# H&G HIGH CONVICTION

2024 Annual Report

H&G High Conviction Limited ACN: 660 009 165

# Contents



**Corporate Governance Statement**
Our Corporate Governance Statement is available on the company website at www.hancockandgore.com.au/governance and is lodged with ASX with this report.

# Letter from the Chairman

## Dear fellow shareholders,

I am pleased to present the Annual Report for H&G High Conviction Limited (ASX: HCF) for the financial year ending 30 June 2024.

For the 12 months to 30 June 2024, HCF recorded a profit after tax of $1.3 million. After what had been a strong result for the first half of the year (profit after tax of $1.49m), the second half was disappointing. This was a direct result of the nature of the investments HCF holds (a portfolio of 20–25 microcap listed stocks) and market conditions.

Investing in small-cap companies often involves navigating through volatile market conditions, yet it presents significant growth potential. These companies, with market capitalisations under $300 million at the time of initial investment, are often undervalued and overlooked. Our Investment Manager's focus remains on identifying and investing in these promising opportunities to maximise long-term shareholder value.

Our financial position remains strong, with total equity representing 93% of total assets and no debt on our balance sheet. As of 30 June 2024, HCF held cash and cash equivalents amounting to $2.47 million. For a comprehensive overview of our investments, I direct you to the Investment Manager's Report in the subsequent pages.

In line with our dividend policy, which mandates the distribution of all dividends received alongside a portion of realised profits, the Board has declared a final fully franked dividend of 2.0 cents per share. This dividend will be payable on 4 October 2024 to shareholders recorded as of 26 September 2024, bringing the total dividends for the 2024 financial year to 4.0 cents per share.

Looking ahead, the major, short-term strategic goal of the Board is to materially increase the size of the company. The directors recognise that, for a listed company, total assets of only $28.2m is sub-optimal. The short-term target is to increase total assets to $50m. Our Investment Manager is committed to this goal and is exploring a number of inorganic growth strategies. The Investment Manager has also begun to ramp up the marketing of HCF more broadly within the microcap space and the investment community in general.

In closing, I wish to express my sincere appreciation to our shareholders for their ongoing support and to our Investment Manager for their steadfast dedication. I look forward to engaging with you at our upcoming Annual General Meeting.

**David Groves**
Chairman

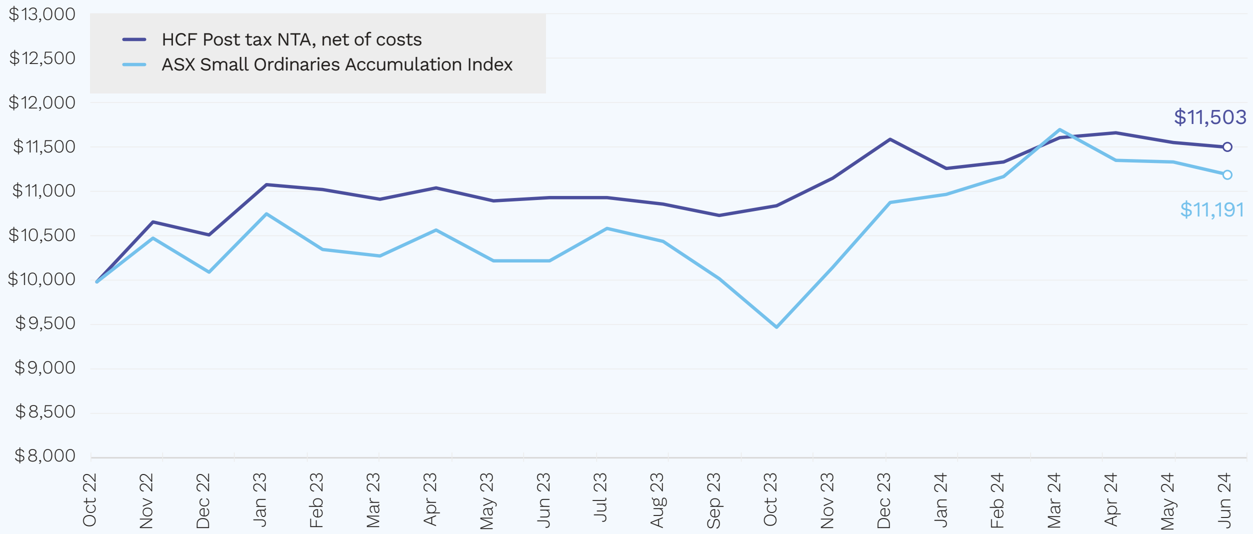
H&G High Conviction Limited
26 August 2024

# Investment Manager's Report

## Highlights during the year:

- HCF post tax NTA returned **5.2%** for FY24.
- Since HCF IPO, the portfolio generated returns of **8.8% p.a.** outperforming the ASX Small Ordinaries Accumulation Index return of 7.0% p.a.
- HCF added two new high conviction holdings to the portfolio over the year: **Veem Ltd and Coventry Group Ltd.**
- HCF deployed capital in the June quarter, with a closing cash weighting of 8.8% as at 30 June 2024 – the lowest level since IPO.
- Post-tax NTA per share of **$1.042** (before dividend) as at 30 June 2024, compared to **$1.030** as at 30 June 2023.
- We observed renewed interest in microcap equities, driven by recent takeovers and increased investor confidence.

### Value of $10,000 invested since IPO as at 30 June 2024




* If $10,000 was invested at IPO in Oct 2022, and if dividends were re-invested at post tax NTA over the period, the value of the investment at 30 June 2024 would be $11,503. Past performance is no guarantee of future returns.

# COMMENTARY – FINANCIAL YEAR 2024

For the 2024 financial year, HCF delivered a disappointing return of 5.2%, compared to the ASX Small Ordinaries Accumulation Index return of 9.3%, underperforming by 4.1%. Whilst we acknowledge it is a poor result, this is also characteristic of the potential short-term volatility in select investments associated with HCF's strategy of a concentrated portfolio of micro and small caps equities. An overweight cash position throughout the year (average cash weighting 18%) also weighed on relative and absolute performance.

Our strategic approach to portfolio management and a keen focus on high-conviction investments are expected to yield sound results in the long term despite market volatility. Following the profitable realisation of some holdings and reinvestment into existing and new holdings, we ended FY24 with an 8.8% cash weighting. Portfolio cash position was the lowest level since HCF listed on the ASX. Following are more detailed insights on the key contributors and detractors for the year.

## Post tax performance as at 30 June 2024

| | 1 month | 3 months | 6 months | 12 months | Since IPO** |
|---|---|---|---|---|---|
| *HCF total portfolio return** | *-0.6%* | *-1.0%* | *-0.8%* | *5.2%* | *8.8%* |
| ASX Small Ordinaries Accumulation Index | -1.4% | -4.5% | 2.8% | 9.3% | 7.0% |
| ***Over / (Under) Performance*** | ***0.8%*** | ***3.5%*** | ***-3.6%*** | ***-4.1%*** | ***1.8%*** |

* HCF total portfolio return (TPR) combines the change in value of the post-tax NTA per share with dividends reinvested. Above TPR calculations do not take into account franking credits which may be of benefit to certain shareholders. Past performance is no guarantee of future returns.

** Measurement date from 31 October 2022.

## Noteworthy contributors and detractors for FY24:

For the full year, the following investments were notable contributors:

**VEEM Ltd (ASX: VEE +128%):** VEEM, a manufacturer of high-technology marine propulsion and stabilisation systems, was a very strong performer, driven by increased demand for its innovative products and the new Sharrow propeller opportunity. See more details on VEE in the "New High Conviction Holdings" section.

