ASX code: HNG

HGL

2014

SUPPLYING MARKET LEADING BRANDED PRODUCTS

Results for six months ended 31 March 2014

The financial result for the half year ended 31 March 2014 is summarised below:

- Statutory loss of $2.4 million (2013: $0.2 million profit). Underlying profit of $0.1 million (2013: $0.2 million) before charges totalling $2.5 million arising from derecognising tax assets and impairment charges
- Underlying EBIT of $0.4 million (2013: $0.4 million)
- Significant improvement in operating cash flow to $2.0 million (2013: $0.6 million outflow) with $nil HGL borrowing facilities being utilised (2013: $2.0 million)

Trading Overview

Early indications of the financial benefit of the strategy are emerging. Despite continuing unfavourable trading conditions the EBIT of wholly owned companies increased to $0.4 million (2013: $0.1 million loss). Sales of these companies declined by $4 million, approximately half the decline was due to the discontinuation of unprofitable product lines. In line with the decrease in sales gross margin of the wholly owned companies fell by $2 million, however the gross margin % remained strong at 45% (2013: 46%) this decline is largely attributable to increased clearance activity in Leutenegger and Biante. Expenses were reduced by $2.7 million or 20%. Operating cash flow of these companies improved to $2.0 million (2013: $0.4 million outflow). The improvement in EBIT and cash flows are a direct consequence of executing stage one of the change programs outlined in the strategy plan. Working capital reduced by $2.0 million or 19% through ongoing improvement in debtor collections, enhanced procurement management and general stock clearance activity.

The $0.5 million improvement in EBIT was largely due to the improved performance of SPOS following significant business model changes enacted over the last year. As highlighted in my address at the Annual General Meeting SPOS is targeting its key markets of grocery, pharmacy and global brand owners with bespoke design solutions and proprietary security and shelving solutions. Exiting large retail technology projects has reduced revenue but enabled a 30% reduction in costs. SPOS generated improved operating cash flows as it reduces its working capital levels.

In November 2013 Leutenegger was relocated into the same premises occupied by SPOS in Macquarie Park, Sydney. This enabled business model changes to be accelerated as it facilitated a redesigned warehouse with materially lower operating costs. Leutenegger continues to reduce its inventory levels and has generated positive operating cash flows despite the relocation interruption and costs and a small EBIT loss. Leutenegger continues with its extensive change program and its expansion into the Homewares sector is ongoing. Further inventory reductions are anticipated.

For further information
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HGL's vision will be supported by FIVE FUNDAMENTAL GUIDELINES

BEST PRODUCTS HGL markets exclusive premium quality products and services with strong competitive advantage and value proposition.

BEST PEOPLE HGL is recognised as an employer of choice attracting talented and competent team members.

BEST PROCESSES HGL achieves on-going efficiency gains through our continuous business process improvement programs.

BEST CHANNELS HGL works with our pro-active sales channels in a relentless pursuit of sales growth and market share expansion.

BEST CUSTOMER CARE HGL engages with our clients with the highest level of customer care possible securing long-term customer retention and loyalty.

BLC Cosmetics is expanding its product portfolio to the salon and spa market to capitalise on its market position. In March 2014 Perron Rigot waxing products were launched with the initial uptake exceeding our expectations. We have increased new client acquisitions expanding the customer base in recent months. The company is launching two additional product ranges in the second half of the year. BLC Cosmetics increased its EBIT compared to the same period last year. Further inventory reductions are anticipated in the second half of the year.

JSB Lighting has delivered a strong EBIT. The forward order pipeline is expanding in line with recent increased building industry activity indicating positive growth opportunities going forward. JSB Lighting continues to expand outside its historically strong Sydney presence. Market share is growing in both Melbourne and Perth. JSB Lighting continues to look for complimentary brands to expand its premium interior and exterior product range.

Biante performed well with EBIT in line with last year. Its transition to a new IT platform has enabled increased productivity and will facilitate an improved internet presence.

Mountcastle continues to perform well with an EBIT in line with last year. The school uniform business continues to perform to expectations. Due to lower government defence orders the capacity of the Brisbane factory was reduced with more production moved to offshore facilities.

With ongoing industry contraction due to major structural decline in the printing sector, Anitech is increasingly affected by less product differentiation, lower customer activity and increasing pricing pressures. The intensified competition and decreasing industry profit margins is expected to continue. In the six months ended 31 March 2014 the financial performance of Anitech was materially less than budget. In the half year Anitech derecognised tax assets with an effect of $1.0 million to HGL. The board of Anitech is conducting a wide ranging strategic review. In light of market conditions and recent performance the Board of HGL has undertaken an impairment analysis of Createc, an impairment charge of $1.5 million was recognised.

