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## AGM 2009 Chairman's Address

In view of the prevailing uncertain and volatile economic environment we face, I believe that my address should focus on the present, the strengths of our operating businesses and where possible comment on the outlook. I will however commence with a brief summary of HGL's 2008 results and refer you to the extensive commentary and analysis in the accounts and eight page review sent to all shareholders.

### 2008 results

After reporting a strong result in 2007, last year's overall result is disappointing. We were adversely affected by the performance of our listed investments. A 40% decline in income from our funds management interests, combined with higher interest charges, affected core profit while significant impairment charges and realised losses on listed investments affected the overall result.

In summary our results were:

- A total loss of \$7.4 million compared with a net profit of \$15.6 million in 2007;
- A reduction in core profit after tax of 9% from \$9.3 million in 2007 to \$8.5 million in 2008. This resulted in core earnings per share of 17.3 cents compared with 19.2 cents in 2007;
- A non-core after tax loss of \$15.9 million compared with a non-core profit after tax of \$6.3 million in 2007; and
- A reduction in dividend per share of 16% from 14.4 cents in 2007 to 12.1 cents.

Our operating businesses in this difficult year increased their EBIT by 14% to \$17.7 million. The income from funds management interests on the other hand fell by \$1.7 million to \$2.5 million, due primarily to MMC Contrarian not paying a final dividend for the year to 30 June 2008. This factor combined with \$1.6 million additional interest costs in 2008 resulted in an overall decline in core profit.

The non-core losses during 2008 relate to impairment charges and realised losses arising from the decline in the market value of listed shares, predominantly due to the decline in the market value of MMC Contrarian, and as a result of the underperformance of AMCLA, a write off of \$2.5 million goodwill associated with the purchase of the business in 2005.

The decision by the Board to declare a final dividend in 2008 at the bottom end of the range under our dividend policy was not taken lightly, but given the uncertain economic conditions I believe our decision to be prudent.



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## Current trading conditions

At 30 September 2008 HGL had \$70.9 million invested in 12 operating businesses which employ 468 people in Australia and New Zealand. Sales were approximately \$170 million and earnings before interest and tax (EBIT) were \$17.7 million in 2008.

These operating businesses, detailed on page 9 of the annual report, primarily import branded products which are distributed into niche markets.

Sales from our operating businesses for the first quarter to 31 December 2008 were \$44.2 million up from \$41.3 million last year. EBIT is \$2.9 million for the first quarter to 31 December 2008 compared with \$5.3 million for the same period last year. The major reason for the fall in earnings when compared with the same period last year is due to a reduction in gross margin resulting from the decrease in value of the Australian dollar.

In my opinion it is too early after only three months of trading to gauge the extent earnings from our operating businesses will be impacted by the volatile Australian dollar and the worsening economic environment. However, I do not anticipate that our operating businesses will achieve the level of last year's EBIT.

Each business and head office is taking positive action to increase selling prices, minimise overheads and product costs and reduce working capital wherever possible. Furthermore I believe our businesses are well placed to weather the storm for a number of reasons.

Firstly, our operating businesses are all managed by our partners who have equity or quasi equity in the business they run. This we call our strategy of equity and skills which promotes the proper identification, assessment and management of opportunities and risks which improves the ability of our businesses to prosper and survive over the long term.

Secondly, our businesses operate in niche markets and are usually one of the major participants in their respective market. With HGL's financial strength they have the opportunity to grow through acquiring additional agencies, attracting good sales people, making small add on acquisitions and winning competitive business. I have already seen instances where they are participating in some of these growth opportunities.

Finally they are a diverse range of businesses and therefore have a diverse range of customers and suppliers with no major exposure to one specific industry sector.

Although these challenging times affect HGL's profitability they also provide the opportunity for HGL to continue to strengthen its core underlying business operations, to grow and to emerge over the medium term as a much stronger group.



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## HGL listed Investments

Dividends from both MMC Contrarian and Hunter Hall are included in HGL's core profit.

In November 2008 we sold our investment in MMC Contrarian for \$21.3 million and used the sale proceeds to repay borrowings. HGL realised a profit before tax of \$3.8 million which will be included in this year's result. Since originally investing in MMC in 2003 our total cash and accounting gains have been approximately \$6 million after interest and before tax. Although we will no longer receive any dividend income from MMC Contrarian HGL's core profit will benefit from the saving in interest costs on the reduced level of borrowings.

In addition to the investment in MMC Contrarian HGL had \$11 million invested in Hunter Hall and \$10 million in other listed securities at 30 September 2008.

The market value of Hunter Hall has fallen by \$6 million to \$5 million as at 31 January 2009. The foundation of Hunter Hall's profitability is the amount of funds under management which has been affected by the continued fall in equity values. HGL management continually monitor Hunter Hall and has regular dialogue with their management.

The market value of the remaining portfolio has fallen by \$2 million to \$8 million as at 31 January 2009. It is our intention to realise these non-core listed holdings over the medium term as and when the stock market improves and use these funds to reduce borrowings.

## Borrowings

At the end of September 2008 HGL had net borrowings of \$34 million. I am pleased to advise that at the end of January 2009 these had fallen to \$20 million after the receipt of the \$21.3 million proceeds from the sale of our shares in MMC Contrarian, the final payment of \$3.7 million for JSB and the payment of our final dividend in December 2008.

HGL now has a reduced gearing ratio of approximately 18% and total banking facilities of \$50 million.



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## Outlook

We are only three months into the current financial year and in the current economic environment I am not able to forecast or provide guidance for the full year to September 2009.

Although HGL's first quarter sales are 7% up EBIT from Import and Distribution businesses is down 46% on the same period last year due to the impact of the falling Australian dollar and the difficult trading conditions. We have and continue to take corrective actions where possible and are likely to achieve a core profit of between \$1.5 million and \$2.0 million for the half year to March 2009.

HGL Board's aim is to continue with its policy of paying between 70% and 80% of core profits as dividends.

In concluding I would like to reiterate that HGL has sound businesses with sound management, is well placed to see through this downturn and I am optimistic about the long term future of your company.

PG Miller

3 February 2009