**Cirrus Networks Holdings Ltd (ASX: CNW +79%):** Our investment in Cirrus Networks, a managed service and IT solutions provider, paid off well after it was taken over by peer ASX-listed IT solutions business Atturra Ltd (ASX: ATA).

**Playside Studios Ltd (ASX: PLY +125%):** An independent video game development studio that delivered two revenue upgrades over FY24, whilst building out a rich pipeline of new games expected to launch in FY25.

For the full year, the following investments were notable detractors:

**Po Valley Ltd (ASX: PVE -46%):** long held position Po Valley, a relatively illiquid small cap Northern Italian gas producer, was the HCF's largest detractor. PVE's share price tends to be driven by sentiment around global oil and gas prices as opposed to its fundamentals. Energy prices are influenced by macro geopolitical issues beyond management's control. Importantly, the current share price is supported by cash flows from PVE's producing PM-1 well. While PVE has a strong balance sheet and generates good cash flow, its next leg of growth requires successful execution of development of wells to drive gas production over the next 18 months.

**Anagenics Ltd (ASX: AN1 -52%):** Wellness & Beauty play appointed a new CEO to drive scale and improve the range of products. The new management team was active in cost-cutting and new sales initiatives to target business break-even in the near-term.

**Kiland Ltd (ASX: KIL -13%):** Owner of 18,600 Ha of prime agricultural land and Biochar carbon removal project on Kangaroo Island, privatised during the year. We decided to exit the HCF's long-held position in December 2023.

Our investment process has demonstrated resilience and adaptability. While some positions underperformed, our high-conviction strategy and thorough research process have largely been validated.

We acknowledge areas for improvement and remain committed to refining our approach. A summary and reminder of HCF's investment philosophy follows.

## HCF'S INVESTMENT PHILOSOPHY

H&G High Conviction Limited (HCF) invests on a multi-year horizon in a concentrated portfolio of ASX-listed microcap companies, a niche segment of the market.

Microcaps are overlooked by most institutions due to size, meaning frequent inefficiencies in security prices and opportunities to buy stakes in businesses at attractive valuations.

By maintaining unwavering discipline in acquiring undervalued companies with aligned management, HCF aims for double-digit risk-adjusted returns over the market cycle.

As a key differentiator, HCF actively engages with investee companies. This is crucial for microcaps, where success is heavily reliant on a small group of key people.

HCF leverages this strategic approach to help unlock the full value of management teams and core assets.

HCF's primary goals are to minimise capital loss and focus on long-term capital growth and income from portfolio companies.

Over the year, HCF added two new high conviction investments, Veem Ltd and Coventry Group Ltd, which fit our disciplined approach to investing. Further details are given below.

### Veem Limited

(ASX: VEE)

Veem Limited (VEEM) is a global leader in designing and manufacturing precision high-technology marine propulsion and stabilisation systems, serving the luxury motor yacht, fast ferry, commercial workboat, and defence industries. VEEM was founded by the Miocevich Family in 1968 and today they continue to own 50.2% of VEEM. We like investing in family-led businesses with strong aligned interests.

VEEM's standout HCF contribution over FY24, was a function of management's strong execution in the existing core divisions, Marine Stabilisers and Propulsion. Additionally, VEEM inked a global licensing agreement with US-based Sharrow Engineering to manufacture and sell a collaborative high-end propeller, branded "Sharrow by VEEM ". Together, the businesses will create a ground-breaking, cutting-edge line of Sharrow by VEEM propellers that are significantly quieter and more fuel-efficient than any inboard propeller now available. The new propeller's green credentials and fuel savings are a compelling value proposition for customers, which we expect to

*Sharrow by Veem propeller.*
*Source: Veem Ltd*

drive strong market penetration in an addressable market of US$2.6bn.

We value the core Stabilisation & Propulsion business of VEEM at $1.50+, with ~$2.00 of latent value in the Sharrow by VEEM opportunity. We expect the Sharrow valuation to be reflected in the VEEM share price upon evidence of sales traction and respective profitability. We think that VEEM has the potential to double over the next few years if our thesis plays out.

## Coventry Group Ltd

(ASX: CYG)

Coventry Group Ltd, founded in 1929, primarily engages in the distribution of industrial products in Australia and New Zealand. The Trade Distribution segment imports, distributes, and markets fasteners. The Fluids Systems segment designs and installs lubrication systems. CYG underwent a management and board restructure in 2017. We like the new team and understand it takes time to right a business. We believe CYG is at a key inflection point, where shareholders will benefit from positive operating momentum in the business.

The key to our investment thesis is based on margin expansion in the Australian Fastener division, Konnect Australia, via efficiencies, scale, and accretive acquisitions. Konnect currently has 42 locations in ANZ versus 100 branches at its peak. CYG management has publicly stated an EBITDA margin target of 10% in three years, which equates to 100% upside from FY24 earnings.

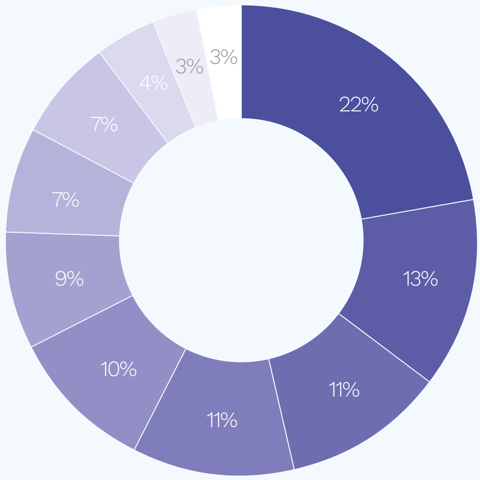
Konnect Australia Branch – Fastener store.
*Source: Coventry Group Ltd*


The business model demonstrates a high ROIC & strong cash generation. Coventry commands only ~7% market share in ANZ today and is well placed to drive organic growth and M&A in a fragmented ~$4Bn Fastener and ~$3Bn Fluids market.

On our numbers, CYG is trading on an undemanding EV/EBITDA multiple of ~5x FY26. We think that CYG share price has the potential to double.

### Exposures as % of equities at 30 June 2024

| | |
|---|---|
| Industrials | 22% |
| Financial Services | 13% |
| Real Estate | 11% |
| Information Technology | 11% |
| Healthcare | 10% |
| Cash | 9% |
| Energy | 7% |
| Media & Entertainment | 7% |
| Commercial Services | 4% |
| Building | 3% |
| Travel | 3% |




## OUTLOOK

The macroeconomic environment for small-cap investing has shown signs of improvement, with expectations of interest rate cuts providing a supportive backdrop. The equity capital markets are stabilising, evidenced by recent IPOs such as Guzman and Gomez Ltd (ASX: GYG) and Tasmea Ltd (ASX: TEA), indicating renewed investor interest.

We are identifying opportunities with intrinsic value discounts and plan to continue to invest our cash balance in these prospects over the coming months. We will maintain discipline by focusing on enterprises with clear catalysts for driving shareholder returns.

# Directors' Report

**The directors submit the financial report of the Company for the year ended 30 June 2024.**

## REVIEW OF OPERATIONS

The directors of listed investment company H&G High Conviction Limited (ASX: HCF) (HCF or the Company) are pleased to present the Company's financial report for the financial year ended June 2024.

### Principal Activity

HCF's principal activity is investing in a concentrated portfolio of ASX-listed micro capitalisation companies (defined as less than $300 million market capitalisation). HCF invests in and actively engages with companies that it considers have superior fundamental prospects but are priced by the market at a discount relative to perceived inherent value. HCF's primary goals are to generate long-term double-digit per annum returns while minimising capital loss. No change in this activity took place during the year or is likely to change in the future.

