HGL

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31 March 2009 interim results

We report a core profit for the six months to 31 March 2009 of $2.2 million (2008: $5.0 million) this is higher than the $1.5 million to $2 million range we announced at the AGM. In addition there was a non core profit of $1.5 million (2008: loss $7.9 million).

HGL reports a total profit of $3.7 million (2008: loss of $2.9 million). The results are described in more detail over the page. Core profit per share decreased by 60% to 4.4 cents (2008: 10.4 cents).

The rapid 30% decline in the Australian dollar which occurred between July and November 2008 increased our product costs significantly. This combined with the general weakness and uncertainty in the economy and financial markets has made the last six months very challenging.

Dividend

The Directors have declared an interim dividend of 3.0 cents fully franked (2008: 7.0 cents fully franked) to be paid on 2 July 2009. The dividend represents a payout ratio of 70%. The decision to pay a dividend at the bottom of our policy range has not been taken lightly but given the economic conditions the Board believes it is an appropriate decision in the current circumstances.

Borrowings

During the half year net debt reduced to $19.1 million (2008: $34.1 million). Our bank facility, which is in place until December 2010 has been reduced to $24 million (2008: $50 million), at the end of March 2009 $21.2 million of the facility was utilised. Gearing (as measured by net debt : net debt plus equity) at the end of March 2009 was 19.6% (2008: 30.0%). The interest rate on $20 million of borrowings was fixed in March 2008 at 7.98% for 3 years. Undrawn banking facilities are mainly maintained to provide the flexibility to acquire additional businesses and product agencies.

The businesses

HGL imports and distributes niche branded goods. The businesses are operated and managed independently of each other so increasing the focus on products and customers. The businesses and the products they distribute are detailed on our website www.hgl.com.au. We are continuing to look for new product agencies and acquisitions whilst maintaining conservative levels of debt.

Sales increased by 5% to $82.5 million (2008: $78.9 million) however earnings before interest and tax (EBIT) decreased by $3.3 million or 35% to $6.0 million (2008: $9.3 million).

The majority of our products are purchased in US dollars. The swift decline in value of the Australian dollar against the US dollar increased the cost of our products by approximately $10 million in the half year. We were able to reduce this impact by negotiating price reductions from suppliers and were partially protected by currency hedging. The result was a significant negative impact on EBIT especially in the December quarter. We have recovered approximately 70% of the EBIT reduction caused by the currency decline and are continuing to review all areas of our operations.

	2009	2008	**2009**	2008
	$ millions		***cents per share***	
Core profit	**2.2**	5.0	**4.4**	10.4
Non core items	**1.5**	(7.9)	**3.0**	(16.4)
Result after tax	**3.7**	(2.9)	**7.4**	(6.0)
Revaluations	**(3.8)**	(10.3)	**(7.4)**	(21.1)
Total	**(0.1)**	(13.2)	**0.0**	(27.1)
Interim dividend			**3.0**	7.0

Unfortunately there is also a human cost to expense control, we have reduced our employees by 36 or 8%. While times remain difficult we are minimising job losses by measures including the use of annual and long service leave.

At the end of March there was $74.0 million (2008: $72.8 million) invested in the businesses. The annualised EBIT to capital employed return was 16% (2008: 25%). Trade creditors have fallen by $6.5 million since September and are at approximately the same level as March 2008. This fall is due to the timing of product deliveries. We are reducing our stock holdings and eliminating marginal products, this will reduce the amount invested in inventories in spite of increases to unit costs. We continue to focus on debtors in an attempt to reduce the likelihood of bad debts.

Listed shares

In November 2008 we sold our entire MMC Contrarian shareholding for $21.3 million with a resulting profit before tax of $3.8 million. The amount invested in listed shares has declined by $25.3 million to $13.4 million at 31 March 2009 (September 2008: $38.7 million) mainly as a result of the sale of MMC Contrarian and the $4.9 million reduction in the market value of our investment in Hunter Hall (ASX code: HHL).

In addition to $21.3 million from the sale of MMC Contrarian $1.0 million has been raised from the sale of other listed shares. We have not acquired any shares during the year and it is our current intention not to invest in listed shares and to generate cash by continuing with our disposal program of non core holdings.

Outlook

The rapid weakening of the Australian dollar negatively impacted our businesses. We have demonstrated our business model is capable of reacting quickly and we were able to adjust selling prices, product costs and overhead expenses to minimise the impact.

Since the end of March 2009 the Australian dollar has strengthened and if it remains at these levels it will assist in our recovery. We are cautious in our expectations and anticipate core profit for the full year to September 2009 will be lower than last year. We remain confident about the long term future of the Company after a difficult 2009.

