



HRL HOLDINGS LIMITED Appendix 4E FY2019 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 2019
Previous Corresponding Period:	30 June 2018

2. Results for Announcement to the Market	\$
Revenue from ordinary activities up 13% to:	30,754,848
Underlying net profit/(loss) for the period down 47% to:	1,534,330
Net profit/(loss) for the period attributable to members down to:	(7,126,758)

Refer to pages 8 to 12 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 2019 Financial Statements and accompanying Notes.

4. Balance Sheet with Notes to the Statement

Refer to Page 34 of the 2019 Financial Statements and accompanying Notes.

5. Statement of Cash Flows with Notes to the Statement

Refer to Page 36 of the 2019 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 2019 Financial Statements and accompanying Notes.

8. Net Tangible Assets per Security

2019	\$0.016
2018	\$0.022



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

Refer to Page 72 of the 2019 Financial Statements.

10. Associates and Joint Venture Entities

Refer to Page 69 of the 2019 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 8 to 12 of the Financial Statements for the operational and financial review of the Entity.

14. Status of Audit

The attached 2019 Financial Statements have been audited.

15. Dispute or Qualifications if not yet audited

Not applicable.

16. Dispute or Qualifications if audited

Not applicable.

A handwritten signature in blue ink that reads 'Paul Marshall'.

Paul Marshall
Company Secretary
9 August 2019



HRL HOLDINGS LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED

30 JUNE 2019

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CEO'S LETTER

Dear Shareholders,

Your Directors and I have much pleasure in presenting the 2019 Annual Financial Statements for the HRL Group.

Introduction and the past year in review

FY2019 was a challenging year for HRL. The decline in the New Zealand drugs of abuse (methamphetamine) property testing market and challenging trading conditions in the HAZMAT and Geotechnical businesses had a material impact on earnings for the first half of the year. In response, several market diversification and restructuring initiatives were put in place which saw second half results improve markedly.

The business restructuring efforts are largely complete allowing us to focus on organic growth centred around high value, high throughput commercial laboratory testing. I am pleased with the early client uptake in new services which will become more profitable as they scale with time.

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 substantially fulfilled including:

- 1. Leveraging off Analytica intellectual property and know how to enter new service lines in both Australia and New Zealand;**
 - HRL has expanded our laboratory offering, with key notable new services for glyphosate, beta-casein testing extensions, PFAS in soil and water.
- 2. Utilising new equipment, technology and software platforms to improve efficiencies and margins;**
 - New technology has been installed at OCTIEF and Morrison Geotechnic delivering laboratory throughput improvements. These are a mixture of software and laboratory instrumentation.
 - Analytica has been working on developing artificial intelligence (AI) for image recognition to improve throughput for pollen identification and counting in honey samples.
- 3. Focussed business development plans to target new clients and protect the existing client base;**
 - Revenue expansion has been seen most notably in Analytica, OCTFOLIO and Morrison.
 - Following the laboratory restructure at Precise, the core consulting business has seen a notable increase in projects won.
- 4. Continued focus on cross selling opportunities across all business units;**
 - OCTIEF applied for, and received, import permits to receive soil samples from New Zealand for acid sulphate analysis and filters for crystalline silica analysis.
 - OCTIEF ships a small volume of samples for methamphetamine testing back to New Zealand.
 - OCTIEF and Precise increased their OCTFOLIO reseller activities this year resulting in an increase in new clients in the second half
- 5. Using the OCTFOLIO software platform to target new clients and provide enhanced service offerings to existing clients of the other business units.**
 - OCTFOLIO has launched modules this year to meet specific client demand for oil sampling, equipment registers tracking, and hazardous material sampling for power utility assets.
 - Digital chain of custody apps (in beta) were launched for Analytica.

HRL has successfully increased its social responsibility focus this year with a 25% reduction in total reportable injuries (TRI) in the second half. We are proud of our diverse workforce which now includes 47% female representation. Recycling initiatives at our main laboratory in Hamilton NZ has seen a 40% reduction in laboratory glass/plastic waste. We have chosen three key charities to support throughout the year.

CEO'S LETTER

During the year HRL entered into an agreement with MilkTestNZ to create a new 50:50 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 focussed on liquid milk testing. The JV has appointed a General Manager, secured temporary laboratory facilities, and has begun method development with its foundation technical staff.

The underlying EBITDA of \$4.45M, although disappointingly lower than FY18, was a reasonable recovery after noting the decrease in drugs of abuse (methamphetamine) property testing earnings of circa \$2.5M EBITDA contribution for the full year.

HRL has made 75% of the earnout payments to the Analytica vendors as at 30 June 2019. The remaining 25% will be cleared by November 2019 in accordance with the acquisition terms. Net of earnout payments, HRL produced operating cashflow of \$2.7M.

Our board of directors welcomed Greg Kilmister as Chairman to the business during the year. Greg brings highly valued experience running international laboratory operations and has been providing excellent leadership and governance to the business.

Outlook for FY2020

The Group will continue to focus on growing its core business of providing laboratory, sampling and information services to its clients to:

- 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;
- Increase organic service development with a focus on scalable laboratory-based services;
- Integrate the business units HR, IT, finance and support services;
- Grow earnings from the data management / software division;
- Secure new laboratory facilities for HRL's main Hamilton NZ operation to facilitate long term growth and improve workflow efficiencies; and
- Support HRL's JV investments and partners to realise their strategic potential.

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 FY2019. I look forward to reporting a stronger FY2020 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 2019.

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
Darren Anderson	Non-Executive Director	Appointed 15 September 2014, transitioned from Executive Director to a Non-Executive Director on 1 July 2019
John Taylor	Non-Executive Director	Appointed 25 November 2014
Steve Howse	Executive Director	Appointed 1 March 2018
James Todd	Non-Executive Director	Appointed 1 March 2018
Kevin Maloney	Non-Executive Chairman	Appointed 15 September 2014, Retired 17 August 2018

Greg Kilmister

Non-Executive Chairman

B Sc (Hons), FRACI, CCEO

Mr Kilmister was the Managing Director and Chief Executive Officer of ALS Limited, the 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.

Darren Anderson

Non-Executive Director - transitioned from Executive Director to a Non-Executive Director on 1 July 2019

Mr Darren Anderson was formerly 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.

Previous career highlights include 15 years spent as founder and Executive Director of the Anderson Group of Companies, which grew from a single person operation in Mackay to a company with in excess of 300 employees and 12 operating divisions across both Queensland and New South Wales that serviced the Australian and international coal industries.

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

DIRECTORS' REPORT

John Taylor

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 Law degree, a post Graduate Diploma in Applied Corporate Governance and is a member of the Australian Institute of Company Directors.

Mr Taylor was, from 2006 and 2010, a director of ASX listed The MAC Services Group Limited, where he was Chair of the Remuneration and Nomination Committee and a member of the Audit and Risk Management Committee. He is also a former Chair of the Mackay Port Authority and a Board member of Tourism Mackay and Mackay Regional Economic Bureau.

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 the recently acquired 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 until recently has been the deputy chair 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.

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)

Kevin Maloney (retired 17 August 2018)

Former Non-Executive Chairman

Mr Kevin Maloney is the founder and Chairman of the Australian investment entity Tulla Group and has built an extensive career in retail banking, finance and resources.

Mr Maloney was a director of the following other ASX listed company:

- Altona Mining Limited (appointed July 2009, resigned 18 April 2018)

DIRECTORS' REPORT

DIRECTOR INTERESTS IN THE SHARES AND OPTIONS OF THE CONSOLIDATED ENTITY

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

Director	Fully Paid Ordinary Shares
Greg Kilmister	250,000
Darren Anderson	21,443,806
John Taylor	1,964,486
Steve Howse	12,190,297
James Todd	400,000

There are no options or performance rights held by Directors.

MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2019 and the number of meetings attended by each Director.

	Directors Meetings		Audit and Risk Committee Meetings		Remuneration and Nomination Committee Meetings	
	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend
Greg Kilmister	5	5	1	1	2	2
Darren Anderson	10	10	-	-	3	3
John Taylor	9	10	3	3	3	3
Steve Howse	10	10	2	2	-	-
James Todd	10	10	3	3	3	3
Kevin Maloney	1	1	1	1	-	-

COMMITTEE MEMBERSHIP

As at the date of this report, the Group has an Audit and Risk Committee and a Remuneration and Nomination Committee. Members acting on the Committees of the Board at the date of this report were:

Audit and Risk Committee	Remuneration and Nomination Committee
James Todd (Chair)	John Taylor (Chair)
John Taylor	James Todd
Steve Howse	Darren Anderson
Greg Kilmister	Greg Kilmister

SENIOR MANAGEMENT

Paul Marshall
Company Secretary

LLB, ACA

Mr Marshall holds a Bachelor of Law 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

Mr Dabelstein has a strong financial and operational background in various roles, including most recently as General Manager Commercial and QLD Mining/Maintenance Services with Diversified Mining Services Limited.

Mr Dabelstein's experience includes public practice accounting, manufacturing, service and the construction industries. 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 15 years in the accountancy profession in Australia, having worked for eight years in audit, and subsequently over five years in commercial roles as financial controller for a number of listed companies mainly in the property and resources sector. 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.

REVIEW OF OPERATIONS

Trading Review

FY2019 was a challenging year for HRL. The decline in the New Zealand methamphetamine testing market and tough trading conditions in the HAZMAT and Geotechnical businesses had a material impact on earnings for the first half of the year. In response, a number of profitability initiatives were put in place which saw second half results improve markedly.

Food and Environmental Laboratory Services

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

DIRECTORS' REPORT

Analytica has continued to perform to expectations following its acquisition in December 2018. Revenues for the year were up 15% compared with the prior period. Analytica saw a drop-off of its high margin methamphetamine testing service line due to changing requirements of the New Zealand Government. This contraction in revenue has now been substantially replaced by accelerated growth in environmental, dairy, honey and food origin testing service lines.

Analytica continued to develop and roll out new tests in its recently launched environmental service line. The environmental service line incorporates laboratory testing on air, water and soil. Revenue growth over the prior period was 93%, and Analytica expects environmental analytical services to contribute the bulk of Analytica's revenue growth over the next few years. Margins on this testing are currently lower in this early phase than other more mature services but are increasing as processes are optimised and volumes increase.

Dairy and milk testing was strong with revenues growing 16% on FY2018. M Bovis dairy testing during the first half of the year, and continued growth in beta casein testing, provided the bulk of this growth. M Bovis testing is a DNA based test with a high consumable component which generates lower margins than other testing types. This contributed to the lower overall margin percentage compared with the prior year.

Despite an average production season, honey testing was pleasingly strong during the period, with revenues up 14% on FY2018. Analytica continues to be the market leader in manuka honey testing.

As a direct result of a change in New Zealand Government guidelines, laboratory testing for drugs of abuse fell significantly from the prior period with revenues down 48% on FY2018. Volumes have now stabilised with the majority of samples coming from private domestic clients and insurance related testing. The bulk of the reduction can be attributed to the fall in public housing testing.

Food origin testing continues to grow strongly with revenues up 51% on the prior period. Analytica continues to work closely with its key clients to develop this ever-growing market.

From 1 March Analytica took control of the HRL owned Precise laboratory facilities in New Zealand which previously operated independently of Analytica., The Precise laboratory facilities have now been rebranded as regional Analytica facilities and fully integrated into the Analytica network. Analytica will look to explore other service line opportunities for these regional laboratories beyond their historical focus on asbestos testing.

Analytica also holds 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 the period was largely breakeven, as final certification from the Chinese regulators (CNAS) was undertaken.