### Operating and financial review

The 2024 financial year presented substantial challenges for microcap equity investing. HCF delivered a return of 5.2%, compared to the ASX Small Ordinaries Accumulation Index return of 9.3%, underperforming by a disappointing 4.1%. Whilst we acknowledge it is a poor result, this is also characteristic of the potential short-term volatility in select investments associated with HCF' s strategy of a concentrated portfolio of microcap equities.

HCF made a net profit after tax of $1,299,886. Basic and diluted earnings per share after tax was 5.2 cents. The main drivers of this were a $1,425,314 realised gain on investments and $218,851 unrealised gain on investments, offset by operating costs of $903,582. The major contributors to the $1,425,314 realised gain were the sale of shares in Cirrus Networks Holdings Limited (ASX: CNW), Playside Studios (ASX:PLY) and Connexion Mobility (ASX: CXZ).

CNW received a takeover bid in October 2023 at a 54% premium to its last price on 8 September 2023 prior to multiple bids.

The major contributors to the $218,851 unrealised gain were Veem Limited (ASX: VEE) and Connexion Mobility Limited (ASX: CXZ), which increased in share price by 128% and 40% respectively over the period.

The main detractors to the FY24 performance were holdings in Kiland Ltd (KIL) that HCF exited prior to privatisation & Complii Fintech (ASX: CF1)

HCF's Net Tangible Asset (NTA) backing per share, as at 30 June 2024, was as follows:

- **NTA per share after all taxes – $1.042**
- **NTA per share before deferred tax on unrealised gains – $1.073**

HCF ended the year with $2,474,943 in cash (8.8% weighting on total assets – the lowest cash level since HCF IPO).

Performance fees paid to the Manager for the year ended 30 June 2024 was $358,405, which was attributed to the first half of the year. Underperformance in the second half needs to be recouped before any future performance fees can be paid to the Manager.

## DIVIDENDS

A final fully franked dividend of 2.0 cents per share has been declared by the board and will be paid on 4 October 2024.

As stated in HCF's prospectus, the Company intends to pay dividends where and when available from dividends received from underlying portfolio companies and a portion of realised profits from the sale of securities.

## OUTLOOK

Please refer to the Investment Manager's Report for commentary on the outlook.

## BOARD OF DIRECTORS AND COMPANY SECRETARY

The names of each person who has been a director during the financial year and to the date of this report are:

### David Groves

**Non-Executive Chairman** (appointed 26 August 2022)

**Qualifications:** David has a Bachelor of Commerce from the University of Wollongong and a Master of Commerce from the University of New South Wales, and is a member of the Institute of Chartered Accountants Australia and New Zealand.

**Experience:** David has over 25 years' experience as a company director. He is Chairman of Pengana Capital Group Limited (ASX: PCG) and is a Non-Executive Director of Pengana International Equities Limited (ASX: PIA) and MA Redcape Hotel Fund RE Ltd as responsible entity of the MA Redcape Hotel Fund. David is also a member of the Audit and Risk Committee for Pengana Capital Group Limited and Pengana International Equities Limited. He is a member of the Council of the University of Wollongong. He is a former director of EQT Holdings Ltd, Tassal Group Ltd and GrainCorp Ltd and a former executive with Macquarie Bank Limited and its antecedent, Hill Samuel Australia.

### Nicholas (Nick) Atkinson

**Executive Director** (appointed 8 June 2022)

**Qualifications:** Nick has a Master of Business Administration (MBA) from Macquarie Graduate School of Management, a Bachelor of Commerce from the University of Queensland, and a Graduate Diploma in Applied Investment and Finance from FINSIA.

**Experience:** Nick has over 30 years' equity capital markets experience, that spans trading, research, sales, corporate finance and investment management. Nick has specialty expertise in the Energy, Healthcare/Life Sciences and Small Capitalisation sectors, garnered from working both in Australia as well as offshore in London and New York.

Nick has been an executive at Hancock & Gore since June 2021. Nick was also appointed as the Portfolio Manager for the Investment Manager, H&G Investment Management Ltd with effect from 30 April 2024. Prior to joining Hancock & Gore, Nick spent 14 years at Morgans Financial Limited, where he was Executive Director of Institutional Equities. Nick oversaw rapid growth of the division's profitability over a 10+year period.

### Joseph Constable

**Executive Director** (8 June 2022 to 22 July 2024)

**Qualifications:** Joseph has a Master of History from the University of Oxford and a Bachelor of Arts (Honours) from the University of Melbourne. He is a Graduate of the Australian Institute of Company Directors.

**Experience:** Joseph has worked in funds management since 2014 and has experience with UK-based Smith and Williamson and Hunter Hall International. Since 2016, he has worked at Supervised Investments Australia Limited, which was acquired by Hancock & Gore Limited and subsequently rebranded as H&G Investment Management Ltd.

Joseph resigned as a director of HCF with effect from 22 July 2024. Joseph also resigned as a director of Hancock & Gore Limited (ASX: HNG) and the Portfolio Manager of the investment manager, H&G Investment Management Ltd effective 30 April 2024. He is a Director of Po Valley Energy Limited (ASX: PVE).

## Dennison Hambling

**Non- Executive Director** (appointed 27 February 2024)

**Qualifications:** Dennison holds a Master of Commerce (Honours) in Economics from the University of Auckland and is a CFA Charterholder.

**Experience:** Dennison has over 24 years of investment experience. He was the Chief Investment Officer of First Samuel for 12 years (until 2019), then the head of Public and Private Equity at 360 Capital Group (2019-2021). Prior to First Samuel, he worked at Cooper Investors as a Portfolio Manager. Dennison is currently the Managing Director of Intelligent Monitoring Group (IMB:ASX) and currently serves as Non-Executive Director of several private companies in a board advisory capacity.

## Nishantha Seneviratne

**Company Secretary** (appointed 12 February 2024)

**Qualifications:** Nishantha has a Master of Business Administration and is a fellow member of CPA (Australia), Governance Institute of Australia (GIA) and Institute of Chartered Secretaries and Administrators (ICSA).

Nishantha was appointed the joint Company Secretary in February 2024 and became the sole Company Secretary with effect from 25 March 2024 with the resignation of Max Crowley, the previous Company Secretary. He is the Chief Financial Officer and Company Secretary of Hancock & Gore Limited (ASX: HNG). He has over 19 years of senior managerial experience in diverse industries with 13+ years in ASX listed investment companies.

He was the former Chief Financial Officer and Company Secretary of Milton Corporation Limited (between 2012–2022).

## Max Crowley

**Company Secretary** (from 19 May 2023 to 25 March 2024)

Max Crowley is an experienced corporate lawyer and company secretary. He was a member of the Automic Group's corporate company secretarial services team. Max resigned as Company Secretary with effect from 25 March 2024.

# DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of HCF during the financial year are shown below.

### Directors Meetings

| Director | Meetings Held | Meetings Attended |
|---|---|---|
| David Groves | 7 | 7 |
| Nicholas Atkinson | 7 | 7 |
| Joseph Constable* | 7 | 7 |
| Dennison Hambling** | 2 | 2 |

* Joseph resigned with effect from 22 July 2024.

** Dennison Hambling was appointed on 27 February 2024.

# DIRECTORS' RELEVANT INTERESTS

No director has or has had any interest in a contract entered into since the last Directors' Report or any contract or proposed contract with HCF or any subsidiary or any related entity other than as disclosed in note 20 to the financial statements.

| Director | Number of Shares Held |
|---|---|
| David Groves | 98,835 |
| Nicholas Atkinson | 75,869 |
| Joseph Constable | 89,890 |
| Dennison Hambling | 39,886 |

## INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

Neither HCF nor any related entity has indemnified or agreed to indemnify, paid or agreed to pay any insurance premium which would be prohibited under Section 199A or Section 199B of the *Corporations Act 2001* during or since the financial year ended 30 June 2024.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability and legal expenses insurance contracts as such disclosure is prohibited under the terms of the contracts.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of HCF during the past financial year other than as disclosed in the financial statements.

