



29 April 2016

ASX Announcement

Appendix 4C – Quarterly Report for Entities Admitted on the Basis of Commitments and Quarterly Update

QUARTER HIGHLIGHTS

- Expansion into property contamination testing and work place drug testing markets
 - Geographic expansion accelerates with the opening of branches in the Perth and Dunedin markets
 - HRL now operates in 8 regional centres across Australia and New Zealand, greatly enhancing its client base and reducing dependence on any one individual territory.
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Acquisition of Property Contamination Testing and Work Place Drug Testing Business

On 1 March 2016, HRL's wholly owned New Zealand subsidiary, Precise Consulting and Laboratory Limited (**Precise**), completed the purchase of the RJL & Associates Limited (**RJL**) business.

Precise has expanded its services to include property contamination testing and work place drug testing and the acquisition of the RJL business represents a strategic milestone in accelerating this expansion. RJL are located in the Palmerston North region of the North Island.

Existing Precise and RJL staff have been crossed trained in their respective new disciplines and the expanded Precise team now has the ability to fast track expansion of its property contamination testing and work place drug testing services, both through new geographic coverage and increasing volumes in existing regions.

Property Contamination Testing

Clandestine Methamphetamine Laboratories or “Clan Meth Labs” are a growing problem in New Zealand. Methamphetamine and manufacturing by-products can contaminate a variety of surfaces, furnishings, insulation and drainage systems. Contaminants pose significant health hazards to people and animals exposed to them.

New Zealand is experiencing substantial demand for pre-tenancy testing for Meth. Depending on initial indications of contamination, more rigorous follow up testing and/or remediation procedures may be required.

Precise offers a range of Property Contamination Testing services including:

- Screen testing of properties for Meth contamination
- IANZ accredited laboratory analysis
- Pre and post remediation examinations and advice on health risks
- Reports to Landlords, Councils and Insurance companies



- Other services include testing for precursors, volatile organic compounds, soil testing, heavy metals, and mould.

Key clients of Precise include public housing institutions, insurance companies and private landlords. The RJL business had existing relationships across this customer base which Precise is now leveraging off.

Property contamination testing revenue was very strong in March and Precise anticipate it will be a major contributor to turnover going forward.

Work Place Drug Testing

Similar to Australia, New Zealand employers have a responsibility under the Health and Safety regulations to take all practicable steps to make the workplace safe for employees and people in and around the workplace. An employee impaired by alcohol or drugs is considered a hazard.

Precise offers employers urine and oral testing solutions. Precise's growing geographic footprint will allow services to be provided across New Zealand – a key factor for employers with a nationwide presence.

As part of the RJL purchase, Precise has acquired mobile testing vehicles which have been specially equipped to allow work place drug testing to occur wherever an employer requires it.

New Branches Opened in Perth and Dunedin

HRL is pleased to announce that during March it opened two new branches expanding operations into Perth, Western Australia and Dunedin, New Zealand.

Perth

OCTIEF, the Australian operational brand, has opened a branch office in Belmont, located approximately 10km from the Perth CBD. Services offered out of Perth will include:

- Asbestos laboratory sample analysis;
- Asbestos in soil laboratory analysis;
- Contaminated land consultancy;
- Air and dust monitoring; and
- Building hazardous materials surveys.

OCTIEF has been recently appointed to a panel of preferred suppliers by the Western Australian Governments Department of Finance – Building Management and Works. OCTIEF is developing relationships with other government departments and large commercial organisations across Western Australia.

Dunedin

Precise has now opened a branch office in Dunedin. Dunedin is the second-largest city in the South Island of New Zealand, and the principal city of the Otago Region.

Dunedin and the surrounding regions are home to a large number of educational and government organisations – a key customer segment for Precise. Precise had already been servicing a number of these organisations from the Christchurch branch. Work volumes and client demand reached sufficient volume to establish a permanent presence in the region.

This local presence is important to clients and allows Precise to become the leading service provider in the region.

With the RJL acquisition and opening of the Perth and Dunedin branches, HRL now operates out of 8 regional centres:

- Brisbane



- Darwin
- Canberra
- Perth
- Christchurch
- Wellington
- Palmerston North; and
- Dunedin

Settlement of Precise and AAC Vendor Earn Outs

During the quarter Andre Halkyard resigned from the General Manager position of Precise. Mr Halkyard was the owner of Precise prior to its acquisition by HRL in March 2015.

As part of the purchase price, the Precise vendors were entitled to an earn-out payment of \$700,000 NZD. Payment of the earn-out consideration was contingent on Mr Halkyard's ongoing service for a minimum period of three years after acquisition, with any earn-out consideration reduced proportionately by the length of time not employed. Accordingly the total earn-out was reduced to \$233,333 NZD. This amount was settled during the quarter.

