





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

Refer to Page 12 of the December 2016 Financial Statements.

**10. Associates and Joint Venture Entities**

Not applicable.

**11. Other Significant Information**

Not applicable.

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

Not applicable.

**15. Status of Audit**

The attached December 2016 Financial Statements have been reviewed.

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

Not applicable.

**16. Dispute or Qualifications if audited**

Not applicable.

*Paul Marshall*

**Paul Marshall**  
Company Secretary  
16 February 2016



**HRL HOLDINGS LIMITED**

**INTERIM FINANCIAL REPORT**

**FOR THE HALF-YEAR ENDED  
31 DECEMBER 2016**

# 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 ("the Group") at the end of, or during, the half-year ended 31 December 2016.

## DIRECTORS

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

Name	Position	Period of Directorship
Kevin Maloney	Non-Executive Chairman	Appointed 15 September 2014
Darren Anderson	Executive Director	Appointed 15 September 2014
Mark Elliott	Non-Executive Director	Appointed 11 August 2006
John Taylor	Non-Executive Director	Appointed 25 November 2014
Frederick Kempson	Alternate Non-Executive Director	Appointed 15 September 2014

## REVIEW OF OPERATIONS

Over the last 6 months HRL Holdings Limited has continued to grow the Company through:

- Geographic expansion in to the Auckland region;
- Increased presence and market share in the New Zealand HAZMAT market;
- Accreditation application submitted to IANZ for Precise Consulting Auckland laboratory;
- Accreditation application submitted to IANZ for Precise Consulting methamphetamine property screening;
- Expanded service capability to Octief in Australia for methamphetamine property screening, leveraging experience developed in New Zealand;
- NSW loose fill asbestos property inspection program provides ongoing work through our NSW/ACT branch;
- Identified and secured two new business acquisitions (proposed settlement at the end of March and mid-April 2017) further expanding and diversifying the Group into exciting new markets. Refer to the subsequent events section of this report for more details.

## Trading Update

### New Zealand

Activity in New Zealand continues to be very strong, with New Zealand revenues increasing 44% over the corresponding period last year.

OCTIEF Limited (NZ) continued the survey works on the Chorus New Zealand Limited (Chorus) assets across both the North and South Islands of New Zealand. This second stage contract is expected to be completed in April 2017 under the original scope of works. Indications are there may be additional ongoing work with Chorus following this program.

Precise Consulting continues its strong performance with revenues continuing to grow over the last 6 months. Precise has a very strong tender pipeline of opportunities with government agencies, councils, corporate and commercial clients.

During the period Precise was awarded the asbestos survey works for the Nelson Marlborough District Health Board. This contract represents the second contract awarded to Precise by a district health board. There are a total of 19 district health boards located across New Zealand, several of which Precise is actively in discussions with.

The Auckland branch was initially planned to operate as a field office only, but with such a positive initial response from clients, the business case to open a new laboratory was justified. Construction of laboratory facilities in the Auckland branch was completed in October 2016. Laboratory accreditation process is now underway and full accreditation is expected early in March 2017. Once the laboratory is accredited, field works will increase as an all in one audit, testing and compliance management service can be offered. The branch will also be targeting the external laboratory market aggressively which is the largest by size in New Zealand.

Earthquake rebuild activities in Christchurch have now tapered off. Anticipating this Precise has spent the last 6 months transitioning resources and focusing business development on its other branches. Wellington in particular has seen very strong growth in the last 9 months.

# DIRECTORS' REPORT

## Australia

Ongoing Queensland government inactivity continues to limit the number of public sector projects across the industry. Competition in the Queensland market has been strong but we are now seeing competitors start to fall out of the market. Asbestos audits for the state based assets operate on a 3 year cycle and the 2017 calendar year should see a major pick up here. The environmental engineering/sciences service line demonstrated good growth during the 6 months and OCTIEF is looking to further expand this opportunity. The proposed acquisition of Morrison Geotechnic will give OCTIEF the ability to joint bid on major infrastructure projects which it would have been historically locked out of.

The Northern Territory branch experienced another strong 6 months of activity. Primary sources of revenue included a major soil remediation project and substantial field monitoring works across a number of public sector assets including asbestos audits of hospitals.