## EVENTS SUBSEQUENT TO REPORTING DATE

Apart from the information contained in note 24 to the financial statements, no matter or circumstance has arisen since the end of the financial year that has affected or may significantly affect the operations, results or state of affairs of HCF in subsequent financial years.

## LIKELY DEVELOPMENTS

HCF will continue its investment activities consistent with its objective of generating long-term double-digit per annum returns while minimising capital loss.

The performance of HCF is subject to and influenced by many external factors and therefore it is not appropriate to predict the future results of the investments and HCF's performance.

## ENVIRONMENTAL REGULATIONS

There are no significant environmental regulations that apply directly to HCF.

## NON-AUDIT SERVICES

During the year, UHY Haines Norton, HCF's auditor, has performed certain non-audit services in addition to its statutory duties. Details of the amounts paid to the auditors and related practices of the auditor are disclosed in note 21 to the financial statements.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by HCF and have been reviewed and approved by the Board of Directors to ensure they do not impact on the integrity and objectivity of the auditor, and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement *APES110 Code of Ethics for Professional Accountants (including Independence Standards),* as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for HCF, acting as an advocate for HCF or jointly sharing risks and rewards.

The auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 12.

# Remuneration Report

This report, which is audited, details the policy for determining the remuneration of directors and executives and provides specific details of their remuneration.

## REMUNERATION OF NON-EXECUTIVE DIRECTORS

Non-executive directors are paid base fees and superannuation contributions.

Fees are not linked to HCF's performance, and no bonuses are paid, or options issued.

Each year directors' fees are determined by the board of directors who take into account the demands made on directors and the remuneration of non-executive directors of comparable Australian companies.

In accordance with the Constitution, the Directors as a whole (other than any Executive Directors) may be provided with remuneration for their services, the total amount of which must not exceed the maximum amount determined from time to time by the Company in a general meeting.

The Company's non-executive Directors are entitled to, at present, aggregate director fees up to $125,000 per annum.

Directors' fees paid and accrued during the year ended 30 June 2024 are shown in the table below.

| | **Salary fees** $ | **Super-annuation** $ | **Total** $ |
|---|---|---|---|
| **30 June 2024** | | | |
| DIRECTORS | | | |
| David Groves | 39,185 | 995 | 40,180 |
| Dennison Hambling* | 12,498 | 1,312 | 13,810 |
| Total directors | 51,683 | 2,307 | 53,990 |

** Joined 27 February 2024*

| | **Salary fees** $ | **Super-annuation** $ | **Total** $ |
|---|---|---|---|
| **30 June 2023** | | | |
| DIRECTORS | | | |
| David Groves | 30,750 | 3,228 | 33,978 |
| Total directors | 30,750 | 3,228 | 33,978 |

Additional remuneration may be paid in accordance with the Constitution, which permits the Board to remunerate Directors for any special or extra services for or at the request of the Company (for example, executive tasks outside the scope of the Management Agreement). The Board will only exercise its discretion after compliance with applicable laws relating to directors' duties and the provision of financial benefits to related parties and, where appropriate, conflict management protocols.

## DIRECTOR RELATED ENTITIES REMUNERATION

HCF has an investment management agreement with H&G Investment Management Limited (HGIM) which has been appointed to manage the investment portfolio of HCF. Nicholas Atkinson who is an executive director of HCF is also an executive director of the investment management entity HGIM.

The Manager, HGIM is entitled to be paid a management fee equal to 1.0% (plus GST) per annum of the value of the Company's Gross Portfolio Value, which is calculated on the last business day of each calendar month and paid monthly in arrears within five business days of the end of each calendar month. Gross Portfolio Value means, on any given date, the net asset value of the Company excluding any Performance Fee or Tax liabilities. Management fees paid and payable to the Manager for the year ended 30 June 2024 total $286,859.

In addition, the Manager is entitled to be paid a performance fee equal to 20.0% (plus GST) of the amount by which the return of the Company exceeds a hurdle return of 5.0% per annum. The return of the Company means an amount expressed in dollars which is equal to the accumulated profit before tax of the Company since the Highwater Mark Date. The Highwater Mark Date means the end of the last period where a Performance Fee has been paid. Any Performance Fee accrues on the Performance Testing Date, which is each 31 December and each 30 June, and is payable within five business days.

Performance fees paid to the Manager for the year ended 30 June 2024 total $358,405.

## REMUNERATION OF EXECUTIVES

There are no executives that are paid by the Company. All day-to-day management of the Company is carried out by H&G Investment Management Limited (HGIM), which is remunerated as per the investment management agreement outlined above.

## SHARE HOLDINGS OF DIRECTORS AND THEIR RELATED PARTIES

Number of shares held

| **Directors** | **Year** | **Opening Balance** Shares | **Acquisitions** Shares | **Disposals** Shares | **Closing Balance** Shares |
|---|---|---|---|---|---|
| Constable, Joseph | 2024 | 89.890 | – | – | 89,890 |
| Atkinson, Nicholas | 2024 | 75,869 | – | – | 75,869 |
| Groves, David | 2024 | 48,835 | 50,000 | – | 98,835 |
| Hambling, Dennison | 2024 | – | 39,886 | – | 39,886 |

**End of Audited Remuneration Report.**

Signed in accordance with a resolution of the directors.

**David Groves**

**Chairman**

26 August 2024

UHY Haines Norton
Chartered Accountants

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# Auditors' Independence Declaration

## Under Section 307C of the *Corporations Act 2001*

**To the Directors of H&G High Conviction Limited**

I declare that, to the best of my knowledge and belief, in relation to the audit for the year ended 30 June 2024, there have been:

(i) No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) No contraventions of any applicable code of professional conduct in relation to the audit.

Mark Nicholaeff
**Partner**

UHY Haines Norton
**Chartered Accountants**

Sydney
Dated: 26 August 2024



Passion beyond numbers

# Financial Statements

For the year ended 30 June 2024

# Statement of Profit or Loss and Other Comprehensive Income

## For the year ended 30 June 2024

| | Note | 30 June 2024 $ | 13 months 30 June 2023 $ |
|---|---|---|---|
| Dividends Received | | 702,655 | 206,868 |
| Fair value gains on financial instruments at fair value through profit and loss | 4 | 1,644,165 | 2,755,545 |
| Other income | 4 | 231,627 | 218,796 |
| **Income from Ordinary Activities** | | 2,578,447 | 3,181,209 |
| Performance fees expense | | (358,405) | (336,883) |
| Management expense | | (286,589) | (244,773) |
| Professional fees expense | | (55,439) | (17,981) |
| Directors' fees | | (53,990) | (33,978) |
| Other expenses | | (149,159) | (161,465) |
| **Operating Expenses** | | (903,582) | (795,080) |
| **Profit before income tax** | | 1,674,865 | 2,386,129 |
| Income tax expense | 5 | (374,979) | (665,782) |
| **Profit after income tax for the period** | | 1,299,886 | 1,720,347 |
| Other comprehensive income | | – | – |
| **Total comprehensive income for the period** | | 1,299,886 | 1,720,347 |

| | Note | 30 June 2024 Cents | 13 months 30 June 2023 Cents |
|---|---|---|---|
| **Earnings per share for profit attributable to the shareholders of H&G High Conviction Limited** | | | |
| Basic and diluted earnings per share | 6 | 5.2 | 8.6 |