Arthur Watson retired from AAC Environmental (**AAC**) in January. Mr Watson was the owner of AAC prior to its acquisition by HRL in October 2015. As part of the purchase price, the vendors of AAC had the ability to receive an earn-out of up to \$500,000 AUD upon meeting certain profit targets. With Mr Watson's departure, HRL has been released from this earn-out obligation.

HRL will save between \$0.425M - \$0.925M AUD over the next 2 years as a result of these settlements.

HRL is pleased to announce that both of these positions have subsequently been replaced with high calibre individuals.

Third Quarter Cashflows

During the quarter, HRL had \$190K net cash outflows from operating activities. The third quarter is traditionally the slowest trading months for HRL with the building industry retiring over the Christmas and New Year periods. Cashflows in particular are impacted with the slowest trading months of the year (December, January and February) accounting for the bulk of the inflows in this quarter. Also included in the reported operating cash outflows were acquisition costs of \$25K and New Zealand tax instalment payments of \$184K, with an otherwise positive cashflow performing quarter.

HRL took the opportunity during the slower period to invest in equipment, training and systems to ensure the group was ready to move into the property contamination testing and work place drug testing. HRL also used the time to secure and open the two new branches in Perth and Dunedin.

On 1 March 2016 HRL completed the acquisition of the RJL business. The settlement proceeds were \$500,000 NZD. HRL used its banking facilities to fund the purchase. HRL took effective control of RJL on 1 March 2016, with revenues from property contamination testing and work place drug testing flowing to the HRL Group from that date.

The Group had \$427K in cash at the end of the quarter and \$2.3M in undrawn loan facilities.

For further information contact:

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Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10

Name of entity

HRL Holdings Limited

ABN

99 120 896 371

Quarter ended ("current quarter")

March 2016

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (9 months) \$A'000
1.1 Receipts from customers	1,952	6,834
1.2 Payments for (a) staff costs	(819)	(2,883)
(b) advertising & marketing	(2)	(6)
(c) research & development	-	-
(d) leased assets	(107)	(299)
(e) other working capital	(985)	(2,759)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	-	10
1.5 Interest and other costs of finance paid	(20)	(57)
1.6 Income taxes paid	(184)	(459)
1.7 Other – AAC and RJL acquisition costs	(25)	(51)
Net operating cash flows	(190)	330

+ See chapter 19 for defined terms.

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admitted on the basis of commitments

	Current quarter \$A'000	Year to date (9 months) \$A'000
1.8 Net operating cash flows (carried forward)	(190)	330
1.9 Cash flows related to investing activities		
Payment for acquisition of:		
(a) businesses (item 5)	(451)	(1,443)
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	(15)	(111)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Settlement of vendor earn outs	(264)	(264)
Net investing cash flows	(730)	(1,818)
1.14 Total operating and investing cash flows	(920)	(1,488)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	-
1.16 Share issue costs	-	-
1.17 Proceeds from borrowings	905	1,905
1.18 Repayment of borrowings	(264)	(854)
1.20 Other (provide details if material)	-	-
Net financing cash flows	641	1,051
Net increase (decrease) in cash held	(279)	(437)
1.21 Cash at beginning of quarter/year to date	734	859
1.22 Exchange rate adjustments to item 1.20	(28)	5
1.23 Cash at end of quarter	427	427

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	173
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Executive and Non-Executive Directors remuneration and fees (\$111K)

Rental payments to a Director related entity (\$25K) in relation to premises rented by OCTIEF Pty Ltd.

Software consulting payments to a Director related entity (\$37K). These fees are contracted under normal terms and conditions.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

Financing facilities available

Add notes as necessary for an understanding of the position.

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	3,546	1,201
3.2	Credit standby arrangements	-	-

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Reconciliation of cash


Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	387	694
4.2 Deposits at call	40	40
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	427	734

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	RJL and Associates	
5.2 Place of incorporation or registration	New Zealand	
5.3 Consideration for acquisition or disposal	\$451,000	
5.4 Total net assets	\$132,050	
5.5 Nature of business	Property Contamination Testing and Work Place Drug Testing	

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act.
- 2 This statement does *give* a true and fair view of the matters disclosed.

Sign here:  Date: 29 April 2016
 (Company secretary)

Print name: Paul Marshall

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report except for any additional disclosure requirements requested by AASB 107 that are not already itemised in this report.
3. **Accounting Standards.** ASX will accept, for example, the use of International Financial Reporting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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