HAZMAT

The HAZMAT division, which incorporates the OCTIEF business unit in Australia and the Precise business in New Zealand, had a very challenging year with earnings substantially down on FY2018 due to lower market activity and subsequent pricing pressures.

New Zealand operations were significantly impacted by the changes in the New Zealand Government methamphetamine guidelines. Methamphetamine testing revenue was down 77% on the prior period. Precise's major client for this service line was the public housing department, and work from this source has all but ceased since the release of the new guidelines report in late May of 2018.

In response to the decline within the methamphetamine field testing market, HRL restructured its New Zealand operations. From 1 March 2019, Analytica assumed control and rebranded Precise's regional laboratories (Auckland, Wellington, Christchurch and Dunedin). Moving forward Precise will focus purely on consulting and sampling services. This restructure will allow the laboratories to target a wider range of clients and to provide those clients with the world class service levels that Analytica is known for. Over the medium term it will also allow different service lines to be introduced into the regional laboratories that fell outside of the testing capabilities of Precise.

The restructured Precise business has been designed to be a leaner and more agile organisation operating with a much-reduced overhead cost base. Precise will seek to engage beyond its traditional HAZMAT client base to become a multi-disciplined field sampling organisation. Following the restructure, Precise has experienced an immediate turnaround in its financial performance generating strong profits from March onwards.

Australian operations for OCTIEF were softer during the period, with revenues down 20% on the prior period. The Queensland market remained consistent for asbestos work but there was a notable slowdown in environmental consulting projects. The Northern Territory market was weak as territory wide budget restrictions impacted the release of public projects. Following the conclusion of the loose fill asbestos investigation (Mr Fluffy) program in the ACT and surrounding areas, and limited growth opportunities in the region, the ACT branch was closed in April 2019.

DIRECTORS' REPORT

During the final quarter of FY2019, OCTIEF secured a large-scale laboratory sampling contract from a major utility provider. This contract is expected to run through to the end of the calendar year and will provide a boost to laboratory revenues in the first half of FY2020.

Under the guidance of the Analytica team, OCTIEF continues to develop its high-end laboratory capabilities. This service line is still in its infancy with modest sample volumes but represents the first step in bringing Analytica's capability into the Australian market.

Geotechnical

The Geotechnical division incorporates the Morrison Geotechnic business unit in Australia. Revenues for Morrison Geotechnic increased 4% over FY2018. Pricing pressures remain throughout the sector, especially in the Gold Coast region. In response to these pressures, Morrison Geotechnic has installed new equipment and technologies to automate components of the geotechnical testing process and undertook other cost savings initiatives such as the consolidation of Gold Coast operations to the OCTIEF premises at Yatala. Following these changes Morrison Geotechnic's financial performance improved significantly in the second half of FY2019.

Underlying civil infrastructure and large-scale commercial development activity currently remains strong across south east Queensland and Morrison Geotechnic is actively engaging with developers to secure its future pipeline of works.

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 focus on business development and software enhancement during the period. OCTFOLIO has developed a range of new features and applications for its clients which move the product beyond its original focus on asbestos data management into a range of new industries and clients.

OCTFOLIO secured several large new contracts in the second half which will continue to grow its profits through FY2020.

Other Operational Highlights

Analytica Earnout

As part of the acquisition of Analytica Laboratories, the vendors had the opportunity to achieve an earnout payment of up to NZD 11 million if certain EBITDA hurdles were met.

Analytica exceeded the EBITDA hurdle target of NZ\$4,850,000 for the 12 months ended 30 November 2018.

As at 30 June 2019, 75% of the total earn-out consideration had been paid. Payment of the remaining 25% earn-out consideration will be completed by November 2019.

New Dairy Joint Venture

During the year HRL entered into an agreement with MilkTestNZ to create a new 50:50 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 focussed on liquid milk testing.

Analytical testing in the New Zealand dairy industry targets a wide range of dairy products including:

- Cheese;
- Yoghurt;
- Ice-creams;
- Milk powders;
- Infant formulas and many more.

Both HRL Holdings and MilkTestNZ currently have limited exposure to the testing of these products, with the current focus on the testing of raw liquid milk.

The market size for dairy product testing in New Zealand is estimated to be approximately NZ\$80M per annum, with half of that attributed to in-house testing by the producers. The new joint venture will target the remaining estimated NZ\$40M market for third party contract laboratory testing.

DIRECTORS' REPORT

There are a limited number of competitors in this space. The joint venture will leverage off the proven strengths of its partners to attract market share through:

- Industry leading turnaround times delivered through high-throughput innovative laboratory workflows;
- Superior distribution network and logistics;
- Leveraging existing clients of the joint venture partners;
- High levels of service and technical support;
- Attractive pricing; and
- IT solutions tailored to give clients superior data.

The joint venture company will offer a full suite of testing services covering finished products, ingredients, and in-process samples.

The joint venture company will operate independently from its partners and establish its own premises, employees and operations.

The joint venture company will require funding of NZ\$3M to establish operations, develop the necessary testing methods and go to market, with funding to be provided over a 2-year period.

FINANCIAL REVIEW

Key financial headlines of the HRL Group's 30 June 2019 results are:

- Revenues of \$30,754,848
- Underlying EBITDA of \$4,450,775
- Underlying profit after tax of \$1,534,330 ¹
- Statutory loss after tax of \$7,126,758
- Cashflow used in operations of (\$5,139,121). Excluding Analytica earn-out payments, cashflows provided by operations were \$2,746,561
- Net cash/(borrowings) of (\$3,567,003)
- Net current assets of \$114,352 ²

¹ 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.

² Included in current liabilities is an interest only bank loan drawn to \$1,911,741. This facility has no expiry date but is subject to annual review by Westpac. Working capital excluding this amount is \$2,026,093.

DIRECTORS' REPORT

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

	June 2019 \$	June 2018 \$
Underlying EBITDA	4,450,775	5,774,562
Operating depreciation and amortisation	(2,194,245)	(1,477,840)
Borrowing costs (net of interest income)	(135,507)	(53,125)
Operating tax	(586,693)	(1,369,720)
Underlying profit after tax	1,534,330	2,873,877
<i>Non-operating adjustments</i>		
Acquisition and joint venture establishment expenses	(22,113)	(158,222)
Amortisation of intangible assets arising from acquisitions	(3,602,257)	(1,941,073)
Earn-out expenses/adjustments	(5,069,621)	(2,692,615)
Lapsed management performance shares	(62,355)	(35,181)
Impairment of goodwill (OCTIEF ACT branch closure)	(661,357)	-
One-off restructure costs (Precise regional laboratories transfer to Analytica, Morrison Gold Coast branch relocation and closure of OCTIEF ACT branch)	(348,433)	-
Equity accounted share of profits/(loss)	2,847	(28,477)
Non-operating tax	1,102,201	477,894
Statutory profit/(loss) after income tax	(7,126,758)	(1,503,797)

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-cash or non-recurring in nature. These items are included in the Group's consolidated statutory result but excluded from the underlying result.

Comparison with the Prior Period

Underlying profit after tax for the year decreased by \$1,339,547 compared with the prior year. The key reasons for the decrease were:

- Lower earnings from the HAZMAT division, primarily due to the impact of reduced methamphetamine property testing in New Zealand;
- Lower earnings from Analytica in the methamphetamine testing, although offset by growth in all other areas including honey, dairy, and environmental; and
- Increased corporate and borrowing costs.

Liquidity and Funding

As at 30 June 2019 the Group has cash reserves of \$1,031,193, total borrowings of \$4,598,196 and net current assets of \$114,352.

Included in current liabilities is an interest only bank loan drawn to \$1,911,741. This facility has no expiry date but is subject to annual review by Westpac.

The Group has undrawn borrowings at 30 June 2019 of \$1,918,727.

All banking covenants were met during the year and there were no defaults or breaches on any of the loans.

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes during the year.

LIKELY DEVELOPMENTS AND FUTURE OPERATIONS

During FY2020, the Group will continue to focus on returning to FY2018 levels of profitability through:

- Introduction of new Analytica service lines such as:
 - Natural products including medicinal cannabis testing;
 - Beta Casein (A1/A2) genotyping.
 - Further environmental testing services; and
 - Additional contract research and development services for clients to allow them to take advantage of the recently introduced research and development tax incentive. Analytica is an approved service provider for laboratory services with the New Zealand tax authority.
- Maintaining the improved trading performance in both the HAMZAT and Geotechnical businesses resulting from recent restructure activities;
- Continued client acquisition for the OCTFOLIO software platform;
- A strong focus on cost control; and
- A reduction in corporate costs.

In addition, the Group will continue to evaluate acquisition opportunities of high-quality laboratory businesses.

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 2019
		1 July 2018	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

DIRECTORS' REPORT

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

Expiry Date	Tranche	Vesting Price ¹	Movements				
			1 July 2018	Issued	Exercised	Expired / Forfeited	30 June 2019
30 June 2019	1	\$0.156	802,422	-	-	(802,422)	-
30 June 2019	1	\$0.194	802,422	-	-	(802,422)	-
30 June 2019	1	\$0.234	802,421	284,287	-	(1,086,708)	-
30 June 2020	2	\$0.234	-	284,287	-	(284,287)	-
30 June 2021	2	\$0.234	-	284,288	-	(284,288)	-
			2,407,265	852,862	-	(3,260,127)	-

Long Term Incentive Performance Share Plan – Tranche 1

Primary Vesting Conditions	<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"> HRL share price increases 33% within 1 year; or HRL share price increases 66% within 2 years; or HRL share price increases 100% within 3 years. <p>The HRL share price must remain above the nominated target for the relevant period for 14 consecutive trading days</p>
Secondary Vesting Conditions	<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"> First 33% of the performance shares vest after 1 year of service from plan commencement; Next 33% performance shares vest after 2 years of service from plan commencement; Final 34% performance shares vest after 3 years of service from plan commencement.
Exercise Price	\$Nil
Forfeiture	<p>The Performance Shares will lapse if:</p> <ul style="list-style-type: none"> None of the pricing conditions are met; or the participant does not meet the service conditions.
Change of Control Event	<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>

DIRECTORS' REPORT

Long Term Incentive Performance Share Plan – Tranche 2

Primary Vesting Conditions	HRL share price remains above \$0.234 for 14 consecutive trading days prior to 30 June 2019.
Secondary Vesting Conditions	The Performance Shares will vest in proportion to the number of years' service: <ol style="list-style-type: none">1. First 33% of the performance shares vest at 30 June 20192. Next 33% performance shares vest at 30 June 20203. Final 34% performance shares vest at 30 June 2021
Exercise Price	\$Nil
Forfeiture	The Performance Shares will lapse if: <ul style="list-style-type: none">- None of the pricing conditions are met; or- the participant does not meet the service conditions.
Change of Control Event	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.

The pricing conditions were not met and all Performance Shares have now lapsed.

AFTER BALANCE DATE EVENTS

There have been no other events since 30 June 2019 that impact upon the financial report.

REMUNERATION REPORT

The Remuneration Report set out on pages 17 to 30 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.

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*.

DIRECTORS' REPORT

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 \$23,610

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.

A handwritten signature in black ink, appearing to read 'Darren Anderson', followed by a long horizontal line extending to the right.

Darren Anderson
Director
Brisbane, 9 August 2019

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 caliber, 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 \$250,000 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 2019 is detailed in this Remuneration Report.