# Statement of Financial Position

## As at 30 June 2024

| | Note | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|---|
| **Assets** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 7 | 2,474,943 | 5,941,036 |
| Trade and other receivables | 8 | 152,611 | 59,125 |
| Financial assets held at fair value through profit and loss | 9 | 25,050,810 | 21,890,683 |
| Other assets | 10 | 469,977 | 18,235 |
| **Total current assets** | | 28,148,341 | 27,909,079 |
| NON CURRENT ASSETS | | | |
| Deferred tax asset | 12 | 16,926 | 26,327 |
| **Total non current assets** | | 16,926 | 26,327 |
| **Total assets** | | 28,165,267 | 27,935,406 |
| **Liabilities** | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 14 | 246,042 | 341,750 |
| Income tax payable | 11 | 1,016,256 | 350,897 |
| **Total current liabilities** | | 1,262,298 | 692,647 |
| NON CURRENT LIABILITIES | | | |
| Deferred tax liability | 13 | 792,526 | 1,429,825 |
| **Total non current liabilities** | | 792,526 | 1,429,825 |
| **Total liabilities** | | 2,054,824 | 2,122,472 |
| **Net assets** | | 26,110,443 | 25,812,934 |
| **Equity** | | | |
| Issued capital | 15 | 24,540,935 | 24,540,935 |
| Retained earnings | | 1,569,508 | 1,271,999 |
| **Total equity** | | 26,110,443 | 25,812,934 |

# Statement of Changes in Equity

For the year ended 30 June 2024

| | Issued Capital $ | Retained Earnings $ | Total Equity $ |
|---|---|---|---|
| **Balance at 30 June 2023** | 24,540,935 | 1,271,999 | 25,812,934 |
| Profit | - | 1,299,886 | 1,299,886 |
| Other comprehensive income | - | - | - |
| Total comprehensive income | - | 1,299,886 | 1,299,886 |
| Share Issues | - | - | - |
| Dividends Paid | - | (1,002,377) | (1,002,376) |
| **Balance at 30 June 2024** | 24,540,935 | 1,569,508 | 26,110,443 |

| | Issued Capital $ | Retained Earnings $ | Total Equity $ |
|---|---|---|---|
| **Balance on incorporation** | | | |
| Profit | – | 1,720,347 | 1,720,347 |
| Other comprehensive income | – | – | – |
| Total comprehensive income | – | 1,720,347 | 1,720,347 |
| Shares issued at inception | 16,226,333 | – | 16,226,333 |
| Shares issued in IPO | 5,200,000 | – | 5,200,000 |
| Subsequent Share Issues | 3,114,602 | – | 3,114,602 |
| Dividends Paid | – | (448,348) | (448,348) |
| **Balance at 30 June 2023** | 24,540,935 | 1,271,999 | 25,812,934 |

# Statement of Cash Flows

## For the year ended 30 June 2024

| | Note | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Dividends received | | 701,056 | 206,868 |
| Interest received | | 225,509 | 205,426 |
| Other revenue | | 6118 | 12,679 |
| Management fees | | (286,589) | (218,851) |
| Performance fees | | (513,314) | (181,974) |
| Income tax paid | | (335,918) | (5,646) |
| Other operating expenses | | (292,873) | (111,630) |
| **Net cash (outflow) from operating activities** | 23 | (496,011) | (93,128) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchase of investments | | (17,751,888) | (14,863,359) |
| Sale of investments | | 15,784,183 | 10,211,950 |
| **Net cash (outflow) from investing activities** | | (1,967,705) | (4,651,409) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Issued shares | | – | 11,133,921 |
| Ordinary dividends paid | | (1,002,377) | (448,348) |
| **Net cash (outflow) inflow from financing activities** | | (1,002,377) | 10,685,573 |
| Net (decrease) increase in cash and cash equivalents | | (3,466,093) | 5,941,036 |
| Cash and cash equivalents at the beginning of the period | | 5,941,036 | – |
| **Cash and cash equivalents at end of financial year** | 7 | 2,474,943 | 5,941,036 |

# Notes to the Financial Statements

## For the year ended 30 June 2024

## 1 BASIS OF PREPARATION

The financial report covers H&G High Conviction Limited as an individual entity. H&G High Conviction Limited is a for profit Company limited by shares, incorporated and domiciled in Australia.

The principal activities of the Company for the year ended 30 June 2024 include investment in ASX-listed micro-capitalisation companies

These financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001,* as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

The financial statements have been prepared on an accruals basis and are based on historical costs modified, where applicable, by the measurement at fair value of financial assets.

**New and amended standards adopted:**

There are no other new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2023 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

**New and amended standards not adopted:**

New standards, amendments to standards and interpretations that are effective for annual periods beginning on or after 1 January 2024 have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of HCF.

Significant accounting policies adopted in the preparation of these financial statements are presented below.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## (a) Fair value gains on financial instruments at fair value through profit and loss and other income

**Fair value gains on financial instruments at fair value through profit and loss**

The Company has been classified under AASB 10 as an Investment Entity whose business purpose is to invest funds solely for returns via capital appreciation and/or investment returns. As the Company has been classified as an Investment Entity, the portfolio investments have been accounted for at fair value through profit and loss and shown as Financial Assets in the Statement of Financial Position.

Investments held at fair value through profit and loss are initially recognised at cost. Transaction costs related to acquisitions are expensed to profit and loss immediately. Subsequent to initial recognition, all financial instruments held at fair value are accounted for at fair value, with changes to such values recognised in the profit and loss. Fair value is the price the Company would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market based measure, the closest equivalent observable market pricing information is used to determine fair value Level 1 in the fair value hierarchy. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability, The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

Financial assets are de-recognised when the rights to receive cash flows have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

**Other income**

Other income is recognised on an accruals basis when the Company is entitled to it.

## (b) Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted for each jurisdiction.

Deferred tax assets and liabilities are recognised for differences between the purchase price and tax cost base of assets and liabilities acquired in asset swap arrangements. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred income tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences except when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The Company offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

## (c) Goods and services tax (GST)

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

Cash flows in the statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

## (d) Financial instruments

Financial instruments are recognised initially on the date that the Company becomes party to the contractual provisions of the instrument.

On initial recognition, all financial instruments are measured at fair value plus transaction costs (except for instruments measured at fair value through profit or loss where transaction costs are expensed as incurred).

**Financial assets**

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

*Classification*

On initial recognition, the Company classifies its financial assets into the following categories, those measured at:

- amortised cost
- fair value through profit or loss – FVTPL

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets.

*Amortised cost*

The Company's financial assets measured at amortised cost comprise trade and other receivables and cash and cash equivalents in the statement of financial position.

**Financial liabilities**

The Company measures all financial liabilities initially at fair value less transaction costs, subsequently financial liabilities are measured at amortised cost using the effective interest rate method.

## (e) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and other short term, highly liquid financial instruments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

## (f) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options which vest immediately are recognised as a deduction from equity, net of any tax effects.

