or otherwise in connection with the business of the Company.

Non-Executive Directors do not participate in the Company's Short Term Incentive or Long Term Incentive bonus schemes.

The remuneration of Non-Executive Directors for the year ended 30 June 2020 is detailed in this Remuneration Report.

# REMUNERATION REPORT - AUDITED

## Executive Director and Senior Management Remuneration

The Company aims to reward the Executive Director and Senior Management with a level and mix of remuneration commensurate with their position and responsibilities within the company and to:

- reward Executives for Company and individual performance against targets set by reference to appropriate benchmarks;
- align the interests of Executives with those of shareholders;
- link reward with the strategic goals and performance of the Company; and
- ensure total remuneration is competitive by market standards.

The remuneration of the Executive Director and Senior Management may from time to time be fixed by the Board. As noted above, the Board's policy is to align Executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering short-term and long-term incentives.

The level of fixed remuneration is set to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Fixed remuneration is reviewed annually by the Board, and the process consists of a review of companywide and individual performance, relevant comparative remuneration in the market and internal, and where appropriate, external advice on policies and practices.

In relation to the payment of bonuses, options and other incentive payments, discretion is exercised by the Board, having regard to the overall performance of the Company and the performance of the individual during the year.

The remuneration of the Executive Director and Senior Management for the period ended 30 June 2020 is detailed in this Remuneration Report.

## Employment Contracts

It is the Board's policy that employment agreements are entered into with all Directors, Executives and employees. The current employment agreement with the CEO and CFO have a three-month notice period. All other employment agreements have one-month (or less) notice periods. No current employment contracts contain early termination clauses. All Non-Executive Directors have contracts of employment. None of these contracts have termination benefits.

In solidarity with New Zealand staff who were stood down on reduced pay during the lockdowns, the HRL Board and Executive Team elected to decrease their fees/salaries by 20% through the final quarter of the financial year.

### Non-Executive Chairman Arrangements

The Company entered a service arrangement with Mr Greg Kilmister as Non-Executive Chairman of the Company commencing from 11 February 2019. The key terms of the arrangement during the financial year were:

- Ongoing contract – no fixed term;
- Fee of \$90,000 per annum, inclusive of statutory superannuation contributions;
- No retirement benefits

### Non-Executive Director Arrangements

The Company has entered service arrangements with Mr James Todd and Ms Tracy Dare as Non-Executive Directors of the Company. The key terms of the arrangement are:

- Ongoing contract – no fixed term;
- Fee of \$60,000 per annum, inclusive of statutory superannuation contributions;
- No retirement benefits

### Former Non-Executive Director Arrangements

The Company had entered a service arrangement with Mr Darren Anderson and Mr John Taylor as Non-Executive Directors of the Company. The key terms of the arrangement were:

- Ongoing contract – no fixed term;
- Fee of \$60,000 per annum, inclusive of statutory superannuation contributions;
- No retirement benefits

# REMUNERATION REPORT - AUDITED

## Executive Director Arrangement – Steve Howse

The Company entered into an employment contract with Mr Steve Howse as an Executive Director of the Company commencing from 1 December 2017. The key terms of the contract are:

- Ongoing contract – no fixed term;
- Salary of NZ\$161,216 per annum, inclusive of superannuation contributions;
- Director fees of \$25,000 per annum, inclusive of statutory superannuation contributions;
- 5 weeks annual leave;
- Short term incentive cash bonus upon achieving certain profit targets;
- Equity based long term incentive plan;
- 1-month notice period.

## Chief Executive Officer Arrangements

The Company entered into an employment contract with Mr Steven Dabelstein as Chief Executive Officer of the Company commencing from 1 January 2015. The key terms of the contract are:

- Ongoing contract – no fixed term;
- Salary of \$300,000 per annum, plus statutory superannuation contributions;
- 4 weeks annual leave;
- Motor vehicle allowance of \$20,000 per annum;
- Short term incentive cash bonus upon achieving certain profit targets;
- Equity based long term incentive plan;
- 3-month notice period.

## Chief Finance Officer Arrangements

The Company entered into an employment contract with Mr Michael Harvey as Chief Finance Officer of the Company commencing from 1 September 2016. The key terms of the arrangement are:

- Ongoing contract – no fixed term;
- Fee of \$200,000 per annum, plus statutory superannuation contributions;
- 4 weeks annual leave;
- Short term incentive cash bonus upon achieving certain profit targets;
- Equity based long term incentive plan;
- 3-month notice period.

## Company Secretary Arrangements

The Company entered into a service arrangement with Mr Paul Marshall as Company Secretary of the Company commencing from 15 September 2014. The key terms of the arrangement are:

- Ongoing contract – no fixed term;
- Fee of \$60,000 per annum, inclusive of statutory superannuation contributions;
- One-month notice period.

# REMUNERATION REPORT - AUDITED

## Details of Directors and other Key Management – HRL Holdings Limited

Name	Position	Period of Service
<b>Directors</b>		
Greg Kilmister	Non-Executive Chairman	Appointed 11 February 2019
Tracy Dare	Non-Executive Director	Appointed 1 November 2019
Steve Howse	Executive Director	Appointed 1 March 2018
James Todd	Non-Executive Director	Appointed 1 March 2018
<b>Former Directors</b>		
John Taylor	Non-Executive Director	Appointed 25 November 2014, Retired 18 October 2019
Darren Anderson	Non-Executive Director	Appointed 15 September 2014, Retired 7 February 2020
<b>Key Management</b>		
Steven Dabelstein	Chief Executive Officer	Appointed 1 January 2015
Michael Harvey	Chief Finance Officer	Appointed 15 September 2014
Paul Marshall	Company Secretary	Appointed 2 July 2007

# REMUNERATION REPORT - AUDITED

## Remuneration of Directors and other Key Management Personnel – FY2020

		Short Term Benefits			Long Term Benefits	Post Employment Benefits	Equity based Benefits				
	Note	Salary/ fees	Bonus	Vehicle allowance	Accrued / (used) leave benefits	Superannuation	Performance Rights	Total	Performance Related %	% of FY20 STI bonus forfeited	% equity compensation
<b>Directors</b>											
Greg Kilmister		55,123	-	-	-	30,377	-	<b>85,500</b>	-	-	-
Tracy Dare	1	33,790	-	-	-	3,210	-	<b>37,000</b>	-	-	-
Steve Howse		168,212	-	-	4,568	4,334	3,676	<b>180,790</b>	2%	100%	2%
James Todd		57,000	-	-	-	-	-	<b>57,000</b>	-	-	-
Darren Anderson	2	21,364	-	-	-	14,843	-	<b>36,207</b>	-	-	-
John Taylor	3	17,742	-	-	-	-	-	<b>17,742</b>	-	-	-
<b>Key Management</b>											
Steven Dabelstein		285,000	-	20,000	9,862	21,694	67,038	<b>403,594</b>	17%	100%	17%
Michael Harvey		190,000	-	-	5,054	18,050	36,019	<b>249,123</b>	14%	100%	14%
Paul Marshall		57,000	-	-	-	-	-	<b>57,000</b>	-	-	-
		<b>885,231</b>	-	<b>20,000</b>	<b>19,484</b>	<b>92,508</b>	<b>106,733</b>	<b>1,123,956</b>			

### Notes

- 1 Appointed 1 November 2019
- 2 Retired 7 February 2020
- 3 Retired 18 October 2020

The HRL Board and Executive Team elected to decrease their fees/salaries by 20% through the final quarter of the financial year.

There were no termination benefits paid or accrued for the year ended 30 June 2020.

# REMUNERATION REPORT - AUDITED

## Remuneration of Directors and other Key Management Personnel – FY2019

			Short Term Benefits		Long Term Benefits	Post Employment Benefits	Equity based Benefits				
	Note	Salary/ fees	Discretionary Bonus <sup>3</sup>	Vehicle allowance	Accrued / (used) leave benefits	Superannuation	Performance Shares	Total	Performance Related %	% of FY19 STI bonus forfeited <sup>3</sup>	% equity compensation
<b>Directors</b>											
Greg Kilmister	1	22,606	-	-	-	12,148	-	<b>34,754</b>	-	-	-
Darren Anderson	3	295,531	50,000	2,500	(5,609)	25,008	-	<b>367,430</b>	14%	100%	-
John Taylor		60,000	-	-	-	-	-	<b>60,000</b>	-	-	-
Steve Howse		171,692	-	-	3,949	4,401	-	<b>180,042</b>	-	-	-
James Todd		60,000	-	-	-	-	-	<b>60,000</b>	-	-	-
Kevin Maloney	2	2,764	-	-	-	9,424	-	<b>12,188</b>	-	-	-
<b>Key Management</b>											
Steven Dabelstein	3	300,000	50,000	10,000	1,233	20,520	11,644	<b>393,397</b>	16%	100%	3%
Michael Harvey	3	201,583	33,000	-	1,685	17,417	7,452	<b>261,137</b>	16%	100%	3%
Paul Marshall		60,000	-	-	-	-	-	<b>60,000</b>	-	-	-
		<b>1,174,176</b>	<b>133,000</b>	<b>12,500</b>	<b>1,258</b>	<b>88,918</b>	<b>19,096</b>	<b>1,428,948</b>			

### Notes

1 Appointed 11 February 2019

2 Retired 17 August 2018

3 The Board awarded discretionary bonuses to Mr Anderson, Mr Dabelstein and Mr Harvey in August 2018 in relation to their performance for the year ended 30 June 2018.

No bonuses are payable in relation to the FY2019 short term incentive (STI) plan.

There were no termination benefits paid or accrued for the year ended 30 June 2019.

# REMUNERATION REPORT - AUDITED

## Key management personnel equity holdings

### Shareholdings

	Balance 1 July 2019	Acquired on market	Recognized on appointment	Disposed	Derecognized on retirement	Balance 30 June 2020
<b>Directors</b>						
Greg Kilmister	250,000	850,000	-	-	-	1,100,000
Tracy Dare	-	90,681	-	-	-	90,681
Steve Howse	12,190,297	-	-	-	-	12,190,297
James Todd	400,000	100,000	-	-	-	500,000
<b>Former Directors</b>						
Darren Anderson	21,443,806	-	-	-	(21,443,806)	-
John Taylor	1,964,486	-	-	-	(1,964,486)	-
<b>Key Management</b>						
Steven Dabelstein	1,701,860	159,847	-	-	-	1,861,707
Michael Harvey	801,035	-	-	-	-	801,035
Paul Marshall	2,625,945	-	-	-	-	2,625,945
	<b>41,377,429</b>	<b>1,200,528</b>	<b>-</b>	<b>-</b>	<b>(23,408,292)</b>	<b>19,169,665</b>

### Performance Rights

	Balance 1 July 2019	Granted	Converted	Lapsed	Balance 30 June 2020	Vested and Exercisable	Unvested
<b>Directors</b>							
Greg Kilmister	-	-	-	-	-	-	-
Tracy Dare	-	-	-	-	-	-	-
Steve Howse <sup>1</sup>	-	226,215	-	-	226,215	-	226,215
James Todd	-	-	-	-	-	-	-
<b>Former Directors</b>							
Darren Anderson	-	-	-	-	-	-	-
John Taylor	-	-	-	-	-	-	-
<b>Key Management</b>							
Steven Dabelstein <sup>2</sup>	-	2,493,719	-	(294,670)	2,199,049	234,587	1,964,462
Michael Harvey <sup>3</sup>	-	1,269,587	-	(147,335)	1,122,252	140,021	982,231
Paul Marshall	-	-	-	-	-	-	-
	<b>-</b>	<b>3,989,521</b>	<b>-</b>	<b>(442,004)</b>	<b>3,547,516</b>	<b>374,608</b>	<b>3,172,908</b>

### Notes

- 1 Steve Howse was issued 226,215 Tranche A rights (refer page 25)
- 2 Steve Dabelstein was issued 1,178,678 Tranche A rights, 785,785 Tranche B rights and 529,256 Tranche C rights (refer page 25)
- 3 Michael Harvey was issued 589,339 Tranche A rights, 392,893 Tranche B rights and 287,355 Tranche C rights (refer page 25)

# REMUNERATION REPORT - AUDITED

## FY2020 – Short Term Incentive Plan

For the FY2020 financial year Steve Howse (Executive Director), Steven Dabelstein (CEO) and Michael Harvey (CFO) had the opportunity to earn a cash bonus based upon achieving certain underlying profit targets as outlined in the table below:

Participant	Business Unit / Group Profit Target	STI Bonus Payable
Steve Howse	Analytica - NZD \$4.7M	NZD \$22,600
Steven Dabelstein	HRL Group - AUD \$5.1M	AUD \$90,000
Michael Harvey	HRL Group - AUD \$5.1M	AUD \$50,000

Underlying profit is defined as consolidated statutory profit before tax from existing operations excluding:

- Amortisation of intangibles that arose on the acquisition of subsidiaries;
- other acquisition costs; and
- other non-operating items at the Board's discretion.

None of the above profit targets were met for FY2020 and no bonuses were payable.

## FY2020 Long Term Incentive Plan

### Goals of the LTI Plan

The LTI Plan is designed to reward and motivate our senior management for superior company performance over a three-year performance period.

The principal goals of the LTI Plan are to:

- Focus senior management on long term outcomes required by the Board;
- Minimise risk by ensuring performance was measured across multiple factors important to shareholder value, rather than a single measure;
- Retain key, high performing management;
- Align senior management's reward with shareholders' interests by payment in equity;
- Encourage share ownership in HRL; and
- Encourage teamwork through Group wide performance measures.

### Remuneration Structure

Remuneration under the LTI Plan is in the form of equity-settled performance rights. Each equity-settled performance right which vests and is exercised converts to an ordinary share in the Company at nil exercise price; the amount payable per each vested cash-settled performance right is the VWAP of the Company's shares over the 20 trading days following the release of the Group's full year results for the final year of the performance period.

The number of performance rights granted to a participant is calculated by dividing the amount of the participant's LTI maximum potential payment (as determined by the People and Culture Committee) by the volume weighted average price (VWAP) of the Company's shares over the 20 trading days following the date of announcement of the final full year results for the financial year preceding the period to which the grant of performance rights relate.

Vesting conditions are assessed at the end of the performance period and the performance rights become exercisable, in whole or in part, or lapse from 1 July following the end of the performance period.

# REMUNERATION REPORT - AUDITED

Details of Key Management Personnel performance shares issued, vested and expired during the financial year are set out below:

Expiry Date	Tranche	Vesting Condition	Performance period <sup>1</sup>	Movements				30 June 2020
				1 July 2019	Issued	Exercised	Expired / Forfeited	
30 June 2022	A	EPS	3 years	-	498,558	-	-	498,558
30 June 2022	A	EBITDA	3 years	-	498,558	-	-	498,558
30 June 2022	A	TSR	3 years	-	498,558	-	-	498,558
30 June 2022	A	ROCE	3 years	-	498,558	-	-	498,558
30 June 2021	B	Budget	2 years	-	294,669	-	-	294,669
30 June 2021	B	EBITDA	2 years	-	294,669	-	-	294,669
30 June 2021	B	TSR	2 years	-	294,669	-	-	294,669
30 June 2021	B	ROCE	2 years	-	294,669	-	-	294,669
30 June 2020	C	Budget	1 year	-	147,335	-	(147,335)	-
30 June 2020	C	EBITDA	1 year	-	147,335	-	(147,335)	-
30 June 2020	C	TSR	1 year	-	147,335	-	-	147,335
30 June 2020	C	ROCE	1 year	-	147,335	-	(147,335)	-
30 June 2020	C	Discretionary	1 year	-	227,273	-	-	227,273
				-	3,989,521	-	(442,005)	3,547,516

<sup>1</sup> Represents the relevant period of time to which the both the performance vesting condition is measured and the period of time the recipient must remain employed with the Group.

