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## **ASX Announcement – Correction to Appendix 4E and Annual Report to Shareholders**

**3 August 2021**

Please find attached a corrected version of the Appendix 4E and Annual Report lodged on Friday 30 July 2021.

The only revision is to correct the item below:

Annual report page 31 – include the following in substantial shareholders “*Perennial Value Management Limited holds an interest in 51,983,334 shares (10.53%)*”.

Authorised by

**Paul Marshall**  
**Company Secretary**  
**HRL Holdings Ltd**



## **HRL HOLDINGS LIMITED**

### **Appendix 4E FY2021 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 2021  
Previous Corresponding Period: 30 June 2020

#### **2. Results for Announcement to the Market \$'000**

Revenue from ordinary activities up 5% to:	34,623
Underlying net profit/(loss) for the period up 28% to:	3,228
Net profit for the period attributable to members improved to:	1,312

Refer to pages 9 to 13 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 32 of the 2021 Financial Statements and accompanying Notes.

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

Refer to Page 33 of the 2021 Financial Statements and accompanying Notes.

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

Refer to Page 35 of the 2021 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 34 of the 2021 Financial Statements and accompanying Notes.

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

2021	\$0.019
2020	\$0.016



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

Refer to Page 69 of the 2021 Financial Statements.

**10. Associates and Joint Venture Entities**

Refer to Page 67 of the 2021 Financial Statements.

**11. Other Significant Information**

Not applicable.

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

Not applicable.

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

Refer to pages 9 to 13 of the Financial Statements for the operational and financial review of the Entity.

**14. Status of Audit**

The attached 2021 Financial Statements have been audited.

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

Not applicable.

**16. Dispute or Qualifications if audited**

Not applicable.

**Paul Marshall**  
Company Secretary  
30 July 2021



**HRL HOLDINGS LIMITED**

**ANNUAL REPORT**

**FOR THE YEAR ENDED**

**30 JUNE 2021**

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# CEO'S LETTER

Dear Shareholders,

Your Directors and I have much pleasure in presenting the 2021 Annual Financial Statements for the HRL Group.

## Introduction and the past year in review

HRL delivered a particularly strong performance in FY2021 exceeding full year broker consensus despite the ongoing disruptions of COVID-19 impacting work continuity and workforce planning. Management continued to build resilience in the operational teams which positioned us well to capitalise on improving trading conditions in the second half of FY2021. This allowed us to expand EBITDA margin as work volumes improved.

## Year at a glance

AUD \$M	FY2021	FY2020	% Change
Revenues	34.6	32.8	+5.5%
Underlying EBITDA <sup>1</sup>	7.7	6.9	+11.3%
Underlying profit after tax	3.2	2.5	+27.7%
Statutory profit after tax	1.3	(2.5)	NA
Cashflow provided by operations	5.5	6.3	(12.5%)
Net cash / (borrowings)	(0.4)	(1.1)	+64.3%

<sup>1</sup> Underlying profit reflects statutory profit as adjusted to reflect the Directors' assessment of the result for the ongoing business activities of the Group, in accordance with AICD/Finsia principles of recording underlying profit. Underlying profit has not been audited. Underlying EBITDA includes \$221,000 (FY2020: \$62,000) share of profit from CAIQTest (Pacific) Limited.

## Strategy

The HRL management team has managed the group through challenging business conditions before and was as well-prepared as possible for the COVID-19 challenges. At the early stages of the pandemic the business focused on safeguarding employees health, capital protection and realignment of the cost base to meet client demands. We maintain a prudent and conservative capital management plan, however, continue to invest in key areas which allow the business to benefit from improving trading conditions.

We have successfully progressed the following strategic initiatives throughout the year:

1. Outstanding safety performance with a Total Reportable Injury Frequency Rate (TRIFR) of 0
  - Lost Time Injury Frequency Rate (LTIFR) of 0
  - Additional measures were introduced at all of our sites as part of our pandemic response
2. Female workplace representation further increased and now reported at 49%
  - We updated our Diversity and Inclusion Policy in 2021, a copy of which is available on our website
3. A total of \$10M loan facilities secured
  - These facilities will be used to fund growth initiatives including new instrumentation, investments in joint ventures, and acquisitions of new businesses
4. Acquisition of New Zealand water testing laboratory
  - Transaction settled in March 2021 and is now fully integrated with HRL's NZ laboratory network

# CEO'S LETTER

5. HRL's joint venture in New Zealand to conduct food testing receives accreditation
- Two phases of method accreditation now completed
  - Trading with customers has now commenced with dairy product testing

## Outlook for FY2022

HRL has built a strong balance sheet with just \$0.4M net debt at year end and \$10M of loan facilities. Our strong operating cashflows will be used to accelerate organic growth in both laboratory technologies and a new phase of investment in the Software Division for client data management.

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.

## Thank you

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 FY2021. I look forward to reporting a stronger FY2022 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 2021.

## DIRECTORS

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

Name	Position	Period of Directorship
Greg Kilmister	Non-Executive Chairman	Appointed 11 February 2019
Steve Howse	Executive Director	Appointed 1 March 2018
James Todd	Non-Executive Director	Appointed 1 March 2018
Richard Stephens	Non-Executive Director	Appointed 3 September 2020
Alex White	Non-Executive Director	Appointed 1 March 2021
Tracy Dare	Non-Executive Director	Appointed 1 November 2019, resigned 31 July 2020

### Greg Kilmister

*Non-Executive Chairman*

*B Sc (Hons), FRACI, CCEO*

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

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

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

### Steve Howse

*Executive Director*

*B Agr Sci Honours*

Mr Howse was a former shareholder and director of Analytica Laboratories Limited. He continues his role with Analytica as Key Accounts & Projects 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 New Zealand science and technology businesses, with a focus on agribusiness and commercial analytical testing. He was a director of Synlait Farms Ltd leading up to its sale in 2014, and was deputy chair from 2014 to 2018 of Waikato Institute of Technology in New Zealand. He is a member of the New Zealand Institute of Directors.

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



# DIRECTORS' REPORT

## **James Todd**

*Non-Executive Director*

*B Comm, LLB, FFIN, MAICD*

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)
- Bapcor Limited (appointed September 2020)

## **Richard Stephens**

*Non-Executive Director*

*B Comm, CA, MAICD*

Mr Stephens is a Chartered Accountant with senior executive experience at ASX-listed companies in the Testing, Inspection & Certification (TIC) and Banking & Finance sectors.

From 2010 to 2018 he was Chief Financial Officer of ALS Limited – the global provider of laboratory focused TIC services. Richard has a deep knowledge of the value drivers in the industry and was heavily involved in extensive acquisition and funding activities at ALS during that time. Previously he held senior finance roles with Suncorp and Metway Bank.

He has wide-ranging financial governance experience with businesses spanning multiple jurisdictions, with expertise in the areas of capital management, debt and equity capital raisings, mergers and acquisitions, risk management and financial instruments.

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

## **Alex White**

*Non-Executive Director*

*BBus (EconFin)*

Mr White is a Director of Richmond Hill Capital ("RH Capital") and is jointly responsible for managing the RH High Conviction Fund. RH Capital has been invested in HRL for six years and is HRL's largest shareholder.

Mr White has over fourteen years of corporate and investment management experience and prior to co-founding RH Capital, he was jointly responsible for the portfolio management of the VF High Conviction Fund at Viburnum Funds for six years (now the RH High Conviction Fund).

Mr White joined Viburnum following over three years with Cooper Investors, a privately owned specialist investment manager, where he focused on investment research for the successful CI Australian Equities Fund and CI Brunswick Fund. He previously gained industry experience working for Fletcher Building as a Strategy Analyst and as a Credit Analyst for ratings agency Standard and Poor's.

Mr White is currently a Director of the following other ASX listed company:

- MOQ Digital Limited (appointed June 2019)

# DIRECTORS' REPORT

## Tracy Dare (resigned 31 July 2020)

Non-Executive Director

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

Tracy Dare is a Chartered Accountant and a former Partner of KPMG, following which she led the Corporate Banking team at Suncorp before moving into various senior commercial executive roles. She has not been a Director of any other Australian listed company in the last three years.

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

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

Director	Fully Paid Ordinary Shares	Performance Rights
Greg Kilmister	1,100,000	-
Steve Howse	7,190,297	426,105
James Todd	500,000	-
Richard Stephens	102,099	-
Alex White <sup>1</sup>	97,654,689	-

<sup>1</sup> Shares held by Richmond Hill Capital Pty Ltd. Mr White is a director of Richmond Hill Capital Pty Ltd and has an indirect interest as portfolio manager.

## MEETINGS OF DIRECTORS

The following table sets out the number of meetings of the Company's Directors held during the year ended 30 June 2021 and the number of meetings attended by each Director.

	Directors Meetings		Audit and Risk Committee Meetings		People and Culture Committee Meetings		Nomination Committee Meetings	
	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend	Meetings attended	Eligible to attend
Greg Kilmister	14	14	5	5	3	3	2	2
Steve Howse	14	14	-	-	-	-	2	2
James Todd	14	14	5	5	3	3	2	2
Richard Stephens	12	12	4	4	-	-	1	1
Alex White	4	4	-	-	2	2	-	-
Tracy Dare	1	1	1	1	1	1	-	-

## COMMITTEE MEMBERSHIP

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

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

Audit and Risk Committee	People and Culture Committee	Nomination Committee
Richard Stephens (Chair)	James Todd (Chair)	Greg Kilmister (Chair)
Greg Kilmister	Greg Kilmister	Steve Howse
James Todd	Alex White	James Todd
		Richard Stephens
		Alex White

# DIRECTORS' REPORT

## SENIOR MANAGEMENT

### Paul Marshall

*Company Secretary*

*LLB, ACA*

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

### Steven Dabelstein

*Chief Executive Officer*

*BComm, CPA, Member AICD, Member CEOI*

Mr Dabelstein has been the CEO for the HRL Group since 2015. Under his leadership HRL has grown from a small Brisbane based firm to the current Australian and New Zealand testing, inspection and certification business with over 250 staff and greater than \$30 million of revenues. He has experience with acquisitions, capital markets, developing strategy and leading a diverse and high performing team.

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

### Michael Harvey

*Chief Finance Officer*

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

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

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

## PRINCIPAL ACTIVITIES

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

The Group offers services including:

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

# DIRECTORS' REPORT

## 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

### Water Testing Hawkes Bay Acquisition

On 1 March 2021 HRL settled the purchase of Water Testing HB (2016) Limited (WTHB) for NZD \$650,000.

Water Testing Hawkes Bay is a leading regional bacteriological water-testing and analysis laboratories, focused primarily on providing sampling and routine water-testing for the government authority and businesses in the Hasting District, Napier City and Hawkes Bay region.

Whilst modest in size, the acquisition of WTHB is important strategically as it:

- accelerates HRL's expansion into routine water quality and environmental laboratory testing;
- provides a solid recurring revenue base with approximately 80% of revenues coming from local government authorities;
- expands HRL's geographic coverage in New Zealand to the Hawkes Bay region on the east coast;
- through an integration into the Analytica Laboratories business unit, takes advantage of advanced technology and lean operating procedures; and
- provides opportunity to offer Analytica's full range of laboratory services to a new segment of customers.

### Trading Review and Outlook

#### Food and Environmental Laboratory Services

The Food and Environmental Laboratory division incorporates the New Zealand based Analytica business unit. Following its acquisition on 1 March 2021 WTHB was integrated into the Analytica business unit.

FY2021 was another strong year of growth for Analytica with revenues up 15% (excluding WTHB revenues) compared with the prior period, highlighted by:

- Honey revenues up 30% on the prior year due to a combination of global demand for manuka honey as a natural product to provide immune support, a longer tail to the 2020 production season and strong demand for testing of glyphosate and American foul brood in honey as a consequence of changing honey export requirements.
- Milk testing was weaker with revenues falling 7% on prior year with a decline in beta casein testing in the second half.
- Food and trace origin testing continues to grow with revenues up 19% on the prior year. Following some logistical delays receiving international samples in Q2/Q3, sample numbers increased materially in Q4.
- Environmental testing services (laboratory testing of air, water and soil) continued its development with revenue growth of 17% on the prior year. Project activity in this area picked up in the second half with testing activity now consistently exceeding pre-COVID levels.
- Other services lines (asbestos, drugs of abuse and projects) increased 16% on prior year.

Water testing performed by the Hawkes Bay branch (WTHB) in the 4 months since acquisition traded slightly ahead of expectation.