REMUNERATION REPORT - AUDITED

Executive Director and Senior Management Remuneration

The Company aims to reward Executive Director and Senior Management with a level and mix of remuneration commensurate with their position and responsibilities within the company and so as 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 so as 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 company wide 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 Directors and Senior Management for the period ended 30 June 2019 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.

Non-Executive Chairman Arrangements

The Company entered into 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 into a service arrangement with Mr James Todd, Mr Darren Anderson and Mr John Taylor 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

Executive Director Arrangement – Steve Howse

The Company entered into an employment contract with Mr Steve Howse as 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;
- 1 month notice period.

REMUNERATION REPORT - AUDITED

Executive Director Arrangements – Darren Anderson (until 30 June 2019)

The Company entered into an employment contract with Mr Darren Anderson as Executive Director of the Company commencing from 1 January 2015 until 30 June 2019. Mr Anderson transitioned to a Non-Executive director role from 1 July 2019. The key terms of the contract were:

- Salary of \$300,000 per annum, plus statutory superannuation contributions;
- 6 weeks annual leave;
- Use of a company motor vehicle;
- Short term incentive cash bonus upon achieving certain profit targets;
- 3 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;
- 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;
- Short term incentive cash bonus upon achieving certain profit targets;
- 4 weeks annual leave;
- 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
Directors		
Greg Kilmister	Non-Executive Chairman	Appointed 11 February 2019
Darren Anderson ¹	Non-Executive Director	Appointed 15 September 2014
John Taylor	Non-Executive Director	Appointed 25 November 2014
Steve Howse	Executive Director	Appointed 1 March 2018
James Todd	Non-Executive Director	Appointed 1 March 2018
Former Directors		
Kevin Maloney	Non-Executive Chairman	Appointed 15 September 2014, Retired 17 August 2018
Key Management		
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

Notes

- 1 Mr Anderson was engaged as an Executive Director for the year ended 30 June 2019 and transitioned to a Non-Executive Director role on 1 July 2019.

REMUNERATION REPORT - AUDITED

Remuneration of Directors and other Key Management Personnel – 2019

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

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

Remuneration of Directors and other Key Management Personnel – 2018

	Note	Short Term Benefits			Long Term Benefits	Post Employment Benefits	Equity based Benefits	Total	Performance Related %	% of FY18 STI bonus forfeited	% of bonus vested
		Salary/ Director fees	Consulting fees	Vehicle allowance	Accrued / (used) leave benefits	Superannuation	Performance Shares				
Directors											
Kevin Maloney		51,370	-	-	-	23,630	-	75,000	-	-	-
Darren Anderson		235,160	-	15,000	(3,714)	22,340	-	268,786	-	100%	Nil
John Taylor		40,000	-	-	-	-	-	40,000	-	-	-
Steve Howse	1	48,592	-	-	(93)	1,458	-	49,957	-	-	-
James Todd	1	13,333	-	-	-	-	-	13,333	-	-	-
Mark Elliott	2	16,667	-	-	-	-	-	16,667	-	-	-
Alternate Director											
Frederick Kempson	3	-	6,300	-	-	-	-	6,300	-	-	-
Key Management											
Steven Dabelstein		237,451	-	-	(2,971)	20,049	27,183	281,712	10%	100%	Nil
Michael Harvey		150,502	-	-	4,437	14,298	17,397	186,634	9%	100%	Nil
Paul Marshall		52,000	-	-	-	-	-	52,000	-	-	-
		845,075	6,300	15,000	(2,341)	81,775	44,580	990,389			

Notes

- 1 Appointed 1 March 2018
- 2 Retired 22 December 2017
- 3 Retired 23 November 2017

There were no termination benefits paid or accrued for the year ended 30 June 2018.

REMUNERATION REPORT - AUDITED

Key management personnel equity holdings

Shareholdings

	Balance 1 July 2018	Acquired on market	Recognized on appointment	Disposed	Derecognized on retirement	Balance 30 June 2019
Directors						
Greg Kilmister	-	-	250,000	-	-	250,000
Darren Anderson	21,283,806	160,000	-	-	-	21,443,806
John Taylor	1,824,486	180,000	-	(40,000)	-	1,964,486
Steve Howse	12,190,297	-	-	-	-	12,190,297
James Todd	-	400,000	-	-	-	400,000
Former Directors						
Kevin Maloney	61,320,900	-	-	-	(61,320,900)	-
Key Management						
Steven Dabelstein	1,611,770	90,090	-	-	-	1,701,860
Michael Harvey	801,035	-	-	-	-	801,035
Paul Marshall	2,625,945	-	-	-	-	2,625,945
	101,658,239	830,090	250,000	(40,000)	(61,320,900)	41,377,429

Performance Shares

	Balance 1 July 2018	Granted	Exercised	Lapsed	Balance 30 June 2019	Vested and Exercisable
Directors						
Greg Kilmister	-	-	-	-	-	-
Darren Anderson	-	-	-	-	-	-
John Taylor	-	-	-	-	-	-
Steve Howse	-	-	-	-	-	-
James Todd	-	-	-	-	-	-
Former Directors						
Kevin Maloney	-	-	-	-	-	-
Key Management						
Steven Dabelstein	1,068,376	-	-	(1,068,376)	-	-
Michael Harvey	683,761	-	-	(683,761)	-	-
Paul Marshall	-	-	-	-	-	-
	1,752,137	-	-	(1,752,137)	-	-

REMUNERATION REPORT - AUDITED

FY2019 – Short Term Incentive Plan

For the FY2019 financial year Darren Anderson (Executive Director), Steven Dabelstein (CEO) and Michael Harvey (CFO) had the opportunity to earn a cash bonus based upon the Group achieving certain profit targets as outlined in the table below:

Underlying Profit Targets	Bonus Payable CEO / Executive Director	Bonus Payable CFO
Less than \$5.75M	\$Nil	\$Nil
\$5.75M to \$6.0M	\$50,000	\$33,333
\$6.0M to \$6.25M	\$75,000	\$50,000
\$6.25M to \$6.5M	\$100,000	\$66,666
Above \$6.5M	\$125,000	\$83,333

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 FY2019 and no bonuses were payable.

FY2019 – Long Term Incentive Performance Shares Details

The performance shares granted under the long term incentive plan focuses on long term shareholder wealth creation and retention of key personnel. Participants receive Performance shares with the following terms and conditions:

Long Term Incentive Performance Share Plan – Tranche 1

Primary Vesting Conditions	<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"> 1. HRL share price increases 33% within 1 year; or 2. HRL share price increases 66% within 2 years; or 3. HRL share price increases 100% within 3 years. <p>The HRL share price must remain above the nominated target for the relevant period for 14 consecutive trading days</p>
Secondary Vesting Conditions	<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"> 1. First 33% of the performance shares vest after 1 year of service from plan commencement; 2. Next 33% performance shares vest after 2 years of service from plan commencement; 3. Final 34% performance shares vest after 3 years of service from plan commencement.
Exercise Price	\$Nil
Forfeiture	<p>The Performance Shares will lapse if:</p> <ul style="list-style-type: none"> - None of the pricing conditions are met; or - the participant does not meet the service conditions.
Change of Control Event	<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>

REMUNERATION REPORT - AUDITED

Fair value of performance shares granted

The assessed fair value at the date of grant of performance shares 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 performance share, the underlying share's expected volatility, expected dividends and the risk free interest rate for the expected life of the instrument.

Details of options 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 option is convertible into one ordinary share of HRL Holdings Limited. Further information on the options is set out in note 22 to the financial statements. Value lapsed in the current year is is set out in the below table.

	Value Granted \$	Value Exercised \$	Value lapsed \$
Key Management			
Steven Dabelstein	-	-	79,701
Michael Harvey	-	-	51,009

Transactions with related parties

There were no transactions with related parties.

Loans to related parties

There were no loans given to related parties.

Remuneration Consultants

In December 2018, the Remuneration and Nomination Committee engaged Egan Associates Pty Ltd to review its existing remuneration policies and to provide recommendations on executive short-term and long-term incentive plan design. Egan Associates Pty Ltd was paid \$15,540 for these services.

Egan Associates Pty Ltd has confirmed that any remuneration recommendations have been made free from undue influence by members of the Group's key management personnel.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- Egan Associates Pty Ltd was engaged by, and reported directly to, the chair of the Remuneration and Nomination Committee. The agreement for the provision of remuneration consulting services was executed by the chair of the Remuneration and Nomination Committee under delegated authority on behalf of the Board.
- The report containing the Remuneration and Nomination Committee was provided by Egan Associates Pty Ltd directly to the chair of the Remuneration and Nomination Committee; and
- Egan Associates Pty Ltd did not speak to management throughout the engagement and did not provide any member of management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

REMUNERATION REPORT - AUDITED

FY2020 Long Term Incentive Plan

Introduction

The previous equity-based incentive plan for senior management was introduced in FY2016. This plan expired on 30 June 2019.

In conjunction with advice from remuneration consultants, the Remuneration and Nomination Committee has revised the long term incentive (LTI) plan which will apply from FY2020 onwards.

Whilst the LTI plan rules are now finalised, plan participants and the number of instruments to be issued have not yet been finalised. HRL expects the process will be complete by the end of August 2019 and will make a separate ASX announcement once done.

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 Remuneration and Nomination 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

Vesting Conditions - Performance

The following information provides a guide for the performance measures to be used for testing HRL performance.

Earnings per Share (EPS) Measure

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

25% of Performance Rights are subject to EPS measurement. The performance period is a period of three financial years commencing on 1 July each year, ending 30 June three years later.

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	
<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 total grant
Comparator companies	Bureau Veritas (France), Core Laboratories (USA), Eurofins (France & Germany), Intertek (UK), SGS (Switzerland), ALS (Australia), Exova (UK)

25% of Performance Rights are subject to EBITDA measurement. The performance period is a period of three financial years commencing on 1 July each year, ending 30 June three years later.

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.

REMUNERATION REPORT - AUDITED

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 total grant

25% of Performance Rights are subject to TSR measurement. The performance period is a minimum period of three financial years commencing on 1 July each year, ending 30 June three years later. 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 total grant
ROCE exceeds WACC + 7%	25% of total grant

25% of Performance Rights are subject to Return on Capital Employed (ROCE) measurement. The performance period is a minimum period of three financial years commencing on 1 July each year, ending 30 June three years later. In order to provide an incentive for superior performance, the respective ROCE hurdles will be 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 three year 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.

REMUNERATION REPORT - AUDITED

Vesting Conditions - Service

Should the participant leave or be terminated from HRL:

- During years 1 - 3 all unvested performance rights will be forfeited.
- The participant must be employed on the vesting date (subject to EPS, EBITDA, TSR and ROCE performance criteria being met) to be eligible for the shares.
- The exception to this is termination due to death or bona fide age or disability retirement with any further exceptions at the absolute discretion of the Board.

LTI Plan Duration

The LTI plan is a 3 year plan with performance conditions measured over a 3 year timeframe.

The Board intends that this plan will operate on a 3 year rolling basis, with a new plan offered to participants annually, using the same performance conditions but measure on the new period. For example, the FY2020 plan will cover the periods FY2020, FY2021 and FY2022. The FY2021 plan will cover the FY2021, FY2022 and FY2023 and so on.

REMUNERATION REPORT - AUDITED

Relationship between remuneration and Group performance

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

Measures	2019 \$	2018 \$	2017 \$	2016 \$	2015 \$
Share price at end of financial year	0.115	0.185	0.080	0.110	0.068
Market capitalisation at end of financial year (\$M)	56.7	91.3	19.5	17.5	10.5
Underlying EBITDA	4,450,775	5,774,562	1,509,017	1,074,645	107,782
Net Profit/(loss) for the financial year	(7,126,758)	(1,503,797)	130,420	117,988	(1,583,755)
<hr/>					
Director and Key Management Personnel remuneration	1,428,947	990,389	965,124	825,391	638,557

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 options issued as part of remuneration in 2019.