## Performance Vesting Conditions

### Earnings per Share (EPS) Measure

EPS MEASUREMENT TABLE	
Compound annual diluted EPS growth	Proportion of Performance Rights that may be exercised if the EPS Performance Hurdle is met
Less than 10%	Nil
10% or higher	25% of the total applicable tranche

The compound growth in EPS will be measured by comparing fully diluted EPS for the financial year ending 30 June 2022 with fully diluted EPS for the financial year ended 30 June 2018 (FY2019 has not been used as a base because of abnormally poor performance) which is the base year for these EPS calculations.

# REMUNERATION REPORT - AUDITED

## EBITDA Measure

<b>EBITDA MEASUREMENT TABLE</b>	
<i>EBITDA margin of HRL relative to EBITDA margin of comparator peer companies</i>	<i>Proportion of performance rights that may be exercised if EBITDA hurdle is met</i>
Less than average EBITDA margin of comparator peer companies	Nil
More than average EBITDA margin of comparator peer companies	25% of the total applicable tranche
Comparator companies	Bureau Veritas (France), Core Laboratories (USA), Eurofins (France & Germany), Intertek (UK), SGS (Switzerland), ALS (Australia), Exova (UK)

Based on HRL EBITDA margin over the performance period, the EBITDA Hurdle Rights will vest in accordance with the above table. The EBITDA margin measurement is contingent upon performance of the Company against a group of comparator peer companies.

## Total Shareholder Return (TSR) Measure

<b>TSR MEASUREMENT TABLE</b>	
<i>TSR relative to TSRs of companies in the ASX Small Ordinaries Index over the performance period</i>	<i>Proportion of Performance Rights that may be exercised if the TSR Performance Hurdle is met</i>
Below the total TSR for ASX Small Ordinaries over the Performance Period	Nil
Above the TSR for ASX Small Ordinaries over the Performance Period	25% of the total applicable tranche

TSR measures the growth in the price of shares plus dividends notionally reinvested in shares.

## Return on Capital Employed (ROCE) Measure

<b>ROCE MEASUREMENT TABLE</b>	
<i>ROCE Performance (3 year average)</i>	<i>Proportion of performance rights that may be exercised if ROCE hurdle is met</i>
ROCE of less than WACC + 2%	Nil
ROCE of between WACC + 2% and +7%	Straight line vesting of between 0% and 25% of the total applicable tranche
ROCE exceeds WACC + 7%	25% of the total applicable tranche

# REMUNERATION REPORT - AUDITED

ROCE hurdles are set at 2% and 7% above the June 2019 WACC with straight line vesting in between the lower and upper hurdles below.

ROCE is calculated as Underlying Earnings before Interest and Tax (EBIT) over the performance period divided by Capital Employed expressed as a percentage.

*Capital Employed = Total Shareholders' Equity + Net Debt (the sum of the simple averages of the balances at the beginning and end of each year during the performance period \*)*

\*If material funding transactions (for example, significant additional borrowings, equity issuances or asset impairments) occur such that the simple average for any year during the performance period is not representative of capital actually employed, the average capital employed for the year may be adjusted for the effect of these transactions.

## Budgeted EBITDA (Budget) Measure

<b>BUDGET EBITDA MEASUREMENT TABLE</b>	
<i>HRL EBITDA vs BUDGET</i>	<i>Proportion of performance rights that may be exercised if hurdle is met</i>
EBITDA is less than budget by 5%	Nil
EBITDA vs budget is between -5% and +10%	Straight line vesting of between 0% and 25% of the total applicable tranche
EBITDA is greater than budget by 10%	25% of the total applicable tranche

## Discretionary Measure

The financial impacts of COVID-19 on the Group during the financial year rendered certain measurement targets of the 1-year plan (Tranche C) effectively unachievable. The Board utilised its discretion under the LTI plan rules to vest 227,273 performance rights to participants automatically.

## Fair value of performance rights granted

The assessed fair value at the date of grant of performance shares issued is determined using an option pricing model that takes into account the exercise price, the underlying share price at the time of issue, the term of the performance right, the underlying share's expected volatility, expected dividends and the risk free interest rate for the expected life of the instrument.

Details of performance rights over ordinary shares in the company provided as remuneration to each director of HRL Holdings Limited and each of the key management personnel of the parent entity and the Group are set out below. When exercisable, each performance right is convertible into one ordinary share of HRL Holdings Limited.

The value of the performance rights were calculated using the inputs shown below:

# REMUNERATION REPORT - AUDITED

Inputs into pricing model for EPS/EBITDA/ROCE/Budget vesting conditions	Tranche A - Employees	Tranche A * – Executive Director	Tranche B	Tranche C
Grant date	5 September 2019	17 October 2019	5 September 2019	5 September 2019
Exercise price	Nil	Nil	Nil	Nil
Vesting conditions	Refer above	Refer above	Refer above	Refer above
Share price at grant date	\$0.11	\$0.11	\$0.11	\$0.11
Expiry date	30 June 2022	30 June 2022	30 June 2021	30 June 2020
Life of the instruments	2.8 years	2.65 years	1.8 years	0.8 years
Underlying share price volatility	71.5%	71.5%	71.5%	71.5%
Expected dividends	Nil	Nil	Nil	Nil
Risk free interest rate	0.72%	0.72%	0.72%	0.72%
Pricing model	Trinomial lattice	Trinomial lattice	Trinomial lattice	Trinomial lattice
Fair value per instrument	\$0.11	\$0.11	\$0.11	\$0.11

\* 226,215 Tranche A shares were issued to Steve Howse following shareholder approval on 17 October 2019.

Inputs into pricing model for TSR vesting condition	Tranche A - Employees	Tranche A – Executive Director	Tranche B	Tranche C
Grant date	5 September 2019	17 October 2019	5 September 2019	5 September 2019
Exercise price	Nil	Nil	Nil	Nil
Vesting conditions	Refer above	Refer above	Refer above	Refer above
Share price at grant date	\$0.11	\$0.12	\$0.11	\$0.11
Expiry date	30 June 2022	30 June 2022	30 June 2021	30 June 2020
Life of the instruments	2.8 years	2.65 years	1.8 years	0.8 years
S&P Small Ordinaries Index volatility	11.7%	11.7%	11.7%	11.7%
Correlation	0.42	0.42	0.42	0.42
Pricing model	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Fair value per instrument	\$0.0790	\$0.0761	\$0.076	\$0.0686

The value of performance rights granted, exercised and lapsed in the current year is set out in the below table.

	Value Granted \$	Value Exercised \$	Value lapsed \$
<b>Key Management</b>			
Steve Howse	16,910	-	-
Steven Dabelstein	189,621	-	(21,609)
Michael Harvey	97,311	-	(10,805)

## Transactions with related parties

There were no transactions with related parties.

## Loans to related parties

There were no loans given to related parties.

# REMUNERATION REPORT - AUDITED

## Remuneration Consultants

The Company did not engage any remuneration consultants during the year.

## Relationship between remuneration and Group performance

The factors that are considered to affect shareholder return in the past 5 years are summarised below:

Measures	2020 \$	2019 \$	2018 \$	2017 \$	2016 \$
Share price at end of financial year	0.110	0.115	0.185	0.080	0.110
Market capitalisation at end of financial year (\$M)	54.3	56.7	91.3	19.5	17.5
Underlying EBITDA	5,903,855	4,450,775	5,774,562	1,509,017	1,074,645
Net Profit/(loss) for the financial year	(2,495,031)	(7,126,758)	(1,503,797)	130,420	117,988
Director and Key Management Personnel remuneration	1,123,956	1,428,947	990,389	965,124	825,391

Fixed remuneration is not linked to Group performance. It is set with reference to the individual's role, responsibilities, and performance and remuneration levels for similar positions in the market.

Profit targets are deemed an appropriate performance measure for the granting of short term incentives to senior executives given that it is the key target hurdle referenced by the Board in preparing its annual budgets and measuring Group performance. Profit targets reflect the Directors' assessment of the result for the ongoing business activities of the Group by excluding non-cash, one-off market related items that are usually out of management's control. The annual target is determined by the Board having regard to the Group's annual budget.

No dividends were paid by HRL Holdings Limited nor was there any return of capital over the past 5 years.

No shares were issued on exercise of performance rights issued as part of remuneration during the year.

3,989,521 performance share equity instruments were issued to key management as remuneration during the year. 442,005 performance rights lapsed during the period and 374,608 performance rights vested during the period.

----- END OF REMUNERATION REPORT -----

# DIRECTORS' REPORT

## DIVIDENDS

No dividends were paid or declared during the financial year.

## NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important. Details of the amounts paid or payable to the auditor (BDO Audit Pty Ltd and its associated entities) for non-audit services provided during the year are set out below.

The Board of Directors has considered the position and, in accordance with advice received from the Audit Committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermines the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

During the year, the following fees were paid or payable for non-audit services provided by the auditor of the parent entity, its related practices and non-related audit firms:

Taxation services – income tax return preparation and tax compliance services    \$75,014

## AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration on page 31 forms part of the Directors' Report.

Signed in accordance with a resolution of the board of directors of HRL Holdings.



Greg Kilmister  
Director  
Brisbane, 30 July 2020

# AUDITOR'S INDEPENDENCE DECLARATION



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Australia

## DECLARATION OF INDEPENDENCE BY T R MANN TO THE DIRECTORS OF HRL HOLDINGS LIMITED

As lead auditor of HRL Holdings Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of HRL Holdings Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'T R Mann', with a long horizontal flourish extending to the right.

**T R Mann**  
Director

**BDO Audit Pty Ltd**  
Brisbane, 30 July 2020

# ADDITIONAL ASX INFORMATION

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 17 July 2020.

## Distribution of equity securities

### HRL – Ordinary Fully Paid Shares

Number of Securities Held	No's of holders
1 to 1,000	286
1,001 to 5,000	374
5,001 to 10,000	186
10,001 to 50,000	345
50,001 to 100,000	125
100,001 and over	222
<b>Total</b>	<b>1,538</b>

Number of unmarketable parcels of shares	<b>665</b>
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## Twenty largest holders

### HRL – Ordinary Fully Paid Shares

No.	Name of Shareholder	Holding	% Held
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	154,136,759	31.24
2	NATIONAL NOMINEES LIMITED	76,644,879	15.53
3	TERRENCE PATRICK COONEY & JULIE ANNE COONEY & HUGH OWEN COONEY	36,570,891	7.41
4	HGT INVESTMENTS PTY LTD	22,276,868	4.51
5	UBS NOMINEES PTY LTD	21,823,000	4.42
6	CAROLYN JOY BRAGGINS & TERENCE JOHN BRAGGINS & VOSPER TRUSTEES	12,190,297	2.47
7	JNLJ COMPANY LTD	12,190,297	2.47
8	CITICORP NOMINEES PTY LIMITED	10,333,016	2.09
9	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	9,875,603	2.00
10	DIXSON TRUST PTY LIMITED	7,312,879	1.48
11	MR DARREN GEOFFREY ANDERSON & MRS JULIE ELIZABETH ANDERSON	4,350,000	0.88
12	CUSTODIAL SERVICES LIMITED	3,889,219	0.79
13	DARREN G ANDERSON & GREGORY J ANDERSON & JULIE E ANDERSON	3,369,410	0.68
14	MR DARREN GEOFFREY ANDERSON & MRS JULIE ELIZABETH ANDERSON & MR GREGORY JOHN ANDERSON	3,346,200	0.68
15	H K PRICE PTY LTD	3,330,624	0.68
16	MATARANKA PTY LTD	3,036,486	0.62
17	ELLIOTT NOMINEES PTY LTD	3,033,119	0.61
18	MR JONATHAN PAUL KERSHAW MARSHALL	2,622,865	0.53
19	MR CRAIG ANTHONY ANDERSON & MRS AMANDA MARIE ANDERSON	2,445,528	0.50
20	ESTANZA PTY LTD	2,308,000	0.47
		<b>395,085,940</b>	<b>80.07</b>

## Voting Rights

All fully paid ordinary shares carry one vote per share without restriction.

## Substantial Shareholders

The company has received the following substantial shareholder notices as at 30 July 2020:

- Terrence Cooney, Julie Cooney and Hugh Cooney as trustees for the Kingsley Investment Trust holds an interest in 36,570,891 shares (7.41%)
- Viburnum Funds Pty Ltd holds an interest in 118,968,445 shares (24.11%)
- Perennial Value Management Limited holds an interest in 73,941,951 shares (14.99%)
- AustralianSuper Pty Ltd has an interest in 37,537,221 shares (7.61%)

# STATEMENT OF COMPREHENSIVE INCOME

## Consolidated Statement of Comprehensive Income For the year ended 30 June 2020

	Note	2020 \$	2019 \$
Revenue from contracts with customers	3	32,806,137	30,728,754
Interest revenue		17,304	26,094
<b>Total Revenue</b>		<b>32,823,441</b>	<b>30,754,848</b>
Costs and consumables relating to the provision of services		(5,501,257)	(5,514,983)
Employee expenses	4	(16,220,594)	(16,717,824)
Travel and business development expenses		(428,618)	(530,846)
Other expenses		(3,637,861)	(3,862,759)
Finance costs		(381,270)	(161,601)
Depreciation & amortisation – equipment, software and leased assets		(3,100,938)	(2,194,245)
Amortisation of acquisition intangible assets		(2,539,667)	(3,602,257)
Employee and consulting expense – share based payments	23	(192,740)	(62,355)
Employee benefits expense on Analytica earn-out payment	17	(2,157,570)	(5,257,121)
Adjustment to OCTFOLIO earn-out payment	17	-	187,500
Acquisition and joint venture establishment expenses		-	(22,113)
Impairment of goodwill	14	-	(661,357)
<b>Total Expenses</b>		<b>(34,160,515)</b>	<b>(38,399,961)</b>
<b>Equity accounted share of profit/(loss)</b>	21	<b>(512,895)</b>	<b>2,847</b>
<b>Profit/(loss) before income tax</b>		<b>(1,849,969)</b>	<b>(7,642,266)</b>
Income tax benefit/(expense)	6	(645,062)	515,508
<b>Profit/(loss) after income tax</b>		<b>(2,495,031)</b>	<b>(7,126,758)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations	20	(478,245)	643,953
Income tax		-	-
Other comprehensive income for the period, net of tax		<b>(478,245)</b>	<b>643,953</b>
<b>Total comprehensive income</b>		<b>(2,973,276)</b>	<b>(6,482,805)</b>
<b>Earnings/(Loss) per share</b>		<b>Cents</b>	<b>Cents</b>
Basic and diluted earnings/(loss) per share	8	(0.5)	(1.4)

The Statement of Comprehensive Income should be read in conjunction with the Notes to the Financial Statements.