# 3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

There are no key assumptions or sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

# 4 FAIR VALUE GAINS ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS AND OTHER INCOME

## (a) Fair value gains on financial instruments at fair value through profit and loss

| | 30 June 2024 $ | 13 months 30 June 2023 $ |
|---|---|---|
| Realised gain on disposal of investments | 1,425,314 | 911,460 |
| Unrealised gains on revaluation of investments | 218,851 | 1,844,085 |
| | 1,644,165 | 2,755,545 |

## (b) Other revenue

| | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|
| Interest income | 225,509 | 206,117 |
| Other Revenue | 6,118 | 12,679 |
| | 231,627 | 218,796 |

# 5 INCOME TAX EXPENSE

| | 30 June 2024 $ | 13 months 30 June 2023 $ |
|---|---|---|
| Current tax on profits for the year | 665,359 | 350,897 |
| Income tax paid | 335,918 | – |
| Other differences | 1,599 | 6,338 |
| Deferred tax – origination and reversal of temporary differences | (627,897) | 308,547 |
| Aggregate income tax expense | 374,979 | 665,782 |
| Deferred tax included in income tax expense comprises: | | |
| Decrease (increase) in deferred tax assets (note 12) | 9,401 | (26,327) |
| (Decrease) increase in deferred tax liabilities (note 13) | (637,298) | 334,874 |
| Deferred tax – origination and (reversal) of temporary differences | (627,897) | 308,547 |
| **Numerical reconciliation of income tax expense and tax at the statutory rate** | | |
| Profit before income tax expense | 1,674,865 | 2,386,129 |
| Tax at the statutory tax rate of 30% | 502,460 | 715,839 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Tax offset for franked dividends | (127,480) | (50,057) |
| Income tax expense | 374,979 | 665,782 |
| Effective Tax Rate | 22.4% | 27.9% |

## 6 EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing the profit for the period attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the period. For the current period diluted EPS is the same as basic EPS.

| | **30 June 2024** $ | **13 months 30 June 2023** $ |
|---|---|---|
| Profit after income tax attributable to the shareholders of H&G High Conviction Limited | 1,299,886 | 1,720,347 |

The basic earnings per share for the reporting period were as follows:

| | Cents | Cents |
|---|---|---|
| Basic and diluted earnings per share | 5.2 | 8.6 |
| Weighted average number of ordinary shares used in calculating basic and diluted earnings per share | 25,059,428 | 20,085,414 |

## 7 CASH AND CASH EQUIVALENTS

| | **30 June 2024** $ | **30 June 2023** $ |
|---|---|---|
| Cash at bank and in hand | 2,474,943 | 1,405,568 |
| Cash equivalent ETF | – | 4,535,468 |
| | 2,474,943 | 5,941,036 |

## 8 TRADE AND OTHER RECEIVABLES

| | **30 June 2024** $ | **30 June 2023** $ |
|---|---|---|
| **CURRENT** | | |
| Account Receivable | 152,559 | 40,012 |
| Prepayments | – | 19,063 |
| Other Receivable | 52 | 50 |
| | 152,611 | 59,125 |

## 9 FINANCIAL ASSETS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

| | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|
| **CURRENT** | | |
| Investment in listed entities | 25,050,810 | 21,890,683 |
| | 25,050,810 | 21,890,683 |

| | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|
| **Fair value hierarchy** | | |
| Level 1 (Fair value measurement using Quoted prices in active markets) | 25,050,810 | 21,890,683 |
| Level 2 (Significant observable inputs) | – | – |
| Level 3 (Significant unobservable inputs) | – | – |
| | 25,050,810 | 21,890,683 |

There were no transfers between levels during the reporting period.

**Level 1** instruments comprise securities quoted on the ASX where values are based on quoted market prices.

**Level 2** instruments comprise securities yet to be quoted on the ASX where values are determined based on significant observable inputs.

**Level 3** instruments include certain private equity type investments of which valuations are not based on market inputs or securities valued using models and internal data. Investments may be adjusted to reflect illiquidity.

Investments are currently held at fair value via a mark to market valuation approach.

As per AASB13, the fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1), and the lowest priority to unobservable inputs (Level 3).

As fair value is a market based measure, the closest equivalent observable market pricing information is used to determine fair value of all assets held – Level 1 in the fair value hierarchy. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability.

## 10 OTHER ASSETS

| | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|
| Options | 469,977 | 18,235 |

Includes listed options amounting to $462,789 and index futures options amounting to $7,182 as at 30 June 2024 (2023: Index Futures Options amounted to $18,235).

## 11 INCOME TAX PAYABLE

| | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|
| **Balance at beginning of the year** | 350,897 | – |
| Other adjustments | (1,599) | (6,338) |
| Income tax paid | (335,918) | – |
| Current year income tax on operating profit | 374,979 | 665,782 |
| Transferred from (to) deferred tax | 627,897 | (308,547) |
| **Balance at year end** | **1,016,256** | **350,897** |

## 12 DEFERRED TAX ASSETS

| | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|
| **Deferred tax asset comprises temporary differences attributable to:** | | |
| Amounts recognised in profit or loss: | | |
| Accruals | 13,538 | 20,681 |
| Amounts recognised in equity: | | |
| Transaction costs on share issue | 3,388 | 5,646 |
| Deferred tax asset | 16,926 | 26,327 |
| **Movements:** | | |
| Opening balance | 26,327 | – |
| (Charged) credited to profit or loss | (9,401) | 20,681 |
| Credited to equity | – | 5,646 |
| Closing balance | 16,926 | 26,327 |

## 13 DEFERRED TAX LIABILITIES

| | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|
| **Deferred tax liability comprises temporary differences attributable to:** | | |
| Amounts recognised in profit or loss: | | |
| Revaluation of investment at fair value through profit or loss | 792,526 | 334,875 |
| Deferred tax recognised at inception | – | 1,094,950 |
| Deferred tax liability | 792,526 | 1,429,825 |
| **Movements:** | | |
| Opening balance | 1,429,825 | – |
| (Credited) charged to profit or loss | (637,299) | 334,875 |
| Additions through business combinations | – | 1,094.950 |
| Closing balance | 792,526 | 1,429,825 |

## 14 TRADE AND OTHER PAYABLES

| | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|
| Trade payables | 186,222 | 113,062 |
| Accrued expenses | 58,936 | 72,701 |
| Performance Fees payable | – | 154,909 |
| Other payables | 884 | 1,078 |
| | 246,042 | 341,750 |

## 15 ISSUED CAPITAL

| | 30 June 2024 No of Shares | 30 June 2024 $ | 30 June 2023 No of Shares | 30 June 2023 $ |
|---|---|---|---|---|
| Ordinary shares issued at Company inception | **25,059,428** | **24,540,935** | 16,768,037 | 16,226,333 |
| Shares issued in IPO | **–** | **–** | 5,290,467 | 5,200,000 |
| Subsequent share issues | **–** | **–** | 3,000,924 | 3,114,602 |
| Ordinary fully paid ordinary shares closing balance | **25,059,428** | **24,540,935** | 25,059,428 | 24,540,935 |

### Ordinary shares

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

No new shares were issued during the year ended 30 June 2024.

In June 2022, the Company issued 16,768,037 fully paid ordinary shares valued at $16,226,333 in consideration for cash and an equity portfolio.

On 25 October 2022, HCF issued 5,290,467 fully paid ordinary shares and raised $5,200,000 through its initial public offering at an issue price of $0.9829 per share.

On 7 March 2023, HCF issued 358,830 fully paid ordinary shares at an issue price of $1.059 per share totaling $380,000 as consideration for acquisition of 20 million shares in Connexion Telematics Limited (ASX:CXZ).

On 10 May 2023, HCF issued 2,642,094 fully paid ordinary shares at an issue price of $1.04 per share to sophisticated and professional investors and raised $2,734,602 net of acquisition costs.

All capital consists of fully paid ordinary shares which are listed on the ASX.

## 16 DIVIDENDS

### a) Recognised in the current year

| | 2024<br>$ | 2023<br>$ |
|---|---|---|
| Interim ordinary franked dividend paid for the half year ended 31 December 2023 of 2 cents per share on 25 March 2024<br>(2023: Interim ordinary unfranked dividend paid for the half year ended 31 December 2022 of 2 cents per share on 24 March 2023) | 501,189 | 448,348 |
| | 501,189 | 448,348 |

### b) Not recognised in the current year

| | 2024<br>$ | 2023<br>$ |
|---|---|---|
| Since the end of the financial year, the directors have declared a fully franked final dividend in respect of the 2024 financial year of 2.0 cents per share payable on 4 October 2024<br>(2023: Directors declared a fully franked final dividend in respect of the 2023 financial year of 2 cents per share paid on 6 October 2023) | 501,189 | 501,189 |
| | 501,189 | 501,189 |

No LIC capital gain was included in the above dividends.