No options expired during the period.

1,752,137 performance share equity instruments were issued to key management as remuneration in 2017. The performance shares did not meet the vesting conditions and lapsed at 30 June 2019.

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

AUDITOR'S INDEPENDENCE DECLARATION



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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 2019, 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, 9 August 2019

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 30 July 2019.

Distribution of equity securities

HRL – Ordinary Fully Paid Shares

Number of Securities Held	No's of holders
1 to 1,000	282
1,001 to 5,000	381
5,001 to 10,000	207
10,001 to 100,000	496
100,001 and over	209
Total	1,575

Number of unmarketable parcels of shares	613
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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	133,361,060	27.03
2	TERRENCE PATRICK COONEY & JULIE ANNE COONEY & HUGH OWEN COONEY	36,570,891	7.41
3	NATIONAL NOMINEES LIMITED	29,833,714	6.05
4	UBS NOMINEES PTY LTD	24,643,000	4.99
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	20,642,285	4.18
6	BNP PARIBAS NOMS PTY LTD	18,978,280	3.85
7	HGT INVESTMENTS PTY LTD	17,854,678	3.62
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	16,009,609	3.24
9	CAROLYN BRAGGINS & TERENCE BRAGGINS & VOSPER TRUSTEES LIMITED	12,190,297	2.47
10	JNLJ COMPANY LTD	12,190,297	2.47
11	MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	9,793,000	1.98
12	BNP PARIBAS NOMINEES PTY LTD	9,671,230	1.96
13	DARREN ANDERSON & JULIE ANDERSON	9,430,089	1.91
14	CRAIG ANDERSON & AMANDA ANDERSON	7,531,997	1.53
15	DIXSON TRUST PTY LIMITED	7,312,879	1.48
16	ANDERSON PROPERTY HOLDINGS PTY LTD	4,434,307	0.90
17	MR DARREN GEOFFREY ANDERSON & MRS JULIE ELIZABETH ANDERSON	4,050,000	0.82
18	DARREN G ANDERSON & GREGORY J ANDERSON & JULIE E ANDERSON	3,369,410	0.68
19	H K PRICE PTY LTD	3,330,624	0.68
20	MATARANKA PTY LTD	3,036,486	0.62
		384,234,133	77.87

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 31 July 2019:

- 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 107,897,466 shares (21.87%)
- IOOF Holdings Limited holds an interest in 74,058,875 shares (15.01%)

STATEMENT OF COMPREHENSIVE INCOME

Consolidated Statement of Comprehensive Income For the year ended 30 June 2019

	Note	2019 \$	2018 \$
Revenue from contracts with customers	3	30,728,754	27,307,497
Interest revenue		26,094	20,033
Total Revenue		30,754,848	27,327,530
Costs and consumables relating to the provision of services		(5,514,983)	(3,383,735)
Employee expenses	4	(16,717,824)	(14,267,367)
Rent and property expenses		(1,240,694)	(1,086,720)
Travel and business development expenses		(530,846)	(599,480)
Other expenses		(2,622,065)	(2,195,633)
Finance costs		(161,601)	(73,158)
Depreciation and amortisation of plant and equipment and software		(2,194,245)	(1,477,840)
Amortisation of acquisition intangible assets		(3,602,257)	(1,941,073)
Employee and consulting expense – share based payments	22	(62,355)	(35,181)
Employee benefits expense on Analytica earn-out payment	15	(5,257,121)	(2,942,615)
Morrison earn-out (expense)/adjustment	15	-	62,500
Adjustment to OCTFOLIO earn-out payment	15	187,500	187,500
Acquisition and joint venture establishment expenses		(22,113)	(158,222)
Impairment of goodwill	13	(661,357)	-
Total Expenses		(38,399,961)	(27,911,024)
Equity accounted share of profit/(loss)		2,847	(28,477)
Profit/(loss) before income tax		(7,642,266)	(611,971)
Income tax benefit/(expense)	5	515,508	(891,826)
Profit/(loss) after income tax		(7,126,758)	(1,503,797)
Other comprehensive income			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations	18	643,953	(227,001)
Income tax		-	-
Other comprehensive income for the period, net of tax		643,953	(227,001)
Total comprehensive income		(6,482,805)	(1,730,798)
Earnings/(Loss) per share		Cents	Cents
Basic and diluted earnings/(loss) per share	7	(1.4)	(0.4)

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 2019

	Note	2019 \$	2018 \$
CURRENT ASSETS			
Cash and cash equivalents	6	1,031,193	5,392,742
Trade and other receivables	9	4,992,317	4,247,652
Inventories	10	690,159	558,101
Other current assets		32,533	140,710
TOTAL CURRENT ASSETS		6,746,202	10,339,205
NON-CURRENT ASSETS			
Trade and other receivables	9	305,923	267,467
Equity accounted investments	20	665,446	608,894
Plant and equipment	11	7,471,822	6,954,257
Intangible assets	12	4,287,177	7,751,097
Goodwill	13	16,774,730	16,884,462
Deferred tax assets	5	1,652,983	1,287,748
TOTAL NON-CURRENT ASSETS		31,158,081	33,753,925
TOTAL ASSETS		37,904,283	44,093,130
CURRENT LIABILITIES			
Trade and other payables	14	1,918,323	1,539,245
Current tax liabilities		318,265	745,171
Short-term provisions	15	1,356,576	4,070,760
Borrowings	16	3,038,686	754,804
TOTAL CURRENT LIABILITIES		6,631,850	7,109,980
NON-CURRENT LIABILITIES			
Long-term provisions	15	32,405	45,941
Borrowings	16	1,559,510	360,156
Deferred tax liabilities	5	872,457	1,348,542
TOTAL NON-CURRENT LIABILITIES		2,464,372	1,754,639
TOTAL LIABILITIES		9,096,222	8,864,619
NET ASSETS		28,808,061	35,228,511
EQUITY			
Contributed capital	17	38,162,084	38,162,084
Reserves	18	214,560	(190,576)
Accumulated losses		(9,568,583)	(2,742,997)
TOTAL EQUITY		28,808,061	35,228,511

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 2019

	Contributed Capital \$	Accumulated Losses \$	Share Based Payment Reserve \$	Foreign Currency Reserve \$	Total \$
Balance at 1 July 2017	16,349,948	(1,239,200)	203,636	(202,392)	15,111,992
Transactions with owners in their capacity as owners					
Contributions of capital	22,402,408	-	-	-	22,402,408
Share issue costs (net of tax)	(590,272)	-	-	-	(590,272)
Share based payments	-	-	35,181	-	35,181
Total	21,812,136	-	35,181	-	21,847,317
Comprehensive income					
Profit after income tax	-	(1,503,797)	-	-	(1,503,797)
Foreign currency translation differences for foreign operations	-	-	-	(227,001)	(227,001)
Total comprehensive income	-	(1,503,797)	-	(227,001)	(1,730,798)
Balance at 30 June 2018	38,162,084	(2,742,997)	238,817	(429,393)	35,228,511
Balance at 1 July 2018	38,162,084	(2,742,997)	238,817	(429,393)	35,228,511
Transactions with owners in their capacity as owners					
Share based payments	-	-	62,355	-	62,355
Transfer of expired performance shares	-	301,172	(301,172)	-	-
Total	-	301,172	(238,817)	-	62,355
Comprehensive income					
Profit 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)
Balance at 30 June 2019	38,162,084	(9,568,583)	-	214,560	28,808,061

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 2019

	Note	2019 \$	2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		34,015,027	30,458,183
Payments to suppliers and employees		(30,098,597)	(24,891,069)
Interest received		20,747	8,045
Income tax paid		(1,006,902)	(942,617)
Analytica earn out payments		(7,885,682)	-
Acquisition and joint venture establishment costs		(22,113)	(158,222)
Finance costs		(161,601)	(65,158)
Net cash provided by/(used in) operating activities	6	(5,139,121)	4,409,162
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant & equipment		(874,758)	(1,517,395)
Proceeds from the sale of plant & equipment		116,756	13,119
Payments for intangible assets		(266,984)	(218,505)
Security deposit refunds/(payments)		(24,584)	34,721
Investment in Food Lab Pacific Limited		(47,414)	-
Net outflow of cash from the acquisition of Analytica	19	-	(11,974,018)
Distribution of pre-acquisition earnings to Analytica vendors		-	(217,896)
Net cash used in investing activities		(1,096,984)	(13,879,974)
CASH FLOWS FROM FINANCING ACTIVITIES			
Contributions of capital		-	16,002,503
Capital raising costs		-	(843,245)
Proceeds of borrowings	16	4,896,924	-
Repayment of borrowings	16	(2,033,915)	(416,692)
Finance lease payments	16	(1,019,824)	(480,596)
Net cash provided by financing activities		1,843,185	14,261,970
Net increase/(decrease) in cash and cash equivalents held		(4,392,920)	4,791,158
Net foreign exchange differences		31,371	(126,581)
Cash and cash equivalents at the beginning of the financial period		5,392,742	728,165
Cash and cash equivalents at the end of the financial period	6	1,031,193	5,392,742

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

NOTES TO THE FINANCIAL STATEMENTS

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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 "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 9 August 2019.

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 (continued)

Goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 13. 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 13 for details of these assumptions and the potential impact of changes to the assumptions.

Provisions

The Group has estimated the likely payout under the earn out payment on acquisition of Analytica Laboratories Limited. This calculation requires the use of assumptions. Refer to Note 15 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 \$1,640,765 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 reduce from FY2020 onwards. The losses can be carried forward indefinitely and have no expiry date.

Change in accounting estimates

Intangibles

During the period the Group reassessed the useful lives of the following intangible assets:

- OCTFOLIO software platform useful life reduced from 5 years to 3 years. OCTFOLIO has recently released the next version of its software which offers its clients a range of benefits including:
 - Improved mobile applications and support for Android;
 - Easily customisable client portals;
 - Lower costs of hosting;
 - Streamlined client onboarding and data migration.

OCTFOLIO anticipates all of its existing clients will be migrated to the new software platform within the next 12 months and consequently the original software's useful life has been reduced in line with this.

- As part of the acquisition of Morrison Geotechnic, \$1,302,000 of purchase value was allocated to existing client contracts and relationships. Over the last 12 months Morrison Geotechnic has experienced much higher competition and higher price sensitivity from clients.

Taking into account these factors, the useful lives of the customer contracts and relationships intangible asset has been reduced from 5 years to 3 years.

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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 standards:

- AASB 9 *Financial Instruments*; and
- AASB 15 *Revenue from Contracts with Customers*.

The impact of the adoption of these standards and the new accounting policies are disclosed below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

a) AASB 15 *Revenue from Contracts with Customers* – Impact of adoption

The Group has adopted AASB 15 *Revenue from Contracts with Customers* for the first time. In accordance with the transition provisions in AASB 15, the Group has adopted the new rules retrospectively however there was no material impact on the amounts disclosed previously and as a result there has been no restatement required as a result of reclassification or remeasurement.

b) AASB 9 *Financial Instruments* – Impact of adoption

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of AASB 9 *Financial Instruments* from 1 July 2018 resulted in changes in accounting policies. The new accounting policies are set out in note below. In accordance with the transitional provisions in AASB 9, comparative figures have not been restated.