# BALANCE SHEET

## Consolidated Balance Sheet As at 30 June 2020

	Note	2020 \$	2019 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	2,854,004	1,031,193
Trade and other receivables	10	3,809,608	4,992,317
Inventories	11	475,370	690,159
Other current assets		26,968	32,533
<b>TOTAL CURRENT ASSETS</b>		<b>7,165,950</b>	<b>6,746,202</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	10	308,582	305,923
Equity accounted investments	21	699,430	665,446
Plant and equipment	12	5,922,434	7,471,822
Intangible assets	13	1,765,477	4,287,177
Goodwill	14	16,572,289	16,774,730
Right-of-use assets	15	3,074,638	-
Deferred tax assets	6	1,411,705	1,652,983
<b>TOTAL NON-CURRENT ASSETS</b>		<b>29,754,555</b>	<b>31,158,081</b>
<b>TOTAL ASSETS</b>		<b>36,920,505</b>	<b>37,904,283</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	2,699,357	1,918,323
Current tax liabilities		748,242	318,265
Short-term provisions	17	1,178,396	1,356,576
Lease liabilities	15	1,238,511	-
Borrowings	18	2,143,560	3,038,686
<b>TOTAL CURRENT LIABILITIES</b>		<b>8,008,066</b>	<b>6,631,850</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term provisions	17	39,605	32,405
Lease liabilities	15	1,970,268	-
Borrowings	18	688,992	1,559,510
Deferred tax liabilities	6	186,049	872,457
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,884,914</b>	<b>2,464,372</b>
<b>TOTAL LIABILITIES</b>		<b>10,892,980</b>	<b>9,096,222</b>
<b>NET ASSETS</b>		<b>26,027,525</b>	<b>28,808,061</b>
<b>EQUITY</b>			
Contributed capital	19	38,162,084	38,162,084
Reserves	20	(112,386)	214,560
Accumulated losses		(12,022,173)	(9,568,583)
<b>TOTAL EQUITY</b>		<b>26,027,525</b>	<b>28,808,061</b>

The Balance Sheet should be read in conjunction with the Notes to the Financial Statements.

# STATEMENT OF CHANGES IN EQUITY

## Consolidated Statement of Changes in Equity For the year ended 30 June 2020

	Contributed Capital \$	Accumulated Losses \$	Share Based Payment Reserve \$	Foreign Currency Reserve \$	Total \$
<b>Balance at 1 July 2018</b>	38,162,084	(2,742,997)	238,817	(429,393)	35,228,511
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	-	-	62,355	-	62,355
Transfer of expired performance rights	-	301,172	(301,172)	-	-
Total	-	301,172	(238,817)	-	62,355
<b>Comprehensive income</b>					
Loss after income tax	-	(7,126,758)	-	-	(7,126,758)
Foreign currency translation differences for foreign operations	-	-	-	643,953	643,953
Total comprehensive income	-	(7,126,758)	-	643,953	(6,482,805)
<b>Balance at 30 June 2019</b>	<b>38,162,084</b>	<b>(9,568,583)</b>	<b>-</b>	<b>214,560</b>	<b>28,808,061</b>
<b>Balance at 1 July 2019</b>	38,162,084	(9,568,583)	-	214,560	28,808,061
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	-	-	192,740	-	192,740
Transfer of expired performance rights	-	41,441	(41,441)	-	-
Total	-	41,441	151,299	-	192,470
<b>Comprehensive income</b>					
Loss after income tax	-	(2,495,031)	-	-	(2,495,031)
Foreign currency translation differences for foreign operations	-	-	-	(478,245)	(478,245)
Total comprehensive income	-	(2,495,031)	-	(478,245)	(2,973,276)
<b>Balance at 30 June 2020</b>	<b>38,162,084</b>	<b>(12,022,173)</b>	<b>151,299</b>	<b>(263,685)</b>	<b>26,027,525</b>

The Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

# STATEMENT OF CASH FLOWS

## Consolidated Statement of Cash Flows For the year ended 30 June 2020

	Note	2020 \$	2019 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		37,391,662	34,015,027
Payments to suppliers and employees		(28,931,986)	(30,098,597)
Interest received		1,974	20,747
Income tax paid		(671,529)	(1,006,902)
COVID-19 wage subsidies received		1,488,727	-
Analytica earn out payments		(2,584,092)	(7,885,682)
Acquisition and joint venture establishment costs		-	(22,113)
Finance costs		(381,270)	(161,601)
Net cash provided by/(used in) operating activities	7	6,313,486	(5,139,121)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant & equipment		(1,733,669)	(874,758)
Proceeds from the sale of plant & equipment		35,045	116,756
Payments for intangible assets		(241,979)	(266,984)
Security deposit payments		-	(24,584)
Investment in Food Lab Pacific Limited	21	(558,780)	(47,414)
Net cash used in investing activities		(2,499,383)	(1,096,984)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds of borrowings	7	5,258,067	4,896,924
Repayment of borrowings	7	(5,699,013)	(2,033,915)
Lease principal payments	7	(1,495,770)	(1,019,824)
Net cash provided by financing activities		(1,936,716)	1,843,185
Net increase/(decrease) in cash and cash equivalents held		1,877,387	(4,392,920)
Net foreign exchange differences		(54,576)	31,371
Cash and cash equivalents at the beginning of the financial period		1,031,193	5,392,742
<b>Cash and cash equivalents at the end of the financial period</b>	<b>6</b>	<b>2,854,004</b>	<b>1,031,193</b>

The Statement of Cash Flows should be read in conjunction with the Notes to the Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS INDEX

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# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Introduction

This financial report covers the Consolidated Entity of HRL Holdings Limited (the "Company") and its controlled entities (together referred to as the "Group" or the "Consolidated Entity"). HRL Holdings Limited is a listed public company, incorporated and domiciled in Australia.

The accounting policies have been consistently applied, unless otherwise stated.

### Operations and principal activities

The HRL Group is a diversified environmental and geotechnical service provider with offices and laboratory facilities across Australia and New Zealand.

The Group offers services including;

- analytical chemistry laboratory testing specialising in the milk, honey, drugs of abuse and environmental markets;
- industrial hygiene, with a focus on asbestos and hazardous materials management;
- geotechnical testing and engineering services;
- property contamination testing and workplace drug testing;
- environmental services (air, water and soil including contaminated land);
- environmental and property management software solutions; and
- specialised NATA/IANZ - accredited laboratory analysis and on-site testing and monitoring.

### Currency

The financial report is presented in Australian dollars, rounded to the nearest dollar, which is the functional currency of the Company.

### Authorisation of financial report

The financial report was authorised for issue on 30 July 2020.

### Basis of preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. HRL Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements of the Consolidated Entity also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### Historical cost convention

The financial statements have been prepared under the historical convention, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

### Critical accounting estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Consolidated Entity's accounting policies.

The Directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on historical experiences and the best available current information on current trends and economic data, obtained both externally and within the Consolidated Entity. The estimates and judgements made assume a reasonable expectation of future events but actual results may differ from these estimates.

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

The following critical accounting estimates or judgements were made in the process of applying the Consolidated Entity's accounting policies that in management's assessment can significantly affect the amounts recognised in the financial statements:

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 14. The recoverable amounts of cash generating units have been determined based on value in use calculations. These calculations require the use of assumptions. Refer to Note 14 for details of these assumptions and the potential impact of changes to the assumptions.

### Recognition of deferred tax asset for carried forward losses

The deferred tax assets include an amount of \$1,174,877 (2019: \$1,640,765) which relates to carried forward tax losses and other tax deductions arising from previous capital raising costs of the Australian entities. The Australian tax group includes all corporate costs related to the parent company, HRL Holdings Limited which does not generate income. The Australian trading subsidiaries all generate taxable profits.

The Group has concluded that the deferred assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiaries. The Australian trading subsidiaries are expected to generate sufficient taxable income to offset the expected taxable loss of the parent entity, with carried forward tax losses expected to continue to reduce from FY2020 onwards. The losses can be carried forward indefinitely and have no expiry date.

## Accounting policies

### (a) Financial Instruments

#### Recognition and initial measurement

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

#### Classification and subsequent measurement

Financial instruments are subsequently measured at fair value or amortised cost using the effective interest rate method.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

### (b) Impairment of Non-Financial Assets

At the end of each reporting period, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with the applicable Standard.

Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### (c) Foreign Exchange

Exchange differences arising on the translation of monetary items are recognised in the statement of comprehensive income, except where deferred in equity as a qualifying cash flow or net investment hedges. Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the statement of comprehensive income.

### Subsidiary companies

The financial results and position of foreign operations whose functional currency is different from the Consolidated Entity's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### New Accounting Standards

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies as a result of adopting the following standard:

- AASB 16 *Leases*
- Interpretation 23 *Uncertainty over Income Tax Treatments*

The impact of the adoption of AASB 16 and the new accounting policies are disclosed below.

#### AASB 16 Leases

This standard and its consequential amendments were applied from 1 July 2019, replacing the accounting requirements applicable to leases in AASB 117 *Leases* and related interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. This means that for most leases, a right-of-use asset and a lease liability will be recognised, with the right-of-use asset being depreciated and the lease liability being unwound in principal and interest components over the life of the lease.

The Consolidated Entity transitioned to AASB 16 using the modified retrospective approach, where the right-of-use asset is recognised at 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 recognised in the Balance Sheet immediately before the date of initial application, using the entity's incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 5.50%. Comparative figures are not restated.

For leases previously classified as finance leases the entity recognised the carrying amount of the right-of-use asset and the lease liability at the date of initial application. The measurement principles of AASB 16 are only applied after that date. There was no re-measurement adjustments for these leases immediately after the date of initial application.

#### *Initial measurement of lease liabilities:*

Operating lease commitments disclosed as at 30 June 2019	1,246,348
Additional future lease payments for expected extension options	631,533
	<hr/>
	1,877,881
Discounted using the entity's incremental borrowing rate	1,719,856
Add: finance lease liabilities recognised as at 30 June 2019	1,735,188
	<hr/>
<b>Lease liability recognised as at 1 July 2019</b>	<b>3,455,044</b>

#### *Adjustments recognised in the balance sheet on 1 July 2019:*

Plant and equipment decreased by	1,433,215
Right-of-use assets increased by	3,153,071
Borrowings decreased by	1,735,188
Lease liabilities increased by	3,455,044

There was no impact on accumulated losses upon adoption of AASB 16.

In applying AASB 16 for the first time, the group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- The accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases; and
- The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

### New Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2020 reporting periods. The Consolidated Entity has decided against early adoption of these standards. The Consolidated Entity has assessed the impact of these new standards and interpretations and does not expect that there would be a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### Liquidity and Funding

During the financial year, Australia & New Zealand have been impacted by the worldwide pandemic, COVID-19. The World Health Organisation (WHO) announced a global health emergency on 31 January 2020. During the year Australia and New Zealand went into lock downs in late March 2020, where only essentially businesses were able to operate during this time. At 30 June 2020, the Group had net current liabilities of \$842,116. Included in current liabilities is:

- An interest only bank loan drawn to \$806,180. This facility has no expiry date but is subject to annual review by Westpac.
- Contract liabilities of \$170,702 representing revenue received in advance for services to be provided in the coming year; and
- Lease liabilities relating to building premises of \$716,757 which will be progressively paid over the coming 12 months. These liabilities arose upon adoption of the new leasing standard *AASB 16*.

Working capital excluding these amounts is \$851,453.

The Group has undrawn bank facilities of \$4,252,520 and comfortably met all banking covenants during the period.

During the year, the Group generated operating cashflows of \$6,313,486. After excluding Analytica earn-out payments which are now complete, and COVID-19 related subsidies, cashflows provided by operations were \$7,408,851.

Based upon its cash reserves, undrawn finance facilities and expected ongoing earnings, the Group is comfortable it has sufficient funding capacity to continue to grow the business organically and meet all its obligations.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2 SEGMENT REPORTING

### Reportable Segments

For the year ended 30 June 2020 the Group has identified the operating segments based on internal reports that are reviewed and used by the executive team in assessing performance and determining the allocation of resources:

- HAZMAT services including:
  - industrial hygiene, with a focus on asbestos and hazardous materials management;
  - property contamination testing and workplace drug testing;
  - environmental testing services (air, water and soil including contaminated land);
  - environmental and property management software solutions; and
  - specialised NATA/IANZ - on-site testing and monitoring.
  
- Food and environmental laboratory services including:
  - honey laboratory testing;
  - milk and dairy laboratory testing;
  - food origin testing;
  - drugs of abuse laboratory testing;
  - asbestos laboratory analysis;
  - environmental laboratory testing (air, water, soil including organic and inorganics); and
  - other laboratory research and development.
  
- Geotechnical services including:
  - Geotechnical investigations and studies;
  - Temporary works designs and inspections;
  - Construction phase verification;
  - Earthworks supervision;
  - Soil, concrete and aggregate testing; and
  - Onsite mobile laboratory testing.
  
- Software services including:
  - Information management software solutions for asbestos and hazardous materials;
  - Innovative field management software solutions; and
  - Customised compliance solutions and applications relating to workplace health and safety.

Unallocated amounts reflect corporate costs incurred by the parent entity as well as the financing activities of the Group.

Reported segment results include any acquisition costs and amortisation of intangible assets that arose on acquisition that are applicable to that segment.

### Geographical Information

Segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets. The entity is domiciled in Australia.

The amount of its revenue from external customers in Australia was \$12,420,467 (2019: \$12,781,805). Total revenues from customers domiciled in New Zealand was \$20,385,670 (2019: \$17,946,949).

The amount of non-current assets other than financial instruments and deferred tax assets located in Australia is \$9,954,488 (2019: \$6,552,689). Total non-current assets other than financial instruments and deferred tax assets located in New Zealand was \$18,079,780 (2019: \$22,646,486).

### Transfer of New Zealand regional labs goodwill

From 1 March 2019, Analytica Laboratories Limited assumed control and rebranded of all of Precise Limited's regional laboratories (Auckland, Wellington, Christchurch and Dunedin). Moving forward Precise Limited will focus purely on sampling and consulting activities.