Analytica is targeting continued strong revenue growth in FY2022, primarily through the environmental testing segment. To achieve this, Analytica will be investing in both technical staff and equipment to round out the environmental testing suite offering and aggressively grow market share. Water testing will be an important component of this growth and Analytica will draw upon the capabilities acquired through the WTHB acquisition and explore additional acquisitions in this space. Revenue growth is likely to exceed profit growth in this area initially but will lead to overall higher profits and higher margins over the coming two to three years.

# DIRECTORS' REPORT

Food testing services such as honey and dairy will be influenced by the underlying production seasons and the overall demand for products, especially from international markets.

Honey revenues in FY2022 are expected to grow steadily. The 2021 honey production season (January to June) was historically weak, especially in comparison to the 2020 honey production season which ran for several months longer than usual which contributed to the strong first half revenues in FY2021. Due to this, first half revenues in FY2022 are likely to be softer than in FY2021, but assuming an average production season in 2022, second half revenues will be stronger. FY2022 will also benefit from a full year of glyphosate and American foul brood testing which was only introduced mid-way through FY2021. Analytica will also explore additional automation technologies throughout the year to reduce labour costs in this service line.

Milk testing is expected to remain steady with some potential upside from project works.

Food and trace origin testing grew strongly in the final quarter in FY2021 and this trend is expected to continue into FY2022 through a combination of sustained higher sample numbers and additional tests offered.

The asbestos testing line, which is the cornerstone service of Analytica's regional branch network, saw solid growth which is expected to be maintained in FY2022. Analytica is looking to add additional testing capabilities and resources to key regional hubs to drive further revenue growth.

Analytica's commercial R&D projects have picked up recently and Analytica will continue to support and build strong relationships with valuable customers in both New Zealand and overseas markets.

As always Analytica continues to explore emerging opportunities across a range of industries and remains ready to capitalise on any commercial opportunities.

## HAZMAT

The HAZMAT division, which incorporates the OCTIEF business unit in Australia and the Precise business in New Zealand, had a very positive year despite a COVID-19 impacted Q1 in New Zealand.

The first quarter for Precise was slow as its customer base recovered from the COVID-19 slowdown but workloads quickly increased thereafter. Precise expanded occupational hygiene services throughout the year and was awarded its first major contract during March. Revenue growth (whilst strong) was hampered slightly in the second half due to resourcing constraints across the whole industry.

Australian operations for OCTIEF also enjoyed another strong year with consistent workloads from the Queensland and Northern Territory Governments and major utility providers.

The HAZMAT outlook for FY2022 is optimistic. Precise has strengthened its position as the leading asbestos consulting firm in New Zealand. COVID-19 related travel restrictions have greatly impacted the entire industry's ability to recruit additional staff from traditional overseas sources. To address this structural issue in the New Zealand market and continue growing market share, Precise has already begun a training program to bring a regular pipeline of trainees through to full qualification across a range of HAZMAT consulting disciplines. Labour costs in the first half of FY2022 are expected to be higher as the first round of trainees go through this process but this will allow Precise to grow revenues more strongly from the second half onwards as the trainees become qualified.

OCTIEF consulting revenues are anticipated to remain consistent over the coming year. OCTIEF's laboratory continues to see modest but pleasing growth from its formative environmental test offering and OCTIEF will be investing in its laboratory equipment to continue its expansion of capabilities.

## 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 revenues were flat during FY2021 with COVID-19 frustrating OCTFOLIO's ability to engage with clients and IT budgets for many businesses were frozen.

FY2022 will see additional investment in OCTFOLIO to target accelerated growth over the mid-term. OCTFOLIO will internally develop a suite of tools for other HAZMAT consultants in markets where OCTIEF and Precise do not compete to enable these consultancies to introduce their own customers to the OCTFOLIO asset management platform. By greatly expanding the reseller network through this consultant network, OCTFOLIO expects to gain access to a larger suite of customers and key decision makers it previously did not. The OCTFOLIO team will also begin work on development of more mass market compliance and reporting tools.

With this focus on investment in FY2022 and beyond, OCTFOLIO's EBITDA is expected to trade around breakeven levels over the short term.

# DIRECTORS' REPORT

## Geotechnical

The Geotechnical division incorporates the Morrison Geotechnic business unit in Australia. Revenues saw a sharp decline in the first quarter due to the COVID-19 slowdown which was offset to a degree from the benefit of the JobKeeper program. Activity was mixed through the rest of the year with south-east QLD construction sector rebounding strongly but offset by extreme rainfall events in Q3.

The outlook for FY2022 is more promising. Planned land development and infrastructure activity across south-east QLD is at high levels and Morrison has secured a large multi-year highway development contract which will help underpin revenues in FY2022.

## **Joint Ventures**

### CAIQTest (Pacific) Limited

The Group has a 26% interest in CAIQTest (Pacific) Limited, a New Zealand based laboratory providing pre-shipment testing services for clients exporting goods from Australasia to China, assisting greatly with supply chain bottlenecks.

Trading for CAIQTest (Pacific) Limited during FY2021 was very strong with revenue growing 36% on the prior year.

### Foodlab Pacific Limited

Foodlab Pacific Limited (Foodlab), a 50:50 joint venture company with MilkTestNZ, achieved a major development milestone during the year receiving its first and second phase of accreditations from IANZ. These accreditations will now allow Foodlab to provide an initial range of services to dairy customers.

Foodlab continues to focus on business development with customers and the remaining phases of its method accreditation.

## **FINANCIAL REVIEW**

Key financial headlines of the HRL Group's 30 June 2021 results are:

- Revenues of \$34,623,000
- Underlying EBITDA of \$7,715,000 <sup>2</sup>
- Underlying profit after tax of \$3,228,000 <sup>1</sup>
- Statutory profit after tax of \$1,312,000
- Cashflow provided by operations of \$5,522,000
- Net cash/(borrowings) of (\$384,000)

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

<sup>2</sup> Underlying EBITDA includes \$221,000 share of profit from CAIQTest (Pacific) Limited.

# DIRECTORS' REPORT

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

	June 2021 \$'000	June 2020 \$'000
Underlying EBITDA <sup>1</sup>	7,715	6,929
Operating depreciation and amortisation	(2,970)	(3,101)
Borrowing costs (net of interest income)	(290)	(364)
Operating tax	(1,226)	(937)
<b>Underlying profit after tax</b>	<b>3,229</b>	<b>2,527</b>
<i><u>Non-operating adjustments</u></i>		
Amortisation of intangible assets from acquisitions	(809)	(2,540)
Earn-out expenses/adjustments	-	(2,158)
Lapsed expired management performance shares	-	(41)
Foodlab equity accounted share of loss	(1,019)	(575)
Non-operating tax	(89)	292
<b>Statutory profit/(loss) after income tax</b>	<b>1,312</b>	<b>(2,495)</b>

<sup>1</sup> In the opinion of the Directors, the Group's underlying profit reflects the results generated from ongoing operating activities and is calculated in accordance with AICD/Finsia principles. The non-operating adjustments outlined above are considered to be non-recurring in nature. These items are included in the Group's consolidated statutory result but excluded from the underlying result.

Underlying EBITDA includes \$221,000 share of profit from CAIQTest (Pacific) Limited.

## Comparison with the Prior Period

Underlying profit after tax for the year increased by +28% compared with the prior year. The key reasons for the increase were:

### Factors increasing profits:

- Higher earnings from Analytica on the back of 16% revenue growth;
- Higher earnings from the HAZMAT division, primarily due to increased earnings from Precise. Lockdown impacts in New Zealand were substantially lessened in FY2021;
- Benefits of JobKeeper received by Morrison Geotechnic; and
- Increased share of profits from CAIQTest (Pacific) Limited.

### Factors decreasing profits:

- Lower earnings from OCTFOLIO.

# DIRECTORS' REPORT

## COVID-19 Impacts, Assistance and Support Received

### Subsidies

During the year, the Group received the following material COVID-19 related support subsidies from the Australia Government:

Government Subsidy	Entity	Program Duration	Subsidy FY2021	Program End
Australia JobKeeper	Morrison Geotechnic	3 months	\$635,000	September 2020

### Government Loans

The Group has two government support loans facilities:

#### QLD Government

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

#### New Zealand Government

NZ \$55,000 loan with a fixed interest rate of 3.00% per annum. The loan is repayable in May 2022. The loan is unsecured.

### Payment Deferrals

There are no loans or other liabilities on deferred payment arrangements.

## Liquidity and Funding

As at 30 June 2021, the Group had net current assets of \$835,000.

The Group has undrawn bank facilities of \$7,803,000 and comfortably met all banking covenants during the period.

During the year, the Group generated operating cashflows of \$5,522,000.

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

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes during the year.

## LIKELY DEVELOPMENTS AND FUTURE OPERATIONS

During FY2022, the Group will focus on:

- Investing in Analytica to:
  - Increase Environmental testing capabilities and capacity;
  - Automate workflows to reduce labour costs;
  - Expand the service scope of regional networks; and
  - Seek other bolt-on laboratory investments.
- Invest in trainee network and staff development in labour constrained services such as HAZMAT consulting;
- Investment in the OCTFOLIO platform to drive aggressive revenue growth over the medium term; and
- A strong focus on M&A activities targeting large acquisition opportunities of high-quality testing, inspection and certification businesses.



# DIRECTORS' REPORT

## INDEMNIFICATION OF OFFICERS OR AUDITOR

Each of the Directors and the Secretary of the Company has entered into a Deed with the Company whereby the Company has provided certain contractual rights of access to books and records of the Company and certain indemnification to those Directors and Secretary. The Company has insured all of the Directors of HRL Holdings Limited. The contract of insurance prohibits the disclosure of the nature of the liabilities covered and amount of the premium paid. *The Corporations Act 2001* does not require disclosure of the information in these circumstances.

The Company has not indemnified its auditor.

## PROCEEDINGS ON BEHALF OF THE COMPANY

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

## PERFORMANCE RIGHTS

Details of performance rights issued, exercised and expired during the financial year, and as at the date of this report are set out below:

Expiry / Vesting Date	Tranche	Vesting Condition	Performance period <sup>1</sup>	Movements				
				1 July 2020	Issued	Exercised	Expired / Forfeited	30 June 2021
30 June 2023	D	EPS	3 years	-	1,022,181	-	(89,615)	932,566
30 June 2023	D	EBITDA	3 years	-	1,022,181	-	(89,615)	932,566
30 June 2023	D	TSR	3 years	-	1,022,181	-	(89,615)	932,566
30 June 2023	D	ROCE	3 years	-	1,022,181	-	(89,615)	932,566
30 June 2022	A	EPS	3 years	1,184,108	-	-	(153,555)	1,030,553
30 June 2022	A	EBITDA	3 years	1,184,108	-	-	(153,555)	1,030,553
30 June 2022	A	TSR	3 years	1,184,108	-	-	(153,555)	1,030,553
30 June 2022	A	ROCE	3 years	1,184,108	-	-	(153,555)	1,030,553
30 June 2021	B	Budget	1 year	294,669	-	-	(136,138)	158,531
30 June 2021	B	EBITDA	2 years	294,669	-	-	-	294,669
30 June 2021	B	TSR	2 years	294,669	-	-	(294,669)	-
30 June 2021	B	ROCE	2 years	294,669	-	-	(143,799)	150,870
30 June 2020	C	TSR	1 year	147,335	-	(147,335)	-	-
30 June 2020	C	Discretionary	1 year	227,273	-	(227,273)	-	-
				6,289,716	4,088,724	(374,608)	(1,547,286)	8,456,546

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

Refer to page 24 for details on vesting conditions.

## AFTER BALANCE DATE EVENTS

There have been no events since 30 June 2021 that impact upon the financial report.

## REMUNERATION REPORT

The Remuneration Report set out on pages 15 to 28 provides details of the remuneration and equity holdings of the Directors and Key Management Personnel, including details of equity instruments issued or exercised during the financial year, or outstanding at the date of this report, and forms part of the Directors' Report.

# REMUNERATION REPORT - AUDITED

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

## Remuneration Policy

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

## Remuneration Committee

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

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

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

## Remuneration structure

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

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

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

## Non-Executive Director Remuneration

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

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

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

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

The remuneration of Non-Executive Directors for the year ended 30 June 2021 is detailed in this Remuneration Report.

# REMUNERATION REPORT - AUDITED

## Executive Director and Senior Management Remuneration

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

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

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

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

Payment of bonuses, performance and other incentive payments are determined by the rules of the short term and long term incentive plans, however the Board may also use its discretion to award payments outside of these plans.