(i) *Classification and Measurement*

On 1 July 2018 (the date of initial application of AASB 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial assets into the appropriate AASB 9 categories. There were no changes to the classification and measurement of financial assets.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ii) Impairment of financial assets

The Group has one type of financial asset that is subject to AASB 9's new expected credit loss model, being trade and other receivables.

The Group was required to revise its impairment methodology under AASB 9 to a forward looking model. There was no material impact of the change in impairment methodology on the Group's retained earnings and equity.

While cash and cash equivalents are also subject to the impairment requirements of AASB 9, there was no material impairment loss identified.

AASB 9 Financial Instruments – Accounting policies applied from 1 July 2018

Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI, or through profit or loss); and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. The Group classifies its debt instruments as amortised cost instruments. These are assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

Impairment

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2019 reporting periods. The Consolidated Entity has decided against early adoption of these standards. The Consolidated Entity's assessment of the impact of these new standards and interpretations is set out below:

AASB 16 Leases

This standard and its consequential amendments are currently applicable to annual reporting periods beginning on or after 1 January 2019. When effective, this standard will replace the current 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 all 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 has evaluated the impact on adoption of this standard. Upon adoption of this standard, it is the Consolidated Entity's intention to transition 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 current incremental borrowing rate. Comparative figures are not restated. The expected impact is as follows:

As at the reporting date, the Group has non-cancellable operating lease commitments of \$1,246,348 (refer Note 25). For these lease commitments the Group expects to recognise right-of-use assets and lease liabilities of approximately \$1,593,116.

Overall net assets will remain the same however net current assets will be \$737,562 lower due to the presentation of a portion of the liability as a current liability.

The Group expects that net profit before tax will decrease by approximately \$37,103 for FY2020 as a result of adopting the new rules. EBITDA is expected to increase by approximately \$805,471, as the operating lease payments were included in EBITDA, but the amortisation of the right-of-use assets and interest on the lease liability are excluded from this measure.

Operating cash flows will increase and financing cash flows decrease by approximately \$737,562 as repayment of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

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 2 SEGMENT REPORTING

Reportable Segments

For the year ended 30 June 2019 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 work place 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.

For the year ended 30 June 2018, the Food and Environmental laboratory services segment reflects the activities of Analytica Laboratories for the 7 months since acquisition on 30 November 2017.

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 \$12,781,805 (2018: \$13,199,307) Total revenues from customers domiciled in New Zealand was \$17,946,949 (2018: \$14,108,190).

The amount of non-current assets other than financial instruments and deferred tax assets located in Australia is \$6,552,689 (2018: \$8,617,618). Total non-current assets other than financial instruments and deferred tax assets located in New Zealand was \$22,646,486 (2018: \$23,581,093).

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 2019	HAZMAT	Geotechnical	Food/Enviro Laboratory	Software	Unallocated	Consolidated
	\$	\$	\$	\$	\$	\$
Revenue:						
Contracts with customers	7,762,331	8,028,091	14,203,700	734,632	-	30,728,754
Interest income	-	-	-	-	26,094	26,094
Expenses:						
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
Segment result before acquisition related expenses	7,639	366,708	3,100,470	200,376	(2,623,468)	1,051,725
Acquisition related expenses						
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)
Segment result before tax	(94,530)	(439,625)	(3,990,385)	(494,258)	(2,623,468)	(7,642,266)
Income tax	-	-	-	-	-	515,508
Net loss						(7,126,758)
<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	1,962,862	1,732,292	31,158,081

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 SEGMENT REPORTING (CONT'D)

Segment Revenues and Results

30 June 2018	HAZMAT	Geotechnical	Food/Enviro Laboratory	Software	Unallocated	Consolidated
	\$	\$	\$	\$	\$	\$
Revenue:						
Contracts with customers	10,866,751	7,733,170	8,206,032	501,544	-	27,307,497
Interest income	-	-	-	-	20,033	20,033
Expenses:						
Interest expense	-	-	-	-	(73,158)	(73,158)
Other expenses	(8,876,570)	(7,575,214)	(5,032,949)	(320,405)	(1,260,558)	(23,065,696)
Equity accounted share of loss	-	-	(28,477)	-	-	(28,477)
Segment result before acquisition related expenses	1,990,181	157,956	3,144,606	181,139	(1,313,683)	4,160,199
Acquisition related expenses						
Acquisition costs	-	(8,000)	(139,722)	(10,500)	-	(158,222)
Earn-out (expense)/adjustments	-	62,500	(2,942,615)	187,500	-	(2,692,615)
Amortisation of acquisition intangibles	(184,464)	(415,733)	(1,004,469)	(316,667)	-	(1,921,333)
Segment result before tax	1,805,717	(203,277)	(942,200)	41,472	(1,313,683)	(611,971)
Income tax	-	-	-	-	-	(891,826)
Net Profit						(1,503,797)
<u>Non-cash and other significant items:</u>						
Depreciation and amortisation	555,775	620,170	1,915,903	319,582	7,483	3,418,913
Impairment of receivables	1,696	11,900	6,734	-	-	20,330
Share based payments	-	-	-	-	35,181	35,181
Acquisition expenses	-	8,000	139,722	10,500	-	158,222
Earn-out (expense)/adjustments	-	62,500	(2,942,615)	187,500	-	(2,692,615)
<u>Assets:</u>						
Segment assets	9,238,653	5,338,263	22,651,244	2,932,131	3,932,839	44,093,130
<u>Liabilities:</u>						
Segment liabilities	1,158,052	1,391,959	5,194,811	255,750	864,047	8,864,619
<u>Segment acquisitions:</u>						
Acquisition of plant and equipment	871,601	262,981	6,970,760	411	2,174	8,107,927
Acquisition of intangibles	-	-	5,917,738	218,506	-	6,136,244
Acquisition of goodwill	-	-	8,780,845	-	-	8,780,845
<u>Details on non-current assets:</u>						
Trade and other receivables	72,403	13,703	181,361	-	-	267,467
Plant and equipment	1,171,254	764,086	4,990,565	6,680	21,672	6,954,257
Intangibles	124,204	1,248,333	5,001,231	1,377,329	-	7,751,097
Goodwill	4,887,339	1,770,810	8,860,393	1,365,920	-	16,884,462
Equity accounted investment	-	-	608,894	-	-	608,894
Deferred tax assets	-	-	-	-	1,287,748	1,287,748
	6,255,200	3,796,932	19,642,444	2,749,929	1,309,420	33,753,925

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 REVENUE FROM CONTRACTS WITH CUSTOMERS

	2019	2018
	\$	\$
<u>Services Revenue</u>		
HAZMAT service revenue	7,762,331	10,866,751
Geotechnical service revenue	8,028,091	7,733,170
Food and environmental laboratory revenue	14,203,699	8,206,032
Software service revenue	734,633	501,544
Total service revenue	30,728,754	27,307,497

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 of time (usually 1 to 3 years). The client pays a fixed amount on a monthly basis 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 9 and 14.

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

		2019	2018
		\$	\$
Employee benefits expenses	Note		
Defined contribution superannuation expense		795,025	900,376
Other employee benefits expenses		15,922,799	13,366,991
Total employee benefits expenses		16,717,824	14,267,367

Employee benefits expense – share based payments	22	62,355	35,181
Remuneration expense on Morrison Geotechnic earn-out	15	-	(62,500)
Remuneration expense on Analytica earn-out	15	5,257,121	2,942,615

Contributions to defined contribution plans are expensed when incurred.

Rental expense relating to operating leases

Minimum lease payments		1,081,855	1,053,029
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Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised as expenses on a straight-line basis over the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the lease term.

Net gain on disposal of plant and equipment		55,364	8,961
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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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 INCOME TAX

	2019	2018
	\$	\$
Income tax expense:		
<u>Current tax</u>		
Current tax on profit/loss for the year	386,909	1,010,412
Adjustments for current tax of prior periods	(61,097)	43,109
Total current tax expense	325,812	1,053,521
<u>Deferred tax</u>		
Movement in deferred tax assets	(154,668)	46,447
Movement in deferred tax liabilities	(686,652)	(325,210)
Benefit arising from the impact of future income tax rate changes	-	117,068
Total deferred tax expense/(benefit)	(841,320)	(161,695)
Total income tax expense/(benefit)	(515,508)	891,826
Reconciliation of income tax expense to prima facie tax payable:		
Profit/(loss) before tax, excluding profit/(loss) for equity accounted investments	(7,645,113)	(583,494)
Prima facie tax at 27.5% (2018: 30%)	(2,102,406)	(175,048)
<u>Tax effect of not deductible (taxable) amounts in calculating taxable income:</u>		
Entertainment expenses	12,351	9,862
Analytica earn-out expense	1,471,994	823,932
Adjustment to OCTFOLIO earn-out payment	(51,563)	56,250
Share based payments	17,148	-
Impairment of goodwill	181,873	-
Other items	43,257	14,433
	(427,346)	729,429
Difference in overseas tax rate	(27,065)	2,220
Benefit arising from the impact of future income tax rate changes	-	117,068
Adjustments for tax of prior periods	(61,097)	43,109
Total income tax expense/(benefit)	(515,508)	891,826

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 INCOME TAX (CONT'D)

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:

	2019	2018
	\$	\$
Current tax: share issue costs	-	-
Deferred tax: share issue costs	-	252,973
	-	252,973

Deferred tax assets:

Balance comprises temporary differences attributable to:

Employee benefits payable	13,621	24,666
Employee leave provisions	263,387	272,562
Provision for doubtful debts	13,059	8,021
Lease liabilities	183,707	193,523
Carried forward tax losses	1,640,765	1,461,099
	2,114,539	1,959,871
Set-off of deferred tax liabilities	(461,556)	(672,123)
Net deferred tax assets	1,652,983	1,287,748

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 2019	Charged/credited to					30 June 2019
	1 July 2018	Profit or Loss	Directly to equity	Acquisition of subsidiary	Change in future tax rate	
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
	1,959,871	154,668	-	-	-	2,114,539

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 INCOME TAX (CONT'D)

Year ended June 2018	Charged/credited to					30 June 2018
	1 July 2017	Profit or Loss	Directly to equity	Acquisition of subsidiary	Change in future tax rate	
Employee benefits payable	24,587	2,321	-	-	(2,242)	24,666
Employee leave provisions	230,200	(8,232)	-	69,011	(18,417)	272,562
Provision for doubtful debts	2,503	2,613	-	3,139	(234)	8,021
Vendor earn-out provision	18,750	(18,750)	-	-	-	-
Lease liabilities	125,957	85,160	-	-	(17,594)	193,523
Carried forward tax losses	1,450,512	(109,559)	252,973	-	(132,827)	1,461,099
	1,852,509	(46,447)	252,973	72,211	(171,313)	1,959,871

2019
\$

2018
\$

Deferred tax liabilities:

Balance comprises temporary differences attributable to:

Intangibles assets	1,076,241	1,760,485
Plant and equipment	242,054	245,204
Other amounts	15,718	14,976
	1,334,013	2,020,665
Set-off of deferred tax assets	(461,556)	(672,123)
Net deferred tax liabilities	872,457	1,348,542

Movements during the period:

Year ended June 2019	Charged/credited to					30 June 2019
	1 July 2018	Profit or Loss	Directly to equity	Acquisition of subsidiary	Change in future tax rate	
Intangible assets	1,760,485	(684,244)	-	-	-	1,076,241
Plant and equipment	245,204	(3,150)	-	-	-	242,054
Other amounts	14,976	742	-	-	-	15,718
	2,020,665	(686,652)	-	-	-	1,334,013

Year ended June 2018	Charged/credited to					30 June 2018
	1 July 2017	Profit or Loss	Directly to equity	Acquisition of subsidiary	Change in future tax rate	
Intangible assets	594,013	(441,818)	-	1,640,245	(31,955)	1,760,485
Plant and equipment	140,188	127,306	-	-	(22,290)	245,204
Other amounts	25,674	(10,698)	-	-	-	14,976
	759,875	(325,210)	-	1,640,247	(54,245)	2,020,665

NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 INCOME TAX (CONT'D)

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.

