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## **Commentary on results for six months ended 31 March 2010**

### **Summary**

- **84% increase in underlying earnings per share to 8.1 cents**
- **111% increase in statutory profit to \$7.8 million**
- **100% increase in interim dividend per share to 6.0 cents fully franked**

HGL Limited, a supplier of branded products into niche markets, reported an underlying profit of \$4.1 million (2009: \$2.2 million) for the six months ended 31 March 2010 and an 84% increase in underlying earnings per share to 8.1 cents (2009: 4.4 cents). This result is attributable to sales growth of 3%, gross margin dollar growth of 11% and stable expenses.

In addition to underlying profit, a profit after tax of \$3.7 million was generated from the continuing disposal program of our share portfolio. The resulting statutory profit after tax is \$7.8 million (2009: \$3.7 million).

A description of the businesses through which HGL supplies branded products is on our website [www.hgl.com.au](http://www.hgl.com.au).

Sales increased by 3% to \$84.8 million (2009: \$82.5 million) and the earnings before interest and tax (EBIT) generated from selling branded products into niche markets increased 80% to \$8.8 million (2009: \$4.9 million). On a comparable basis EBIT is 9% higher than our previous highest EBIT of \$8.1 million achieved in 2008. The EBIT to sales ratio increased to 10.4% from 5.9% last year.

The improvement in profitability confirms the actions taken by management over the last eighteen months to combat the effects of the global financial crisis. At the Annual General Meeting, held in early February 2010, we commented that the first quarter's results may have benefitted from the government's stimulus package. Whilst this may have been the case it is pleasing to note sales in the second quarter of the year grew 5% to \$40.2 million (2009: \$38.3 million).

Operating cash flow of \$5.8 million was generated with working capital increasing by \$2.3 million to \$39.1 million (2009: \$36.9 million). Net debt has declined to \$4.9 million from \$13.4 million at September 2009.

At the end of March 2010 the capital employed in supplying branded products into niche markets was \$74.6 million, an increase of \$2.7 million since September. The annualised EBIT to capital employed return for the first half of the year was 24% (2009: 13%) and has returned to a level above our internal hurdle rate of 20%.

### **Dividend**

The Directors have declared an interim dividend of 6.0 cents fully franked (2009: 3.0 cents fully franked) to be paid on 1 July 2010. The dividend represents a payout ratio of 74% of underlying profit. The dividend reinvestment plan will continue to be available to shareholders with no discount.

### **Capital management**

This time last year we announced the orderly disposal program to sell our listed share portfolio and to use the money to initially repay debt. Our present capital management policy is to utilise these proceeds and with prudent borrowings invest the capital in additional businesses and agencies.

In the six months \$7.1 million of cash was received from the disposal program. At the end of March 2010 there was \$6.2 million of shares still to be sold. The disposal program is continuing with the expectation all will be sold by the end of the year.

### **Outlook**

Although there has been a marked recovery in HGL's underlying earnings for the six months to 31 March 2010 the recent volatility of the Australian dollar and a general flatness in external demand leads to caution about the remainder of the year.

HGL has a sound strategy and a balance sheet that will soon be debt free which allows the pursuit of both organic growth opportunities and acquisitions. The HGL Board is confident about the long term future of the company.

**Peter Miller**  
Chairman

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## Summary of half year results

	2010 Underlying profit \$'000	2010 Other \$'000	2010 Total \$'000	2009 Underlying profit \$'000	2009 Other \$'000	2009 Total \$'000
Sales	84,787	5,228	90,015	82,455	4,087	86,542
Cost of sales	(46,610)	–	(46,610)	(48,058)	–	(48,058)
Gross profit	38,177	5,228	43,405	34,397	4,087	38,484
Expenses	(29,358)	–	(29,358)	(29,534)	(2,160)	(31,694)
Dividend income	230	–	230	532	–	532
Earnings before interest and tax	9,049	5,228	14,277	5,395	1,927	7,322
Net interest	(557)	–	(557)	(996)	–	(996)
Profit before tax	8,492	5,228	13,720	4,399	1,927	6,326
Tax expense	(2,238)	(1,568)	(3,806)	(1,229)	(434)	(1,663)
Profit after tax	6,254	3,660	9,914	3,170	1,493	4,663
Minority interests	(2,139)	–	(2,139)	(970)	–	(970)
Profit after tax and minorities	4,115	3,660	7,775	2,200	1,493	3,693

Other in 2010 is profit on sale of share portfolio.

## Summary of balance sheets

	March 2010 \$'000	September 2009 \$'000
Cash	7,364	8,126
Trade and other debtors	30,019	29,651
Inventories	32,969	33,368
Current tax assets	620	1,121
<b>Current assets</b>	<b>70,972</b>	<b>72,266</b>
Equity accounted investments	2,224	2,235
Other financial assets	8,401	15,924
Property, plant and equipment	10,925	10,530
Intangibles	27,417	27,489
Deferred tax assets	1,723	2,371
<b>Non current assets</b>	<b>50,690</b>	<b>58,549</b>
Trade and other payables	(19,274)	(21,245)
Borrowings	(2,469)	(2,477)
Provisions	(3,544)	(3,865)
<b>Current liabilities</b>	<b>(25,287)</b>	<b>(27,587)</b>
Borrowings	(9,851)	(19,016)
Deferred tax liabilities	–	(673)
Provisions	(1,080)	(987)
<b>Non current liabilities</b>	<b>(10,931)</b>	<b>(20,676)</b>
<b>Net assets</b>	<b>85,444</b>	<b>82,552</b>
HGL equity interest	70,672	68,387
Minority interest	14,772	14,165
<b>Equity</b>	<b>85,444</b>	<b>82,552</b>

## Summary of cash flows

	March 2010 \$'000	March 2009 \$'000
Receipts from customers	92,904	94,620
Paid to suppliers and employees	(85,258)	(91,254)
Dividends received	230	505
Income tax paid	(1,526)	(2,485)
Net interest paid	(557)	(996)
<b>Inflow from operating activities</b>	<b>5,793</b>	<b>390</b>
Purchase of plant and equipment	(1,511)	(1,126)
Purchase of controlled entities	–	(3,858)
Proceeds from sale of listed securities	7,146	22,293
Others, net	(409)	228
<b>Inflow from investing activities</b>	<b>5,226</b>	<b>17,537</b>
Payment for share buy back	(318)	(232)
Net repayment of borrowings	(9,168)	(16,360)
Dividends paid to HGL shareholders	(1,587)	(1,598)
Dividends paid to minorities	(660)	(390)
<b>Outflow from financing activities</b>	<b>(11,733)</b>	<b>(18,580)</b>
<b>Net decrease in cash held</b>	<b>(714)</b>	<b>(653)</b>
Cash at beginning of half year	8,126	7,931
Foreign exchange effects on opening cash	(48)	1
Cash at end of half year	7,364	7,279