The ACT branch saw a pick-up in activity as the first package of the NSW loose-fill asbestos insulation properties were awarded for central NSW. This work is expected to continue through to June 2017 and will help compliment normal ongoing work from ACT based projects.

OCTIEF is currently tendering and negotiating for major contracts across Australia. The business focus remains on HAZMAT compliance for major corporate clients and government agencies at all levels of government.

OCTIEF has commenced the rollout of methamphetamine testing services in line with the capabilities acquired by sister company Precise in the RJL transaction. OCTIEF is actively focussing on the private market (such as landlords, residential real estate managers etc.) and has just launched a marketing campaign targeting these groups. Despite being common place in New Zealand, this market is effectively non-existent in Australia and OCTIEF looks to gain a first mover advantage.

## **FINANCIAL REVIEW**

Key financial headlines of the HRL Group's 31 December 2016 results are:

- Statutory loss after tax of \$7,909
- Underlying profit after tax of \$152,501 <sup>1</sup>
- Revenues of \$5,469,284
- Net assets of \$6,758,240
- Working capital of \$286,682

<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.

# DIRECTORS' REPORT

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

	6 months ended 31 December 2016	6 months ended 31 December 2015
	\$	\$
<b>Underlying profit/(loss) before tax</b>	<b>184,476</b>	<b>765,545</b>
Income tax	(31,975)	(209,531)
<b>Underlying profit/(loss) after tax</b>	<b>152,501</b>	<b>556,014</b>
<i>Non-operating adjustments</i>		
Acquisition related expenses	-	(40,889)
Management performance shares	(38,403)	-
Amortisation of intangible assets arising from acquisitions	(189,401)	(76,531)
Provision arising on estimate of Precise and AAC Earn-outs (Employee benefits expense)	-	(134,454)
Tax on underlying items	67,394	74,687
<b>Statutory profit/(loss) after income tax</b>	<b>(7,909)</b>	<b>339,297</b>

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

## Comparison with the Prior Period

Underlying profit after tax for the year decreased by \$403,513 compared with the prior period. The key reasons for the decrease were:

- Costs associated with the establishment of a new branch in Auckland, including the set up and accreditation of a new laboratory facility. Final accreditation is anticipated in March 2017 at which time the laboratory can commence operations;
- Costs associated with preparing for IANZ accreditation of field surveying activities in New Zealand. Final accreditation is anticipated in April 2017;
- Costs associated with the recruitment and training of additional staff. The Group increased staff numbers by approximately 20% in the period to service its expanded service offerings and geographical footprint. Due to a shortage of skilled/experienced labour most new recruits were trainees which has brought additional cost to professionally on board and develop competency;
- Increased business development costs as the Group focused on improving market share in both Australia and New Zealand. HRL also invested resources in reviewing a number of acquisition opportunities during the period.

## AFTER BALANCE DATE EVENTS

### Proposed acquisition of Morrison Geotechnic

On 9 February 2017, HRL entered into a Share Sale Agreement with the shareholders of Morrison Geotechnic Holdings Pty Ltd (Morrison Geotechnic) to acquire all of the issued capital in Morrison Geotechnic.

Established for over 17 years, Morrison Geotechnic services the civil, engineering and construction industries primarily across South East Queensland. Morrison Geotechnic has 3 branches covering Brisbane, Gold Coast and the Sunshine Coast. With a portfolio of over 12,000 completed projects, Morrison Geotechnic provides a breadth of engineering and laboratory expertise across its target sectors and geography.

# DIRECTORS' REPORT

Morrison Geotechnic provide a range of services and analysis 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.

In consideration for all of the share capital, the Company will pay a maximum purchase price of \$4,500,000 to the Sellers.

The Purchase Price will be paid as follows:

- partial payment on completion of the Morrison Geotechnic acquisition of \$3,750,000 in cash; and
- earn-out consideration of up to \$750,000.

The amount of earn out consideration is to be calculated based on Morrison Geotechnic's earnings before interest and taxes (EBIT) for the 12 months after settlement.