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.

Changes to Australia tax rate

The *Treasury Laws Amendment (Enterprise Tax Plan) Act 2017 (Act)* reduces the Australian company tax rate to 27.5% for smaller companies carrying on a business where aggregate turnover does not exceed:

- \$25 million for the income tax year ending 30 June 2018
- \$50 million for the income tax year ending 30 June 2019

HRL Holdings Limited did not yet qualify for a reduction in tax rates during the year ended 30 June 2018 as its aggregated turnover for the year ended 30 June 2018 exceeded \$25 million. HRL Holdings Limited did qualify for the year ended 30 June 2019 when the threshold increased to \$50 million. Accordingly, while there is no change to the tax rate used to calculate current tax in 2018, there was changes to deferred tax calculations because these will be recovered or settled at the reduced 2019 tax rate. The impact of this change resulted in additional income tax expense of \$117,068 for the year ended 30 June 2018.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 CASH FLOW INFORMATION

	2019	2018
	\$	\$
Reconciliation of cash flows from operations with profit after tax		
Profit/(loss) after income tax	(7,126,758)	(1,503,797)
<i>Non-cash items in profit/(loss) after income tax</i>		
Depreciation and amortisation	5,796,502	3,418,913
Gain on sale of plant and equipment	(55,364)	(8,961)
Impairment of receivables	39,472	20,330
Impairment of goodwill	661,357	-
Share based payments	62,355	35,181
Equity accounted share of profit/(loss)	(2,847)	28,477
Earnout adjustment	(187,500)	(187,500)
Accrued interest revenue	(5,347)	(11,988)
<i>Movements in operating assets and liabilities</i>		
Trade and other receivables	(684,636)	231,932
Inventories	(132,058)	(558,101)
Other assets	108,177	151,771
Trade and other payables	450,157	(55,849)
Provisions	(2,540,221)	2,899,545
Tax balances	(1,522,410)	(50,791)
Net cash provided by/ (used in) operating activities	(5,139,121)	4,409,162

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 acquired plant and equipment totalling \$1,597,702 through finance leases during the year (2018: \$988,532).

Cash and Cash Equivalents

Cash at bank and on hand	941,051	3,430,315
Cash on deposit	90,142	1,962,427
	1,031,193	5,392,742

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 EARNINGS PER SHARE

	2019	2018
	\$	\$
Earnings		
Earnings used to calculate basic and diluted EPS	(7,126,758)	(1,503,797)
Weighted average number of shares and options		
	Number of shares	Number of shares
Weighted average number of ordinary shares outstanding during the period, used in calculating basic earnings per share	493,402,627	391,037,807
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	391,037,807

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 8 DIVIDENDS

No dividends were paid during the financial year ended 30 June 2019 (2018: Nil) and no dividend is recommended for the current year.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 TRADE AND OTHER RECEIVABLES

	2019	2018
	\$	\$
CURRENT		
Trade receivables	4,729,810	4,026,906
Provision for expected credit losses	(47,119)	(28,815)
	4,682,691	3,998,091
Contract assets	296,809	240,882
Other receivables	12,817	8,679
	4,992,317	4,247,652
NON-CURRENT		
Bonds and other deposits	111,464	86,106
Loan receivable from CAIQTest Pacific Limited	194,459	181,361
	305,923	267,467

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 \$39,472 during the year (2018: \$20,330) in relation to impaired receivables.

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

	2019	2018
	\$	\$
Opening balance	28,815	8,609
Impaired receivables provided for during the period	39,472	20,330
Receivables written off during the year as uncollectible	(21,168)	(124)
Closing balance	47,119	28,815

Loss Allowance – 30 June 2019

	Expected loss rate	Gross Receivables	Loss Allowance
Government agencies and national utilities	0%	883,039	-
Current	0.05%	2,983,781	11,459
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
Total		5,026,619	47,119

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 TRADE AND OTHER RECEIVABLES (CONT'D)

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 and have substantially the same risk characteristics as the trade receivables for the same types of contracts. The Group has therefore concluded that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for the contract assets.

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. 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.

Impairment before 1 July 2018

At the end of each reporting period, the Group assesses whether there is objective evidence that a receivable has been impaired. Impairment losses are recognised in profit or loss.

Impact on receivables upon transition to AASB 9

The Group adopted AASB 9 from 1 July 2018. The key impact upon adoption of AASB 9 was the change in impairment model applicable to trade receivables balances. For trade receivables and contract assets that do not contain a significant financing component in accordance with AASB 15 (so generally trade receivables and contract assets with a maturity of 12 months or less), lifetime expected credit losses are required to be recognised.

The Group has applied the lifetime expected credit loss model to its receivable balances at 1 July 2018. The calculated opening provision for expected credit losses was \$46,775. Given the calculated expected credit losses at 1 July 2018 is immaterial, no transitional adjustments have been made in these financial statements.

NOTE 10 INVENTORIES

	2019	2018
	\$	\$
CURRENT		
Laboratory consumables	690,159	558,101

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. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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 \$2,268,515 (2018: \$655,906).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 PLANT AND EQUIPMENT

	2019	2018
	\$	\$
Leasehold improvements at cost	430,961	412,443
Accumulated depreciation	(117,844)	(65,446)
	313,117	346,997
Motor vehicles at cost	1,884,407	1,370,689
Accumulated depreciation	(591,690)	(356,376)
	1,292,717	1,014,313
Office furniture and equipment at cost	758,893	578,604
Accumulated depreciation	(405,299)	(246,638)
	353,594	331,966
Lab and field equipment at cost	7,990,102	6,329,110
Accumulated depreciation	(2,477,708)	(1,068,129)
	5,512,394	5,260,981
Total plant and equipment at cost	11,064,363	8,690,846
Total accumulated depreciation	(3,592,541)	(1,736,589)
Total plant and equipment	7,471,822	6,954,257

Movements during the year

	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)
Balance at 30 June 2019	313,117	1,292,717	353,594	5,512,394	7,471,822

	Leasehold Improvements	Motor Vehicles	Office Furniture and Equipment	Lab and field Equipment	Total
Balance at 1 July 2017	45,329	794,609	184,622	434,401	1,458,961
Additions	255,518	493,473	56,214	1,743,498	2,548,703
Disposals	(1,298)	(40,943)	(1,438)	-	(43,679)
Business combinations	86,092	9,505	182,868	4,143,592	4,422,057
Foreign exchange movements	-	-	-	(1,830)	(1,830)
Depreciation	(38,644)	(242,331)	(90,300)	(1,058,680)	(1,429,955)
Balance at 30 June 2018	346,997	1,014,313	331,966	5,260,981	6,954,257

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 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 12 INTANGIBLE ASSETS

	2019	2018
	\$	\$
Customer contracts at cost	3,639,333	3,644,891
Accumulated amortisation	(2,020,642)	(871,873)
	1,618,691	2,773,018
Licences and accreditations at cost	4,879,491	4,891,183
Accumulated amortisation	(2,959,086)	(1,444,805)
	1,920,405	3,446,378
Software at cost	2,110,927	1,836,319
Accumulated amortisation	(1,403,627)	(416,893)
	707,300	1,419,426
Other intangibles at cost	120,502	181,622
Accumulated amortisation	(79,721)	(69,347)
	40,781	112,275
Total intangible assets	4,287,177	7,751,097

Movements during the year

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)
Balance at 30 June 2019	1,618,691	1,920,405	707,300	40,781	4,287,177

NOTES TO THE FINANCIAL STATEMENTS

NOTE 12 INTANGIBLE ASSETS (CONT'D)

Year ended 30 June 2018	Customer Contracts	Licences and Accreditations	Software	Other Intangibles	Total
Balance at 1 July 2017	1,502,537	452,167	1,480,152	42,356	3,477,212
Additions	-	-	218,502	117,972	336,474
Business combinations	1,904,199	3,953,827	59,712	-	5,917,738
Foreign exchange movements	73	-	8,945	(387)	8,631
Amortisation	(633,791)	(959,616)	(347,885)	(47,666)	(1,988,958)
Balance at 30 June 2018	2,773,018	3,446,378	1,419,426	112,275	7,751,097

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 13 GOODWILL

	2019	2018
	\$	\$
Opening balance	16,884,462	8,186,266
Goodwill arising on acquisition of Analytica	-	8,780,845
Impairment of AAC Environmental goodwill	(661,357)	-
Foreign exchange movements	551,625	(82,649)
	16,774,730	16,884,462

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 and at the geographic branch level for AAC Environmental (OCTIEF ACT 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.

With 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 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 has been impaired down to \$Nil.

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.

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:

	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
	11,828,408	1,809,592

NOTES TO THE FINANCIAL STATEMENTS

NOTE 13 GOODWILL (CONT'D)

The calculations use cash flow projections based on financial budgets covering a 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%	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%	2%	Average annual growth rate over the five-year forecast period based on current industry trends
Fixed costs per annum	\$1.3M	\$2.8M	\$1.6M	\$0.3M	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	\$1,500,000	\$150,000	\$10,000	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	20%	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.
Goodwill attributable to CGU	\$1,809,592	\$11,828,408	\$1,770,810	\$1,365,920	

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 14 TRADE AND OTHER PAYABLES

	2019	2018
	\$	\$
CURRENT		
Trade payables	686,028	592,987
Contract liabilities	338,058	-
Other payables and accrued expenses	894,237	946,258
	1,918,323	1,539,245

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.

NOTE 15 PROVISIONS

CURRENT		
Employee benefits	918,483	940,645
Analytica earn-out	438,093	2,942,615
OCTFOLIO contingent consideration at fair value	-	187,500
	1,356,576	4,070,760
NON-CURRENT		
Employee benefits	32,405	45,941

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 PROVISIONS (CONT'D)

OCTFOLIO contingent consideration at fair value

On 13 April 2017, HRL acquired 100% of the issued capital of Integrated Holdings Group Limited. The agreed purchase consideration was:

- initial payment on completion of the IHG acquisition of \$2,750,000 in cash; and
- earn-out consideration of up to \$750,000 in cash.

The amount of earn out consideration is based on OCTFOLIO's earnings before interest and taxes (EBIT) for the 24 months after settlement:

Tranche 1

12 Months Post-Acquisition EBIT	Earn Out Consideration
Less than \$300,000	Nil
More than \$300,000	\$375,000

Tranche 2

13 Months to 24 Months Post-Acquisition EBIT	Earn Out Consideration
Less than \$450,000	Nil
More than \$450,000	\$375,000

Payment of the earn-out consideration is not contingent on any individual providing ongoing service. As per the principles and guidance as set out in AASB 3, the value of the estimated earn-out is reflected as an increase in the total consideration paid for by the entity. Any subsequent changes in the estimated earn-out will be reflected in profit or loss.

OCTFOLIO did not exceed an EBIT of \$450,000 for the 12 months ended 13 April 2019. Accordingly, the previously recognised provision of \$187,500 has been reversed in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 15 PROVISIONS (CONT'D)

Analytica Earn-out Provision

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

The agreed purchase consideration was:

- initial payment of NZ\$13,300,000 cash
- upfront HRL scrip consideration, representing 60,951,485 HRL shares, subject to a 2-year escrow period; and
- 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 12 equal monthly instalments thereafter.