## 17 DIVIDEND FRANKING ACCOUNT

| | 2024<br>$ | 2023<br>$ |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% | 1,176,208 | 422,406 |

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the income tax payable at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Franking credits available after paying the final fully franked dividend declared of 2.0 cents per share is $961,413.

## 18 RISK MANAGEMENT

### Governance Risk

The Company's corporate governance policies, including the Board Charter, Code of Conduct and Securities Trading Policy, contain provisions for conflict risk management. The independent Chairman has oversight of the implementation of these policies.

In addition, if an actual or real risk of conflict arises, the Company will also adopt and implement specific conflict risk management protocols. For example, if a Director is also a director of a Portfolio Company (or another ASX listed company), the protocols would include establishing information barriers to restrict the flow of confidential information by prohibiting the conflicted person from sharing with the Portfolio Company information regarding the Company which is not generally available (and vice versa), excluding the conflicted person from participating in decisions of the Manager or the Company involving the Portfolio Company (including attendance at Board meetings) and, if these measures are inadequate, requiring the conflicted person to avoid their conflict entirely (e.g. by resigning as a director of the Portfolio Company or the Company).

### Financial risk

The risks associated with the financial instruments, such as investments and cash, include credit, market and liquidity risks, which could affect HCF's future financial performance.

**Credit risk exposures**

HCF's principal credit risk exposures arise from the investment in liquid assets, such as cash, bank term deposits and income receivable.

The risk that financial loss will occur because a counterparty to a financial instrument fails to discharge an obligation is known as credit risk. The credit risk on HCF's financial assets, excluding investments, is the carrying amount of those assets.

There are no financial instruments overdue.

All financial assets and their recoverability are continually monitored by the investment manager.

**Market and Liquidity risk**

Market risk is the risk that changes in market prices will affect the fair value of the financial instrument. The fair value of the quoted investments is determined by the unadjusted last sale price quoted on the Australian Securities Exchange at the measurement date.

HCF is exposed to market risk through the movement of the security prices of the companies and trusts in which it is invested.

The market value of individual companies fluctuates daily and the fair value of the portfolio changes continuously, with this change in the fair value recognised through the profit & loss statement.

Investment manager continuously monitors the performance of the companies within its portfolio and reports this to the Board at each Board Meeting.

Due to HCF's strategy of investing in microcapitalisation companies, there is liquidity risk in our portfolio holdings. As such, some of the holdings in the portfolio may take more than 30 days to sell on market. We believe that no liquidity discount to the market value of our shareholdings is required given there are three strategies we have historically used for liquidity outside of selling on the market: (i) selling our shareholding in a block trade; (ii) selling our shares in a company buyback; (iii) selling our shares in a company takeover.

**Interest rate risk**

The Company's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing level of market interest rates. As the Company's exposure to interest rate risk is not significant, interest rate sensitivities have not been performed.

## 19 CONTINGENT LIABILITIES

In the opinion of the Directors, the Company did not have any contingent liabilities at 30 June 2024.

## 20 RELATED PARTIES

### Transactions with related parties

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

In its capacity as Investment Manager, the Manager is entitled to be paid a management fee equal to 1.0% (plus GST) per annum of the value of the Company's Gross Portfolio Value, which is calculated on the last business day of each calendar month and paid monthly in arrears within five business days of the end of each calendar month. Gross Portfolio Value means, on any given date, the net asset value of the Company excluding any Performance Fee or Tax liabilities.

Management fees paid and payable to the Manager for the year ended 30 June 2024 total $286,859.

In addition, the Manager is entitled to be paid a performance fee equal to 20.0% (plus GST) of the amount by which the return of the Company exceeds a hurdle return of 5.0% per annum. The return of the Company means an amount expressed in dollars which is equal to the accumulated profit before tax of the Company since the Highwater Mark Date. The Highwater Mark Date means the end of the last period where a Performance Fee has been paid. Any Performance Fee accrues on the Performance Testing Date, which is each 31 December and each 30 June, and is payable within five business days. Performance fee paid the Manager for the year ended 30 June 2024 amounted to $358,405.

Joseph Constable was an executive director of H&G High Conviction Limited and resigned with effect from 22 July 2024. Joseph who was also an executive director of Hancock & Gore and the Investment Manager, resigned with effect from 30 April 2024. He held relevant interest in 953,372 shares in Hancock & Gore at the time of resignation. Joseph Constable is also currently a Director of Po Valley Energy Limited (ASX: PVE), which is a material Portfolio Company.

Nicholas Atkinson is an executive of Hancock & Gore, an executive director of the Investment Manager and was appointed the Portfolio Manager of the Investment Manager with effect from 30 April 2024. Nick has a relevant interest in 11,600,000 shares in Hancock & Gore. Nick is eligible to receive short term incentive, long term incentive and Hancock & Gore performance rights, which will be subject to various performance hurdles based on the performance of Hancock & Gore. By virtue of this interest, Nicholas Atkinson may also indirectly benefit from the Management Fee and Performance Fee being payable to the Manager (which is a wholly owned subsidiary of Hancock & Gore) in accordance with the Management Agreement. Nicholas Atkinson does not control Hancock & Gore or the Investment Manager.

David Groves has a relevant interest in 378,077 shares in Hancock & Gore. By virtue of this interest, David Groves may indirectly benefit from the Management Fee and Performance Fee being payable to the Manager (which is a wholly owned subsidiary of Hancock & Gore) in accordance with the Management Agreement. David Groves does not control Hancock & Gore or the Investment Manager.

## 21 AUDITORS REMUNERATION

| | **2024**<br>$ | **2023**<br>$ |
|---|---|---|
| **Auditors of the Company UHY Haines Norton:** | | |
| Audit or review of the financial statements | 55,500 | 62,000 |
| **Related Practices of the Auditor:** | | |
| Other services – Tax Services | 5,800 | 3,700 |
| | 61,300 | 65,700 |

## 22 KEY MANAGEMENT PERSONNEL COMPENSATION

| | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|
| Short term employee benefits | 51,683 | 30,750 |
| Superannuation | 2,307 | 3,228 |
| | 53,990 | 33,978 |

## 23 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

| | 30 June 2024 $ | 30 June 2023 $ |
|---|---|---|
| Profit after income tax expense for the year | 1,299,886 | 1,720,347 |
| Adjustments for: | | |
| Net gain on disposal of investments | (1,425,314) | (911,460) |
| Net gain on revaluation of investments | (218,851) | (1,844,085) |
| Deferred tax recognised at inception | – | (1,094,950) |
| Change in operating assets and liabilities: | | |
| (Decrease) increase in trade and other payables | (95,708) | 341,750 |
| (Decrease) increase in deferred tax liabilities | (637,299) | 1,429,825 |
| Decrease (increase) in deferred tax assets | 9,402 | (26,327) |
| (Increase) in receivables | (93,486) | (59,125) |
| Increase in tax liabilities | 665,359 | 350,897 |
| Net cash from operating activities | (496,011) | (93,128) |

## 24 EVENTS OCCURRING AFTER THE REPORTING DATE

The financial report was authorised for issue on 26 August 2024 by the board of directors.

The directors declared a final fully franked dividend of 2.0 cents per share payable on 4 October 2024.

