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Chairman's AGM address

Today I will provide you with an update of the Group. This will include an overview of the Group's strategic direction and key points relating to HGL's financial performance for the 2017 financial year.

Our Chief Executive Henrik Thorup will follow, taking you through an overview of our progress with the implementation of the strategic plan, and he will share operational highlights and priorities for the 2018 financial year.

Both Henrik and I will then take questions.

2017 continued to present challenges in terms of earnings growth with a modest growth in Group revenue, however the company continued to progress towards our stated objectives and milestones in our GPS Strategy Plan (Growth, Profit and Sustainability).

Consolidated sales revenue of the wholly owned companies was $52.1 million, in line with the prior period, while total Group revenue, including Mountcastle, increased by 2% to $69.5 million. Revenue from the continuing businesses, being JSB Lighting, Mountcastle, SPOS Group, BLC Cosmetics and Nido Interiors, increased by 7.4% on the prior year.

Underlying Profit after Tax of $2.3 million was down from $3.0 million in FY16. This result was affected by a net loss in the discontinued businesses Leutenegger and Biante.

The underlying EBIT contribution of the continuing businesses including Mountcastle was up 25% to $4.7 million.

Statutory profit was $2.7 million (2016 $4.3 million).

The board declared a final dividend of 1.5 cents per share fully franked, bringing the full year dividend to 2.75 cents, up a quarter of a cent on the previous year.

Focus continues on improving the operational foundations of the continuing businesses, to deliver enhanced performance results and to secure opportunities to reposition and consolidate our company portfolio.

In the past 5 months we have acquired two businesses, strengthening our existing Lighting and Point-of Sale businesses, and we have also signed agreements to enter into the medical equipment market.

Intralux Australia is an established lighting manufacturing business based in Brisbane, whose products filled an important gap in the existing JSB product offering. Intralux's revenue is expected to be in excess of $1.5 million in the first year, with growth in subsequent years as the strength of the JSB sales team works its way through the customer's supply chain.

POSM is a bolt-on acquisition within the SPOS point of sale business. Currently based in Bomaderry, we expect to fully integrate the business over the remainder of FY18, generating significant synergies and EBIT contribution. The POSM transaction was completed in early December, and we anticipate incremental revenues in excess of $1.0 million over the balance of the current financial year.

We were excited to announce on Monday that we have signed agreements to acquire 70% of the Pegasus Healthcare Group. Scott Nowland, the existing CEO, will retain his 30% interest in the business, and continue to run the group with the existing management team.

Pegasus is a family owned business established in 1991 and operates in two key segments. Pegasus Healthcare is the leading supplier of high quality, clinically proven products for the prevention and management of pressure ulcers in the acute, community and residential care sectors; whilst Hospital-at-Home specialises in supplying assistive technology devices, medical equipment, consumables and services to patients being nursed at home.

Both divisions are recognised as first class service providers, offering medical equipment with competitive rental programs and unsurpassed service capabilities.

Scott and his team have built a strong business which aligns closely with HGL's culture. Pegasus operates from multiple sites in NSW, with a team of around 35 staff, and has seen revenue growth of over 15% pa over the last couple of years.

Our investment of $4.45 million is expected to contribute a Return on Equity in excess of 15%, on annualised sales of over $8.0 million in FY18. The transaction remains conditional and we are hopeful for completion during March 2018.This acquisition is an exciting step in the expansion of the industry footprint of HGL, and is consistent with our strategy to develop organically and enter new growth markets. The acute, aged and primary care sectors are expanding rapidly in Australia and this acquisition will establish HGL's presence in this attractive segment.

After receiving a number of approaches from third parties interested in acquiring the Biante and Leutenegger businesses, the Board determined a trade sale of both businesses was an opportunity to release capital to further invest in the core company portfolio in the HGL Group.

Biante Model Cars, having received notification of a sudden change of manufacturing approach by one of the key suppliers, and coupled with the planned 2018 season changes to V8 supercar racing for both Ford and Holden highlighted to the board that the best outcome for HGL was for a specialist collectables company to acquire the business. HGL considers that the trade sale to Downies was an effective result. Up front sale proceeds were $1.75 million, with tail payments of $1.5 million over twelve months being offset by some committed stock payments of around $1.3 million. Net cash generated from the sale and winding down of the remaining assets and liabilities will be around $2.0 million, although a one-off accounting impairment of $0.6 million will also be recognised at the half year.

I announced a strategic review of the Leutenegger business immediately prior to the release of the FY17 results. The business had another disappointing year, and whilst the product range and business proposition of Leuts was solid, the review highlighted that despite the efforts of Leutenegger and HGL management, the business lacked sufficient scale to provide an adequate return on the capital employed within the business. HGL has had a long association with Leuts and some of its key suppliers and customers, and the decision to sell the business was not taken lightly. However we are delighted that we were able to negotiate a sale to E.C. Birch Pty Ltd, a highly reputable industry player who will be able to combine their resources with Leutenegger's. Proceeds on the sale of Leuts of $2.0 million will be received over twelve months, and the sale and winding down of the business is expected to be profit neutral.