If applicable, half of the earn-out consideration will be paid 12 months after settlement. Payment of the remaining half of the earn-out consideration will be paid in 12 equal monthly instalments thereafter.

Payment of the earn-out consideration is contingent on the vendor's ongoing service with Analytica. The vendors will remain employed with Analytica for a minimum period of two years after acquisition. In the situation where employment is terminated prior to completing one year of service, no earn-out is payable to that individual vendor. If employment is terminated after one but before the minimum two-year period, the earn-out consideration will be reduced proportionately to the length of time not employed for that individual vendor.

As the earn-out consideration is 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. Analytica exceeded an EBITDA of NZ\$4,850,000 for the 12 months ended 30 November 2018, resulting in an available earn-out of NZ\$11,000,000.

As at 30 June, the vendors had performed 19 months of the 24-month service period (79.17%). Accordingly, an amount of NZ\$5,500,000 (AUD \$5,257,121) has been recognised in profit or loss for this year.

Movements during the year

	2019	2018
	\$	\$
Opening balance	3,130,115	437,500
Morrison Geotechnic earn-out expense/(adjustment)	-	(62,500)
OCTFOLIO earn-out recognition/(adjustment)	(187,500)	(187,500)
Analytica earn-out expense recognised	5,257,121	2,942,615
Analytica earn-out payments made	(7,885,682)	-
Foreign exchange movements	124,039	-
	438,093	3,130,115

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 BORROWINGS

	2019	2018
	\$	\$
CURRENT		
Finance leases	759,011	754,804
Bank loans	2,279,675	-
	3,038,686	754,804
NON-CURRENT		
Finance leases	976,177	220,773
Bank loans	583,333	-
	1,559,510	220,773

Bank loans and insurance financing

Bank 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 two bank loans facilities:

- \$3M interest only facility with a variable interest rate of 4.575% 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 5.060% per annum. The facility expires in March 2022.

Finance leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership is transferred to entities in the Consolidated Entity, are classified as finance leases. Finance leases are capitalised by recognising an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

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% - 5.95% per annum and expire between July 2019 and February 2024.

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

Year ended 30 June 2019	Opening Balance	Cash flows	Non-cash Finance lease additions	Closing Balance
Finance leases	1,114,960	(1,019,824)	1,640,052	1,735,188
Bank loans	-	2,863,009	-	2,863,009
	1,114,960	1,843,185	1,640,052	4,598,197
Year ended 30 June 2018	Opening Balance	Cash flows	Non-cash Finance lease additions	Closing Balance
Finance leases	419,657	(480,596)	1,175,899	1,114,960
Bank loans	287,334	(287,334)	-	-
Insurance financing	129,358	(129,358)	-	-
	836,349	(897,288)	1,175,899	1,114,960

NOTES TO THE FINANCIAL STATEMENTS

NOTE 16 BORROWINGS (CONT'D)

Financing Facilities

The Group has access to the following lines of credit:

	2019 \$	2018 \$
<i>Total facilities available</i>		
Finance leases and equipment financing	2,565,657	3,811,262
Bank loans	3,951,267	-
	6,516,924	3,811,262
<i>Facilities used at balance date</i>		
Finance leases and equipment financing	1,735,188	1,114,960
Bank loans	2,863,009	-
	4,598,197	1,114,960
<i>Unused facilities at balance date</i>		
Finance leases and equipment financing	830,469	2,696,302
Bank loans	1,088,258	-
	1,918,727	2,696,302

Covenants

The bank loans are subject to the below covenants:

Debt Service Cover Ratio greater than 1

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 12 months.

Gearing Ratio of less 60%

Gearing ratio means: Total liabilities divided by total tangible assets (including goodwill and other acquisition based intangibles). This ratio will be assessed every 12 months.

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.

There were no breaches of covenants during the period.

Assets pledged as security

Finance leases are secured by mortgage over the relevant assets which at 30 June 2019 had carrying values of \$1,981,884 (2018: \$933,621).

Defaults and breaches

During the current and prior year, there were no defaults or breaches on any of the loans.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 17 CONTRIBUTED CAPITAL

	2019 \$	2018 \$
493,402,627 fully paid ordinary shares (June 2018: 493,402,627)	38,162,084	16,349,948

	2019 Number	2018 Number	2019 \$	2018 \$
Movements during the period				
Balance at beginning of period	493,402,627	244,186,406	38,162,084	16,349,948
Share purchase plan – issued at \$0.085 per share	-	11,764,736	-	1,000,002
Placement – issued at \$0.085 per share	-	176,500,000	-	15,002,500
Share issue costs (net of tax)	-	-	-	(590,272)
Shares issued to Analytica vendors– issued at \$0.105 per share	-	60,951,485	-	6,399,906
Balance at end of period	493,402,627	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 18 RESERVES

	2019 \$	2018 \$
Foreign currency translation reserve	214,560	(429,393)
Share based payment reserve	-	238,817
	214,560	(190,576)

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 ANALYTICA LABORATORIES LIMITED ACQUISITION ACCOUNTING

On 30 November 2017, HRL NZ (a 100% owned subsidiary of HRL Holdings) acquired 100% of the issued capital of Analytica Laboratories Limited (Analytica). Analytica is a New Zealand-based analytical chemistry laboratory business specialising in mass spectroscopy analysis to the milk, honey, drugs of abuse and environmental markets.

The agreed purchase consideration was:

- initial payment of NZ\$13,300,000 cash
- upfront HRL scrip consideration, representing 60,951,485 HRL shares, subject to a 2-year escrow period; and
- 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 12 equal monthly instalments thereafter.

Payment of the earn-out consideration is contingent on the vendor's ongoing service with Analytica. The vendors will remain employed with Analytica for a minimum period of two years after acquisition. In the situation where employment is terminated prior to completing one year of service, no earn-out is payable to that individual vendor. If employment is terminated after one but before the minimum two-year period, the earn-out consideration will be reduced proportionately to the length of time not employed for that individual vendor. Refer to Note 15 for details of accounting for the earn out consideration.

The assets and liabilities recognised as a result of the acquisition are as follows:

	30 November 2017 \$AUD
Purchase consideration:	
Cash payment	12,088,711
HRL shares at fair value based on HRL share price on acquisition date	6,399,906
	18,488,617
Fair value of assets and liabilities acquired:	
Cash and cash equivalents	114,693
Trade and other receivables	1,286,670
Other assets	24,320
Property, plant and equipment	4,422,057
Computer software	59,712
Equity accounted investment – CAIQTest Pacific Limited	636,248
Deferred tax assets	72,211
Intangibles – customer contracts and relationships	1,904,199
Intangibles – licences and accreditations	3,953,827
Trade and other payables	(672,401)
Employee provisions	(195,440)
Income tax payable	(257,897)
Deferred tax liabilities	(1,640,427)
Net identifiable assets acquired	9,707,772
Goodwill on acquisition	8,780,845
Net assets acquired	18,488,617

Goodwill is not deductible for tax purposes. The fair value of trade and other receivables is \$1,286,670. The gross contractual amount for trade receivables due is \$1,297,879, of which \$11,209 is expected to be uncollectible.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 19 ANALYTICA LABORATORIES LIMITED ACQUISITION ACCOUNTING (CONT'D)

Factors contributing to the Analytica goodwill are:

- a strong competitive position in high-end environmental and food/agricultural testing markets with industry leading clients/partners;
- Market leader in honey testing in New Zealand, both among industry organisations and producers/distributors;
- Dominant position in the liquid milk analysis and food origin testing, via strategic alliance with market leading partners;
- Strong and growing exposure to the environmental testing market;
- Advantageous proximity to key agricultural markets and clients.

FY2018 Revenue and profit contribution

Analytica contributed revenues of \$8,213,712 and net profit after tax of \$2,284,269 to the Group for the period from 1 December 2017 to 30 June 2018.

If the acquisition had occurred on 1 July 2017 and the operations of Analytica been included from that date, then the consolidated pro-forma revenue and loss for the period ended 30 June 2018 would have been \$31,468,033 and \$888,779 respectively.

Outflow of cash to acquire Analytica, net of cash acquired

	30 November 2017 \$
Cash consideration	12,088,711
Less: cash and cash equivalents acquired	(114,693)
Net outflow of cash – investing activities	11,974,018

Acquisition related costs

Acquisition-related costs of \$139,722 that were not directly attributable to the issue of shares are included in 'Acquisition expenses' profit or loss and in operating cash flows in the statement of cash flows.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 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

	2019 \$	2018 \$
Opening balance	608,894	-
Acquired through business combinations	-	636,248
Investment in Food Lab Pacific Limited	47,414	-
Share of profits/(loss)	2,847	(28,477)
Foreign exchange movements	6,291	1,123
Closing balance	665,446	608,894

CAIQTest (Pacific) Limited

As part of the Analytica acquisition in the prior year, 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:

Current assets	1,295,353	756,072
Non-current assets	518,541	457,896
Total assets	1,813,894	1,213,968
Current liabilities	420,533	130,561
Non-current liabilities (shareholder loans)	1,640,130	1,309,519
Total liabilities	2,060,663	1,440,080
Equity		
HRL's share of equity (26%)	(64,160)	(58,789)
Goodwill	695,828	667,683
Foreign exchange movements	(455)	-
Carrying amount	631,213	608,894

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 EQUITY ACCOUNTED INVESTMENTS (CONT'D)

	12 months ended June 2019 \$	7 months ended June 2018 \$
Revenue	2,492,288	1,057,767
Cost of sales	(879,470)	(505,248)
Other expenses	(1,514,392)	(670,505)
Finance costs	(35,326)	(34,132)
Profit/(loss) before tax	63,100	(152,118)
Income tax	-	42,591
Profit/(loss) after tax	63,100	(109,527)
HRL's share of profit/(loss) (26%)	16,406	(28,477)

CAIQTest (Pacific) Limited requires a board resolution to distribute its profits. No dividends were paid or declared for the financial period ending 30 June 2019.

CAIQTest (Pacific) Limited had no contingent liabilities or capital commitments as at 30 June 2019.

Food Lab Pacific Limited

During the 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 focussed on liquid milk testing.

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

	2019 \$
Current assets	56,521
Non-current assets	11,337
Total assets	67,858
Current liabilities	27,589
Non-current liabilities (shareholder loans)	-
Total liabilities	27,589
Equity	
HRL's share of equity (50%)	20,135
Foreign exchange movements	14,098
Carrying amount	34,233
Other expenses	(27,118)
Loss after tax	(27,118)
Income tax	-
Loss after tax	(27,118)
HRL's share of loss (50%)	(13,559)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 20 EQUITY ACCOUNTED INVESTMENTS (CONT'D)

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 2019.

Food Lab Pacific Limited had no contingent liabilities or capital commitments as at 30 June 2019.