The following framework for the amount of earn-out consideration to be paid to the Sellers has been agreed:

EBIT	Earn Out Consideration
Less than \$1.1 million	Nil
\$1.1 – \$1.3 million	\$250,000
\$1.3m to \$1.5 million	\$500,000
More than \$1.5 million	\$750,000

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

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

Completion of the Morrison Geotechnic acquisition is conditional on:

- HRL receiving finance for payment of the Purchase Price; and
- Morrison Geotechnic having a minimum working capital position of \$150,000 as at the date of completion.

## Proposed acquisition of OCTFOLIO

On 15 February 2017, HRL entered into a Share Sale Agreement with the shareholders of Integrated Holdings Group Pty Ltd (IHG) to acquire all of the issued capital in IHG. IHG is the holding entity of OCTFOLIO Pty Ltd (OCTFOLIO) and has no other operations or assets.

IHG is partially owned by entities associated with HRL directors Kevin Maloney and Darren Anderson. IHG transaction is a related party transaction subject to shareholder approval. Meeting materials including an independent expert report on the proposed transaction will be distributed in the coming weeks.

OCTFOLIO is an Australian based specialised software vendor focussed on the development and implementation of information management software solutions for asbestos and hazardous materials, innovative field management software solutions, customised compliance solutions and applications relating to workplace health and safety.

# DIRECTORS' REPORT

OCTFOLIO provides the following services:

- Hosting of HAZMAT compliance data and registers;
- Quality management systems;
- Laboratory management systems;
- Field surveying tools;
- On demand programming services;
- Data migrations; and
- Training.

In consideration for all of the share capital, the Company will pay a maximum purchase price of \$3,500,000 to the Sellers as follows:

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

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

The following framework for the amount of earn-out consideration to be paid to the Sellers has been agreed:

## Tranche 1

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

## Tranche 2

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

Completion of the acquisition is conditional on a number of factors, including:

- all necessary ASX and ASIC approvals, waivers and confirmations being obtained by HRL;
- all necessary shareholder approvals being obtained by HRL;
- HRL receiving finance for payment of the Purchase Price; and
- IHG having a minimum working capital position of \$50,000 as at the date of completion.

# DIRECTORS' REPORT

## Capital Raise

### Rights Issue

On 16 February 2017, HRL announced a non-renounceable 4-for-11 Entitlement Offer of approximately 57.8 million new fully paid ordinary shares in HRL to raise approximately \$5.8 million. The Entitlement Offer is partially underwritten to \$5,000,000 by Canaccord Genuity (Australia) Limited.

The proceeds of the rights issue will be used to:

- Fund the acquisition of Morrison Geotechnic; and
- Repay bank debt.

A prospectus will be distributed to shareholders in the coming weeks.

### Share Placement

On 16 February 2017, HRL announced a Private Placement of \$2.75 million which has been fully subscribed for by the IHG Vendors. The Placement will be subject to shareholder approval at an Extraordinary General Meeting to be held on or about the 29 March 2017.

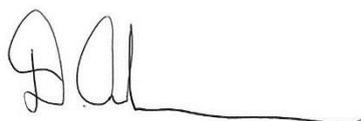
The proceeds of the share placement will be used to fund the acquisition of IHG.

Meeting materials will be distributed in the coming weeks.

## AUDITOR'S INDEPENDENCE DECLARATION

The Auditor's Independence Declaration on page 7 forms part of the Directors' Report.

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



Darren Anderson  
Director  
Brisbane, 16 February 2017

# AUDITOR'S INDEPENDENCE DECLARATION



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

As lead auditor for the review of HRL Holdings Limited for the half-year ended 31 December 2016, 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 review; and
2. No contraventions of any applicable code of professional conduct in relation to the review.