The remuneration of the Executive Director and Senior Management for the period ended 30 June 2021 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 agreements 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 a service arrangement with Mr Greg Kilmister as Non-Executive Chairman of the Company commencing from 11 February 2019. The key terms of the arrangement during the financial year were:

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

### Non-Executive Director Arrangements

The Company has entered service arrangements with Mr James Todd, Mr Richard Stephens and Mr Alex White as Non-Executive Directors of the Company. The key terms of the arrangement are:

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

### Former Non-Executive Director Arrangements

The Company had entered a service arrangement Ms Tracy Dare as a Non-Executive Director of the Company. The key terms of the arrangement were:

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

# REMUNERATION REPORT - AUDITED

## Executive Director Arrangement – Steve Howse

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

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

## Chief Executive Officer Arrangements

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

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

## Chief Finance Officer Arrangements

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

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

## Company Secretary Arrangements

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

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

# REMUNERATION REPORT - AUDITED

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

Name	Position	Period of Service
<b>Directors</b>		
Greg Kilmister	Non-Executive Chairman	Appointed 11 February 2019
Steve Howse	Executive Director	Appointed 1 March 2018
James Todd	Non-Executive Director	Appointed 1 March 2018
Richard Stephens	Non-Executive Director	Appointed 3 September 2020
Alex White	Non-Executive Director	Appointed 1 March 2021
<b>Former Director</b>		
Tracy Dare	Non-Executive Director	Appointed 1 November 2019, resigned 31 July 2020
<b>Key Management</b>		
Steven Dabelstein	Chief Executive Officer	Appointed 1 January 2015
Michael Harvey	Chief Finance Officer	Appointed 15 September 2014
Paul Marshall	Company Secretary	Appointed 2 July 2007

# REMUNERATION REPORT - AUDITED

## Remuneration of Directors and other Key Management Personnel – FY2021

		Short Term Benefits			Long Term Benefits	Post Employment Benefits	Equity based Benefits				
\$AUD	Note	Salary/ fees	Bonus	Vehicle allowance	Accrued / (used) leave benefits	Superannuation	Performance Rights	Total	Performance Related %	% of FY21 STI bonus forfeited	% equity compensation
Directors											
Greg Kilmister		58,192	-	-	-	31,808	-	90,000	-	-	-
Steve Howse		170,722	-	-	(7,286)	4,372	8,265	176,073	5%	100%	5%
James Todd		60,000	-	-	-	-	-	60,000	-	-	-
Richard Stephens	2	45,662	-	-	-	4,338	-	50,000	-	-	-
Alex White	3	20,000	-	-	-	-	-	20,000	-	-	-
Tracy Dare	1	4,566	-	-	-	434	-	5,000	-	-	-
Key Management											
Steven Dabelstein		300,000	90,000	20,000	(9,862)	21,695	74,609	496,442	33%	-	15%
Michael Harvey		200,000	50,000	-	(842)	19,000	37,305	305,463	29%	-	12%
Paul Marshall		60,000	-	-	-	-	-	60,000	-	-	-
		919,142	140,000	20,000	(17,990)	81,647	120,179	1,262,978			

### Notes

- 1 Resigned 31 July 2020
- 2 Appointed 3 September 2020
- 3 Appointed 1 March 2021

There were no termination benefits paid or accrued for the year ended 30 June 2021.

# REMUNERATION REPORT - AUDITED

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

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

### Notes

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

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

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

# REMUNERATION REPORT - AUDITED

## Key management personnel equity holdings

### Shareholdings

	Balance 1 July 2020	Acquired on market	Disposed	Recognized on appointment	Derecognized on retirement	Performance Rights Exercised	Balance 30 June 2021
<b>Directors</b>							
Greg Kilmister	1,100,000	-	-	-	-	-	1,100,000
Steve Howse	12,190,297	-	(5,000,000)	-	-	-	7,190,297
James Todd	500,000	-	-	-	-	-	500,000
Richard Stephens	-	102,099	-	-	-	-	102,099
Alex White <sup>1</sup>	-	5,023,303	-	92,631,386	-	-	97,654,689
<b>Former Directors</b>							
Tracy Dare	90,681	-	-	-	(90,681)	-	-
<b>Key Management</b>							
Steven Dabelstein	1,861,707	54,800	-	-	-	234,587	2,151,094
Michael Harvey	801,035	-	-	-	-	140,021	941,056
Paul Marshall	2,625,945	-	-	-	-	-	2,625,945
	<b>19,169,665</b>	<b>5,180,202</b>	<b>(5,000,000)</b>	<b>92,631,386</b>	<b>(90,681)</b>	<b>374,608</b>	<b>112,265,180</b>

### Notes

<sup>1</sup> Shares held by Richmond Hill Capital Pty Ltd. Mr White is a director of Richmond Hill Capital Pty Ltd and has an indirect interest as portfolio manager.



# REMUNERATION REPORT - AUDITED

## Performance Rights

	Balance 1 July 2020	Granted	Converted to Ordinary Shares	Lapsed	Balance 30 June 2021	Vested and Exercisable	Unvested
<b>Directors</b>							
Greg Kilmister	-	-	-	-	-	-	-
Steve Howse <sup>1</sup>	226,215	199,890	-	-	426,105	-	426,105
James Todd	-	-	-	-	-	-	-
Richard Stephens	-	-	-	-	-	-	-
Alex White	-	-	-	-	-	-	-
<b>Former Directors</b>							
Tracy Dare	-	-	-	-	-	-	-
<b>Key Management</b>							
Steven Dabelstein <sup>2</sup>	2,199,049	1,088,929	(234,587)	(383,071)	2,670,320	402,714	2,267,607
Michael Harvey <sup>3</sup>	1,122,252	544,465	(140,021)	(191,535)	1,335,161	201,356	1,133,803
Paul Marshall	-	-	-	-	-	-	-
	<b>3,547,516</b>	<b>1,833,284</b>	<b>(374,608)</b>	<b>(574,606)</b>	<b>4,431,586</b>	<b>604,070</b>	<b>3,827,515</b>

## Notes

- 1 Steve Howse holds 226,215 Tranche A rights and 199,890 Tranche D rights (refer page 24)
- 2 Steve Dabelstein holds 1,178,677 Tranche A rights, 402,714 Tranche B rights and 1,088,929 Tranche D rights (refer page 24)
- 3 Michael Harvey holds issued 589,339 Tranche A rights, 201,357 Tranche B rights and 544,465 Tranche D rights (refer page 24)

# REMUNERATION REPORT - AUDITED

## FY2021 – Short Term Incentive Plan

For the FY2021 financial year Steve Howse (Executive Director), Steven Dabelstein (CEO) and Michael Harvey (CFO) had the opportunity to earn a cash bonus based upon achieving certain underlying profit targets as outlined in the table below:

Participant	Business Unit / Group Profit Target	STI Bonus Payable	Target Met
Steve Howse	Analytica - NZD \$4.22M	NZD \$24,182	No
Steven Dabelstein	HRL Group - AUD \$4.23M	AUD \$90,000	Yes
Michael Harvey	HRL Group - AUD \$4.23M	AUD \$50,000	Yes

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.

## FY2021 Long Term Incentive Plan

### Goals of the LTI Plan

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

The principal goals of the LTI Plan are to:

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

### Remuneration Structure

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

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

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

# REMUNERATION REPORT - AUDITED

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

Expiry / Vesting Date	Tranche	Vesting Condition	Performance period <sup>1</sup>	Movements				
				1 July 2020	Issued	Exercised	Expired / Forfeited	30 June 2021
30 June 2023	D	EPS	3 years	-	458,321	-	-	458,321
30 June 2023	D	EBITDA	3 years	-	458,321	-	-	458,321
30 June 2023	D	TSR	3 years	-	458,321	-	-	458,321
30 June 2023	D	ROCE	3 years	-	458,321	-	-	458,321
30 June 2022	A	EPS	3 years	498,558	-	-	-	498,558
30 June 2022	A	EBITDA	3 years	498,558	-	-	-	498,558
30 June 2022	A	TSR	3 years	498,558	-	-	-	498,558
30 June 2022	A	ROCE	3 years	498,558	-	-	-	498,558
30 June 2021	B	Budget	1 year	294,669	-	-	(136,138)	158,531
30 June 2021	B	EBITDA	2 years	294,669	-	-	-	294,669
30 June 2021	B	TSR	2 years	294,669	-	-	(294,669)	-
30 June 2021	B	ROCE	2 years	294,669	-	-	(143,799)	150,870
30 June 2020	C	TSR	1 year	147,335	-	(147,335)	-	-
30 June 2020	C	Discretionary	1 year	227,273	-	(227,273)	-	-
				3,547,516	1,833,284	(374,608)	(574,606)	4,431,586

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

## Performance Vesting Conditions

### Earnings per Share (EPS) Measure

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

Tranche A: 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.

Tranche D: The compound growth in EPS will be measured by comparing fully diluted EPS for the financial year ending 30 June 2023 with fully diluted EPS for the financial year ended 30 June 2020.

# REMUNERATION REPORT - AUDITED

## 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 the total applicable tranche
Comparator companies	Bureau Veritas (France), Core Laboratories (USA), Eurofins (France & Germany), Intertek (UK), SGS (Switzerland), ALS (Australia), AsureQuality (NZ)

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

## Total Shareholder Return (TSR) Measure

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

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

## Budget Measure

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

# REMUNERATION REPORT - AUDITED

## Return on Capital Employed (ROCE) Measure

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

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

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

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

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

## Discretionary Measure

The financial impacts of COVID-19 on the Group during the FY2020 financial year rendered certain measurement targets of the 1-year plan (Tranche C) effectively unachievable. The Board utilised its discretion under the LTI plan rules to vest 227,273 performance rights to participants automatically.

## Fair value of performance rights granted

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

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

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

# REMUNERATION REPORT - AUDITED

Inputs into pricing model for EPS/EBITDA/ROCE/Budget vesting conditions	Tranche D - Employees	Tranche D * – Executive Director	Tranche A - Employees	Tranche A – Executive Director	Tranche B	Tranche C
Grant date	14 September 2020	22 October 2020	5 September 2019	17 October 2019	5 September 2019	5 September 2019
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Vesting conditions	Refer above	Refer above	Refer above	Refer above	Refer above	Refer above
Share price at grant date	\$0.105	\$0.115	\$0.110	\$0.110	\$0.110	\$0.110
Expiry date	30 June 2023	30 June 2023	30 June 2022	30 June 2022	30 June 2021	30 June 2020
Life of the instruments	2.8 years	2.7 years	2.8 years	2.65 years	1.8 years	0.8 years
Underlying share price volatility	77%	77%	71.5%	71.5%	71.5%	71.5%
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil
Risk free interest rate	0.24%	0.14%	0.72%	0.72%	0.72%	0.72%
Pricing model	Trinomial lattice	Trinomial lattice	Trinomial lattice	Trinomial lattice	Trinomial lattice	Trinomial lattice
Fair value per instrument	\$0.105	\$0.115	\$0.11	\$0.11	\$0.11	\$0.11

\* 199,890 Tranche D shares were issued to Steve Howse following shareholder approval on 22 October 2020.

Inputs into pricing model for TSR vesting condition	Tranche D - Employees	Tranche D – Executive Director	Tranche A - Employees	Tranche A – Executive Director	Tranche B	Tranche C
Grant date	14 September 2020	22 October 2020	5 September 2019	17 October 2019	5 September 2019	5 September 2019
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Vesting conditions	Refer above	Refer above	Refer above	Refer above	Refer above	Refer above
Share price at grant date	\$0.105	\$0.115	\$0.11	\$0.12	\$0.11	\$0.11
Expiry date	30 June 2023	30 June 2023	30 June 2022	30 June 2022	30 June 2021	30 June 2020
Life of the instruments	2.8 years	2.7 years	2.8 years	2.65 years	1.8 years	0.8 years
S&P Small Ordinaries Index volatility	19%	19%	11.7%	11.7%	11.7%	11.7%
Correlation	0.36	0.36	0.42	0.42	0.42	0.42
Pricing model	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Fair value per instrument	\$0.0743	\$0.0845	\$0.0790	\$0.0761	\$0.076	\$0.0686

# REMUNERATION REPORT - AUDITED

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

	Value Granted \$	Value Exercised \$	Value lapsed \$
<b>Key Management</b>			
Steve Howse	21,463	-	-
Steven Dabelstein	105,980	21,738	(35,478)
Michael Harvey	52,990	13,369	(17,739)

## 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

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

## Relationship between remuneration and Group performance

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

Measures	2021 \$	2020 \$	2019 \$	2018 \$	2017 \$
Share price at end of financial year	0.115	0.110	0.115	0.185	0.080
Market capitalisation at end of financial year (\$M)	56.8	54.3	56.7	91.3	19.5
Underlying EBITDA	7,715,000	6,929,000	4,451,000	5,775,000	1,509,000
Net profit/(loss) for the financial year	1,312,000	(2,495,000)	(7,127,000)	(1,504,000)	130,000
Director and Key Management Personnel remuneration	1,262,976	1,123,956	1,428,947	990,389	965,124

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.