HGL will continue to provide some services for both Biante and Leutenegger, including warehousing and some administrative support. Their respective relocation plans from our premises in Macquarie Park in Sydney will be concluded around the end of this calendar year.

The sale of Biante and Leutenegger redirect the majority of our company portfolio towards sale of commercial products sold in a business-to-business environment. The funds received on disposal, plus the future capital investment required within both businesses that has been avoided, can now be invested into the core businesses of the HGL group.

HGL's ongoing acquisition strategy is to secure company representation in industry sectors with long-term growth prospects, targeting investments in Building Products, Medical Equipment, Personal Care, Homewares, Retail Marketing products, School and Corporate Wear.

We envisage funding for acquisitions to be through a combination of our own funds, borrowings and capital management.

The Board remains confident about the strategic direction set out in the Growth, Profit & Sustainability Strategy Plan and management's capacity to execute it.

We continue to invest in employee training programs, knowing the importance of staff engagement and work place welfare in delivering sustained business improvement. Our talented management teams and employees continue to participate in these programs underpinning sustainable future performance.

The Company was disappointed to receive the resignation of Dudley Hewitt as CEO of JSB Lighting after more than two decades with the business. On behalf of the HGL board I would like to thank Dudley for his contribution to the group. It is a testament to the structures in place that we had a replacement within the company. Justin Penhall has worked at JSB for 18 years, most recently as the Sales Director, and we were delighted to appoint him to the CEO role. This transition process has been seamless internally and externally, and we have confidence in Justin and the team further improving the business.

I take this opportunity to formally thank all of our employees for their efforts and contribution throughout the year.

JSB Lighting improved revenue by 8% to $23.9 million, successfully expanding its market share with specific geographical emphasis on Sydney, Melbourne and Perth, employing additional sales executives in these markets. New sales offices were opened in Auckland and Christchurch during 2017, with three new sales executives. Although the New Zealand business is in a start-up phase, these operations were profitable in 2017, with further positive signs for 2018.

The Intralux acquisition provides an opportunity for JSB to expand a key brand with company owned intellectual property in line with our strategic objective to increase sales generated from our own IP products.

The SPOS Group, offering retail marketing solutions in Australia and New Zealand, improved revenue by 4% to $10.5 million, driven by improved off-the-shelf product sales to major retail chains as well as profitable custom projects for global brands. The company's performance continues to improve, maintaining gross margins and controlling expenses, with an improved EBIT to sales ratio of 6.9%, up from 4.7% last year. The inclusion of the POSM business will contribute positively in 2018, from an expanded customer base with limited overlap to SPOS, and operational synergies from relocating the business and warehouse operations to Macquarie Park in Sydney.

Management of POSM will be supported by the SPOS leadership team with focus on revenue growth and earnings contribution.

BLC Cosmetics had a 7% decline in sales, primarily generated through lost market share of the Thalgo brand, however sales growth was experienced for the Alpha-H, Comfort Zone and Lightstim brands. Thalgo sales reflect the continuing decline in the Australian market demand for marine based beauty products from consumers switching to brands offering anti-aging skincare treatment. To replace lost revenue, the company is pursuing exclusive distribution rights for brands with elevated formulations allowing expansion into medical skincare treatments. BLC has implemented significant organisational changes with renewal of both sales and educational teams to rebuild sales performance, although the full impact of these changes is unlikely to be seen until 2019.

Nido interiors is a contemporary home interior business designing private label branded products delivered directly to major homewares chains, specialist retailers, online sites and department stores. The product portfolio is concentrated on indoor and outdoor cushions and bedding. Now in its second year, Nido increased sales by 89% and reduced overheads, however these were offset by lower gross margins as the business strategy shifted to focus on supply of private label products into existing and new major retail customers. 2018 sales are showing growth over 2017.

Mountcastle, 50% owned by HGL, supplies uniforms, headwear and bags into school and corporate markets. Mountcastle continues its strong growth performance, increasing sales revenue by 10% to $17.4 million. Market share in school uniforms increased further with The School Locker partnership contributing to a significant uplift in public school uniform sales.

Mountcastle is in discussions with The School Locker to expand the existing supply partnership, with an objective of The School Locker, becoming the exclusive distributor of Mountcastle school wear products to public and private schools in Australia.

The School Locker recently announced a merger with two other subsidiaries in the Harvey Norman group, selling products within the education sector. With that The School Locker is poised for significant future growth with a sales force of more than 30 staff and a support network of 150 service professionals.

The prospect of continued increased sales volumes in The School Locker of both private and public school uniforms provides a promising performance outlook for Mountcastle.

The Board recognises that local economic conditions remain uncertain, and the unpredictability of global markets is continuing to create volatility in the value of the Australian dollar against foreign currencies.

Despite the external challenges, the outlook for the current financial year is encouraging, with anticipated strong performances in our businesses and acquisitions.

The board continues to support the strategy in place to deliver improved sustainable results and a growth in dividends.

In finishing, I would like to thank HGL's shareholders, partners, customers and suppliers for their continued support over the past twelve months. On behalf of the board, I also thank Henrik and his leadership team for their contribution and dedication to the continued success of the Group.

I would also like to thank my fellow Directors for their contribution throughout the year.

I will now hand over to our Chief Executive Officer for further comment.