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

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

**T R Mann**  
Director

**BDO Audit Pty Ltd**

Brisbane, 16 February 2017

# STATEMENT OF COMPREHENSIVE INCOME

## Consolidated Statement of Comprehensive Income For the half-year ended 31 December 2016

	Note	6 Months Ended	
		31 December 2016	31 December 2015
		\$	\$
Environmental services revenue		5,468,287	4,233,725
Interest revenue		997	3,405
Costs and consumables relating to the provision of services		(863,801)	(309,734)
Employee expenses		(2,997,982)	(2,064,227)
Depreciation and amortisation expenses		(323,241)	(188,022)
Finance costs		(52,914)	(37,368)
Rent and property expenses		(318,655)	(191,987)
Travel and business development expenses		(233,198)	(155,338)
Other expenses		(722,822)	(640,970)
Employee benefits expense on Precise earn-out payments		-	(109,454)
Employee benefits expense on AAC earn-out payments		-	(25,000)
Acquisition expenses		-	(40,889)
Profit/(loss) before income tax		(43,329)	474,141
Income tax benefit/(expense)		35,419	(134,844)
Profit/(loss) after income tax		(7,909)	339,297
<b>Other comprehensive income</b>			
<i>Items that may be reclassified to profit or loss</i>			
Foreign currency translation differences for foreign operations		43,412	275,458
Income tax		-	-
Other comprehensive income for the period, net of tax		43,412	2,75,458
<b>Total comprehensive income</b>		<b>35,503</b>	<b>614,755</b>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings/(Loss) per share</b>			
Basic earnings/(loss) per share		(0.01)	0.22
Diluted earnings/(loss) per share		(0.01)	0.22

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 31 December 2016

	Note	31 December 2016 \$	30 June 2016 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents		481,300	392,863
Trade and other receivables		1,599,213	1,354,351
Other current assets		71,363	4,771
<b>TOTAL CURRENT ASSETS</b>		<b>2,151,876</b>	<b>1,751,985</b>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables		111,366	122,861
Plant and equipment		791,250	672,956
Intangible assets		456,028	646,418
Goodwill		5,093,008	5,054,138
Deferred tax assets		1,091,561	875,167
<b>TOTAL NON-CURRENT ASSETS</b>		<b>7,543,213</b>	<b>7,371,540</b>
<b>TOTAL ASSETS</b>		<b>9,695,089</b>	<b>9,123,525</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		711,528	671,034
Current tax liabilities		188,698	199,354
Short-term provisions		124,497	120,962
Borrowings		840,471	491,856
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,865,194</b>	<b>1,483,206</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings		1,016,389	878,189
Deferred tax liabilities		55,266	77,796
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>1,071,655</b>	<b>955,985</b>
<b>TOTAL LIABILITIES</b>		<b>2,936,849</b>	<b>2,439,191</b>
<b>NET ASSETS</b>		<b>6,758,240</b>	<b>6,684,334</b>
<b>EQUITY</b>			
Contributed capital	2	8,220,282	8,220,282
Reserves		(84,513)	(166,328)
Accumulated losses		(1,377,529)	(1,369,620)
<b>TOTAL EQUITY</b>		<b>6,758,240</b>	<b>6,684,334</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 half-year ended 31 December 2016

	Contributed Capital \$	Accumulated Losses \$	Reserves \$	Total \$
<b>Balance at 1 July 2015</b>	8,220,282	(1,487,608)	(509,466)	6,223,208
<b>Transactions with owners in their capacity as owners</b>				
Contributions of capital	-	-	-	-
Share issue costs (net of tax)	-	-	-	-
Total	-	-	-	-
<b>Comprehensive income</b>				
Profit after income tax	-	339,297	-	339,297
Foreign currency translation differences for foreign operations	-	-	275,458	275,458
Total comprehensive income	-	339,297	275,458	614,755
<b>Balance at 31 December 2015</b>	8,220,282	(1,148,311)	(234,008)	6,837,963
<b>Balance at 1 July 2016</b>	8,220,282	(1,369,620)	(166,328)	6,684,334
<b>Transactions with owners in their capacity as owners</b>				
Contributions of capital	-	-	-	-
Share based payments	-	-	38,403	38,403
Share issue costs (net of tax)	-	-	-	-
Total	-	-	38,403	38,403
<b>Comprehensive income</b>				
Loss after income tax	-	(7,909)	-	(7,909)
Foreign currency translation differences for foreign operations	-	-	43,412	43,412
Total comprehensive income	-	(7,909)	43,412	35,503
<b>Balance at 31 December 2016</b>	8,220,282	(1,377,529)	(84,513)	6,758,240

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 half-year ended 31 December 2016