1,833,284 performance share equity instruments were issued to key management as remuneration during the year. 574,606 performance rights lapsed during the period and 604,070 performance rights vested during the period.

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

# DIRECTORS' REPORT

## DIVIDENDS

No dividends were paid or declared during the financial year.

## ROUNDING

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

## NON-AUDIT SERVICES

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

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

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

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

Taxation services – income tax return preparation and tax compliance services    \$66,000

## AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration on page 30 forms part of the Directors' Report.

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



Director  
Brisbane, 30 July 2021



# AUDITOR'S INDEPENDENCE DECLARATION



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## DECLARATION OF INDEPENDENCE BY C R JENKINS TO THE DIRECTORS OF HRL HOLDINGS LIMITED

As lead auditor of HRL Holdings Limited for the year ended 30 June 2021, 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 year.

A handwritten signature in black ink, appearing to read 'C J Jenkins', is written over a horizontal line.

**C J Jenkins**  
Director

**BDO Audit Pty Ltd**

Brisbane, 30 July 2021

# 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 16 July 2021.

## Distribution of equity securities

### HRL – Ordinary Fully Paid Shares

Number of Securities Held	No's of holders
1 to 1,000	285
1,001 to 5,000	351
5,001 to 10,000	174
10,001 to 50,000	310
50,001 to 100,000	110
100,001 and over	235
Total	<b>1,465</b>
Number of unmarketable parcels of shares	<b>593</b>

## Twenty largest holders

No.	Name of Shareholder	Holding	% Held
1	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	170,359,917	34.50
2	NATIONAL NOMINEES LIMITED	85,185,032	17.25
3	HGT INVESTMENTS PTY LTD	22,276,868	4.51
4	UBS NOMINEES PTY LTD	21,573,000	4.37
5	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	19,689,967	3.99
6	TERRENCE PATRICK COONEY & JULIE ANNE COONEY & HUGH OWEN COONEY	16,670,891	3.38
7	CITICORP NOMINEES PTY LIMITED	11,489,524	2.33
8	DIXSON TRUST PTY LIMITED	7,312,879	1.48
9	CAROLYN JOY BRAGGINS & TERENCE JOHN BRAGGINS & VOSPER TRUSTEES	7,190,297	1.46
10	JNLJ COMPANY LTD	7,190,297	1.46
11	H K PRICE PTY LTD	3,330,624	0.67
12	CUSTODIAL SERVICES LIMITED	3,268,570	0.66
13	MATARANKA PTY LTD	3,036,486	0.61
14	ELLIOTT NOMINEES PTY LTD	3,033,119	0.61
15	MR JONATHAN PAUL KERSHAW MARSHALL	2,622,865	0.53
16	MR CRAIG ANTHONY ANDERSON & MRS AMANDA MARIE ANDERSON	2,445,528	0.50
17	MR GREGORY JOHN ANDERSON & MRS NANCY JOY ANDERSON	2,326,667	0.47
18	ESTANZA PTY LTD	2,308,000	0.47
19	BNP PARIBAS NOMS PTY LTD	2,131,334	0.43
20	DENBASS PTY LTD	2,000,000	0.41
		<b>395,441,865</b>	<b>80.09</b>

## Voting Rights

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

## Substantial Shareholders

The company has received the following substantial shareholder notices as at 16 July 2021:

- Richmond Hill Capital Pty Ltd holds an interest in 97,654,689 shares (19.78%)
- Perennial Value Management Limited holds an interest in 51,983,334 shares (10.53%)
- AustralianSuper Pty Ltd has an interest in 43,869,466 shares (8.88%)
- Viburnum Funds Pty Ltd holds an interest in 43,163,039 shares (8.74%)
- National Nominees Ltd ACF Australian Ethical Investment holds an interest in 28,800,000 shares (5.83%)

# STATEMENT OF COMPREHENSIVE INCOME

## Consolidated Statement of Comprehensive Income For the year ended 30 June 2021

	Note	2021 \$'000	2020 \$'000
Revenue from contracts with customers	3	34,612	32,806
Interest revenue		11	17
<b>Total Revenue</b>		<b>34,623</b>	<b>32,823</b>
Costs and consumables relating to the provision of services		(5,824)	(5,501)
Employee expenses	4	(17,492)	(16,221)
Travel and business development expenses		(401)	(429)
Other expenses		(3,204)	(3,637)
Finance costs		(301)	(381)
Depreciation & amortisation – equipment, software and leased assets		(2,970)	(3,100)
Amortisation of acquisition intangible assets		(809)	(2,540)
Employee benefits expense – share based payments	24	(197)	(193)
Employee benefits expense on Analytica earn-out payment	17	-	(2,158)
<b>Total Expenses</b>		<b>(31,198)</b>	<b>(34,160)</b>
<b>Equity accounted share of profit/(loss)</b>	22	<b>(798)</b>	<b>(513)</b>
<b>Profit/(loss) before income tax</b>		<b>2,627</b>	<b>(1,850)</b>
Income tax benefit/(expense)	6	(1,315)	(645)
<b>Profit/(loss) after income tax</b>		<b>1,312</b>	<b>(2,495)</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations	20	(58)	(478)
Income tax		-	-
<b>Other comprehensive income for the period, net of tax</b>		<b>(58)</b>	<b>(478)</b>
<b>Total comprehensive income</b>		<b>1,254</b>	<b>(2,973)</b>
<b>Earnings/(Loss) per share</b>		<b>Cents</b>	<b>Cents</b>
Basic and diluted earnings/(loss) per share	8	0.3	(0.5)

The Consolidated 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 2021

	Note	2021 \$'000	2020 \$'000
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	7	1,585	2,854
Trade and other receivables	10	4,645	3,810
Inventories	11	742	475
Other current assets		59	27
<b>TOTAL CURRENT ASSETS</b>		<b>7,031</b>	<b>7,166</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	10	224	309
Equity accounted investments	22	1,035	699
Plant and equipment	12	6,877	5,922
Intangible assets	13	1,329	1,766
Goodwill	14	16,776	16,572
Right-of-use assets	15	1,892	3,075
Deferred tax assets	6	1,040	1,412
<b>TOTAL NON-CURRENT ASSETS</b>		<b>29,173</b>	<b>29,755</b>
<b>TOTAL ASSETS</b>		<b>36,204</b>	<b>36,921</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	16	2,895	2,699
Current tax liabilities		850	748
Short-term provisions	17	1,197	1,178
Lease liabilities	15	1,202	1,239
Borrowings	18	52	2,144
<b>TOTAL CURRENT LIABILITIES</b>		<b>6,196</b>	<b>8,008</b>
<b>NON-CURRENT LIABILITIES</b>			
Long-term provisions	17	23	40
Lease liabilities	15	1,163	1,970
Borrowings	18	1,339	689
Deferred tax liabilities	6	4	186
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>2,529</b>	<b>2,885</b>
<b>TOTAL LIABILITIES</b>		<b>8,725</b>	<b>10,893</b>
<b>NET ASSETS</b>		<b>27,479</b>	<b>26,028</b>
<b>EQUITY</b>			
Contributed capital	19	38,197	38,162
Reserves	20	(94)	(112)
Accumulated losses		(10,624)	(12,022)
<b>TOTAL EQUITY</b>		<b>27,479</b>	<b>26,028</b>

The Consolidated 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 2021

	Contributed Capital \$'000	Accumulated Losses \$'000	Share Based Payment Reserve \$'000	Foreign Currency Reserve \$'000	Total \$'000
<b>Balance at 1 July 2019</b>	38,162	(9,569)	-	215	28,808
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	-	-	193	-	193
Transfer of expired performance rights	-	42	(42)	-	-
Total	-	42	151	-	193
<b>Comprehensive income</b>					
Loss after income tax	-	(2,495)	-		(2,495)
Foreign currency translation differences for foreign operations	-	-	-	(478)	(478)
Total comprehensive income	-	(2,495)	-	(478)	(2,973)
<b>Balance at 30 June 2020</b>	<b>38,162</b>	<b>(12,022)</b>	<b>151</b>	<b>(263)</b>	<b>26,028</b>
<b>Balance at 1 July 2020</b>	38,162	(12,022)	151	(263)	26,028
<b>Transactions with owners in their capacity as owners</b>					
Share based payments	-	-	197	-	197
Conversion of performance rights	35	-	(35)	-	-
Transfer of expired performance rights	-	86	(86)	-	-
Total	35	86	76	-	197
<b>Comprehensive income</b>					
Profit/(loss) after income tax	-	1,312	-	-	1,312
Foreign currency translation differences for foreign operations	-	-	-	(58)	(58)
Total comprehensive income	-	1,312	-	(58)	1,254
<b>Balance at 30 June 2021</b>	<b>38,197</b>	<b>(10,624)</b>	<b>227</b>	<b>(321)</b>	<b>27,479</b>

The Consolidated 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 2021

	Note	2021 \$'000	2020 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		38,080	37,392
Payments to suppliers and employees		(31,884)	(28,932)
Interest received		4	2
Income tax paid		(1,012)	(672)
COVID-19 wage subsidies received		635	1,489
Analytica earn out payments		-	(2,584)
Finance costs		(301)	(381)
Net cash provided by/(used in) operating activities	7	5,522	6,313
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant & equipment		(2,091)	(1,734)
Proceeds from the sale of plant & equipment		219	35
Payments for intangible assets		(190)	(242)
Security bond payments		24	-
Net cash outflow on acquisition of Water Testing Hawkes Bay	21	(502)	-
Investment in Food Lab Pacific Limited	22	(1,137)	(559)
Net cash used in investing activities		(3,677)	(2,499)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings	7	4,395	5,258
Repayment of borrowings	7	(6,263)	(5,699)
Lease principal payments	7	(1,305)	(1,496)
CAIQTest (Pacific) Limited loan repayment	10	65	-
Net cash provided by/(used in) financing activities		(3,108)	(1,937)
Net increase/(decrease) in cash and cash equivalents held		(1,263)	(1,877)
Net foreign exchange differences		(6)	(54)
Cash and cash equivalents at the beginning of the financial period		2,854	1,031
<b>Cash and cash equivalents at the end of the financial period</b>	<b>6</b>	<b>1,585</b>	<b>2,854</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTES TO THE FINANCIAL STATEMENTS INDEX

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# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Introduction

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

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

### Operations and principal activities

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

The Group offers services including;

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

### Currency and rounding

The financial report is presented in Australian dollars which is the functional currency of the Company.

The Company is a kind referred to in Australian Securities & Investment Commission (ASIC) Corporations Instrument 2016/191, and in accordance with that instrument all financial information presented in Australian Dollars has been rounded to the nearest thousand dollars unless otherwise stated.

### Authorisation of financial report

The financial report was authorised for issue on 30 July 2021.

### 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 Group’s accounting policies.

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

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

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



# NOTES TO THE FINANCIAL STATEMENTS

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

### Goodwill

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

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

The deferred tax assets include an amount of \$724,000 (2020: \$1,181,000) which relates to carried forward tax losses and other tax deductions arising from previous capital raising costs of the Australian entities. The Australian tax group includes all corporate costs related to the parent company, HRL Holdings Limited which does not generate income. The Australian trading subsidiaries all generate taxable profits.