Dividend

The Directors have declared an interim dividend of 2.0 cents fully franked (2013: 2.0 cents fully franked) to be paid on 11 July 2014. The dividend reinvestment plan will continue to be available to all shareholders with no discount.

Outlook

With the exception of Anitech, the GPS strategy is producing the projected results. Phase one of the GPS (Growth, Profit and Sustainability) strategy is to rebuild the foundations; we are well advanced into this phase. The next element of the rebuilding phase is to develop organic revenue growth.

Our cash flow is positive and we are improving our working capital management with further improvements anticipated over the second half year. The GPS strategy is expected to deliver continuous EBIT improvement.

Peter Miller
Chairman

28 May 2014

SUPPLYING MARKET LEADING BRANDED PRODUCTS FOR SPECIALIST MARKETS

PARTNER OF CHOICE FOR OUR GLOBAL SUPPLIER BASE, CORPORATE CLIENTS AND RETAIL NETWORKS

IMPROVE, ACCELERATE AND LEVERAGE PORTFOLIO DEVELOPMENT STRATEGY

Summary of half year profit and loss

	March 2014 Underlying profit $'000	March 2014 Other $'000	March 2014 Statutory $'000	March 2013 Underlying profit $'000 (Restated)
Sales	**25,601**	**–**	**25,601**	34,447
Cost of sales	**(14,147)**	**–**	**(14,147)**	(18,838)
Gross profit	**11,454**	**–**	**11,454**	15,609
Share of associates' (loss)/profit and impairment	**(1)**	**(2,463)**	**(2,464)**	373
Expenses	**(11,071)**	**–**	**(11,071)**	(15,537)
Earnings before interest and tax	**382**	**(2,463)**	**(2,081)**	445
Net interest	**(88)**	**–**	**(88)**	(147)
(Loss)/profit before tax	**294**	**(2,463)**	**(2,169)**	298
Income tax expense	**(196)**	**–**	**(196)**	(38)
(Loss)/profit for the period	**98**	**(2,463)**	**(2,365)**	260
Non controlling interests	**–**	**–**	**–**	(82)
(Loss)/profit after tax and non controlling interests	**98**	**(2,463)**	**(2,365)**	178

Summary of balance sheets

	March 2014 $'000	September 2013 $'000 (Restated)
Cash	**2,591**	4,796
Trade and other debtors	**9,736**	13,152
Inventories	**7,116**	9,885
Current tax assets	**–**	28
Current assets	**19,443**	27,861
Other financial assets	**648**	666
Investment in associates	**4,018**	6,907
Property, plant and equipment	**3,027**	3,491
Intangible assets	**15,682**	15,682
Deferred tax assets	**6,878**	7,429
Non current assets	**30,253**	34,175
Trade and other payables	**(8,381)**	(10,940)
Borrowings	**(267)**	(4,580)
Provisions	**(1,511)**	(2,271)
Current liabilities	**(10,159)**	(17,791)
Borrowings	**–**	(75)
Provisions	**(222)**	(1,013)
Non current liabilities	**(222)**	(1,088)
Net assets	**39,315**	43,157
HGL equity interest	**39,315**	42,302
Non controlling interests	**–**	855
Equity	**39,315**	43,157

Summary of cash flows

	March 2014 $'000	March 2013 $'000 (Restated)
Receipts from customers	**31,672**	40,036
Paid to suppliers and employees	**(29,534)**	(40,582)
Income tax refund	**–**	86
Net interest paid	**(139)**	(159)
Inflow/(outflow) from operating activities	**1,999**	(619)
Purchase of plant and equipment	**(252)**	(1,016)
Proceeds from sale of plant and equipment	**7**	91
Dividends from associate	**425**	275
Loans (repaid)/from associate	**(1,533)**	677
Disposal of controlled entities	**710**	–
(Outflow)/inflow from investing activities	**(643)**	27
Net borrowings repaid	**(2,855)**	(140)
Dividends paid to HGL shareholders	**(690)**	(690)
Dividends paid to non controlling interests	**–**	(180)
Outflow from financing activities	**(3,545)**	(1,010)
Net movement in cash held	**(2,189)**	(1,602)
Cash at beginning of half year	**4,796**	6,881
Foreign exchange effects on opening cash	**(16)**	(2)
Cash at end of half year	**2,591**	5,277