	Note	6 Months Ended	
		31 December 2016	31 December 2015
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		5,910,254	4,882,027
Payments to suppliers and employees		(5,797,885)	(4,060,262)
Interest received		997	10,414
Income tax paid		(218,651)	(275,032)
Finance costs		(52,914)	(37,368)
Net cash provided by/(used in) operating activities		(158,199)	519,779
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payments for plant & equipment		(243,232)	(95,920)
Net outflow of cash from the acquisition of AAC		-	(992,203)
Net cash used in investing activities		(243,232)	(1,088,123)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings		1,205,627	1,000,000
Repayment of borrowings		(705,280)	(585,987)
Finance lease payments		(13,532)	(4,444)
Net cash provided by financing activities		486,815	409,569
Net increase/(decrease) in cash and cash equivalents held		85,384	(158,775)
Net foreign exchange differences		3,053	33,593
Cash and cash equivalents at the beginning of the financial period		392,863	859,500
<b>Cash and cash equivalents at the end of the financial period</b>		<b>481,300</b>	<b>734,318</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity

HRL Holdings Limited (the “Company”) is a company domiciled in Australia. The consolidated interim financial report of the Company as at and for the six months ended 31 December 2016 comprises the Company and its controlled entities (together referred to as the “Consolidated Entity”).

### Basis of preparation

The consolidated interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001. The Company is a for-profit entity for the purpose of preparing the interim financial report.

The consolidated interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the consolidated annual financial report of the Consolidated Entity as at and for the year ended 30 June 2016 and any public announcements made by the company during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

This consolidated interim financial report was approved by the Board of Directors on 16 February 2017.

### Accounting Policies

The accounting policies and methods of computation applied by the Consolidated Entity in the consolidated interim financial report are the same as those applied by the Consolidated Entity in its consolidated financial report as at and for the year ended 30 June 2016.

### New and revised standards

New and revised standards have been issued by the AASB and are effective for the half-year; however there are no material changes to the policies that affect the recognition and measurement of the results or financial position of the Consolidated Entity.

### Fair Values

The fair values of Consolidated Entity’s financial assets and financial liabilities approximate their carrying values. No financial assets or financial liabilities are readily traded on organised markets in standardised form.

# NOTES TO THE FINANCIAL STATEMENTS

31 December  
2016  
\$

30 June  
2016  
\$

## NOTE 2 CONTRIBUTED CAPITAL

158,903,031 fully paid ordinary shares (June 2016: 158,903,031) 8,220,282 8,220,282

	December 2016 Number	June 2016 Number	December 2016 \$	June 2016 \$
<b>Movements during the period</b>				
Balance at beginning of period	158,903,031	154,550,025	8,220,282	8,220,282
Shares issued to OCTIEF vendors on achieving Milestones	-	4,353,006	-	-
<b>Balance at end of period</b>	<b>158,903,031</b>	<b>158,903,031</b>	<b>8,220,282</b>	<b>8,220,282</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.

### Performance shares

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

Expiry Date	Exercise Price	Movements				31 December 2016
		1 July 2016	Issued	Exercised	Expired	
31 July 2017	Nil	-	1,019,260	-	-	1,019,260
31 July 2018	Nil	-	1,019,260	-	-	1,019,260
31 July 2019	Nil	-	1,050,147	-	-	1,050,147
		-	3,088,667	-	-	3,088,667

The performance shares have the following key terms and conditions:

Primary Vesting Conditions	<p>From the 30 day VWAP of HRL's share price at 1 July 2016, any of the following increases occur:</p> <ol style="list-style-type: none"> <li>HRL share price increases 33% within 1 year; or</li> <li>HRL share price increases 66% within 2 years; or</li> <li>HRL share price increases 100% within 3 years.</li> </ol> <p>The HRL share price must remain above the nominated target for the relevant period for 14 consecutive trading days</p>
Secondary Vesting Conditions	<p>The Performance Shares will vest in proportion to the number of years' service after the plan is implemented:</p> <ol style="list-style-type: none"> <li>First 33% of the performance shares vest after 1 year of service from plan commencement;</li> <li>Next 33% performance shares vest after 2 years of service from plan commencement;</li> <li>Final 34% performance shares vest after 3 years of service from plan commencement.</li> </ol>
Exercise Price	\$Nil

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 2 CONTRIBUTED CAPITAL (continued)

Performance rights key terms and conditions continued:

<b>Forfeiture</b>	The Performance Shares will lapse if: <ul style="list-style-type: none"> <li>- None of the pricing conditions are met; or</li> <li>- the participant does not meet the service conditions.</li> </ul>
<b>Change of Control Event</b>	In the event a bona fide Takeover Bid is declared unconditional and the bidder has acquired a relevant interest of at least 50.1%, the Performance Share vest immediately, irrespective of any unmet vesting conditions.