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

## Accounting policies

### (a) Financial Instruments

#### Recognition and initial measurement

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

#### Classification and subsequent measurement

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

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

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

At the end of each reporting period, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs of disposal and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with the applicable Standard. Where it is not possible to estimate the recoverable amount of an individual asset, the Consolidated Entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### (c) Foreign Exchange

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

#### Subsidiary companies

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

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

### New Accounting Standards

The accounting policies adopted are consistent with those of the previous financial year. Several other amendments and interpretations applied for the first time during the year but these changes did not have an impact on the Consolidated Entity's financial statements and hence, have not been disclosed. The Consolidated Entity has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

### New Standards and Interpretations Not Yet Adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2021 reporting periods. The Consolidated Entity has decided against early adoption of these standards. The Consolidated Entity has assessed the impact of these new standards and interpretations and does not expect that there would be a material impact on the Consolidated 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 2021 the Group has identified the operating segments based on internal reports that are reviewed and used by the executive team in assessing performance and determining the allocation of resources:

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

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

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

### Geographical Information

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

The amount of revenue from external customers in Australia was \$11,368,000 (2020: \$12,420,000). Total revenues from customers domiciled in New Zealand was \$23,244,000 (2020: \$20,386,000).

The amount of non-current assets other than financial instruments and deferred tax assets located in Australia is \$9,850,000 (2020: \$9,954,000). Total non-current assets other than financial instruments and deferred tax assets located in New Zealand was \$17,996,000 (2020: \$18,080,000).

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2 SEGMENT REPORTING (CONT'D)

### Segment Revenues and Results

30 June 2021	HAZMAT \$'000	Geotechnical \$'000	Food/Enviro Laboratory \$'000	Software \$'000	Unallocated \$'000	Consolidated \$'000
<b>Revenue:</b>						
Contracts with customers	9,420	6,060	18,280	852	-	34,612
Interest income	-	-	-	-	11	11
<b>Expenses:</b>						
Interest expense	-	-	-	-	(301)	(301)
Other expenses	(7,906)	(5,543)	(14,583)	(598)	(1,458)	(30,088)
Equity accounted share of loss	-	-	(798)	-	-	(798)
<b>Segment result before acquisition related expenses</b>	<b>1,514</b>	<b>517</b>	<b>2,899</b>	<b>254</b>	<b>(1,748)</b>	<b>3,436</b>
<b>Acquisition related expenses</b>						
Amortisation of acquisition intangibles	-	-	(809)	-	-	(809)
<b>Segment result before tax</b>	<b>1,514</b>	<b>517</b>	<b>2,090</b>	<b>254</b>	<b>(1,748)</b>	<b>2,627</b>
Income tax	-	-	-	-	-	(1,315)
<b>Net loss</b>						<b>1,312</b>
<u>Non-cash and other significant items:</u>						
Depreciation and amortisation	664	401	2,556	117	41	3,779
Impairment of receivables	5	(32)	29	2	-	4
Share based payments	26	-	52	6	113	197
Gain on sale of plant and equipment	21	91	192	-	-	304
<u>Assets:</u>						
Segment assets	5,248	4,278	23,915	1,936	827	36,204
<u>Liabilities:</u>						
Segment liabilities	2,470	1,240	2,547	147	2,321	8,725
<u>Segment acquisitions:</u>						
Acquisition of plant and equipment	177	531	2,266	1	4	2,979
Acquisition of intangibles	-	-	6	184	-	190
Acquisition of right of use assets	147	-	105	-	-	252
<u>Details on non-current assets:</u>						
Trade and other receivables	47	14	145	-	18	224
Plant and equipment	554	875	5,436	6	6	6,877
Right of use assets	708	318	828	-	38	1,892
Intangibles	6	-	895	428	-	1,329
Goodwill	1,762	1,771	11,877	1,366	-	16,776
Equity accounted investment	-	-	1,035	-	-	1,035
Deferred tax assets	-	-	-	-	1,040	1,040
	3,077	2,978	20,216	1,800	1,102	29,173

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2 SEGMENT REPORTING (CONT'D)

### Segment Revenues and Results

30 June 2020	HAZMAT \$'000	Geotechnical \$'000	Food/Enviro Laboratory \$'000	Software \$'000	Unallocated \$'000	Consolidated \$'000
<b>Revenue:</b>						
Contracts with customers	8,666	6,828	16,424	888	-	32,806
Interest income	-	-	-	-	17	17
<b>Expenses:</b>						
Interest expense	-	-	-	-	(381)	(381)
Other expenses	(7,248)	(6,767)	(13,040)	(511)	(1,516)	(29,082)
Equity accounted share of loss	-	-	(513)	-	-	(513)
<b>Segment result before acquisition related expenses</b>	<b>1,418</b>	<b>61</b>	<b>2,871</b>	<b>377</b>	<b>(1,880)</b>	<b>2,847</b>
<b>Acquisition related expenses</b>						
Earn-out expense	-	-	(2,158)	-	-	(2,156)
Amortisation of acquisition intangibles	-	(442)	(1,812)	(285)	-	(2,540)
<b>Segment result before tax</b>	<b>1,418</b>	<b>(381)</b>	<b>(1,099)</b>	<b>92</b>	<b>(1,880)</b>	<b>(1,850)</b>
Income tax	-	-	-	-	-	(645)
<b>Net loss</b>						<b>(2,495)</b>
<u>Non-cash and other significant items:</u>						
Depreciation and amortisation	705	827	3,715	369	25	5,641
Impairment of receivables	86	62	84	-	-	232
Share based payments	12	6	27	3	144	193
Earn-out expense/(adjustments)	-	-	2,158	-	-	2,158
<u>Assets:</u>						
Segment assets	4,755	4,232	24,315	1,895	1,724	36,920
<u>Liabilities:</u>						
Segment liabilities	3,118	1,624	2,344	200	3,607	10,893
<u>Segment acquisitions:</u>						
Acquisition of plant and equipment	138	102	1,487	5	1	1,734
Acquisition of intangibles	-	-	73	169	-	242
Acquisition of right of use assets	259	-	990	-	-	1,250
<u>Details on non-current assets:</u>						
Trade and other receivables	74	14	204	-	17	309
Plant and equipment	429	316	5,166	8	4	5,922
Right of use assets	1,208	805	985	-	76	3,075
Intangibles	17	-	1,390	359	-	1,765
Goodwill	1,769	1,771	11,667	1,366	-	16,572
Equity accounted investment	-	-	699	-	-	699
Deferred tax assets	-	-	-	-	1,412	1,412
	3,496	2,905	20,111	1,733	1,509	29,755

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 3 REVENUE FROM CONTRACTS WITH CUSTOMERS

	2021 \$'000	2020 \$'000
<u>Services Revenue</u>		
HAZMAT service revenue	9,420	8,666
Geotechnical service revenue	6,060	6,828
Food and environmental laboratory revenue	18,280	16,424
Software service revenue	852	888
<b>Total service revenue</b>	<b>34,612</b>	<b>32,806</b>

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

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

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

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

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

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

### Performance Obligations

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

#### HAZMAT and Geotechnical consulting services

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

#### Laboratory revenue

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

#### Software revenue

The performance obligation for design and implementation revenue is the delivered product to the end client. The performance obligation for ongoing software subscriptions revenue is the provision of access to the platforms to the end client.

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 4 EXPENSES

		2021 \$'000	2020 \$'000
<b>Employee benefits expenses</b>	<b>Note</b>		
Defined contribution superannuation expense		931	929
Other employee benefits expenses		17,196	16,810
Government employment subsidies received	5	(635)	(1,517)
<b>Total employee benefits expenses</b>		<b>17,492</b>	<b>16,221</b>
Employee benefits expense – share based payments	24	197	193
Remuneration expense on Analytica earn-out	17	-	2,158

Contributions to defined contribution plans are expensed when incurred.

<b>Net gain/(loss) on disposal of plant and equipment</b>	304	(45)
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Gains and losses on plant and equipment disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the statement of comprehensive income.

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

### Subsidies

During the year, the Group received the following material COVID-19 related support subsidies from the Australia Government:

Government Subsidy	Entity	Program Duration	Subsidy FY2021	Program End
Australia JobKeeper	Morrison Geotechnic Pty Ltd	3 months	\$635,000	September 2020

### Government Loans

The Group has two government support loans facilities:

#### QLD Government

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

#### New Zealand Government

NZ \$55,000 loan with a fixed interest rate of 3.00% per annum. The loan is repayable in May 2022. The loan is unsecured.

### Payment Deferrals

#### Loans and Other Payables

There are no loans or other liabilities on deferred payment arrangements.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6 INCOME TAX

	2021 \$'000	2020 \$'000
<b>Income tax expense:</b>		
<u>Current tax</u>		
Current tax on profit/loss for the year	1,394	1,075
Adjustments for current tax of prior periods	(29)	15
<b>Total current tax expense</b>	<b>1,365</b>	<b>1,090</b>
<u>Deferred tax</u>		
Movement in deferred tax assets	541	208
Movement in deferred tax liabilities	(591)	(653)
<b>Total deferred tax expense/(benefit)</b>	<b>(50)</b>	<b>(445)</b>
<b>Total income tax expense/(benefit)</b>	<b>1,315</b>	<b>645</b>
<b>Reconciliation of income tax expense to prima facie tax payable:</b>		
Profit/(loss) before tax, excluding profit/(loss) for equity accounted investments	3,424	(1,337)
Prima facie tax at 26% (2020: 27.5%)	890	(368)
<u>Tax effect of not deductible (taxable) amounts in calculating taxable income:</u>		
Entertainment expenses	13	13
Analytica earn-out expense	-	604
Share based payments	53	52
Other items	209	335
	<b>1,165</b>	<b>636</b>
Difference in overseas tax rate	54	(6)
Deferred tax expense arising on income tax changes	125	-
Adjustments for tax of prior periods	(29)	15
<b>Total income tax expense/(benefit)</b>	<b>1,315</b>	<b>645</b>

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 6 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 during the period was \$Nil (2020: \$Nil).

	2021 \$'000	2020 \$'000
<b>Deferred tax assets:</b>		
<u>Balance comprises temporary differences attributable to:</u>		
Employee benefits payable	14	16
Employee leave provisions	319	337
Provision for doubtful debts	55	68
Other payables	100	76
Inventories	40	28
Lease liabilities	508	676
Carried forward tax losses	724	1,181
	<b>1,760</b>	<b>2,382</b>
Set-off of deferred tax liabilities	(720)	(970)
<b>Net deferred tax assets</b>	<b>1,040</b>	<b>1,412</b>

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

### Movements during the period (in \$'000):

Year ended June 2021	1 July 2020	Charged to Profit or Loss	Acquisition of subsidiary	Change in future tax rate	30 June 2021
Employee benefits payable	16	(1)	-	(1)	14
Employee leave provisions	337	(6)	9	(21)	319
Provision for doubtful debts	68	(12)	-	(1)	55
Other payables	76	32	-	(8)	100
Inventories	28	12	-	-	40
Lease liabilities	676	(209)	67	(26)	508
Carried forward tax losses	1,181	(358)	-	(99)	724
	<b>2,382</b>	<b>(542)</b>	<b>76</b>	<b>(156)</b>	<b>1,760</b>

Year ended June 2020	1 July 2019	Charged to Profit or Loss	Recognised on adoption of AASB 16	30 June 2020
Employee benefits payable	14	2	-	16
Employee leave provisions	263	74	-	337
Provision for doubtful debts	13	55	-	68
Other payables	-	76	-	76
Inventories	-	28	-	28
Lease liabilities	184	16	476	676
Carried forward tax losses	1,641	(460)	-	1,181
	<b>2,115</b>	<b>(209)</b>	<b>476</b>	<b>2,382</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6 INCOME TAX (CONT'D)

	2021 \$'000	2020 \$'000
<b>Deferred tax liabilities:</b>		
<u>Balance comprises temporary differences attributable to:</u>		
Intangibles assets	234	359
Leased assets	460	777
Other amounts	30	21
	<b>724</b>	<b>1,156</b>
Set-off of deferred tax assets	720	(970)
<b>Net deferred tax liabilities</b>	<b>4</b>	<b>186</b>

### Movements during the period (in \$'000):

Year ended June 2021	1 July 2020	Charged to Profit or Loss	Acquisition of subsidiary	Change in future tax rate	30 June 2021
Intangible assets	358	(226)	102	-	234
Leased assets	777	(373)	25	31	460
Other amounts	21	9	-	-	30
	<b>1,156</b>	<b>(590)</b>	<b>127</b>	<b>31</b>	<b>724</b>

  

Year ended June 2020	1 July 2019	Charged to Profit or Loss	Recognised on adoption of AASB 16	30 June 2020
Intangible assets	1,076	(718)	-	358
Leased assets	242	59	476	777
Other amounts	16	5	-	21
	<b>1,334</b>	<b>(654)</b>	<b>476</b>	<b>1,156</b>

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

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

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

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

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.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6 INCOME TAX (CONT'D)

### Tax consolidation

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

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

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

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

### Goods and Services Tax (GST)

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 7 CASH FLOW INFORMATION

	2021 \$'000	2020 \$'000
<b>Reconciliation of cash flows from operations with profit after tax</b>		
Profit/(loss) after income tax	1,312	(2,495)
<i>Non-cash items in profit/(loss) after income tax</i>		
Depreciation and amortisation	3,779	5,641
(Gain)/loss on sale of plant and equipment	(304)	45
Impairment of receivables	4	231
Share based payments	197	193
Equity accounted share of profit/(loss)	798	513
Accrued interest revenue	(7)	(15)
<i>Movements in operating assets and liabilities</i>		
Trade and other receivables	(728)	896
Inventories	(220)	215
Other assets	398	416
Trade and other payables	15	1,000
Provisions	(25)	(300)
Tax balances	303	(27)
<b>Net cash provided by/ (used in) operating activities</b>	<b>5,522</b>	<b>6,313</b>

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

### Non-cash Investing and Financing Activities

The Group did not acquire any plant and equipment through finance leases during the year (2020: \$Nil).