From March 2019 onwards, Group reporting lines were modified to reflect this restructure. Precise laboratory staff became employees of Analytica and the regional labs were put under the control of Analytica management.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2 SEGMENT REPORTING (CONT'D)

### Segment Revenues and Results

30 June 2020	HAZMAT	Geotechnical	Food/Enviro Laboratory	Software	Unallocated	Consolidated
	\$	\$	\$	\$	\$	\$
<b>Revenue:</b>						
Contracts with customers	8,666,310	6,827,739	16,423,940	888,148	-	32,806,137
Interest income	-	-	-	-	17,304	17,304
<b>Expenses:</b>						
Interest expense	-	-	-	-	(381,270)	(381,270)
Other expenses	(7,247,667)	(6,767,131)	(13,040,204)	(511,258)	(1,515,748)	(29,082,008)
Equity accounted share of loss	-	-	(512,895)	-	-	(512,895)
<b>Segment result before acquisition related expenses</b>	<b>1,418,643</b>	<b>60,608</b>	<b>2,870,841</b>	<b>376,890</b>	<b>(1,879,714)</b>	<b>2,847,268</b>
<b>Acquisition related expenses</b>						
Earn-out expense	-	-	(2,157,570)	-	-	(2,157,570)
Amortisation of acquisition intangibles	-	(442,000)	(1,812,440)	(285,227)	-	(2,539,667)
<b>Segment result before tax</b>	<b>1,418,643</b>	<b>(381,392)</b>	<b>(1,099,169)</b>	<b>91,663</b>	<b>(1,879,714)</b>	<b>(1,849,969)</b>
Income tax	-	-	-	-	-	(645,062)
<b>Net loss</b>						<b>(2,495,031)</b>
<u>Non-cash and other significant items:</u>						
Depreciation and amortisation	705,197	826,735	3,715,393	368,546	24,734	5,640,605
Impairment of receivables	86,199	61,502	84,226	-	-	231,927
Share based payments	11,898	6,306	27,165	2,873	144,498	192,740
Earn-out expense/(adjustments)	-	-	2,157,570	-	-	2,157,570
<u>Assets:</u>						
Segment assets	4,754,695	4,231,548	24,314,913	1,894,958	1,724,391	36,920,505
<u>Liabilities:</u>						
Segment liabilities	3,118,335	1,623,532	2,344,161	199,877	3,607,075	10,892,980
<u>Segment acquisitions:</u>						
Acquisition of plant and equipment	137,892	102,143	1,487,203	5,001	1,430	1,733,669
Acquisition of intangibles	-	-	72,779	169,200	-	241,979
Acquisition of right of use assets	259,085	-	990,420	-	-	1,249,505
<u>Details on non-current assets:</u>						
Trade and other receivables	74,006	13,703	203,547	-	17,326	308,582
Plant and equipment	428,896	315,565	5,166,096	7,968	3,909	5,922,434
Right of use assets	1,207,900	804,791	985,479	-	76,468	3,074,638
Intangibles	16,685	-	1,390,163	358,629	-	1,765,477
Goodwill	1,768,845	1,770,810	11,666,714	1,365,920	-	16,572,289
Equity accounted investment	-	-	699,430	-	-	699,430
Deferred tax assets	-	-	-	-	1,411,705	1,411,705
	3,496,332	2,904,869	20,111,429	1,732,517	1,509,408	29,754,555

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2 SEGMENT REPORTING (CONT'D)

### Segment Revenues and Results

30 June 2019	HAZMAT	Geotechnical	Food/Enviro Laboratory	Software	Unallocated	Consolidated
	\$	\$	\$	\$	\$	\$
<b>Revenue:</b>						
Contracts with customers	7,762,331	8,028,091	14,203,700	734,632	-	30,728,754
Interest income	-	-	-	-	26,094	26,094
<b>Expenses:</b>						
Interest expense	-	-	-	-	(161,601)	(161,601)
Other expenses	(7,754,692)	(7,661,383)	(11,106,077)	(534,256)	(2,487,961)	(29,544,369)
Equity accounted share of profit	-	-	2,847	-	-	2,847
<b>Segment result before acquisition related expenses</b>	<b>7,639</b>	<b>366,708</b>	<b>3,100,470</b>	<b>200,376</b>	<b>(2,623,468)</b>	<b>1,051,725</b>
<b>Acquisition related expenses</b>						
Food Lab JV establishment costs	-	-	(22,113)	-	-	(22,113)
Earn-out (expense)/adjustments	-	-	(5,257,121)	187,500	-	(5,069,621)
Amortisation of acquisition intangibles	(102,169)	(806,333)	(1,811,621)	(882,134)	-	(3,602,257)
<b>Segment result before tax</b>	<b>(94,530)</b>	<b>(439,625)</b>	<b>(3,990,385)</b>	<b>(494,258)</b>	<b>(2,623,468)</b>	<b>(7,642,266)</b>
Income tax	-	-	-	-	-	515,508
<b>Net loss</b>						<b>(7,126,758)</b>
<u>Non-cash and other significant items:</u>						
Depreciation and amortisation	536,885	1,013,312	3,308,875	927,265	10,165	5,796,502
Impairment of receivables	13,745	9,135	16,592	-	-	39,472
Impairment of goodwill	661,357	-	-	-	-	661,357
Share based payments	-	-	-	-	62,355	62,355
Food Lab JV establishment costs	-	-	22,113	-	-	22,113
Earn-out expense/(adjustments)	-	-	5,257,121	(187,500)	-	5,069,621
<u>Assets:</u>						
Segment assets	5,539,615	4,822,908	23,800,462	1,965,649	1,775,649	37,904,283
<u>Liabilities:</u>						
Segment liabilities	2,392,239	1,242,092	1,129,497	124,790	4,207,604	9,096,222
<u>Segment acquisitions:</u>						
Acquisition of plant and equipment	616,192	344,235	1,406,796	451	62,115	2,429,789
Acquisition of intangibles	31,500	-	131,735	103,749	-	266,984
Transfer of goodwill	(2,601,255)	-	2,601,255	-	-	-
<u>Details on non-current assets:</u>						
Trade and other receivables	74,935	13,703	194,459	-	22,826	305,923
Plant and equipment	1,305,703	889,099	5,215,348	5,189	56,483	7,471,822
Intangibles	30,476	442,000	3,258,948	555,753	-	4,287,177
Goodwill	1,809,592	1,770,810	11,828,408	1,365,920	-	16,774,730
Equity accounted investment	-	-	665,446	-	-	665,446
Deferred tax assets	-	-	-	-	1,652,983	1,652,983
	3,220,706	3,115,612	21,162,609	1,926,862	1,732,292	31,158,081

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 3 REVENUE FROM CONTRACTS WITH CUSTOMERS

	2020	2019
	\$	\$
<u>Services Revenue</u>		
HAZMAT service revenue	8,666,310	7,762,331
Geotechnical service revenue	6,827,739	8,028,091
Food and environmental laboratory revenue	16,423,940	14,203,699
Software service revenue	888,148	734,633
<b>Total service revenue</b>	<b>32,806,137</b>	<b>30,728,754</b>

The Group provides a range of HAZMAT and Geotechnical consulting services to its clients. Individual contracts are typically short term in nature and relate to a discrete project or asset. Revenue is recognised in the accounting period in which the services are rendered. For fixed-price contracts, revenue is recognised over time based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual labour hours spent relative to the total expected labour hours. Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the period in which the circumstances that give rise to the revision become known by management.

The Group provides a range of laboratory testing services. Laboratory tests are typically short term in nature, with service turnaround usually within a week. Laboratory revenue is recognised in the accounting period in which the laboratory testing is performed.

Software service revenue incorporates design, implementation and support services of the OCTFOLIO software platform and ongoing fixed-price monthly access subscription software as a service style contracts (SAAS).

For design and implementation revenue, contracts are entered into with clients to provide a defined outcome. As part of the onboarding process, OCTFOLIO typically customises the software for its clients and provides a data migration services. Revenue is recognised upon completion of the single performance obligation.

In the case of SAAS monthly subscription contracts, agreements are entered with clients to provide ongoing access to the OCTFOLIO software over a fixed period (usually 1 to 3 years). The client pays a fixed amount monthly in line with SAAS contract. If the services rendered by the Consolidated Entity exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

The opening and closing balances of receivables, contract assets and contract liabilities from contracts with customers are disclosed in Notes 10 and 16.

### Performance Obligations

Information about the Group's performance obligations are summarised below:

#### HAZMAT and Geotechnical consulting services

The performance obligation is satisfied over-time as the consulting works are completed and payment is generally due within 30 days from completion of the services. Consulting services are generally short term in nature with most contracts completed within 30 days.

#### Laboratory revenue

The performance obligation is satisfied upon completion of the laboratory tests and delivery of results to the client. Payment is generally due within 30 days from completion of the services.

#### Software revenue

The performance obligation for design and implementation revenue is the delivered product to the end client.

The performance obligation for ongoing software subscriptions revenue is the provision of access to the platforms to the end client.

Payment is generally due within 30 days from completion of the services.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 4 EXPENSES

		2020	2019
		\$	\$
<b>Employee benefits expenses</b>	<b>Note</b>		
Defined contribution superannuation expense		928,542	795,025
Other employee benefits expenses		16,809,503	15,922,799
Government employment subsidies received	5	(1,517,456)	-
<b>Total employee benefits expenses</b>		<b>16,220,589</b>	<b>16,717,824</b>
Employee benefits expense – share based payments	23	192,740	62,355
Remuneration expense on Analytica earn-out	17	2,157,570	5,257,121

Contributions to defined contribution plans are expensed when incurred.

<b>Net gain/(loss) on disposal of plant and equipment</b>		(45,025)	55,364
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Gains and losses on plant and equipment disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

## NOTE 5 COVID-19 ASSISTANCE AND SUPPORT BY GOVERNMENTS AND OTHERS

### Subsidies

During the year, the Group received several COVID-19 related support subsidies from Australia and New Zealand Governments as outlined below:

Government Subsidy	Start Date	Program Duration	Subsidy FY2020	Estimated Subsidy FY2021
New Zealand COVID-19 Wage Subsidy	25 March 2020	12 weeks	1,146,331	-
Australia JobKeeper	30 March 2020	6 months	144,000	432,000
QLD payroll tax refund	One-time refund of 2 months payroll tax	NA	54,396	-
ATO cashflow boost	31 March 2020	6 months	172,729	170,000
			<b>1,517,456</b>	<b>602,000</b>

### Government Loans

The Group has two government support loans facilities:

#### QLD Government

\$250,000 loan with the QLD Government with a fixed interest rate of 2.10% per annum. The loan is repayable over 10 years. The loan is secured by a \$250,000 charge against OCTIEF Pty Ltd.

#### New Zealand Government

NZ \$55,000 loan with a fixed interest rate of 3.00% per annum. The loan is repayable over 2 years. The loan is unsecured.

### Payment Deferrals

#### Loans

Westpac Australia has granted 6-month payment deferrals on bank bills and equipment finance leases. The amount of loan principal and interest deferred at 30 June 2020 was \$500,250. Repayments on deferred loans recommence in October with the initial loan periods extended out by 6 months.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5 COVID-19 ASSISTANCE AND SUPPORT BY GOVERNMENTS AND OTHERS (CONT'D)

### Other Payables

The Australian Tax Office has granted 6-month payment deferrals of certain GST and PAYG employee tax liabilities due for repayment in November 2020. The amount of these amounts accrued at 30 June 2020 was \$574,564.

Similarly, the QLD Office of State Revenue has granted 12-month payment deferrals of payroll tax liabilities due for repayment in January 2021. The amount of these amounts accrued at 30 June 2020 was \$134,698.

## NOTE 6 INCOME TAX

	2020 \$	2019 \$
<b>Income tax expense:</b>		
<u>Current tax</u>		
Current tax on profit/loss for the year	1,075,037	386,909
Adjustments for current tax of prior periods	15,155	(61,097)
<b>Total current tax expense</b>	<b>1,090,192</b>	<b>325,812</b>
<u>Deferred tax</u>		
Movement in deferred tax assets	208,376	(154,668)
Movement in deferred tax liabilities	(653,506)	(686,652)
<b>Total deferred tax expense/(benefit)</b>	<b>(445,130)</b>	<b>(841,320)</b>
<b>Total income tax expense/(benefit)</b>	<b>645,062</b>	<b>(515,508)</b>
<b>Reconciliation of income tax expense to prima facie tax payable:</b>		
Profit/(loss) before tax, excluding profit/(loss) for equity accounted investments	(1,337,074)	(7,645,113)
Prima facie tax at 27.5% (2019: 27.5%)	(367,695)	(2,102,406)
<u>Tax effect of not deductible (taxable) amounts in calculating taxable income:</u>		
Entertainment expenses	12,694	12,351
Analytica earn-out expense	604,120	1,471,994
Adjustment to OCTFOLIO earn-out payment	-	(51,563)
Share based payments	51,570	17,148
Impairment of goodwill	-	181,873
Other items	334,881	43,257
	<b>635,570</b>	<b>(427,346)</b>
Difference in overseas tax rate	(5,663)	(27,065)
Adjustments for tax of prior periods	15,155	(61,097)
<b>Total income tax expense/(benefit)</b>	<b>645,062</b>	<b>(515,508)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6 INCOME TAX (CONT'D)

The income tax expense (benefit) for the year comprises current income tax expense (income) and deferred tax expense (income). Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities (assets) are measured at the amounts expected to be paid to (recovered from) the relevant taxation authority. Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses. Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

The charge for current income tax expense is based on the profit/(loss) for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

### Amounts recognised directly in equity:

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:

	2020	2019
	\$	\$
Current tax: share issue costs	-	-
Deferred tax: share issue costs	-	-
	-	-

### Deferred tax assets:

Balance comprises temporary differences attributable to:

Employee benefits payable	16,133	13,621
Employee leave provisions	337,088	263,387
Provision for doubtful debts	68,173	13,059
Other payables	75,648	-
Inventories	28,257	-
Lease liabilities	675,829	183,707
Carried forward tax losses	1,180,973	1,640,765
	<b>2,382,101</b>	<b>2,114,539</b>
Set-off of deferred tax liabilities	(970,396)	(461,556)
<b>Net deferred tax assets</b>	<b>1,411,705</b>	<b>1,652,983</b>

A deferred tax asset has been recognised as the consolidated entity is forecasting to generate taxable profits in its Australian tax group over the next three years.

### Movements during the period:

Year ended June 2020	1 July 2019	Charged to Profit or Loss	Recognised on adoption of AASB 16	30 June 2020
Employee benefits payable	13,621	2,512	-	16,133
Employee leave provisions	263,387	73,701	-	337,088
Provision for doubtful debts	13,059	55,114	-	68,173
Other payables	-	75,648	-	75,648
Inventories	-	28,257	-	28,257
Lease liabilities	183,707	16,184	475,938	675,829
Carried forward tax losses	1,640,765	(459,792)	-	1,180,973
	<b>2,114,539</b>	<b>(208,376)</b>	<b>475,938</b>	<b>2,382,101</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6 INCOME TAX (CONT'D)

Year ended June 2019	1 July 2018	Charged to Profit or Loss	30 June 2019
Employee benefits payable	24,666	(11,045)	13,621
Employee leave provisions	272,562	(9,175)	263,387
Provision for doubtful debts	8,021	5,038	13,059
Lease liabilities	193,523	(9,816)	183,707
Carried forward tax losses	1,461,099	179,666	1,640,765
	<b>1,959,871</b>	<b>154,668</b>	<b>2,114,539</b>

	2020	2019
	\$	\$

### Deferred tax liabilities:

Balance comprises temporary differences attributable to:

Intangibles assets	358,509	1,076,241
Leased assets	776,862	242,054
Other amounts	21,074	15,718
	<b>1,156,445</b>	<b>1,334,013</b>
Set-off of deferred tax assets	(970,396)	(461,556)
<b>Net deferred tax liabilities</b>	<b>186,049</b>	<b>872,457</b>

### Movements during the period:

Year ended June 2020	1 July 2019	Charged to Profit or Loss	Recognised on adoption of AASB 16	30 June 2020
Intangible assets	1,076,241	(717,732)	-	358,509
Leased assets	242,054	58,870	475,938	776,862
Other amounts	15,718	5,356	-	21,074
	<b>1,334,013</b>	<b>(653,506)</b>	<b>475,938</b>	<b>1,156,445</b>

Year ended June 2019	1 July 2018	Charged to Profit or Loss	30 June 2019
Intangible assets	1,760,485	(684,244)	1,076,241
Leased assets	245,204	(3,150)	242,054
Other amounts	14,976	742	15,718
	<b>2,020,665</b>	<b>(686,652)</b>	<b>1,334,013</b>

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates, and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6 INCOME TAX (CONT'D)

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where: (a) a legally enforceable right of set-off exists; and (b) the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Deferred tax is accounted for using the balance sheet method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

### Tax consolidation

HRL Holdings Limited and its wholly-owned Australian controlled entities have formed a tax-consolidated group. HRL Holdings NZ Limited (a wholly-owned subsidiary of HRL Holdings Limited) and its wholly-owned New Zealand controlled entities have formed a tax-consolidated group. The entities in the tax group have entered into a tax sharing agreement to limit the joint and several liability of the wholly-owned entities in the case of a default by the relevant Head Entity.