NOTE 21 PARENT ENTITY INFORMATION

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

	2019	2018
	\$	\$
Parent Entity Financial Information		
Current assets	8,835	677,593
Non-current assets	32,975,215	34,316,310
Total assets	32,984,050	34,993,903
Current liabilities	2,409,093	117,294
Non-current liabilities	606,022	-
Total liabilities	3,015,115	117,294
Net assets	29,968,935	34,876,609
Issued capital	49,200,617	49,200,617
Reserves	-	35,181
Accumulated losses	(15,363,081)	(14,359,189)
Total equity	29,968,935	34,876,609
Profit/(loss) after income tax	(4,934,848)	411,889
Other comprehensive income	-	-
Total comprehensive income	(4,934,848)	411,889

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 21 PARENT ENTITY INFORMATION (CONT'D)

Controlled Entities of the Parent Entity	Percentage Owned		Country of Incorporation
	2019	2018	
	%	%	
OCTIEF Pty Ltd	100%	100%	Australia
OCTIEF ACT Pty Ltd	100%	100%	Australia
Hot Rock Geothermal Pty Ltd	-	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 Holdings Pty Ltd	-	100%	Australia
Morrison Geotechnic Pty Ltd	100%	100%	Australia
Integrated Holdings Pty Ltd	-	100%	Australia
OCTFOLIO Pty Ltd	100%	100%	Australia
Analytica Laboratories Limited	100%	100%	New Zealand

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 22 SHARE BASED PAYMENTS

Performance Shares

The Company has granted performance shares to incentivise senior management. The performance shares were granted for nil consideration and are not quoted on the ASX. Performance shares granted carry no dividend or voting rights. When vested, each performance share is convertible into one ordinary share.

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

Expiry Date	Tranche	Exercise Price	Vesting Price ¹	Movements				30 June 2019
				1 July 2018	Issued	Exercised	Expired / Forfeited	
30 June 2019	1	\$Nil	\$0.156	802,422	-	-	(802,422)	-
30 June 2019	1	\$Nil	\$0.194	802,422	-	-	(802,422)	-
30 June 2019	1	\$Nil	\$0.234	802,421	284,287	-	(1,086,708)	-
30 June 2020	2	\$Nil	\$0.234	-	284,287	-	(284,287)	-
30 June 2021	2	\$Nil	\$0.234	-	284,288	-	(284,288)	-
				2,407,265	852,862	-	(3,260,127)	-

The performance shares have the following key terms and conditions:

Long Term Incentive Performance Share Plan – Tranche 1

Primary Vesting Conditions	<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"> HRL share price increases 33% within 1 year; or HRL share price increases 66% within 2 years; or HRL share price increases 100% within 3 years. <p>The HRL share price must remain above the nominated target for the relevant period for 14 consecutive trading days</p>
Secondary Vesting Conditions	<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"> First 33% of the performance shares vest at 30 June 2019 Next 33% performance shares vest at 30 June 2020 Final 34% performance shares vest at 30 June 2021
Exercise Price	\$Nil
Forfeiture	<p>The Performance Shares will lapse if:</p> <ul style="list-style-type: none"> None of the pricing conditions are met; or the participant does not meet the service conditions.
Change of Control Event	<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 22 SHARE BASED PAYMENTS (CONT'D)

Long Term Incentive Performance Share Plan – Tranche 2

Primary Vesting Conditions	HRL share price remains above \$0.234 for 14 consecutive trading days prior to 30 June 2019.
Secondary Vesting Conditions	The Performance Shares will vest in proportion to the number of years' service after the plan is implemented: <ol style="list-style-type: none"> 1. HRL share price increases 33% within 1 year; or 2. HRL share price increases 66% within 2 years; or 3. HRL share price increases 100% within 3 years.
Exercise Price	\$Nil
Forfeiture	The Performance Shares will lapse if: <ul style="list-style-type: none"> - None of the pricing conditions are met; or - the participant does not meet the service conditions.
Change of Control Event	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 a 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 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

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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 22 SHARE BASED PAYMENTS (CONT'D)

Options

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:

Expiry Date	Exercise Price	Movements				30 June 2019
		1 July 2018	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

The remaining contractual life of options outstanding at the end of the prior period was 0.5 years. The weighted average exercise price of the options is \$0.203.

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.

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.

Expenses arising from share-based payment transactions

	2019	2018
	\$	\$
Performance shares issued to senior management	62,355	35,181

NOTES TO THE FINANCIAL STATEMENTS

NOTE 23 RELATED PARTY TRANSACTIONS

Key Management Personnel Compensation

Short-term benefits	1,319,676	866,375
Post-employment benefits	88,918	81,775
Long-term benefits	1,258	(2,341)
Termination benefits	-	-
Share-based payments	19,096	44,580
	1,428,948	990,389

Detailed remuneration disclosures are provided in the remuneration report on pages 17 to 30.

Transactions with related parties

Transaction	Entity	Association	2019 \$	2018 \$
Rental of office space ¹	Paget Developers	Darren Anderson Kevin Maloney	-	44,000

¹ Services provided from 1 July 2017 to 30 November 2017.

All of the above transactions were based on normal commercial terms and conditions.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 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 2019. 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, National Australia Bank and ANZ.

Maximum exposure to credit risk

	2019	2018
	\$	\$
<hr/>		
<u>Summary exposure</u>		
Cash and cash equivalents	1,031,193	5,392,742
Trade receivables	4,682,691	3,998,091
Other receivables	309,626	249,561
Loan receivable from CAIQTest Pacific Limited	194,459	181,361
	<hr/> 6,217,969	<hr/> 9,821,755

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 16 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.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 FINANCIAL RISK MANAGEMENT (CONT'D)

The remaining contractual maturities of the financial liabilities are:

30 June 2019	Fixed rate	Floating rate	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	-	4.90%	2,279,675	583,333	-	2,863,008
Finance leases	5.08%	-	827,866	1,044,773	-	1,872,639
			4,687,806	1,628,106	-	6,315,912

30 June 2018	Fixed rate		1 year or less \$	1 to 5 years \$	Over 5 years \$	Total \$
Trade payables	-		592,987	-	-	592,987
Other payables	-		946,261	-	-	946,261
OCTFOLIO contingent consideration	-		187,500	-	-	187,500
Finance leases	4.72%		786,213	374,030	-	1,160,243
			2,512,961	374,030	-	2,886,991

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.

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:

	2019 \$	2018 \$
<u>Impact on profit and equity</u>		
+1.00% (100 basis points)	(13,984)	24,292
-1.00% (100 basis points)	13,984	(24,292)

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 FINANCIAL RISK MANAGEMENT (CONT'D)

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:

	2019 \$	2018 \$
Financial assets		
Cash and cash equivalents (NZD)	744,230	3,424,528
Trade and other receivables (NZD)	3,015,535	2,813,701
	3,759,765	6,238,229
Financial liabilities		
Trade and other payables (NZD)	596,079	531,266
Finance leases (NZD)	443,958	411,262
	1,040,037	942,528

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:

	2019 \$	2018 \$
Impact on equity		
+10.00%	271,973	529,570
-10.00%	(271,973)	(529,570)

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.

Fair value hierarchy

AASB 13 Fair Value Measurement requires disclosure of fair value measurements by level in the fair value measurement hierarchy as follows:

- Level 1 - the instrument has quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 - a valuation technique is used using inputs other than quoted prices within level 1 that are observable for the financial instrument, either directly (i.e. as prices), or indirectly (i.e. derived from prices).
- Level 3 - a valuation technique is used using inputs that are not observable based on observable market data (unobservable inputs).

NOTES TO THE FINANCIAL STATEMENTS

NOTE 24 FINANCIAL RISK MANAGEMENT (CONT'D)

Recurring fair value measurements

The following financial instruments are subject to recurring fair value measurements:

	2019	2018
	\$	\$
Contingent consideration – level 3	-	187,500

The fair value of the contingent consideration of \$187,500 has been estimated by calculating the present value of the future expected cash outflows.

Reconciliation of level 3 movements

The following table sets out the movements in level 3 fair values for contingent consideration payable.

Opening balance	187,500	375,000
Recognised on business combination	-	-
Adjusted through the income statement (refer note 15)	(187,500)	(187,500)
Closing balance	-	187,500

Valuation processes for level 3 fair values

The following table sets out the valuation techniques used to measure fair value within Level 3, including details of the significant unobservable inputs used and the relationship between unobservable inputs and fair value.

Description	Valuation approach	Unobservable inputs	Relationship between unobservable inputs and fair value
Contingent consideration	Expected EBIT is estimated based on the terms of the sale contract (see Note 20) and the entity's knowledge of the business and how the current economic environment is likely to impact it.	Expected EBIT of OCTFOLIO Risk adjusted discount rate	The higher the expected EBIT the higher the fair value of the liability. The lower the risk adjusted discount rate the higher the fair value of the liability.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 25 COMMITMENTS

	2019	2018
	\$	\$
Operating leases		
<i>Minimum lease payments:</i>		
Payable within one year	700,578	893,423
Payable within one year and five years	545,770	1,127,484
Total contracted at balance date	1,246,348	2,020,907

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.

Finance leases

<i>Future minimum lease payments:</i>		
Payable within one year	827,866	786,213
Payable between one year and five years	1,044,773	374,030
	1,872,639	1,160,243
Less future interest payments	(137,451)	(45,283)
	1,735,188	1,114,960
<i>Present value of minimum lease payments:</i>		
Current (Note 16)	759,011	754,804
Non-Current (Note 16)	976,177	360,156
	1,735,188	1,114,960

The Group finance leases relates to motor vehicles and laboratory equipment.

NOTE 26 CONTINGENT LIABILITIES

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

NOTE 27 AUDITOR'S REMUNERATION

	2019	2018
	\$	\$
<i>Audit services – BDO Audit Pty Ltd</i>		
Audit and review of financial reports	97,664	86,845
Total audit services	97,664	86,845
<i>Non-audit services – Taxation Services</i>		
Australia taxation services - BDO (QLD) Pty Ltd	20,150	68,238
New Zealand taxation services - BDO Auckland	3,460	-
Total non-audit services	23,160	68,238

NOTE 28 EVENTS AFTER BALANCE DATE

There have been no other events since 30 June 2019 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 2019 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.

A handwritten signature in black ink, appearing to read 'Darren Anderson', followed by a long horizontal line extending to the right.

Darren Anderson
Director

Brisbane
9 August 2019

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 Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated balance sheet as at 30 June 2019, 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 2019 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* (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"> • The Group’s disclosures about goodwill impairment are included in Note 13, 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. • This annual impairment test was significant to our audit because the balance of goodwill as of 30 June 2019 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 and a reallocation of goodwill between CGUS’s occurred during the year. 	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • 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 • Evaluating the inputs used in the value in use calculation including the growth rates, discount rates and underlying cash flows applied by management • Assessing the sensitivity of the assumptions used by management on the value in use calculation • Involving our internal specialists to assess the discount rates against comparable market information • 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.

Revenue recognition and measurement

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<ul style="list-style-type: none"> The Group's disclosures about revenue recognition are included in Note 3, which details the accounting policies applied following the implementation of AASB 15 <i>Revenue from Contracts with Customers</i>. The assessment of revenue recognition was significant to our audit because revenue is a material balance in the financial statements for the year ended 30 June 2019 and the Group was required to change its accounting policies to align with the new standard. The assessment of revenue recognition and measurement required significant auditor effort. 	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> Assessing the revenue recognition policy for compliance with AASB 15 <i>Revenue from Contracts with Customers</i> Documenting the processes and assessing the internal controls relating to revenue processing and recognition Tracing a sample of revenue transactions to supporting documentation Performing cut-off testing to ensure that revenue transactions around year end have been recorded in the correct reporting period Assessing the adequacy of the Group's disclosures within the financial statements

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 2019, 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

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 in pages 17 to 30 of the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of HRL Holdings Limited, for the year ended 30 June 2019, 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



T R Mann
Director

Brisbane, 9 August 2019

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

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COUNTRY OF INCORPORATION

Australia

STOCK EXCHANGE LISTING

Australian Securities Exchange Limited
ASX Code: HRL

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ABN 99 120 896 371