Plant and equipment totalling \$889,000 was acquired through trade-ins (2020: \$Nil)

### Cash and Cash Equivalents

Cash at bank and on hand	1,494	2,765
Cash on deposit	91	89
	<b>1,585</b>	<b>2,584</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

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

### Reconciliation of cash and non-cash movements in borrowings from financing activities (in \$'000)

Year ended 30 June 2021	Opening Balance	Cash inflows / (outflows)	Business combination	Non-cash additions	Closing Balance
Leases	3,208	(1,305)	237	225	2,365
Bank loans	2,833	(1,442)	-	-	1,391
Insurance financing	-	(426)	-	426	-
	<b>6,041</b>	<b>(3,173)</b>	<b>237</b>	<b>651</b>	<b>3,756</b>

  

Year ended 30 June 2020	Opening Balance	Recognised on adoption of AASB 16	Cash outflows	Non-cash additions	Closing Balance
Leases	1,735	1,720	(1,497)	1,250	3,208
Bank loans	2,863	-	(30)	-	2,833
Insurance financing	-	-	(410)	410	-
	<b>4,598</b>	<b>1,720</b>	<b>(1,937)</b>	<b>1,660</b>	<b>6,041</b>

## NOTE 8 EARNINGS PER SHARE

	2021 \$'000	2020 \$'000
<b>Earnings</b>		
Earnings used to calculate basic and diluted EPS	1,312	(2,495)
<b>Weighted average number of shares and options</b>	<b>Number of shares</b>	<b>Number of shares</b>
Weighted average number of ordinary shares outstanding during the period, used in calculating basic earnings per share	493,747,472	493,402,627
Weighted average number of dilutive options outstanding during the period	8,500,593	-
Weighted average number of ordinary shares and potential ordinary shares outstanding during the period, used in calculating diluted earnings per share	502,248,065	493,402,627

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

## NOTE 9 DIVIDENDS

No dividends were paid during the financial year ended 30 June 2021 (2020: Nil) and no dividend is recommended for the current year.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 10 TRADE AND OTHER RECEIVABLES

	2021 \$'000	2020 \$'000
<b>CURRENT</b>		
Trade receivables	4,510	3,733
Provision for expected credit losses	(192)	(180)
	4,318	3,553
Contract assets	291	248
Other receivables	37	9
	<b>4,645</b>	<b>3,810</b>
<b>NON-CURRENT</b>		
Bonds and other deposits	79	105
Loan receivable from CAIQTest Pacific Limited	145	204
	<b>224</b>	<b>309</b>

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

Other receivables generally arise from transactions outside the usual operating activities of the Group. Non-current bonds and other deposits receivables are due and payable within three years from the end of the period. The loan receivable from CAIQTest Pacific Limited is repayable by December 2025 and accrues interest at a rate of 5.77%.

### Impairment of trade receivables and contract assets

The Group recognised a loss of \$4,000 during the year (2020: \$232,000) in relation to impaired receivables.

<b>Movements during the year – Provision for expected credit loss</b>	2021 \$'000	2020 \$'000
Opening balance	180	47
Impaired receivables provided for during the period	4	232
Receivables written off during the year as uncollectible	-	(99)
Foreign exchange movements	8	-
<b>Closing balance</b>	<b>192</b>	<b>180</b>

### Loss Allowance – 30 June 2021

	Expected loss rate	Gross Receivables	Loss Allowance
Government agencies and national utilities	0%	721	-
Current	2.50%	2,813	70
Less than 1 month past due	5.00%	704	35
More than 1 month past due	7.50%	83	6
More than 2 months past due	10.00%	61	6
More than 3 months past due	25.00%	42	10
Older	40.00%	86	37
Contract assets - current	9.50%	291	28
<b>Total</b>		<b>4,801</b>	<b>192</b>

# NOTES TO THE FINANCIAL STATEMENTS

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

### Loss Allowance – 30 June 2020

	Expected loss rate	Gross Receivables	Loss Allowance
Government agencies and national utilities	0%	316	-
Current	2.50%	2,704	67
Less than 1 month past due	5.00%	587	29
More than 1 month past due	7.50%	35	3
More than 2 months past due	15.00%	23	3
More than 3 months past due	30.00%	36	11
Older	50.00%	33	17
Contract assets - current	20.00%	248	50
<b>Total</b>		<b>3,982</b>	<b>180</b>

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

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over the last 3 years. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. For the year ended 30 June 2021, the Group has slightly eased the expected loss rates from the prior period due to improved economic environment since the worst of the COVID-19 pandemic experienced in FY2020, however expected loss rates across all ageing profiles still remain substantially higher than pre-COVID 19 historical rates.

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

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

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

## NOTE 11 INVENTORIES

	2021 \$'000	2020 \$'000
<b>CURRENT</b>		
Laboratory consumables	742	475

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

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

The amount of laboratory consumables recognised as an expense during the period was \$2,870,000 (2020: \$2,832,000).

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 12 PLANT AND EQUIPMENT

	2021 \$'000	2020 \$'000
Leasehold improvements at cost	550	461
Accumulated depreciation	(221)	(158)
	329	303
Motor vehicles at cost	1,000	263
Accumulated depreciation	(309)	(160)
	691	103
Office furniture and equipment at cost	965	748
Accumulated depreciation	(655)	(450)
	310	298
Lab and field equipment at cost	10,896	8,845
Accumulated depreciation	(5,349)	(3,627)
	5,547	5,218
Total plant and equipment at cost	13,411	10,318
Total accumulated depreciation	(6,534)	(4,396)
<b>Total plant and equipment</b>	<b>6,877</b>	<b>5,922</b>

### Movements during the year (in \$'000)

	Leasehold Improvements	Motor Vehicles	Office Furniture and Equipment	Lab and field Equipment	Total
Balance at 1 July 2021	303	103	298	5,218	5,922
Transfers from leased assets	-	280	-	74	354
Additions	80	464	200	2,235	2,979
Disposals	-	(5)	-	(742)	(747)
Business combinations (Note 21)	16	-	11	85	112
Foreign exchange movements	(8)	(1)	6	(19)	(22)
Depreciation	(62)	(150)	(205)	(1,304)	(1,721)
<b>Balance at 30 June 2021</b>	<b>329</b>	<b>691</b>	<b>310</b>	<b>5,547</b>	<b>6,877</b>

	Leasehold Improvements	Motor Vehicles	Office Furniture and Equipment	Lab and field Equipment	Total
Balance at 1 July 2019	313	1,293	354	5,512	7,472
Transfers to leased assets	(32)	(1,145)	-	(256)	(1,433)
Additions	98	24	138	1,474	1,734
Disposals	-	(5)	(12)	(28)	(45)
Foreign exchange movements	3	(11)	(14)	(108)	(130)
Depreciation	(79)	(53)	(168)	(1,375)	(1,676)
<b>Balance at 30 June 2020</b>	<b>303</b>	<b>103</b>	<b>298</b>	<b>5,218</b>	<b>5,922</b>

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.



# NOTES TO THE FINANCIAL STATEMENTS

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

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 Rates</u>
Leasehold improvements	20%
Motor vehicles	15% -25%
Office furniture and equipment	20% - 67%
Laboratory and field equipment	15% - 40%

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

## NOTE 13 INTANGIBLE ASSETS

	2021 \$'000	2020 \$'000
Customer contracts at cost	3,855	3,629
Accumulated amortisation	(3,143)	(2,756)
	712	873
Licences and accreditations at cost	4,998	4,858
Accumulated amortisation	(4,873)	(4,451)
	125	407
Software at cost	2,549	2,360
Accumulated amortisation	(2,057)	(1,874)
	492	486
<b>Total intangible assets</b>	<b>1,329</b>	<b>1,766</b>

### Movements during the year (in \$'000)

Year ended 30 June 2021	Customer Contracts	Licences and Accreditations	Software	Total
Balance at 1 July 2020	873	407	486	1,766
Additions	-	-	190	190
Business combinations (Note 21)	225	141	-	366
Foreign exchange movements	-	-	(1)	(1)
Amortisation	(386)	(423)	(183)	(992)
<b>Balance at 30 June 2021</b>	<b>712</b>	<b>125</b>	<b>492</b>	<b>1,329</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 13 INTANGIBLE ASSETS (CONT'D)

Year ended 30 June 2020	Customer Contracts	Licences and Accreditations	Software	Other Intangibles	Total
Balance at 1 July 2019	1,619	1,920	707	41	4,287
Additions	-	-	242	-	242
Foreign exchange movements	(9)	(22)	7	(1)	(25)
Amortisation	(737)	(1,491)	(470)	(40)	(2,738)
<b>Balance at 30 June 2020</b>	<b>873</b>	<b>407</b>	<b>486</b>	<b>-</b>	<b>1,766</b>

### Customer contracts

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

### Licenses and accreditations

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

### Software

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 14 GOODWILL

	2021 \$'000	2020 \$'000
Opening balance	16,572	16,774
Business combinations (Note 21)	240	-
Foreign exchange movements	(36)	(202)
	<b>16,776</b>	<b>16,572</b>

### Impairment tests for goodwill

Goodwill is monitored by management at the Company level for Precise Limited, Analytica Laboratories Limited, Morrison Geotechnic Pty Ltd and OCTFOLIO Pty Ltd. Water Testing HB (2016) Limited was acquired during the period and has been integrated into the wider Analytica Laboratories Limited cash generating unit.

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.

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:

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 14 GOODWILL (CONT'D)

Assumption	Precise	Analytica	Morrison	OCTFOLIO	Approach
Sales volume annual growth	1.5%	1.5%	1.0%	3.0%	Average annual growth rate over the five-year forecast period based on management's expectations of market development.
Sales price annual growth	1.0%	1.0%	1.0%	1.0%	Average annual growth rate over the five-year forecast period based on current industry trends
Fixed costs per annum	\$1.7M	\$4.3M	\$1.5M	\$0.5M	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	\$150,000	\$1,800,000	\$75,000	\$75,000	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	16%	15%	16%	18%	Reflects specific risks relating to the relevant segments and the countries in which they operate.  In performing the value-in-use calculations for each CGU, the Group has applied post-tax discount rates to discount the forecast future attributable post-tax cash flows. The equivalent pre-tax rates are disclosed in the table.
<b>Goodwill attributable to CGU</b>	<b>\$1,762,000</b>	<b>\$11,877,000</b>	<b>\$1,771,000</b>	<b>\$1,366,000</b>	

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15 LEASES

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

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

### Lease Liabilities

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

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

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

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

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

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

### Right-of-use Assets

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

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

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

### Low Value Assets

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15 LEASES (CONT'D)

### Extension Options

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

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

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

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

Most extension options on building premises leases have been included in the lease liability. As at 30 June 2021, potential future cash outflows of \$1,746,000 (undiscounted) have not been included in the lease liability because it is not reasonably certain that the leases will be extended.

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

	2021 \$'000	2020 \$'000
<b>Amounts recognised in the Balance Sheet</b>		
<b>Right-of-use assets</b>		
Leased buildings – right-of-use	1,561	2,059
Leasehold improvements	18	25
Motor vehicles	209	775
Lab and field equipment	104	216
	<b>1,892</b>	<b>3,075</b>

Additions to the right of use assets during the period was \$225,000 (2020: \$1,250,000).