A tax funding agreement where the wholly-owned entities fully compensate the Head Entity for any current tax receivable and deferred tax assets related to unused tax losses or unused tax credits that are transferred to the Head Entity under the tax consolidation legislation has also been entered into. The transfer of such amounts to the Head Entity is recognised as inter-company receivables or payables.

Each entity in the tax-consolidated group continues to account for its own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, each relevant Parent entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

### Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the relevant tax authority. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the relevant tax authority is included with other receivables or payables in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 7 CASH FLOW INFORMATION

	2020	2019
	\$	\$
<b>Reconciliation of cash flows from operations with profit after tax</b>		
Profit/(loss) after income tax	(2,495,031)	(7,126,758)
<i>Non-cash items in profit/(loss) after income tax</i>		
Depreciation and amortisation	5,640,605	5,796,502
(Gain)/loss on sale of plant and equipment	45,025	(55,364)
Impairment of receivables	231,927	39,472
Impairment of goodwill	-	661,357
Share based payments	192,740	62,355
Equity accounted share of profit/(loss)	512,895	(2,847)
Earnout adjustment	-	(187,500)
Accrued interest revenue	(15,330)	(5,347)
<i>Movements in operating assets and liabilities</i>		
Trade and other receivables	895,569	(684,636)
Inventories	214,790	(132,058)
Other assets	416,052	108,177
Trade and other payables	1,000,230	450,157
Provisions	(299,519)	(2,540,221)
Tax balances	(26,467)	(1,522,410)
<b>Net cash provided by/ (used in) operating activities</b>	<b>6,313,486</b>	<b>(5,139,121)</b>

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the relevant tax authority are presented as operating cash flows included in receipts from customers or payments to suppliers.

### Non-cash Investing and Financing Activities

The Group did not acquire any plant and equipment through finance leases during the year (2019: \$1,597,702).

### Cash and Cash Equivalents

Cash at bank and on hand	2,764,712	941,051
Cash on deposit	89,292	90,142
	<b>2,584,004</b>	<b>1,031,193</b>

For statement of cash flow presentation purposes cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the balance sheet.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 7 CASH FLOW INFORMATION (CONT'D)

### Reconciliation of cash and non-cash movements in borrowings from financing activities

Year ended 30 June 2020	Opening Balance	Recognised on adoption of AASB 16	Cash flows	Non-cash additions	Closing Balance
Leases	1,735,188	1,719,856	(1,495,770)	1,249,505	3,208,779
Bank loans	2,863,009	-	(30,456)	-	2,832,553
Insurance financing	-	-	(410,490)	410,490	-
	<b>4,598,197</b>	<b>1,719,856</b>	<b>(1,936,716)</b>	<b>1,659,995</b>	<b>6,041,332</b>

Year ended 30 June 2019	Opening Balance	Cash flows	Non-cash additions	Closing Balance
Leases	1,114,960	(1,019,824)	1,640,052	1,735,188
Bank loans	-	2,863,009	-	2,863,009
	<b>1,114,960</b>	<b>1,843,185</b>	<b>1,640,052</b>	<b>4,598,197</b>

## NOTE 8 EARNINGS PER SHARE

	2020	2019
	\$	\$
<b>Earnings</b>		
Earnings used to calculate basic and diluted EPS	(2,495,031)	(7,126,758)
<b>Weighted average number of shares and options</b>	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares outstanding during the period, used in calculating basic earnings per share	493,402,627	493,402,627
Weighted average number of dilutive options outstanding during the period	-	-
Weighted average number of ordinary shares and potential ordinary shares outstanding during the period, used in calculating diluted earnings per share	493,402,627	493,402,627

The Consolidated Entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Options and performance shares could potentially dilute basic earnings per share in the future but were not included in the calculation of diluted earnings per share as they were anti-dilutive.

## NOTE 9 DIVIDENDS

No dividends were paid during the financial year ended 30 June 2020 (2019: Nil) and no dividend is recommended for the current year.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 10 TRADE AND OTHER RECEIVABLES

	2020	2019
	\$	\$
<b>CURRENT</b>		
Trade receivables	3,732,732	4,729,810
Provision for expected credit losses	(179,837)	(47,119)
	3,552,895	4,682,691
Contract assets	247,629	296,809
Other receivables	9,084	12,817
	<b>3,809,608</b>	<b>4,992,317</b>
<b>NON-CURRENT</b>		
Bonds and other deposits	105,035	111,464
Loan receivable from CAIQTest Pacific Limited	203,547	194,459
	<b>308,582</b>	<b>305,923</b>

Trade receivables and contract assets are amounts due from customers for goods sold or services performed in the ordinary course of business and are generally due for settlement within 30 days and therefore are all classified as current. If the Group performs services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised. If the customer pays consideration or the Group has a right to an amount of consideration that is unconditional before the Group transfers a good or service to the customer, a contract liability is recognised.

Other receivables generally arise from transactions outside the usual operating activities of the Group. Non-current bonds and other deposits receivables are due and payable within three years from the end of the period. The loan receivable from CAIQTest Pacific Limited has no fixed repayment date and accrues interest at a rate of 5.77%.

### Impairment of trade receivables and contract assets

The Group recognised a loss of \$231,927 during the year (2019: \$39,742) in relation to impaired receivables.

Movement in the provision for impairment of trade receivables and contract assets was:

	2020	2019
	\$	\$
Opening balance	47,119	28,815
Impaired receivables provided for during the period	231,927	39,472
Receivables written off during the year as uncollectible	(99,209)	(21,168)
<b>Closing balance</b>	<b>179,837</b>	<b>47,119</b>

### Loss Allowance – 30 June 2020

	Expected loss rate	Gross Receivables	Loss Allowance
Government agencies and national utilities	0%	315,642	-
Current	2.50%	2,703,956	67,599
Less than 1 month past due	5.00%	586,833	29,342
More than 1 month past due	7.50%	34,706	2,603
More than 2 months past due	15.00%	22,518	3,378
More than 3 months past due	30.00%	35,734	10,720
Older	50.00%	33,343	16,672
Contract assets - current	20.00%	247,629	49,523
<b>Total</b>		<b>3,980,361</b>	<b>179,837</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 10 TRADE AND OTHER RECEIVABLES (CONT'D)

### Loss Allowance – 30 June 2019

	Expected loss rate	Gross Receivables	Loss Allowance
Government agencies and national utilities	0%	884,806	-
Current	0.5%	2,983,781	14,928
Less than 1 month past due	1.00%	550,503	5,505
More than 1 month past due	2.50%	194,947	4,874
More than 2 months past due	5.00%	48,096	2,405
More than 3 months past due	10.00%	30,634	3,063
Older	40.00%	37,043	14,817
Contract assets - current	0.05%	296,809	1,527
<b>Total</b>		<b>5,026,619</b>	<b>47,119</b>

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. The contract assets relate to the Group's right to consideration for performance complete to date before payment is due.

The expected loss rates are based on the payment profiles of sales over the last 3 years. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. For the year ended 30 June 2020, the Group has substantially increased the expected loss rates above prior period due to the uncertain economic environment arising from the COVID-19 pandemic. All ageing profiles have been increased by around 3 – 5 times the historical rates. In particular contract assets which will likely due fall due for payment around the of Q1 FY21 have been heavily impaired due to expected heightened liquidity risks across Australian businesses at that time.

The Group has identified the GDP, country specific unemployment rates and the outlook for customer industries as the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

## NOTE 11 INVENTORIES

	2020	2019
	\$	\$
CURRENT		
Laboratory consumables	475,370	690,159

Inventories are laboratory consumables that are utilised in providing laboratory testing services to customers.

Inventories are stated at the lower of cost and net realisable value. The cost of inventories is based on the weighted average method and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

The amount of laboratory consumables recognised as an expense during the period was \$2,832,201 (2019: \$2,268,515).

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12 PLANT AND EQUIPMENT

	2020	2019
	\$	\$
Leasehold improvements at cost	461,487	430,961
Accumulated depreciation	(158,817)	(117,844)
	302,670	313,117
Motor vehicles at cost	262,955	1,884,407
Accumulated depreciation	(158,984)	(591,690)
	103,971	1,292,717
Office furniture and equipment at cost	747,996	758,893
Accumulated depreciation	(449,853)	(405,299)
	298,143	353,594
Lab and field equipment at cost	8,845,454	7,990,102
Accumulated depreciation	(3,627,804)	(2,477,708)
	5,217,650	5,512,394
Total plant and equipment at cost	10,317,892	11,064,363
Total accumulated depreciation	(4,395,458)	(3,592,541)
<b>Total plant and equipment</b>	<b>5,922,434</b>	<b>7,471,822</b>

### Movements during the year

	Leasehold Improvements	Motor Vehicles	Office Furniture and Equipment	Lab and field Equipment	Total
Balance at 1 July 2019	313,117	1,292,717	353,594	5,512,394	7,471,822
Transfers to leased assets	(32,422)	(1,145,267)	-	(255,526)	(1,433,215)
Additions	98,056	23,661	137,692	1,474,260	1,733,669
Disposals	-	(5,495)	(11,871)	(27,989)	(45,355)
Foreign exchange movements	3,272	(8,329)	(13,158)	(110,070)	(128,285)
Depreciation	(79,353)	(53,316)	(168,114)	(1,375,419)	(1,676,202)
<b>Balance at 30 June 2020</b>	<b>302,670</b>	<b>103,971</b>	<b>298,143</b>	<b>5,217,650</b>	<b>5,922,434</b>

	Leasehold Improvements	Motor Vehicles	Office Furniture and Equipment	Lab and field Equipment	Total
Balance at 1 July 2018	346,997	1,014,313	331,966	5,260,981	6,954,257
Additions	28,843	589,781	171,409	1,639,756	2,429,789
Disposals	-	(31,874)	-	(35,749)	(67,623)
Foreign exchange movements	1,573	11,812	18,308	195,989	227,682
Depreciation	(64,296)	(291,315)	(168,089)	(1,548,583)	(2,072,283)
<b>Balance at 30 June 2019</b>	<b>313,117</b>	<b>1,292,717</b>	<b>353,594</b>	<b>5,512,394</b>	<b>7,471,822</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12 PLANT AND EQUIPMENT (CONT'D)

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised in profit or loss. A formal assessment of recoverable amount is made when impairment indicators are present.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to the Consolidated Entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

The depreciable amount of all fixed assets is depreciated on a diminishing value basis over the asset's useful life to the Consolidated Entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The depreciation rates used for each class of asset is:

<u>Class of Fixed Asset</u>	<u>Depreciation Rate</u>
Leasehold improvements	20%
Motor vehicles	25%
Office furniture and equipment	40% - 67%
Laboratory and field equipment	20% - 40%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance date.

## NOTE 13 INTANGIBLE ASSETS

	2020 \$	2019 \$
Customer contracts at cost	3,628,860	3,639,333
Accumulated amortisation	(2,755,891)	(2,020,642)
	872,969	1,618,691
Licences and accreditations at cost	4,857,744	4,879,491
Accumulated amortisation	(4,450,323)	(2,959,086)
	407,421	1,920,405
Software at cost	2,360,083	2,110,927
Accumulated amortisation	(1,874,996)	(1,403,627)
	485,087	707,300
Other intangibles at cost	120,502	120,502
Accumulated amortisation	(120,502)	(79,721)
	-	40,781
<b>Total intangible assets</b>	<b>1,765,477</b>	<b>4,287,177</b>

### Movements during the year

Year ended 30 June 2020	Customer Contracts	Licences and Accreditations	Software	Other Intangibles	Total
Balance at 1 July 2019	1,618,691	1,920,405	707,300	40,781	4,287,177
Additions	-	-	241,979	-	241,979
Foreign exchange movements	(10,473)	(21,747)	7,177	(329)	(25,372)
Amortisation	(735,249)	(1,491,237)	(471,369)	(40,452)	(2,738,307)
<b>Balance at 30 June 2020</b>	<b>872,969</b>	<b>407,421</b>	<b>485,087</b>	<b>-</b>	<b>1,765,477</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 13 INTANGIBLE ASSETS (CONT'D)

Year ended 30 June 2019	Customer Contracts	Licences and Accreditations	Software	Other Intangibles	Total
Balance at 1 July 2018	2,773,018	3,446,378	1,419,426	112,275	7,751,097
Additions	-	-	266,984	-	266,984
Foreign exchange movements	(5,558)	(11,692)	7,624	2,941	(6,685)
Amortisation	(1,148,769)	(1,514,281)	(986,734)	(74,435)	(3,724,219)
<b>Balance at 30 June 2019</b>	<b>1,618,691</b>	<b>1,920,405</b>	<b>707,300</b>	<b>40,781</b>	<b>4,287,177</b>

### Customer contracts

Customer contracts acquired as part of a business combination are recognised separately from goodwill. The customer contracts are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which currently vary from 2 to 5 years.

### Licenses and accreditations

Licenses and accreditations acquired as part of a business combination are recognised separately from goodwill. The licenses and accreditations are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which is estimated at 2 to 3 years.

### Software

Costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use
- management intends to complete the software and use or sell it
- there is an ability to use or sell the software
- it can be demonstrated how the software will generate probable future economic benefits
- adequate technical, financial and other resources to complete the development and to use or sell the software are available, and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads.

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, which is estimated at 3 to 5 years.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 14 GOODWILL

	2020	2019
	\$	\$
Opening balance	16,774,730	16,884,462
Impairment of AAC Environmental goodwill	-	(661,357)
Foreign exchange movements	(202,441)	551,625
	<b>16,572,289</b>	<b>16,774,730</b>

### Impairment tests for goodwill

Goodwill is monitored by management at the Company level for Precise Limited, Analytica Laboratories Limited, Morrison Geotechnic Pty Ltd and OCTFOLIO Pty Ltd.

Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. The Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on value-in-use calculations which require the use of assumptions.

During the prior period, following the conclusion of the loose fill asbestos investigation (Mr Fluffy) program in the ACT and surrounding areas, and the limited growth opportunities in the region, the Company closed the OCTIEF ACT branch during the prior period. The OCTIEF ACT operations were acquired through the acquisition of AAC Environmental (renamed to OCTIEF ACT Pty Ltd). With the closure of this branch, the goodwill related to this CGU was impaired down to \$Nil during the year ended 30 June 2019.