<b>31 December</b>	<b>30 June</b>
<b>2016</b>	<b>2016</b>
<b>\$</b>	<b>\$</b>

## NOTE 3 BORROWINGS

### CURRENT

Finance leases	38,456	25,856
Bank loans	774,000	466,000
Insurance financing	28,015	-
	<b>840,471</b>	<b>491,856</b>

### NON-CURRENT

Finance leases	52,269	67,959
Bank loans	964,120	810,230
	<b>1,016,389</b>	<b>878,189</b>

The finance lease is secured over the individual motor vehicles that the lease relates to. The leases have interest rates of 4.35 - 5.10% per annum and expire between December 2018 and February 2019.

The bank loan is secured against all current and non-current assets of the Group by floating charge. The facility has an interest rate of 4.85% per annum and expires in September 2019.

## NOTE 4 CONTINGENT LIABILITIES

There has been no change to contingent assets and contingent liabilities disclosed in the 30 June 2016 financial report.

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 5 SEGMENT REPORTING

### Reportable Segments

For the period ended 31 December 2016 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:

- OCTIEF branded operations
- Precise Consulting branded operations

### Segment Revenues and Results

	OCTIEF	Precise Consulting	Unallocated	Consolidated
	\$	\$	\$	\$
<b>Half-Year Ended 31 December 2016</b>				
<b>Revenue:</b>				
Revenue from outside the Consolidated Entity	1,970,555	3,497,733	997	5,469,284
Segment result	76,622	581,565	(701,156)	(43,329)
Income tax benefit				35,419
<b>Net Profit/(Loss)</b>				<b>(7,909)</b>
<b>Assets:</b>				
Segment assets	1,921,165	6,553,826	1,220,097	9,695,089
<b>Half-Year Ended 31 December 2015</b>				
<b>Revenue:</b>				
Revenue from outside the Consolidated Entity	2,250,127	1,987,003	3,405	4,237,130
Segment result	456,472	926,166	(877,247)	474,141
Income tax expense				(134,844)
<b>Net Profit/(Loss)</b>				<b>339,297</b>
<b>Year Ended 30 June 2016</b>				
<b>Assets:</b>				
Segment assets	1,677,129	6,399,922	1,046,473	9,123,524

# NOTES TO THE FINANCIAL STATEMENTS

## NOTE 6 EVENTS AFTER BALANCE DATE

### Proposed acquisition of Morrison Geotechnic

On 9 February 2017, HRL entered into a Share Sale Agreement with the shareholders of Morrison Geotechnic Holdings Pty Ltd (Morrison Geotechnic) to acquire all of the issued capital in Morrison Geotechnic.

Established for over 17 years, Morrison Geotechnic services the civil, engineering and construction industries primarily across South East Queensland. Morrison Geotechnic has 3 branches covering Brisbane, Gold Coast and the Sunshine Coast. With a portfolio of over 12,000 completed projects, Morrison Geotechnic provides a breadth of engineering and laboratory expertise across its target sectors and geography.

Morrison Geotechnic provide a range of services and analysis 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.

In consideration for all of the share capital, the Company will pay a maximum purchase price of \$4,500,000 to the Sellers.

The Purchase Price will be paid as follows:

- partial payment on completion of the Morrison Geotechnic acquisition of \$3,750,000 in cash; and
- earn-out consideration of up to \$750,000.

The amount of earn out consideration is to be calculated based on Morrison Geotechnic's earnings before interest and taxes (EBIT) for the 12 months after settlement.

The following framework for the amount of earn-out consideration to be paid to the Sellers has been agreed:

EBIT	Earn Out Consideration
Less than \$1.1 million	Nil
\$1.1 – \$1.3 million	\$250,000
\$1.3m to \$1.5 million	\$500,000
More than \$1.5 million	\$750,000

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

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

Completion of the Morrison Geotechnic acquisition is conditional on:

- HRL receiving finance for payment of the Purchase Price; and
- Morrison Geotechnic having a minimum working capital position of \$150,000 as at the date of completion.