### Lease liabilities

#### CURRENT

Leases for equipment – bank financed	423	522
Leases for building premises	779	717
	<b>1,202</b>	<b>1,239</b>

#### NON-CURRENT

Leases for equipment – bank financed	154	576
Leases for building premises	1,009	1,394
	<b>1,163</b>	<b>1,970</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 15 LEASES (CONT'D)

### Amounts recognised in the Statement of Comprehensive Income

	2021 \$'000	2020 \$'000
<b>Depreciation and amortisation</b>		
Buildings premises	792	844
Leasehold improvements	8	7
Motor vehicles	229	335
Lab and field equipment	37	40
	<b>1,066</b>	<b>1,226</b>
<b>Interest expense on leases (included in finance costs)</b>		
Buildings premises	106	119
Equipment leases – bank financed	43	66
	<b>149</b>	<b>185</b>

### Amounts recognised in the Statement of Cash Flows

Lease principal repayments - buildings premises	784	829
Lease principal repayments - equipment leases	521	637
Interest payments - buildings premises	106	118
Interest payments - equipment leases	43	66
	<b>1,454</b>	<b>1,650</b>

## NOTE 16 TRADE AND OTHER PAYABLES

<b>CURRENT</b>		
Trade payables	977	595
Contract liabilities	134	171
Other payables and accrued expenses	1,784	1,933
	<b>2,895</b>	<b>2,699</b>

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 17 PROVISIONS

	2021 \$'000	2020 \$'000
CURRENT		
Employee benefits	1,197	1,178
NON-CURRENT		
Employee benefits	23	40

### 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.

## NOTE 18 BORROWINGS

	2021 \$'000	2020 \$'000
CURRENT		
Government support loans	52	51
Bank loans	-	2,092
	52	2,143
NON-CURRENT		
Government support loans	254	250
Bank loans	1,085	439
	1,339	689

#### Bank and government support loans

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

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



# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 18 BORROWINGS (CONT'D)

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

- \$3M interest only facility with a variable interest rate of 2.86% 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.
- \$4.5M 4-year amortising bank bill facility with a variable interest rate of 3.03% per annum. The facility expires in June 2025.

### Finance leases - equipment

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

The finance leases are secured over the individual motor vehicles and equipment that the lease relates to. The leases have interest rates of 4.73% - 4.94% per annum and expire between July 2021 and February 2024.

### **Financing Facilities**

The Group has access to the following lines of credit:

	2021 \$'000	2020 \$'000
<i>Total facilities available</i>		
Leases - equipment financing	1,965	2,530
Government support loans	306	301
Bank loans	7,500	5,352
	<b>9,771</b>	<b>8,183</b>
<i>Facilities used at balance date</i>		
Leases - equipment financing	577	1,098
Government support loans	306	301
Bank loans	1,085	2,531
	<b>1,968</b>	<b>3,930</b>
<i>Unused facilities at balance date</i>		
Finance leases and equipment financing	1,388	1,432
Government support loans	-	-
Bank loans	6,415	2,821
	<b>7,803</b>	<b>4,253</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 18 BORROWINGS (CONT'D)

### Covenants

The bank loans are subject to the below covenants:

#### Debt Service Cover Ratio greater than 1.5

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

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

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

#### Provision of bi-annual compliance certificates

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

### Defaults and breaches

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

### Assets pledged as security

Equipment leases are secured by mortgage over the relevant assets which at 30 June 2021 had carrying values of \$497,000 (2020: \$1,539,000).

## NOTE 19 CONTRIBUTED CAPITAL

	2021 \$'000	2020 \$'000
493,777,235 fully paid ordinary shares (June 2020: 493,402,627)	38,197	38,162

  

	2021 \$'000	2020 \$'000	2021 #	2020 #
At the beginning of the year	38,162	38,162	493,402,627	493,402,627
Performance rights vested	35	-	374,608	-
<b>At reporting date</b>	<b>38,197</b>	<b>38,162</b>	<b>493,777,235</b>	<b>493,402,627</b>

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.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 20 RESERVES

	2021 \$'000	2020 \$'000
Foreign currency translation reserve	(321)	(263)
Share based payment reserve	227	151
	<b>(94)</b>	<b>(112)</b>

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

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

## NOTE 21 WATER TESTING HB (2016) LIMITED ACQUISITION ACCOUNTING

On 1 March 2021, HRL Holdings NZ Limited (a 100% owned subsidiary of HRL Holdings) acquired 100% of the issued capital of Water Testing HB (2016) Limited ("WTHB"). WTHB is a bacteriological water-testing and analysis laboratory, focused primarily on providing sampling and routine water-testing for the government authority and businesses in the Hasting District, Napier City and Hawkes Bay region.

The agreed purchase consideration was NZD\$650,000. No deferred consideration, contingent consideration or earn-outs are payable. Under the agreement WTHB was required to have a minimum working capital position of NZD\$100,000, with the purchase price reduced by the amount of any working capital shortfall.

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

	1 March 2021 \$000's
<b>Purchase consideration:</b>	
Cash payment after working capital shortfall adjustment	545
<b>Fair value of assets and liabilities acquired:</b>	
Cash and cash equivalents	42
Trade and other receivables	123
Inventories	47
Other assets	3
Plant and equipment	112
Right-of-use assets	90
Intangibles – customer contracts and relationships	225
Intangibles – licences and accreditations	140
Trade and other payables	(160)
Employee provisions	(27)
Lease liabilities	(237)
Deferred tax liabilities	(53)
<b>Net identifiable assets acquired</b>	<b>305</b>
Goodwill on acquisition	240
<b>Net assets acquired</b>	<b>545</b>

Goodwill is not deductible for tax purposes. The fair value of trade and other receivables is \$123,000. The gross contractual amount for trade receivables due is \$124,000, of which \$1,000 is expected to be uncollectible.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 21 WATER TESTING HB (2016) LIMITED ACQUISITION ACCOUNTING (CONT'D)

Factors contributing to the WTHB goodwill are:

- accelerates HRL's expansion into routine water quality and environmental laboratory testing;
- provides a solid recurring revenue base with approximately 80% of revenues coming from local government authorities;
- expands HRL's geographic coverage in New Zealand to the Hawkes Bay region on the east coast;
- through an integration into the Analytica Laboratories business unit, takes advantage of advanced technology and lean operating procedures; and
- provides opportunity to offer Analytica's full range of laboratory services to a new segment of customers.

### FY2021 Revenue and profit contribution

WTHB contributed revenues of \$507,000 to the Group for the period from 1 March 2021 to 30 June 2021. If the acquisition had occurred on 1 July 2020 and the operations of WTHB been included from that date, then the consolidated pro-forma revenue for the period ended 30 June 2021 would have been \$1,497,000.

Upon purchase, the WTHB's employee and other key operational functions were integrated with Analytica. Consequently it is not possible to determine WTHB direct contributed net profit to the Group since acquisition and it is not possible to determine the pro-forma profit contribution to the HRL Group if the acquisition had occurred on 1 July 2020 and the operations of WTHB had been included from that date.

### Outflow of cash to acquire WTHB, net of cash acquired

	1 March 2021 \$000's
Cash consideration	545
Less: cash and cash equivalents acquired	(42)
<b>Net outflow of cash – investing activities</b>	<b>503</b>

### Acquisition related costs

Acquisition-related costs of \$20,000 are included in 'Other expenses' in the statement of comprehensive income and in operating cash flows in the statement of cash flows.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 22 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

	2021 \$'000	2020 \$'000
Opening balance	699	665
Investment in Food Lab Pacific Limited	1,137	559
Share of profits/(loss)	(798)	(513)
Foreign exchange movements	(3)	(12)
<b>Closing balance</b>	<b>1,035</b>	<b>699</b>

### CAIQTest (Pacific) Limited

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

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

	2021 \$'000	2020 \$'000
Current assets	2,116	1,375
Non-current assets	443	484
<b>Total assets</b>	<b>2,559</b>	<b>1,859</b>
Current liabilities	735	225
Non-current liabilities (shareholder loans)	1,158	1,603
<b>Total liabilities</b>	<b>1,893</b>	<b>1,828</b>
<b>Equity</b>		
HRL's share of equity (26%)	173	16
Goodwill	651	680
Foreign exchange movements	86	(6)
<b>Carrying amount</b>	<b>910</b>	<b>690</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 22 EQUITY ACCOUNTED INVESTMENTS (CONT'D)

	2021 \$'000	2020 \$'000
Revenue	4,102	3,084
Cost of sales	(1,317)	(1,053)
Other expenses	(1,805)	(1,792)
Finance costs	(53)	-
<b>Profit before tax</b>	<b>927</b>	<b>239</b>
Income tax	(78)	-
<b>Profit after tax</b>	<b>849</b>	<b>239</b>
<b>HRL's share of profit (26%)</b>	<b>221</b>	<b>62</b>

CAIQTest (Pacific) Limited requires a board resolution to distribute its profits. No dividends were paid or declared for the financial period ending 30 June 2021.

CAIQTest (Pacific) Limited had no contingent liabilities or capital commitments as at 30 June 2021.

### Food Lab Pacific Limited

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

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

	2021 \$'000	2020 \$'000
Current assets	232	105
Non-current assets	1,571	959
<b>Total assets</b>	<b>1,803</b>	<b>1,064</b>
Current liabilities	614	1,045
Non-current liabilities	940	-
<b>Total liabilities</b>	<b>1,554</b>	<b>1,045</b>
<b>Equity</b>		
HRL's share of equity (50%)	124	9
Foreign exchange movements	-	-
<b>Carrying amount</b>	<b>124</b>	<b>9</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 22 EQUITY ACCOUNTED INVESTMENTS (CONT'D)

	2021 \$'000	2020 \$'000
Revenue	102	-
Other expenses	(2,092)	(1,129)
Finance costs	(48)	(21)
<b>Loss before tax</b>	<b>(2,038)</b>	<b>(1,150)</b>
Income tax	-	-
<b>Loss after tax</b>	<b>(2,038)</b>	<b>(1,150)</b>
<b>HRL's share of loss (50%)</b>	<b>(1,019)</b>	<b>(575)</b>

Food Lab Pacific Limited requires a board resolution to distribute its profits. No dividends were paid or declared for the financial period ending 30 June 2021.

Food Lab Pacific Limited had no contingent liabilities or capital commitments as at 30 June 2021.

## NOTE 23 PARENT ENTITY INFORMATION

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

	2021 \$'000	2020 \$'000
<b>Parent Entity Financial Information</b>		
Current assets	6	2
Non-current assets	30,765	30,029
<b>Total assets</b>	<b>30,771</b>	<b>30,031</b>
Current liabilities	404	2,301
Non-current liabilities	5,429	2,890
<b>Total liabilities</b>	<b>5,833</b>	<b>5,191</b>
<b>Net assets</b>	<b>24,938</b>	<b>24,840</b>
Issued capital	49,236	49,201
Reserves	116	151
Accumulated losses	(24,414)	(24,512)
<b>Total equity</b>	<b>24,938</b>	<b>24,840</b>
Profit/(loss) after income tax	98	(9,191)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>98</b>	<b>(9,191)</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 23 PARENT ENTITY INFORMATION (CONT'D)

### 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 28. The Parent Entity has no contingent assets or guarantees at balance date.

Controlled Entities of the Parent Entity	Percentage Owned		Country of Incorporation
	2021	2020	
	%	%	
OCTIEF Pty Ltd	100%	100%	Australia
HRL Holdings NZ Limited	100%	100%	New Zealand
Octief Limited	100%	100%	New Zealand
Precise Consulting and Laboratory Limited	100%	100%	New Zealand
Morrison Geotechnic Pty Ltd	100%	100%	Australia
OCTFOLIO Pty Ltd	100%	100%	Australia
Analytica Laboratories Limited	100%	100%	New Zealand
Water Testing HB (2016) Limited	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 24 SHARE BASED PAYMENTS

### Performance Rights (Long Term Incentive Plan)

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

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

Expiry / Vesting Date	Tranche	Vesting Condition	Performance period <sup>1</sup>	Movements				
				1 July 2020	Issued	Exercised	Expired / Forfeited	30 June 2021
30 June 2023	D	EPS	3 years	-	1,022,181	-	(89,615)	932,566
30 June 2023	D	EBITDA	3 years	-	1,022,181	-	(89,615)	932,566
30 June 2023	D	TSR	3 years	-	1,022,181	-	(89,615)	932,566
30 June 2023	D	ROCE	3 years	-	1,022,181	-	(89,615)	932,566
30 June 2022	A	EPS	3 years	1,184,108	-	-	(153,555)	1,030,553
30 June 2022	A	EBITDA	3 years	1,184,108	-	-	(153,555)	1,030,553
30 June 2022	A	TSR	3 years	1,184,108	-	-	(153,555)	1,030,553
30 June 2022	A	ROCE	3 years	1,184,108	-	-	(153,555)	1,030,553
30 June 2021	B	Budget	1 year	294,669	-	-	(136,138)	158,531
30 June 2021	B	EBITDA	2 years	294,669	-	-	-	294,669
30 June 2021	B	TSR	2 years	294,669	-	-	(294,669)	-
30 June 2021	B	ROCE	2 years	294,669	-	-	(143,799)	150,870
30 June 2020	C	TSR	1 year	147,335	-	(147,335)	-	-
30 June 2020	C	Discretionary	1 year	227,273	-	(227,273)	-	-
				6,289,716	4,088,724	(374,608)	(1,547,286)	8,456,546

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

The weighted average remaining contractual life of performance rights outstanding at the end of the year was 1.48 years.