### Transfer of New Zealand regional labs goodwill

From 1 March 2019, Analytica Laboratories Limited assumed control and rebranded of all of Precise Limited's regional laboratories (Auckland, Wellington, Christchurch and Dunedin). Moving forward Precise Limited will focus purely on sampling and consulting activities.

From March 2019 onwards, Group reporting lines were modified to reflect this restructure. Precise laboratory staff became employees of Analytica and the regional labs were put under the control of Analytica management.

During the prior year, a reallocation of goodwill originally attributed to Precise was performed at the date of reorganisation based up a relative value approach which determined the value of the transferred regional laboratories and the remaining sampling and consulting business:

30 June 2019	Goodwill Analytica \$	Goodwill Precise \$
Opening balance	8,860,393	4,225,982
Transfer of goodwill attributable to regional laboratories	2,601,255	(2,601,255)
Foreign exchange movements	366,760	184,865
	<b>11,828,408</b>	<b>1,809,592</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 14 GOODWILL (CONT'D)

The calculations use cash flow projections based on financial budgets covering a five-year period. Each CGU's underlying cash flow projections have been adjusted downwards for the expected impact of COVID-19 over the five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. These growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates. Refer to Note 2 for the segment level of goodwill. The following table sets out the key assumptions for the value in use:

Assumption	Precise	Analytica	Morrison	OCTFOLIO	Approach
Sales volume annual growth	1.5%	1.5%	1.0%	8%	Average annual growth rate over the five-year forecast period based on management's expectations of market development.
Sales price annual growth	1%	1%	1%	1%	Average annual growth rate over the five-year forecast period based on current industry trends
Fixed costs per annum	\$1.0M	\$3.2M	\$1.9M	\$0.4M	Fixed costs of the Company, which do not vary significantly with sales volumes or prices. Management forecasts these costs based on the current structure of the business, adjusting for inflationary increases but not reflecting any future restructurings or cost saving measures. The amounts disclosed are the average operating costs for the five-year forecast period.
Annual capital expenditure	\$100,000	\$1,300,000	\$75,000	\$100,000	Expected capital cash costs based on the historical experience of management, and the planned refurbishment expenditure. No incremental revenue or cost savings are assumed in the value-in-use model as a result of this expenditure.
Long term growth rate	2%	2%	2%	2%	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with forecasts included in industry reports.
Pre-tax discount rate	19%	18%	18%	20%	Reflects specific risks relating to the relevant segments and the countries in which they operate. In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax rates are disclosed in the table.
<b>Goodwill attributable to CGU</b>	<b>\$1,768,845</b>	<b>\$11,666,714</b>	<b>\$1,770,810</b>	<b>\$1,365,920</b>	

There is sufficient headroom in the value in use calculation such that in management's opinion a reasonably possible change in a key assumption on which management has based its determination of the cash generating unit's recoverable amount would not cause the cash generating unit's carrying amount to exceed its recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15 LEASES

The Group leases various offices, equipment and vehicles. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Until the 2020 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis.

### Lease Liabilities

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases that relate to building premises, the entity's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received, making adjustments specific to the lease (e.g. term, country, currency and security).

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### Right-of-use Assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

### Low Value Assets

Payments associated with leases of low value assets are recognised on a straight-line basis as an expense in profit or loss. Low value assets comprise small items of office equipment.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15 LEASES (continued)

### Extension Options

Extension options are included in a number of building premises leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension and termination options held are exercisable only by the Group and not by the respective lessor.

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option. When exercising lease extensions of building premises, the Group considers the following factors:

- any termination and make-good penalties;
- value of leasehold improvements;
- cost of disruption to the business to relocate; and
- availability and cost other suitable properties.

Extension options are only included in the lease term if the lease is reasonably certain to be extended.

Most extension options on building premises leases have been included in the lease liability. As at 30 June 2020, potential future cash outflows of \$1,902,998 (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

In the previous year, the Group only recognised lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under AASB 117 Leases. The assets were presented in property, plant and equipment and the liabilities as part of the Group's borrowings. For adjustments recognised on adoption of AASB 16 on 1 July 2019, refer to Note 1.

	2020	2019
	\$	\$
<b>Amounts recognised in the Balance Sheet</b>		
<b>Right-use-assets</b>		
Leased buildings – right-of-use	2,058,726	-
Leasehold improvements	25,224	-
Motor vehicles	775,075	-
Lab and field equipment	215,613	-
	<b>3,074,638</b>	<b>-</b>

Additions to the right of use assets during the period was \$1,249,505.

### Lease liabilities

#### CURRENT

Leases for equipment – bank financed	521,754	-
Leases for building premises	716,757	-
	<b>1,238,511</b>	<b>-</b>

#### NON-CURRENT

Leases for equipment – bank financed	576,447	-
Leases for building premises	1,393,821	-
	<b>1,970,268</b>	<b>-</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15 LEASES (continued)

### Amounts recognised in the Statement of Comprehensive Income

	2020	2019
	\$	\$
<b>Depreciation and amortisation</b>		
Buildings premises	843,510	-
Leasehold improvements	7,198	-
Motor vehicles	335,478	-
Lab and field equipment	39,913	-
	<b>1,226,099</b>	<b>-</b>
<b>Interest expense on leases (included in finance costs)</b>		
Buildings premises	119,144	-
Equipment leases – bank financed	65,581	-
	<b>184,725</b>	<b>-</b>

### Amounts recognised in the Statement of Cash Flows

Lease principal repayments - buildings premises	828,784	-
Lease principal repayments - equipment leases	636,986	-
Interest payments - buildings premises	119,114	-
Interest payments - equipment leases	65,581	-
	<b>1,650,465</b>	<b>-</b>

## NOTE 16 TRADE AND OTHER PAYABLES

	2020	2019
	\$	\$
<b>CURRENT</b>		
Trade payables	595,445	686,028
Contract liabilities	170,702	338,058
Other payables and accrued expenses	1,933,210	894,237
	<b>2,699,357</b>	<b>1,918,323</b>

Trade payables are amounts due to suppliers for goods purchased or services provided in the ordinary course of business. Trade payables are generally due for settlement within 30 days and therefore are all classified as current.

Other payables and accrued expenses generally arise from normal transactions within the usual operating activities of the Group and comprise items such as employee taxes, employee on costs, GST and other recurring items.

As part of the COVID-19 business support measures, the Australian Tax Office has granted 6-month payment deferrals of certain GST and PAYG employee tax liabilities due for repayment in November 2020. The amount of these amounts accrued at 30 June 2020 was \$574,564.

Similarly, the QLD Office of State Revenue has granted 12-month payment deferrals of payroll tax liabilities due for repayment in January 2021. The amount of these amounts accrued at 30 June 2020 was \$134,698.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 17 PROVISIONS

### CURRENT

Employee benefits	1,178,396	918,483
Analytica earn-out	-	438,093
	<b>1,178,396</b>	<b>1,356,576</b>

### NON-CURRENT

Employee benefits	<b>39,605</b>	<b>32,405</b>
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### Employee Benefit Provisions

#### Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the balance sheet.

#### Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of corporate bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows.

### Analytica Earn-out Provision

On 30 November 2017, HRL acquired 100% of the issued capital of Analytica Laboratories Limited (Analytica).

As part of the purchase consideration the vendors had the opportunity to earn up to NZ\$11m cash earn-out consideration based on the following criteria:

- Analytica business to achieve 12-month post-settlement EBITDA in excess of NZ\$3m;
- Analytica Vendors to receive a 6x multiple on each NZ\$1 of EBITDA greater than NZ\$3m, up to a maximum earn-out consideration of NZ\$11m; and
- 50% of earn-out is payable 12 months post-settlement, and 50% in the following 12 months.

The earn-out was achieved in full. Half of the earn-out consideration was paid in February 2019. The remaining half of the earn-out consideration was paid in 10 equal monthly instalments thereafter.

As the earn-out consideration was contingent on the vendors' ongoing service, the principles and guidance as set out in AASB 3 *Business Combinations* require that any earn-out consideration be expensed as an employment cost in the relevant period the service was provided.

### Earn-out provision movements during the period

	2020 \$	2019 \$
Opening balance	438,093	3,130,115
OCTFOLIO earn-out recognition/(adjustment)	-	(187,500)
Analytica earn-out expense recognised	2,157,570	5,257,121
Analytica earn-out payments made	(2,584,092)	(7,885,682)
Foreign exchange movements	(11,571)	124,039
	<b>-</b>	<b>438,093</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 18 BORROWINGS

	2020	2019
	\$	\$
<b>CURRENT</b>		
Finance leases - equipment	-	759,011
Government support loans	51,387	-
Bank loans	2,092,173	2,279,675
	<b>2,143,560</b>	<b>3,038,686</b>
<b>NON-CURRENT</b>		
Finance leases - equipment	-	976,177
Government support loans	250,437	-
Bank loans	438,555	583,333
	<b>688,992</b>	<b>1,559,510</b>

### Bank and government support loans

Loans (excluding financial guarantees) are measured at amortised cost. Amortised cost is the amount at which the financial liability is measured at initial recognition less principal repayments and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial liability.

The bank loans are secured against all current and non-current assets of the Group by floating charge. The Group has four bank loan facilities:

- \$3M interest only facility with a variable interest rate of 2.94% per annum on the drawn balance and a facility line fee of 1% on the total available balance. The facility has no expiry date but is subject to annual review by Westpac.
- \$1M 3-year amortising bank bill facility with a variable interest rate of 3.03% per annum. The facility expires in March 2022.
- \$1M 3-year amortising bank bill facility with a variable interest rate of 3.54% per annum. The facility expires in February 2023.
- NZ \$1M 2-year amortising bank bill facility with a variable interest rate of 3.40% per annum. The facility expires in November 2021.

The Group has two government support loan facilities:

- \$250,000 loan with the QLD Government with a fixed interest rate of 2.10% per annum. The loan is repayable over 10 years. The loan is secured by a \$250,000 charge against OCTIEF Pty Ltd.
- NZ \$55,000 loan with a fixed interest rate of 3.00% per annum. The loan is repayable over 2 years. The loan is unsecured.

### Finance leases - equipment

From 1 July 2019 finance leases over equipment and motor vehicles have been transferred to lease liabilities (refer Note 15)

The finance leases are secured over the individual motor vehicles and equipment that the lease relates to. The leases have interest rates of 4.57% - 4.94% per annum and expire between November 2020 and February 2024.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 18 BORROWINGS (CONT'D)

### Financing Facilities

The Group has access to the following lines of credit:

	2020	2019
	\$	\$
<i>Total facilities available</i>		
Leases - equipment financing	2,529,897	2,565,657
Government support loans	301,824	-
Bank loans	5,351,552	3,951,267
	<b>8,183,273</b>	<b>6,516,924</b>
<i>Facilities used at balance date</i>		
Leases - equipment financing	1,098,201	1,735,188
Government support loans	301,824	-
Bank loans	2,530,728	2,863,009
	<b>3,930,753</b>	<b>4,598,197</b>
<i>Unused facilities at balance date</i>		
Finance leases and equipment financing	1,431,696	830,469
Government support loans	-	-
Bank loans	2,820,824	1,088,258
	<b>4,252,520</b>	<b>1,918,727</b>

### Covenants

The bank loans are subject to the below covenants:

#### Debt Service Cover Ratio greater than 1.5

Debt Service Cover Ratio means: Operating EBITDA divided by the total minimum principal and interest payments for that period. This ratio will be assessed every 6 months on a 12-month rolling result.

#### Debt to EBITDA ratio of less than 200%

Gearing ratio means: Total financial debt divided by operating EBITDA. This ratio will be assessed every 6 months on a 12-month rolling result.

#### Provision of bi-annual compliance certificates

HRL must provide within 3.5 months of 30 June and 31 December a compliance certificate (and relevant supporting information as set out in the agreement) that states both the above covenants have been met.

### Defaults and breaches

During the period there were no defaults or breaches on any of the loans.

### Assets pledged as security

Equipment leases are secured by mortgage over the relevant assets which at 30 June 2020 had carrying values of \$1,539,364 (2019: \$1,984,884).

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 19 CONTRIBUTED CAPITAL

	2020	2019
	\$	\$
493,402,627 fully paid ordinary shares (June 2019: 493,402,627)	38,162,084	38,162,084

Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands. Ordinary shares do not have a par value.

Issued and paid up capital is recognised at the fair value of the consideration received by the Consolidated Entity. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

## NOTE 20 RESERVES

	2020	2019
	\$	\$
Foreign currency translation reserve	(263,685)	214,560
Share based payment reserve	151,299	-
	<b>(112,386)</b>	<b>214,560</b>

The foreign currency translation reserve records exchange rate differences arising from the translation of the financial statements of foreign subsidiaries.

The share based payments reserve is used to record the value of share based payments provided to employees as part of their remuneration and to consultants for services provided.

## NOTE 21 EQUITY ACCOUNTED INVESTMENTS

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

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Consolidated Entity's share of net assets of the associate or joint venture since the acquisition date. The comprehensive income reflects the Consolidated Entity's share of the results of operations of the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Consolidated Entity. When necessary, adjustments are made to bring the accounting policies in line with those of the Consolidated Entity.

### Movements during the year

	2020	2019
	\$	\$
Opening balance	665,446	608,894
Investment in Food Lab Pacific Limited	558,780	47,414
Share of profits/(loss)	(512,895)	2,847
Foreign exchange movements	(11,901)	6,291
<b>Closing balance</b>	<b>699,430</b>	<b>665,446</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 21 EQUITY ACCOUNTED INVESTMENTS (CONT'D)

### CAIQTest (Pacific) Limited

As part of the Analytica acquisition, the Group acquired a 26% interest in CAIQTest (Pacific) Limited, a New Zealand based laboratory, providing pre-shipment testing services for clients exporting goods from Australasia to China.

The following table illustrates the summarised financial information of the Group's investment in CAIQTest (Pacific) Limited:

	2020	2019
	\$	\$
Current assets	1,375,362	1,295,353
Non-current assets	484,482	518,541
<b>Total assets</b>	<b>1,859,844</b>	<b>1,813,894</b>
Current liabilities	224,716	420,533
Non-current liabilities (shareholder loans)	1,603,199	1,640,130
<b>Total liabilities</b>	<b>1,827,915</b>	<b>2,060,663</b>
<b>Equity</b>		
HRL's share of equity (26%)	15,964	(64,160)
Goodwill	680,160	695,828
Foreign exchange movements	(6,115)	(455)
<b>Carrying amount</b>	<b>690,009</b>	<b>631,213</b>
Revenue	3,084,099	2,492,288
Cost of sales	(1,053,483)	(879,470)
Other expenses	(1,791,816)	(1,514,392)
Finance costs	-	(35,326)
<b>Profit before tax</b>	<b>238,800</b>	<b>63,100</b>
Income tax	-	-
<b>Profit after tax</b>	<b>238,800</b>	<b>63,100</b>
<b>HRL's share of profit (26%)</b>	<b>62,088</b>	<b>16,406</b>

CAIQTest (Pacific) Limited requires a board resolution to distribute its profits. No dividends were paid or declared for the financial period ending 30 June 2020.