Peter Miller
Chairman

investing in businesses

Summary of half year results and 31 March balance sheets

	Note	Earnings 2009 $'000	Capital employed 2009 $'000	Earnings 2008 $'000	Capital employed 2008 $'000
Core profit					
Import and distribution businesses	1	**5,941**	**74,043**	9,271	72,791
Fund management businesses	2	**271**	**5,601**	1,911	37,219
Central items	3	**(820)**	**5,276**	(1,067)	2,448
Borrowings	4	**(996)**	**(19,117)**	(1,451)	(33,175)
Profit before tax		**4,396**	**65,803**	8,664	79,283
Tax	5	**(1,229)**	**4,622**	(2,123)	(1,864)
Partners' equity interests		**(970)**	**(14,639)**	(1,493)	(14,280)
Core profit		**2,197**	**55,786**	5,048	63,139
Non core profit/(loss)	6	1,496	7,824	(7,952)	13,092
HGL reported profit/(loss)		**3,693**	**63,610**	(2,904)	76,231
Revaluation recognised in equity		**(3,805)**		(10,218)	
Changes in equity		**(112)**		(13,122)	
Core earnings per share (cents)	7	**4.4**		10.4	
Dividend per share (cents) - fully franked		**3.0**		7.0	

1. Earnings comprise the earnings before interest and tax (EBIT) from the 12 businesses. Sales were $82.5 million (2008: $78.9 million). Capital employed comprises debtors $28.1 million (2008: $28.2 million), inventories $35.3 million (2008: $31.3 million), plant and equipment $4.7 million (2008: $4.9 million), goodwill $27.3 million (2008: $28.5 million), creditors $19.5 million (2008: $18.8 million), employee and other provisions $4.0 million (2008: $3.7 million) and investment in associate $1.8 million (2008: $2.0 million).
2. 2009 comprises fully franked dividend income from Hunter Hall and the capital employed comprises the market value of this investment. In 2008 earnings comprise fully franked dividend income from Hunter Hall of $0.5 million and $1.4 million from MMC Contrarian, capital employed comprises the market value of the investment in Hunter Hall and MMC Contrarian. The entire investment in MMC Contrarian was sold in November 2008.
3. These mainly comprise head office expenses and salaries together with the fully franked dividend of $0.2 million (2008: $nil) from Calliden Group (ASX code: CIX). The main constituents of capital employed are property of $5.3 million (2008: $4.9 million), employee share scheme loans of $1.9 million (2008: $1.8 million), deferred JSB purchase consideration of $nil (2008: $2.4 million), fair value of interest rate swap $1.8 million (2008: $0.2 million) and the SPOS equity liability of $0.1 million (2008: $1.4 million).
4. Borrowings include leases of $1.0 million (2008: $1.2 million).
5. The tax asset includes the deferred tax on the unrealised Hunter Hall surplus and in 2008 for MMC Contrarian.
6. Non core items are:
   - $2.6 million realised profit on sale of MMC Contrarian (2008: impairment charge of $7.7 million)
   - $0.5 million reduction in value of equity liability for SPOS
   - $0.2 million realised profit on the sale of listed shares
   - $0.7 million expense for the fair value movement in the $20 million interest rate swap (2008: $0.2 million)
   - $1.1 million impairment expense for listed shares

   Capital employed is the market value of listed shares, excluding Hunter Hall and MMC Contrarian being $7.8 million (2008: $13.1 million).
7. The weighted average number of shares on issue is 49,479,000 (2008: 48,770,000).

Summary of listed shares at 31 March 2009

	Note	Capital employed Mar-09 $'000	Acquisitions/ (disposals) $'000	Change in value $'000	Capital employed Sep-08 $'000
MMC Contrarian	1	–	(21,292)	3,756	17,536
Hunter Hall	2	**5,601**	(205)	(4,867)	10,673
		5,601	(21,497)	(1,111)	28,209
Calliden Group	3	**5,323**	–	(235)	5,558
Credit Corp	4	–	(329)	61	268
Others		**2,501**	(467)	(1,674)	4,642
		7,824	(796)	(1,848)	10,468
	5	**13,425**	(22,293)	(2,959)	38,677

1. MMC Contrarian was sold in November 2008 for $21.3 million.
2. HGL owns 5% of Hunter Hall (ASX code: HHL) a boutique funds manager. The market value of Hunter Hall was $4.00 a share on 31 March 2009 and $7.35 a share on 30 September 2008.
3. HGL owns 7% of Calliden Group (ASX code: CIX) a general insurer. The market value of Calliden was $0.34 a share at 31 March 2009 and $0.355 a share on 30 September 2008.
4. Credit Corp was sold in the period.
5. The total reduction in the share portfolio was $2.9 million before tax (2008: decrease $25.7 million), a profit of $4.1 million (2008: loss $0.1 million) was realised and recognised in the income statement, $1.6 million (2008: $10.9 million) was recognised as an impairment charge in the income statement and $5.4 million (2008: $14.8 million) was recognised directly into equity. On 31 March 2009 net unrealised gains were $4.5 million.