The share price at the date of exercise of Tranche C performance rights was \$0.11.

604,070 Tranche B performance rights were exercisable at 30 June 2021.

### Fair value of performance rights granted

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 24 SHARE BASED PAYMENTS (CONT'D)

Inputs into pricing model for EPS/EBITDA/ROCE/Budget vesting conditions	Tranche D - Employees	Tranche D * – Executive Director	Tranche A - Employees	Tranche A – Executive Director	Tranche B	Tranche C
Grant date	14 September 2020	22 October 2020	5 September 2019	17 October 2019	5 September 2019	5 September 2019
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Vesting conditions	Refer above	Refer above	Refer above	Refer above	Refer above	Refer above
Share price at grant date	\$0.105	\$0.115	\$0.110	\$0.110	\$0.110	\$0.110
Expiry date	30 June 2023	30 June 2023	30 June 2022	30 June 2022	30 June 2021	30 June 2020
Life of the instruments	2.8 years	2.7 years	2.8 years	2.65 years	1.8 years	0.8 years
Underlying historical share price volatility	77%	77%	71.5%	71.5%	71.5%	71.5%
Expected dividends	Nil	Nil	Nil	Nil	Nil	Nil
Risk free interest rate	0.24%	0.14%	0.72%	0.72%	0.72%	0.72%
Pricing model	Trinomial lattice	Trinomial lattice	Trinomial lattice	Trinomial lattice	Trinomial lattice	Trinomial lattice
Fair value per instrument	\$0.105	\$0.115	\$0.11	\$0.11	\$0.11	\$0.11

\* 199,890 Tranche D shares were issued to Steve Howse following shareholder approval on 22 October 2020.

Inputs into pricing model for TSR vesting condition	Tranche D - Employees	Tranche D – Executive Director	Tranche A - Employees	Tranche A – Executive Director	Tranche B	Tranche C
Grant date	14 September 2020	22 October 2020	5 September 2019	17 October 2019	5 September 2019	5 September 2019
Exercise price	Nil	Nil	Nil	Nil	Nil	Nil
Vesting conditions	Refer above	Refer above	Refer above	Refer above	Refer above	Refer above
Share price at grant date	\$0.105	\$0.115	\$0.11	\$0.12	\$0.11	\$0.11
Expiry date	30 June 2023	30 June 2023	30 June 2022	30 June 2022	30 June 2021	30 June 2020
Life of the instruments	2.8 years	2.7 years	2.8 years	2.65 years	1.8 years	0.8 years
S&P Small Ordinaries Index volatility	19%	19%	11.7%	11.7%	11.7%	11.7%
Correlation	0.36	0.36	0.42	0.42	0.42	0.42
Pricing model	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo	Monte Carlo
Fair value per instrument	\$0.0743	\$0.0845	\$0.0790	\$0.0761	\$0.076	\$0.0686

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 24 SHARE BASED PAYMENTS (CONT'D)

### Inputs into pricing model for discretionary vesting condition

The financial impacts of COVID-19 on the Group during the FY2021 financial year rendered certain measurement targets of the 1-year plan (Tranche C) effectively unachievable. The Board utilised its discretion under the LTI plan rules to vest 227,273 performance rights to participants automatically. The fair value of these performance rights was deemed to be the market value of HRL share price (\$0.11) at the time of the Board decision.

### Performance Vesting Conditions

#### Earnings per Share (EPS) Measure

EPS MEASUREMENT TABLE	
<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 the total applicable tranche

Tranche A: 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.

Tranche D: The compound growth in EPS will be measured by comparing fully diluted EPS for the financial year ending 30 June 2023 with fully diluted EPS for the financial year ended 30 June 2020.

#### 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 the total applicable tranche
Comparator companies	Bureau Veritas (France), Core Laboratories (USA), Eurofins (France & Germany), Intertek (UK), SGS (Switzerland), ALS (Australia), AsureQuality (NZ)

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.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 24 SHARE BASED PAYMENTS (CONT'D)

### Total Shareholder Return (TSR) Measure

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

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

### Budget Measure

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

### Return on Capital Employed (ROCE) Measure

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 24 SHARE BASED PAYMENTS (CONT'D)

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

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

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

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

### Expenses arising from share-based payment transactions

	2021 \$'000	2020 \$'000
Performance shares (long-term incentive plan)	197	151
Previous performance share plan (expired)	-	42
	<b>197</b>	<b>193</b>

## NOTE 25 RELATED PARTY TRANSACTIONS

### Key Management Personnel Compensation

	2021 \$	2020 \$
Short-term benefits	1,079,142	905,231
Post-employment benefits	81,647	92,508
Long-term benefits	(17,990)	19,484
Termination benefits	-	-
Share-based payments	120,179	106,733
	<b>1,262,978</b>	<b>1,123,956</b>

Detailed remuneration disclosures are provided in the remuneration report on pages 15 to 28.

### Transactions with related parties

There were no transactions with related parties during the year (2020: Nil).

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 26 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 2021. Credit risk is reviewed regularly by the Board.

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

### Maximum exposure to credit risk

	2021 \$'000	2020 \$'000
<u>Summary exposure</u>		
Cash and cash equivalents	1,585	2,854
Trade receivables	4,317	3,553
Other receivables	328	257
Loan receivable from CAIQTest Pacific Limited	145	204
	<b>6,375</b>	<b>6,868</b>

### Liquidity risk

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

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

### Remaining contractual maturities

The tables below reflects 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.

30 June 2021	1 year or less \$'000's	1 to 5 years \$'000's	Over 5 years \$'000's	Total \$'000's
Trade payables	977	-	-	977
Other payables	1,783	-	-	1,783
Bank loans	-	1,084	-	1,084
Government support loans	57	123	156	336
Lease liabilities	1,251	1,260	-	2,511
	<b>4,068</b>	<b>2,467</b>	<b>156</b>	<b>6,691</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 26 FINANCIAL RISK MANAGEMENT (CONT'D)

30 June 2020	1 year or less \$000's	1 to 5 years \$000's	Over 5 years \$000's	Total \$000's
Trade payables	595	-	-	595
Other payables	1,933	-	-	1,933
Bank loans	2,092	439	-	2,531
Government support loans	52	93	192	337
Lease liabilities	1,363	2,258	-	3,621
	<b>6,035</b>	<b>2,790</b>	<b>192</b>	<b>9,017</b>

### Market Risk

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

#### Interest rate risk

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

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

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:

	2021 \$'000	2020 \$'000
<u>Impact on profit and equity</u>		
+1.00% (100 basis points)	3	(2)
-1.00% (100 basis points)	(3)	2

#### 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:

	2021 \$'000	2020 \$'000
<u>Financial assets</u>		
Cash and cash equivalents (NZD)	1,352	2,424
Trade and other receivables (NZD)	3,103	2,548
	<b>4,455</b>	<b>4,972</b>
<u>Financial liabilities</u>		
Trade and other payables (NZD)	1,618	1,166
Leases for equipment – bank financed (NZD)	248	341
	<b>1,866</b>	<b>1,507</b>

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 26 FINANCIAL RISK MANAGEMENT (CONT'D)

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:

	2021 \$'000	2020 \$'000
<u>Impact on equity</u>		
+10.00%	259	346
-10.00%	(259)	(346)

### 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.

## NOTE 27 COMMITMENTS

The Group did not have any commitments for expenditure (2020: \$Nil).

## NOTE 28 CONTINGENT LIABILITIES

The Consolidated Entity has arranged bank guarantees of \$18,000 as security for rental premises.

## NOTE 29 AUDITOR'S REMUNERATION

	2021 \$	2020 \$
<i>Audit services – BDO Audit Pty Ltd</i>		
Audit and review of financial reports	109,000	97,559
<b>Total audit services</b>	<b>109,000</b>	<b>97,559</b>
<i>Non-audit services – Taxation Services</i>		
Australia taxation services - BDO Audit Pty Ltd	45,196	29,286
New Zealand taxation services - BDO Auckland	20,529	45,728
<b>Total non-audit services</b>	<b>65,725</b>	<b>75,014</b>

## NOTE 30 EVENTS AFTER BALANCE DATE

There have been no events since 30 June 2021 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 2021 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 Finance Officer required by section 295A of the *Corporations Act 2001*.

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



Director  
Brisbane, 30 July 2021

## 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 2021, 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 2021 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

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

#### Key audit matters

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

## Valuation of goodwill

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<ul style="list-style-type: none"> <li>The Group's disclosures about goodwill impairment are included in Note 14, which details the allocation of goodwill to the groups various CGU's, sets out the key assumptions for value-in-use calculations and the impact of possible changes in these assumptions.</li> <li>This annual impairment test was significant to our audit because the balance of goodwill as of 30 June 2021 is material to the financial statements.</li> <li>In addition, management's assessment process is complex and highly judgmental and is based on assumptions, specifically forecast future cash flows, growth rate and discount rate, which are affected by expected future market or economic conditions.</li> </ul>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>Assessing management's allocation of goodwill and assets and liabilities, including corporate assets to Cash Generating Units ("CGU's").</li> <li>Evaluating the inputs used in the value in use calculation including the growth rates, discount rates and underlying cash flows applied by management.</li> <li>Assessing the sensitivity of the assumptions used by management on the value-in-use calculation.</li> <li>Involving our internal specialists to assess the discount rates against comparable market information.</li> <li>Assessing the disclosures related to the goodwill and the impairment assessment by comparing these disclosures to our understanding of the matter and the applicable accounting standards.</li> </ul>

## Recoverability of Deferred Tax Assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
<ul style="list-style-type: none"> <li>The Group's disclosures about deferred tax assets are included in Note 6.</li> <li>Australian accounting standards require deferred tax assets to be recognised only to the extent that it is probable that sufficient future taxable profits will be generated in order for the benefits of the deferred tax assets to be realised. These benefits are realised by reducing tax payable on future taxable profits.</li> <li>This was a key audit matter as the assessment of the future taxable profits involves significant judgement by management and required significant auditor effort.</li> </ul>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>Evaluating management's forecast of future taxable profits and assessing whether it is probable that there will be sufficient future profits to utilise the deferred tax assets recognised.</li> <li>Assessing the key assumptions used in the forecast period including revenue, expenditure and growth rates applied against actual results achieved.</li> <li>Assessing the disclosures related to the recognition of the deferred tax assets and unrecognised deferred tax assets.</li> </ul>

## Other information

The directors are responsible for the other information. The other information comprises the information in the Group's Annual Report for the year ended 30 June 2021, 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:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.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 15 to 28 of the directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of HRL Holdings Limited, for the year ended 30 June 2021, 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



**C R Jenkins**  
Director

Brisbane, 30 July 2021

## **HRL HOLDINGS LIMITED CORPORATE INFORMATION**

### **DIRECTORS**

Greg Kilmister (Non-Executive Chairman)  
Steve Howse (Executive Director)  
James Todd (Non-Executive Director)  
Richard Stephens (Non-Executive Director)  
Alex White (Non-Executive Director)

### **COMPANY SECRETARY**

Paul Marshall

### **REGISTERED OFFICE**

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

### **SOLICITORS**

HopgoodGanim Lawyers  
1 Eagle Street  
Brisbane QLD 4000  
Phone: + 61 7 3024 0000

### **SHARE REGISTRY**

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

### **AUDITORS**

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

### **COUNTRY OF INCORPORATION**

Australia

### **STOCK EXCHANGE LISTING**

Australian Securities Exchange Limited  
ASX Code: HRL

### **INTERNET ADDRESS**

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

### **AUSTRALIAN BUSINESS NUMBER**

ABN 99 120 896 371