CAIQTest (Pacific) Limited had no contingent liabilities or capital commitments as at 30 June 2020.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 21 EQUITY ACCOUNTED INVESTMENTS (CONT'D)

### Food Lab Pacific Limited

During the prior period HRL entered into an agreement with MilkTestNZ to create a new joint venture company which will initially provide analytical testing service to the wider New Zealand dairy industry. The joint venture agreement represents an expansion of the existing strategic alliance between HRL and MilkTestNZ, which is currently focused on liquid milk testing.

The following table illustrates the summarised financial information of the Group's investment in Food Lab Pacific Limited:

	2020	2019
	\$	\$
Current assets	105,094	56,521
Non-current assets	959,074	11,337
<b>Total assets</b>	<b>1,064,168</b>	<b>67,858</b>
Current liabilities	1,045,327	27,589
<b>Total liabilities</b>	<b>1,045,327</b>	<b>27,589</b>
<b>Equity</b>		
HRL's share of equity (50%)	9,421	20,135
Foreign exchange movements	-	14,098
<b>Carrying amount</b>	<b>9,421</b>	<b>34,233</b>
Revenue	105	-
Other expenses	(1,129,131)	(27,118)
Finance costs	(20,940)	-
<b>Loss before tax</b>	<b>(1,149,966)</b>	<b>(27,118)</b>
Income tax	-	-
<b>Loss after tax</b>	<b>(1,149,966)</b>	<b>(27,118)</b>
<b>HRL's share of loss (50%)</b>	<b>(574,983)</b>	<b>(13,559)</b>

Food Lab Pacific Limited requires a board resolution to distribute its profits. No dividends were paid or declared for the financial period ending 30 June 2020.

Food Lab Pacific Limited had no contingent liabilities or capital commitments as at 30 June 2020.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 22 PARENT ENTITY INFORMATION

The legal Parent Entity of the Consolidated Entity is HRL Holdings Limited.

	2020	2019
	\$	\$
<b>Parent Entity Financial Information</b>		
Current assets	1,555	8,835
Non-current assets	30,028,984	32,975,215
<b>Total assets</b>	<b>30,030,539</b>	<b>32,984,050</b>
Current liabilities	2,300,790	2,409,093
Non-current liabilities	2,890,100	606,022
<b>Total liabilities</b>	<b>5,190,890</b>	<b>3,015,115</b>
<b>Net assets</b>	<b>24,839,649</b>	<b>29,968,935</b>
Issued capital	49,200,617	49,200,617
Reserves	151,291	-
Accumulated losses	(24,512,259)	(19,231,862)
<b>Total equity</b>	<b>24,839,649</b>	<b>29,968,935</b>
Profit/(loss) after income tax	(9,190,619)	(4,934,848)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(9,190,619)</b>	<b>(4,934,848)</b>

### Commitments, Contingencies and Guarantees of the Parent Entity

The Parent Entity has no material commitments for the acquisition of property, plant and equipment.

The Parent Entity's exposure to contingent liabilities is detailed in Note 26. The Parent Entity has no contingent assets or guarantees at balance date.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 22 PARENT ENTITY INFORMATION (CONT'D)

Controlled Entities of the Parent Entity	Percentage Owned		Country of Incorporation
	2020	2019	
	%	%	
OCTIEF Pty Ltd	100%	100%	Australia
OCTIEF ACT Pty Ltd <sup>1</sup>	-	100%	Australia
HRL Holdings NZ Limited	100%	100%	New Zealand
Octief Limited	100%	100%	New Zealand
Precise Consulting and Laboratory Limited	100%	100%	New Zealand
Morrison Geotechnic Pty Ltd	100%	100%	Australia
OCTFOLIO Pty Ltd	100%	100%	Australia
Analytica Laboratories Limited	100%	100%	New Zealand

<sup>1</sup> Deregistered during the year.

### Principles of Consolidation

Subsidiaries are all entities (including structured entities) over which the Consolidated Entity has control. The Consolidated Entity controls an entity when the Consolidated Entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Consolidated Entity.

Intercompany transactions, balances and unrealised gains on transactions between Consolidated Entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Consolidated Entity.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statement of comprehensive income, statement of changes in equity and balance sheet respectively.

### Business combinations

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 23 SHARE BASED PAYMENTS

### Performance Rights (Long Term Incentive Plan)

The Company has granted performance rights to senior management under a long term incentivise plan. Each equity-settled performance right which vests and is exercised converts to an ordinary share in the Company at nil exercise price; the amount payable per each vested cash-settled performance right is the VWAP of the Company's shares over the 20 trading days following the release of the Group's full year results for the final year of the performance period. The performance rights are not quoted on the ASX. Performance shares granted carry no dividend or voting rights.

Details of performance rights issued, exercised and expired during the financial year are set out below:

Expiry Date	Tranche	Vesting Condition	Performance period <sup>1</sup>	Movements					Vested at end of year
				1 July 2019	Issued	Exercised	Lapsed / Forfeited	30 June 2020	
30 June 2022	A	EPS	3 years	-	1,220,240	-	(36,132)	1,184,108	-
30 June 2022	A	EBITDA	3 years	-	1,220,240	-	(36,132)	1,184,108	-
30 June 2022	A	TSR	3 years	-	1,220,240	-	(36,132)	1,184,108	-
30 June 2022	A	ROCE	3 years	-	1,220,240	-	(36,132)	1,184,108	-
30 June 2021	B	Budget	2 years	-	294,669	-	-	294,669	-
30 June 2021	B	EBITDA	2 years	-	294,669	-	-	294,669	-
30 June 2021	B	TSR	2 years	-	294,669	-	-	294,669	-
30 June 2021	B	ROCE	2 years	-	294,669	-	-	294,669	-
30 June 2020	C	Budget	1 year	-	147,335	-	(147,335)	-	-
30 June 2020	C	EBITDA	1 year	-	147,335	-	(147,335)	-	-
30 June 2020	C	TSR	1 year	-	147,335	-	-	147,335	147,335
30 June 2020	C	ROCE	1 year	-	147,335	-	(147,335)	-	-
30 June 2020	C	Discretionary	1 year	-	227,273	-	-	227,273	227,273
				-	6,876,249	-	(586,533)	6,289,716	374,608

<sup>1</sup> Represents the relevant period of time to which the both the performance vesting condition is measured and the period of time the recipient must remain employed with the Group.

The weighted average remaining contractual life of performance shares outstanding at the end of the year was 1.80 years.

### Fair value of performance rights granted

The assessed fair value at the date of grant of performance rights issued is determined using an option pricing model that takes into account the exercise price, the underlying share price at the time of issue, the term of the performance right the underlying share's expected volatility, expected dividends and the risk free interest rate for the expected life of the instrument. The value of the performance rights were calculated using the inputs shown below:

Inputs into pricing model for EPS/EBITDA/ROCE/Budget vesting conditions	Tranche A - Employees	Tranche A* - Executive Director	Tranche B	Tranche C
Grant date	5 September 2019	17 October 2019	5 September 2019	5 September 2019
Exercise price	Nil	Nil	Nil	Nil
Vesting conditions	Refer below	Refer below	Refer below	Refer below
Share price at grant date	\$0.11	\$0.11	\$0.11	\$0.11
Expiry date	30 June 2022	30 June 2022	30 June 2021	30 June 2020
Life of the instruments	2.8 years	2.65 years	1.8 years	0.8 years
Underlying share price volatility	71.5%	71.5%	71.5%	71.5%
Expected dividends	Nil	Nil	Nil	Nil
Risk free interest rate	0.72%	0.72%	0.72%	0.72%
Pricing model	Trinomial lattice	Trinomial lattice	Trinomial lattice	Trinomial lattice
Fair value per instrument	\$0.11	\$0.11	\$0.11	\$0.11

\* 226,215 Tranche A shares were issued to Steve Howse following shareholder approval on 17 October 2019.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 23 SHARE BASED PAYMENTS (CONT'D)

Inputs into pricing model for TSR vesting condition	Tranche A - Employees	Tranche A – Executive Director	Tranche B	Tranche C
Grant date	5 September 2019	17 October 2019	5 September 2019	5 September 2019
Exercise price	Nil	Nil	Nil	Nil
Vesting conditions	Refer below	Refer below	Refer below	Refer below
Share price at grant date	\$0.11	\$0.12	\$0.11	\$0.11
Expiry date	30 June 2022	30 June 2022	30 June 2021	30 June 2020
Life of the instruments	2.8 years	2.65 years	1.8 years	0.8 years
S&P Small Ordinaries Index volatility	11.7%	11.7%	11.7%	11.7%
Correlation	0.42	0.42	0.42	0.42
Pricing model	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Fair value per instrument	\$0.0790	\$0.0761	\$0.076	\$0.0686

### Inputs into pricing model for discretionary vesting condition

The financial impacts of COVID-19 on the Group during the financial year rendered certain measurement targets of the 1-year plan (Tranche C) effectively unachievable. The Board utilised its discretion under the LTI plan rules to vest 227,273 performance rights to participants automatically. The fair value of these performance rights was deemed to be the market value of HRL share price (\$0.11) at the time of the Board decision.

### Performance Vesting Conditions

#### Earnings per Share (EPS) Measure

EPS MEASUREMENT TABLE	
Compound annual diluted EPS growth	Proportion of Performance Rights that may be exercised if the EPS Performance Hurdle is met
Less than 10%	Nil
10% or higher	25% of the total applicable tranche

The compound growth in EPS will be measured by comparing fully diluted EPS for the financial year ending 30 June 2022 with fully diluted EPS for the financial year ended 30 June 2018 (FY2019 has not been used as a base because of abnormally poor performance) which is the base year for these EPS calculations.

#### EBITDA Measure

EBITDA MEASUREMENT TABLE	
EBITDA margin of HRL relative to EBITDA margin of comparator peer companies	Proportion of performance rights that may be exercised if EBITDA hurdle is met
Less than average EBITDA margin of comparator peer companies	Nil
More than average EBITDA margin of comparator peer companies	25% of the total applicable tranche
Comparator companies	Bureau Veritas (France), Core Laboratories (USA), Eurofins (France & Germany), Intertek (UK), SGS (Switzerland), ALS (Australia), Exova (UK)

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 23 SHARE BASED PAYMENTS (CONT'D)

Based on HRL EBITDA margin over the performance period, the EBITDA Hurdle Rights will vest in accordance with the above table. The EBITDA margin measurement is contingent upon performance of the Company against a group of comparator peer companies.

### Total Shareholder Return (TSR) Measure

TSR MEASUREMENT TABLE	
<i>TSR relative to TSRs of companies in the ASX Small Ordinaries Index over the performance period</i>	<i>Proportion of Performance Rights that may be exercised if the TSR Performance Hurdle is met</i>
Below the total TSR for ASX Small Ordinaries over the Performance Period	Nil
Above the TSR for ASX Small Ordinaries over the Performance Period	25% of the total applicable tranche

TSR measures the growth in the price of shares plus dividends notionally reinvested in shares.

### Return on Capital Employed (ROCE) Measure

ROCE MEASUREMENT TABLE	
<i>ROCE Performance (3 year average)</i>	<i>Proportion of performance rights that may be exercised if ROCE hurdle is met</i>
ROCE of less than WACC + 2%	Nil
ROCE of between WACC + 2% and +7%	Straight line vesting of between 0% and 25% of the total applicable tranche
ROCE exceeds WACC + 7%	25% of the total applicable tranche

ROCE hurdles are set at 2% and 7% above the June 2019 WACC with straight line vesting in between the lower and upper hurdles below.

ROCE is calculated as Underlying Earnings before Interest and Tax (EBIT) over the performance period divided by Capital Employed expressed as a percentage.

*Capital Employed = Total Shareholders' Equity + Net Debt (the sum of the simple averages of the balances at the beginning and end of each year during the performance period \*)*

\*If material funding transactions (for example, significant additional borrowings, equity issuances or asset impairments) occur such that the simple average for any year during the performance period is not representative of capital actually employed, the average capital employed for the year may be adjusted for the effect of these transactions.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 23 SHARE BASED PAYMENTS (CONT'D)

### Budgeted EBITDA (Budget) Measure

<b>BUDGET EBITDA MEASUREMENT TABLE</b>	
<i>HRL EBITDA vs BUDGET</i>	<i>Proportion of performance rights that may be exercised if hurdle is met</i>
EBITDA is less than budget by 5%	Nil
EBITDA vs budget is between -5% and +10%	Straight line vesting of between 0% and 25% of the total applicable tranche
EBITDA is greater than budget by 10%	25% of the total applicable tranche

### Discretionary Measure

The financial impacts of COVID-19 on the Group during the financial year rendered certain measurement targets of the 1-year plan (Tranche C) effectively unachievable. The Board utilised its discretion under the LTI plan rules to vest 227,273 performance rights to participants automatically.

### **Advisor Options (expired)**

During FY2017, the Company granted performance options to its capital advisors, Canaccord Genuity (Australia) Limited in connection with the ongoing capital markets strategy requirements of the Company. The performance shares were granted for nil consideration and are not quoted on the ASX. Options granted carry no dividend or voting rights. When exercised, each option converts into one ordinary share.

Details of options issued, exercised and expired during the financial year are set out below:

<b>Expiry Date</b>	<b>Exercise Price</b>	<b>Movements</b>				<b>30 June 2020</b>
		<b>1 July 2019</b>	<b>Issued</b>	<b>Exercised</b>	<b>Expired</b>	
31 December 2019	\$0.18	1,600,000	-	-	(1,600,000)	-
31 December 2019	\$0.20	1,600,000	-	-	(1,600,000)	-
31 December 2019	\$0.23	1,600,000	-	-	(1,600,000)	-
		4,800,000	-	-	(4,800,000)	-

### Fair value of options granted

The assessed fair value at the date of grant of options issued is determined using a option pricing models that takes into account the exercise price, the underlying share price at the time of issue, the term of the option, the underlying share's expected volatility, expected dividends and the risk free interest rate for the expected life of the instrument.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 23 SHARE BASED PAYMENTS (CONT'D)

The value of the options was calculated using the inputs shown below:

Inputs into pricing model	Tranche A - \$0.18	Tranche B - \$0.20	Tranche C - \$0.23
Grant date	2 June 2017	2 June 2017	2 June 2017
Exercise price	\$0.18	\$0.20	\$0.23
Vesting conditions	Nil	Nil	Nil
Share price at grant date	\$0.10	\$0.10	\$0.10
Expiry date	31 December 2019	31 December 2019	31 December 2019
Life of the instruments	2.5 years	2.5 years	2.5 years
Underlying share price volatility	59%	59%	59%
Expected dividends	Nil	Nil	Nil
Risk free interest rate	1.55%	1.55%	1.55%
Pricing model	Binomial	Binomial	Binomial
Fair value per instrument	\$0.02054	\$0.01800	\$0.01488

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

### Previous Performance Share Plan (expired)

In previous years the Company had 3,260,127 granted performance shares to incentivise senior management. These performance shares lapsed in full at 30 June 2019. As the vesting period for Tranche 1 of these performance shares continued until 30 June 2021, the value of these instrument is still being recognised in FY2021 and FY2022.