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## 25 HOLDING AT FAIR VALUE THOUGH PROFIT AND LOSS AT 30 JUNE 2024

| **Investment in Equity Instruments** | **Number of Shares** | **Market Value** |
|---|---|---|
| Arn Media Limited | 3,000,000 | 1,875,000 |
| Adrad Holdings Limited | 805,514 | 579,970 |
| Aerometrex Limited | 800,000 | 364,000 |
| Anagenics Limited | 57,504,542 | 460,036 |
| Centrepoint Alliance Limited | 3,586,111 | 1,039,972 |
| Credit Clear Limited | 292,235 | 75,981 |
| Clearview Wealth Limited | 4,175,000 | 2,525,875 |
| Connexion Telematics Limited | 48,000,000 | 1,344,000 |
| Coventry Group Limited | 2,189,571 | 3,087,295 |
| Eildon Capital Fund | 3,561,765 | 3,116,544 |
| Envirosuite Limited | 1,066,629 | 60,798 |
| Experience Co Limited | 5,000,000 | 850,000 |
| Fos Capital Limited | 3,893,356 | 934,405 |
| Kinatico Limited | 15,982,927 | 1,518,378 |
| Po Valley Energy Limited | 49,100,000 | 1,914,900 |
| Scidev Limited | 1,700,000 | 629,000 |
| Universal Biosensors Inc | 12,762,079 | 1,914,312 |
| Veem Limited | 1,433,742 | 2,509,049 |
| Xreality Group Limited | 4,568,991 | 251,295 |
| **TOTAL** | | **25,050,810** |

# Directors' Declaration

## for the year ended 30 June 2024

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 13 to 30 and the remuneration report as set out on pages 10 to 11 are in accordance with the *Corporations Act 2001,* including:
   a. complying with Accounting Standard *AASB 134 Interim Financial Reporting;* and
   b. give a true and fair view of the Company's financial position as at 30 June 2024 and of its performance for the year ended on that date.
2. In the directors' opinion, 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.

**David Groves**
**Director**

**Nicholas Atkinson**
**Director**

Dated: 26 August 2024

UHY Haines Norton
Chartered Accountants

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# Independent Auditor's Report

## To the Shareholders of H&G High Conviction Limited

## REPORT ON THE AUDIT OF THE FINANCIAL REPORT

### Opinion

We have audited the financial report of H&G High Conviction Limited for the year-ended 30 June 2024, which comprises the statement of financial position as at 30 June 2024, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

i. giving a true and fair view of the Company's financial position as at 30 June 2024 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 Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We 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 year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our report.

## Valuation of Financial Instruments

| Why a key audit matter | How our audit addressed the risk |
|---|---|
| As an investment entity, HCF's investments in other entities are prescribed to be valued at fair value in accordance with AASB 9.<br><br>The overwhelming majority of HCF's Net Asset Value (NAV) is held in listed companies, and the valuation of these investments is significant to the users of the financial statements owing to its materiality to the financial statements as a whole.<br><br>We also note due to the concentration of investments in small to medium capitalised companies, there is a heightened risk of illiquidity impacting the valuation of investments. | We performed the following audit procedures, amongst others:<br>▪ We assessed the appropriateness of the Company's valuation policies;<br>▪ We assessed whether the classification of financial assets appeared appropriate;<br>▪ We reconciled trial balance amounts to supporting schedules;<br>▪ We obtained third party confirmation of all investment balances and compared them with trial balance amounts;<br>▪ We recalculated realised and unrealised investment profits and losses from third party broker transaction records and compared them to trial balance amounts;<br>▪ We assessed the reasonability of management's classification of investments as Fair Value Level 1. |

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2024, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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 Company 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 Company or to cease operations, or have 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial report.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

UHY Haines Norton
Chartered Accountants

## REPORT ON THE REMUNERATION REPORT

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 11 of the directors' report for the year ended 30 June 2024.

In our opinion, the Remuneration Report of H&G High Conviction Limited for the year ended 30 June 2024, 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.

**Mark Nicholaeff**
**Partner**

UHY Haines Norton
**UHY Haines Norton**
**Chartered Accountants**

Sydney
26 August 2024

# ASX Information

## As at 30 June 2024

### TOP 20 SHAREHOLDERS

| Name | Number of Shares | % |
|---|---|---|
| HANCOCK & GORE LIMITED | 4,974,756 | 19.9% |
| HSBC Custody Nominees (Australia) Limited | 3,822,865 | 15.3% |
| Dr Ida Constable | 1,991,487 | 7.9% |
| Fayrstede Pty Ltd | 1,712,562 | 6.8% |
| Citicorp Nominees Pty Limited | 1,222,160 | 4.9% |
| Donus Australia Foundation Limited | 968,924 | 3.9% |
| Mr. Alexander Damien Harry Beard + Mrs. Pascale Marie Beard | 862,194 | 3.4% |
| Gretta Nominees Pty Tld | 758,853 | 3.0% |
| Jennifer Ann Hershon | 742,435 | 3.0% |
| Mr Jamie Pherous | 551,188 | 2.2% |
| Blackwood Super Fund Pty Limited | 508,698 | 2.0% |
| Totem Holdings Pty Ltd | 485,861 | 1.9% |
| Maranhao 2 Pty Ltd | 480,770 | 1.9% |
| Neweconomy Com Au Nominees Pty Limited | 460,662 | 1.8% |
| Warbont Nominees Pty Ltd | 436,112 | 1.7% |
| Lotus Research Pty Ltd | 399,990 | 1.6% |
| Ubs Nominees Pty Ltd | 262,390 | 1.0% |
| Kaysim Pty Ltd | 261,269 | 1.0% |
| Moat Investments Pty Ltd | 240,384 | 1.0% |
| Cannington Corporation Pty Limited | 219,032 | 0.9% |
| **Total** | **21,362,592** | **85.2%** |
| **Total shares on issue** | **25,059,428** | **100.0%** |

On 30 June 2024, there were 310 holders of ordinary shares in the capital of HCF. Holders of ordinary shares are entitled to one vote per share.

## SUBSTANTIAL SHAREHOLDERS

| Name | Number of Shares | % of total |
|---|---|---|
| Hancock & Gore Limited | 4,974,756 | 19.9% |
| Constable Group | 2,896,992 | 11.6% |
| Fayrstede Pty Ltd (Cooper Superannuation Fund) | 1,712,562 | 6.8% |

## DISTRIBUTION OF EQUITY SECURITIES

| Number of shares held | Number of Shareholders |
|---|---|
| 1 – 1,000 | 17 |
| 1,001 – 5,000 | 104 |
| 5,001 – 10,000 | 41 |
| 10,001 – 100,000 | 93 |
| 100,000 and over | 24 |

The number of holders of less than a marketable parcel of $500 (543 shares) is 7.

## OTHER INFORMATION

HCF is taxed as a public company.

The total number of transactions in securities undertaken by HCF was 381 and the brokerage paid or accrued was $98,966.

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H&G
HIGH CONVICTION

# Corporate Directory

## DIRECTORS

**David Groves** (Non-executive Chairman)
**Nicholas (Nick) Atkinson** (Executive Director)
**Dennison Hambling** (Non-executive Director)

## MANAGEMENT

H&G Investment Management Limited
Level 5, 107 Pitt Street
Sydney NSW 2000

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

Level 5, 107 Pitt Street
Sydney NSW 2000

Phone: +61 (0)2 8667 4660
Email: info@hng.com.au
Website: www.hancockandgore.com.au

## COUNTRY OF INCORPORATION

Australia

## SHARE REGISTRY

Registry Direct
PO Box 572
Sandringham VIC 3191

Phone: 1300 556 635 or
+61 3 9909 9909 (outside Australia)
Email: registry@registrydirect.com.au

## AUSTRALIAN SECURITIES EXCHANGE LISTING

H&G High Conviction Limited (ASX: **HCF**)

## AUDITOR

UHY Haines Norton Sydney
Level 9, 1 York Street
Sydney NSW 2000