# NOTES TO THE FINANCIAL STATEMENTS

## Proposed acquisition of OCTFOLIO

On 15 February 2017, HRL entered into a Share Sale Agreement with the shareholders of Integrated Holdings Group Pty Ltd (IHG) to acquire all of the issued capital in IHG. IHG is the holding entity of OCTFOLIO Pty Ltd (OCTFOLIO) and has no other operations or assets.

IHG is partially owned by entities associated with HRL directors Kevin Maloney and Darren Anderson. IHG transaction is a related party transaction subject to shareholder approval. Meeting materials including an independent expert report on the proposed transaction will be distributed in the coming weeks.

OCTFOLIO is an Australian based specialised software vendor focussed on the development and implementation of information management software solutions for asbestos and hazardous materials, innovative field management software solutions, customised compliance solutions and applications relating to workplace health and safety.

OCTFOLIO provides the following services:

- Hosting of HAZMAT compliance data and registers;
- Quality management systems;
- Laboratory management systems;
- Field surveying tools;
- On demand programming services;
- Data migrations; and
- Training.

In consideration for all of the share capital, the Company will pay a maximum purchase price of \$3,500,000 to the Sellers as follows:

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

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

The following framework for the amount of earn-out consideration to be paid to the Sellers has been agreed:

### Tranche 1

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

### Tranche 2

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

Completion of the acquisition is conditional on a number of factors, including:

- all necessary ASX and ASIC approvals, waivers and confirmations being obtained by HRL;
- all necessary shareholder approvals being obtained by HRL;
- HRL receiving finance for payment of the Purchase Price; and
- IHG having a minimum working capital position of \$50,000 as at the date of completion.

# NOTES TO THE FINANCIAL STATEMENTS

## Capital Raise

### Rights Issue

On 16 February 2017, HRL announced a non-renounceable 4-for-11 Entitlement Offer of approximately 57.8 million new fully paid ordinary shares in HRL to raise approximately \$5.8 million. The Entitlement Offer is partially underwritten to \$5,000,000 by Canaccord Genuity (Australia) Limited.

The proceeds of the rights issue will be used to:

- Fund the acquisition of Morrison Geotechnic; and
- Repay bank debt.

A prospectus will be distributed to shareholders in the coming weeks.

### Share Placement

On 16 February 2017, HRL announced a Private Placement of \$2.75 million which has been fully subscribed for by the IHG Vendors. The Placement will be subject to shareholder approval at an Extraordinary General Meeting to be held on or about the 29 March 2017.

The proceeds of the share placement will be used to fund the acquisition of IHG.

Meeting materials will be distributed in the coming weeks.

# DIRECTORS' DECLARATION

## DIRECTORS' DECLARATION

In the Directors' opinion:

- (a) the attached consolidated financial statements and notes as set out on pages 6 to 18 are in accordance with the Corporations Act 2001 and:
  - (i) comply with Australian Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
  - (ii) give a true and fair view of the Consolidated Entity's financial position as at 31 December 2016 and of its performance for the half year ended on that date; 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.

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

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

Darren Anderson  
Director

Brisbane  
16 February 2017

## INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of HRL Holdings Limited

### Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of HRL Holdings Limited, which comprises the consolidated balance sheet as at 31 December 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the half-year ended on that date, notes comprising a statement of accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year's end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of HRL Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of HRL Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of HRL Holdings Limited is not in accordance with the *Corporations Act 2001* including:

- (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (ii) Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

**BDO Audit Pty Ltd**



**T R Mann**  
Director

Brisbane, 16 February 2017

# CORPORATE INFORMATION

## HRL HOLDINGS LIMITED CORPORATE INFORMATION

### DIRECTORS

Kevin Maloney (Chairman)  
Darren Anderson (Executive Director)  
Mark Elliott (Non-executive Director)  
John Taylor (Non-executive Director)

Frederick Kempson (Alternate Non-executive Director)

### COMPANY SECRETARY

Paul Marshall

### REGISTERED OFFICE

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

### SOLICITORS

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

### SHARE REGISTRY

Link Market Services Limited  
Level 15  
324 Queen 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