The performance shares had the following key terms and conditions:

#### Performance Share Plan – Tranche 1 (expired)

<b>Primary Vesting Conditions</b>	<p>From the 30 day VWAP of HRL's share price at 1 July 2016, any of the following increases occur:</p> <ol style="list-style-type: none"> <li>HRL share price increases 33% within 1 year; or</li> <li>HRL share price increases 66% within 2 years; or</li> <li>HRL share price increases 100% within 3 years.</li> </ol> <p>The HRL share price must remain above the nominated target for the relevant period for 14 consecutive trading days</p>
<b>Secondary Vesting Conditions</b>	<p>The Performance Shares will vest in proportion to the number of years' service after the plan is implemented:</p> <ol style="list-style-type: none"> <li>First 33% of the performance shares vest at 30 June 2019</li> <li>Next 33% performance shares vest at 30 June 2020</li> <li>Final 34% performance shares vest at 30 June 2021</li> </ol>
<b>Exercise Price</b>	\$Nil
<b>Forfeiture</b>	<p>The Performance Shares will lapse if:</p> <ul style="list-style-type: none"> <li>None of the pricing conditions are met; or</li> <li>the participant does not meet the service conditions.</li> </ul>
<b>Change of Control Event</b>	<p>In the event a bona fide Takeover Bid is declared unconditional and the bidder has acquired a relevant interest of at least 50.1%, the Performance Share vest immediately, irrespective of any unmet vesting conditions.</p>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 23 SHARE BASED PAYMENTS (CONT'D)

### Performance Share Plan – Tranche 2 (expired)

<b>Primary Vesting Conditions</b>	HRL share price remains above \$0.234 for 14 consecutive trading days prior to 30 June 2019.
<b>Secondary Vesting Conditions</b>	The Performance Shares will vest in proportion to the number of years' service after the plan is implemented: <ol style="list-style-type: none"> <li>1. HRL share price increases 33% within 1 year; or</li> <li>2. HRL share price increases 66% within 2 years; or</li> <li>3. HRL share price increases 100% within 3 years.</li> </ol>
<b>Exercise Price</b>	\$Nil
<b>Forfeiture</b>	The Performance Shares will lapse if: <ul style="list-style-type: none"> <li>- None of the pricing conditions are met; or</li> <li>- the participant does not meet the service conditions.</li> </ul>
<b>Change of Control Event</b>	In the event a bona fide Takeover Bid is declared unconditional and the bidder has acquired a relevant interest of at least 50.1%, the Performance Share vest immediately, irrespective of any unmet vesting conditions.

### Fair value of performance shares granted

The assessed fair value at the date of grant of performance shares issued is determined using an option pricing models that takes into account the exercise price, the underlying share price at the time of issue, the term of the performance share, the underlying share's expected volatility, expected dividends and the risk free interest rate for the expected life of the instrument. The expected price volatility is based on the historic volatility (based on the remaining life of the performance shares), adjusted for any expected changes to future volatility due to publicly available information.

The value of the performance shares was calculated using the inputs shown below:

Inputs into pricing model	Tranche 1	Tranche 2
Grant date	31 August 2016	15 August 2018
Exercise price	\$Nil	\$Nil
Vesting conditions	See above table	See above table
Share price at grant date	\$0.12	\$0.18
Life of the instruments	3 years	3 years
Underlying share price volatility	52%	65%
Expected dividends	Nil	Nil
Risk free interest rate	1.52%	1.75%
Pricing model	Binomial	Binomial
Fair value per instrument	\$0.0746	\$0.1394

### Expenses arising from share-based payment transactions

	2020	2019
	\$	\$
Performance shares (long-term incentive plan)	151,299	-
Advisor options (expired on 31 December 2019)	-	-
Previous performance share plan (expired on 30 June 2019)	41,441	62,355
	<b>192,740</b>	<b>62,355</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 24 RELATED PARTY TRANSACTIONS

### Key Management Personnel Compensation

Short-term benefits	905,231	1,319,676
Post-employment benefits	92,508	88,918
Long-term benefits	19,484	1,258
Termination benefits	-	-
Share-based payments	106,733	19,096
	<b>1,123,956</b>	<b>1,428,948</b>

Detailed remuneration disclosures are provided in the remuneration report on pages 17 to 29.

### Transactions with related parties

There were no transactions with related parties during the year (2019: Nil).

## NOTE 25 FINANCIAL RISK MANAGEMENT

The Consolidated Entity's financial instruments consist mainly of deposits with banks and accounts receivable and payable. The main risk arising from the financial instruments is credit risk and foreign exchange risk.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for day to day management of these risks to the Chief Finance Officer. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

### Credit Risk

Credit risk is the risk that the other party to a financial instrument will fail to discharge their obligation resulting in the Consolidated Entity incurring a financial loss. This usually occurs when debtors fail to settle their obligations owing to the Consolidated Entity. It arises from exposure to customers as well as through deposits with financial institutions.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There is no collateral held as security at 30 June 2020. Credit risk is reviewed regularly by the Board.

The Group does not have any material credit risk exposure to any single counterparty, except for its holdings of cash which is held with the Westpac Bank and National Australia Bank.

### Maximum exposure to credit risk

	2020	2019
	\$	\$
<u>Summary exposure</u>		
Cash and cash equivalents	2,854,004	1,031,193
Trade receivables	3,552,895	4,682,691
Other receivables	256,713	309,626
Loan receivable from CAIQTest Pacific Limited	203,547	194,459
	<b>6,867,159</b>	<b>6,217,969</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 25 FINANCIAL RISK MANAGEMENT (CONT'D)

### Liquidity risk

Liquidity risk is the risk that the Group may encounter difficulties raising funds to meet financial obligations as they fall due. Liquidity risk is reviewed regularly by the Board.

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash resources are maintained. Refer to Note 18 for the Group's financing facilities available at balance date.

### Remaining contractual maturities

The tables below reflect the contractual maturity of fixed and floating rate financial liabilities. Cash flows for financial liabilities without fixed amount or timing are based on the conditions existing at period end. The amounts disclosed represent undiscounted cash flows. The tables include both interest and principal cash flows and therefore the totals may differ from their carrying amount in the balance sheet.

The remaining contractual maturities of the financial liabilities are:

30 June 2020	1 year or less \$	1 to 5 years \$	Over 5 years \$	Total \$
Trade payables	595,445	-	-	595,445
Other payables	1,933,210	-	-	1,933,210
Bank loans	2,092,173	438,555	-	2,530,728
Government support loans	51,908	93,158	191,573	336,639
Lease liabilities	1,363,486	2,258,489	-	3,621,975
	<b>6,036,222</b>	<b>2,790,202</b>	<b>191,573</b>	<b>9,017,997</b>

30 June 2019	1 year or less \$	1 to 5 years \$	Over 5 years \$	Total \$
Trade payables	686,028	-	-	686,028
Other payables	894,237	-	-	894,237
Bank Loans	2,279,675	583,333	-	2,863,008
Finance leases - equipment	827,866	1,044,773	-	1,872,639
	<b>4,687,806</b>	<b>1,628,106</b>	-	<b>6,315,912</b>

### Market Risk

Market risk arises from the use of interest bearing, tradeable and foreign currency financial instruments. It is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates (interest rate risk), foreign exchange rates (currency risk) or other market factors (other price risk).

### Interest rate risk

Interest rate risk is managed by constant monitoring of interest rates.

Interest rates over the 12 month period were analysed and a sensitivity determined to show the effect on profit and equity after tax if the interest rates at reporting date had been 100 basis points higher or lower, with all other variables held constant. This level of sensitivity was considered reasonable given the current level of both short-term and long-term Australian and New Zealand interest rates. The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 25 FINANCIAL RISK MANAGEMENT (CONT'D)

Cash term deposits, finance leases and insurance financing have fixed interest rates. All other cash assets and the repaid bank loan have floating interest rates. At 30 June, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post-tax profit and equity would have been affected as follows:

	2020	2019
	\$	\$
<hr/>		
<u>Impact on profit and equity</u>		
+1.00% (100 basis points)	(1,674)	(13,984)
-1.00% (100 basis points)	1,674	13,984

### Foreign Currency Risk

Foreign currency risk arises as a result of having assets/cash flows denominated in a currency other than the home currency in which they are reported. At 30 June, the Group had the following exposure to foreign currency, shown in Australian Dollars:

	2020	2019
	\$	\$
<hr/>		
<u>Financial assets</u>		
Cash and cash equivalents (NZD)	2,423,892	744,230
Trade and other receivables (NZD)	2,547,787	3,015,535
	<b>4,971,679</b>	<b>3,759,765</b>
<hr/>		
<u>Financial liabilities</u>		
Trade and other payables (NZD)	1,166,393	596,079
Finance leases (NZD)	341,543	443,958
	<b>1,507,936</b>	<b>1,040,037</b>

Exchange rates over the 12 month period were analysed and a sensitivity determined to show the effect on profit and equity after tax if the NZD:AUD exchange rates at reporting date had been 10% basis higher or lower, with all other variables held constant. The following sensitivity analysis is based on the foreign currency risk exposures in existence at the balance sheet date:

	2020	2019
	\$	\$
<hr/>		
<u>Impact on equity</u>		
+10.00%	346,374	271,973
-10.00%	(346,374)	(271,973)

### Capital Risk Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares and retained earnings of the Group. The Board of Directors monitors the return on capital as well as considers the potential of future dividends to ordinary shareholders. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

### Fair Values

The fair values of financial assets and financial liabilities approximate their carrying values due to their short term nature. No financial assets or liabilities are readily traded on organised markets in standardised form.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 26 COMMITMENTS

	2020	2019
	\$	\$
<b>Operating leases</b>		
<u>Minimum lease payments:</u>		
Payable within one year	-	700,578
Payable within one year and five years	-	545,770
<b>Total contracted at balance date</b>	<b>-</b>	<b>1,246,348</b>

The Group leases various properties and motor vehicles under non-cancellable operating leases expiring within one to five years. The property leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. From 1 July 2019, the group has recognised right-of-use assets for these leases (refer Note 15).

## NOTE 27 CONTINGENT LIABILITIES

The Consolidated Entity has arranged bank guarantees of \$55,825 as security for rental premises.

## NOTE 28 AUDITOR'S REMUNERATION

	2020	2019
	\$	\$
<i>Audit services – BDO Audit Pty Ltd</i>		
Audit and review of financial reports	97,559	97,664
<b>Total audit services</b>	<b>97,559</b>	<b>97,664</b>
<i>Non-audit services – Taxation Services</i>		
Australia taxation services - BDO (QLD) Pty Ltd	29,286	20,150
New Zealand taxation services - BDO Auckland	45,728	3,460
<b>Total non-audit services</b>	<b>75,014</b>	<b>23,610</b>

## NOTE 29 EVENTS AFTER BALANCE DATE

There have been no events since 30 June 2020 that impact upon the financial report.

# DIRECTORS' DECLARATION

## DIRECTORS' DECLARATION

In the Directors opinion:

- (a) the attached consolidated financial statements and notes and the remuneration report in the Directors' Report are in accordance with the *Corporations Act 2001* and other mandatory professional reporting requirements, including:
  - (i) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (ii) giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1 to the consolidated financial statements; 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.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Greg Kilmister  
Director

Brisbane  
30 July 2020

## INDEPENDENT AUDITOR'S REPORT

To the members of HRL Holdings Limited

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of HRL Holdings (the Company) and its subsidiaries (the Group), which comprises the consolidated balance sheet as at 30 June 2020, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies and the directors' declaration.

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

- (i) Giving a true and fair view of the Group's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *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 financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

#### Key audit matters

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

## Valuation of goodwill

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<ul style="list-style-type: none"> <li>The Group's disclosures about goodwill impairment are included in Note 14, which details the allocation of goodwill to the groups various CGU's, sets out the key assumptions for value-in-use calculations and the impact of possible changes in these assumptions.</li> <li>This annual impairment test was significant to our audit because the balance of goodwill as of 30 June 2020 is material to the financial statements. In addition, management's assessment process is complex and highly judgmental and is based on assumptions, specifically forecast future cash flows, growth rate, and discount rate, which are affected by expected future market or economic conditions.</li> <li>The impact of COVID-19 on inputs used in management's assessment required significant auditor attention.</li> </ul>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>Assessing management's allocation of goodwill and assets and liabilities, including corporate assets to Cash Generating Units ("CGU's") including an assessment of the reallocation of goodwill that had occurred</li> <li>Evaluating the inputs used in the value in use calculation including the growth rates, discount rates and underlying cash flows applied by management</li> <li>Assessing the sensitivity of the assumptions used by management on the value in use calculation</li> <li>Involving our internal specialists to assess the discount rates against comparable market information</li> <li>Assessing the disclosures related to the goodwill and the impairment assessment by comparing these disclosures to our understanding of the matter and the applicable accounting standards.</li> </ul>

## Going Concern

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<ul style="list-style-type: none"> <li>The Group's disclosures around liquidity and funding are included in Note 1, which details the facts leading to the net current liability position and the impact that COVID-19 had on the Group.</li> <li>The accounts are prepared on a going concern basis. Given the above factors going concern was considered a key audit matter due to there being significant judgement involved and requiring significant auditor effort.</li> </ul>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>Obtaining and evaluating management's assessment of the group's ability to continue as a going concern</li> <li>Evaluating management's cash-flow forecasts and challenging management's assumptions applied around future sales, gross margin, operating costs, and resulting cash flows</li> <li>Assessing management's assumptions in the cash flow forecasts to assess whether current cash levels along with expected cash inflows and expenditure can sustain the operations of the Group for a period of at least 12 months from the date of this audit report.</li> </ul>

## Other information

The directors are responsible for the other information. The other information comprises the information in the Group's annual report for the year ended 30 June 2020, but does not include the financial report and the auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the Financial Report

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

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

## Auditor's responsibilities for the audit of the Financial Report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf)

This description forms part of our auditor's report.

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included on pages 17 to 29 of the directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of HRL Holdings, for the year ended 30 June 2020, complies with section 300A of the *Corporations Act 2001*.



### **Responsibilities**

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

**BDO Audit Pty Ltd**

A handwritten signature in black ink, consisting of the letters 'BDO' in a simple, blocky font above a more stylized signature that appears to read 'T Mann'.

**T R Mann**  
Director

Brisbane, 30 July 2020

## HRL HOLDINGS LIMITED CORPORATE INFORMATION

### DIRECTORS

Greg Kilmister (Non-executive Chairman)  
Darren Anderson (Non-executive Director)  
Steve Howse (Executive Director)  
John Taylor (Non-executive Director)  
James Todd (Non-executive Director)

### COMPANY SECRETARY

Paul Marshall

### REGISTERED OFFICE

HopgoodGanim Lawyers  
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Brisbane QLD 4000  
Phone: + 61 7 3105 5960

### SOLICITORS

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Brisbane QLD 4000  
Phone: + 61 7 3024 0000

### SHARE REGISTRY

Link Market Services Limited  
Level 21  
10 Eagle Street  
Brisbane QLD 4000  
Phone: 1300 554 474

### AUDITORS

BDO Audit Pty Ltd  
Level 10, 12 Creek Street  
Brisbane QLD 4000  
Phone: + 61 7 3237 5999

### COUNTRY OF INCORPORATION

Australia

### STOCK EXCHANGE LISTING

Australian Securities Exchange Limited  
ASX Code: HRL

### INTERNET ADDRESS

[www.hrlholdings.com](http://www.hrlholdings.com)

### AUSTRALIAN BUSINESS NUMBER

ABN 99 120 896 371

