

# 2011

Level 11  
280 George Street  
Sydney NSW 2000  
GPO Box 4406  
Sydney NSW 2001  
www.hgl.com.au

P +612 9221 7155  
F +612 9233 2713

HGL Limited  
abn 25 009 657 961

## Results for six months ended 31 March 2011



### Summary

HGL Limited, a supplier of market leading branded products into specialist markets, reported underlying profit of \$4.1 million (2010: \$4.1 million) for the six months ended 31 March 2011 and a slight decrease in underlying earnings per share to 8.0 cents (2010: 8.1 cents).

Statutory profit for the first six months this year was \$4.1 million, the corresponding figure last year was \$7.8 million including \$3.7 million profit from the sale of listed shares. HGL exited all listed security investments in 2010.

The Directors have declared an interim dividend of 6.0 cents fully franked (2010: 6.0 cents fully franked) to be paid on 8 July 2011. The dividend represents a payout ratio of 75% of underlying profit. The dividend reinvestment plan will continue to be available to shareholders with no discount.

### Commentary

Underlying profit has been maintained despite the positive impact gained in the previous corresponding period from the Federal Government Stimulus Package which boosted profit in 2010 through higher sales of large format printers and eye testing equipment.

Excluding large format printers and eye testing equipment sales increased 3% while total sales fell 3% to \$81.8 million (2010: \$84.8 million).

HGL has a long term sustainable business model and as a market leader in specialised markets adjusts pricing when the dollar fluctuates. Most of the benefit of the strong Australian dollar was passed to customers in much the same way as prices were increased when the dollar fell in the 2008/2009 year.

Gross margin percentage increased to 48% from 45%. The gross margin improvement was mainly generated by a shift to higher margin products and by reduced discounting. The increase was partially due to lower product costs arising from the strengthening Australian dollar however most of this gain was passed onto customers.

During the second half of 2010 expenses were increased to support growth. Expenses continued at similar levels in the first half 2011 and were 7% higher than in the corresponding period last year.

Underlying profit was unchanged despite earnings before interest and tax (EBIT) from supplying branded goods into specialist markets decreasing 8% to \$8.1 million (2010: \$8.8 million). The business units selling large format printing equipment and eye testing instruments where sales and profits declined are partially owned by their management and therefore minority interests were lower this half year.

Since September debtors and inventories have increased by \$0.6 million and creditors have fallen by \$3.3 million. The reduction in creditors and increased tax payments, \$2 million higher in 2011, led to operating cash flow of \$1.0 million being \$4.8 million lower than last year.

At the end of March 2011 capital employed in supplying market leading branded products was \$79.6 million, an increase of \$4.8 million since September. The annualised EBIT to capital employed return for the first half of the year was 20% (2010: 24%) and is in line with our budgeted internal hurdle rate of 20%.

### Capital management

Currently HGL has \$1.2 million net debt. Our capital management policy is to utilise prudent borrowings to invest in additional business units and agencies.

### Outlook

The strategy for continued growth includes increasing sales through improving internal processes and from gaining new product agencies in both existing and adjacent markets. External conditions remain challenging and unpredictable however with the current demand for our products, the product extensions and internal improvements we believe 2011 underlying profit will be higher than last year.

Peter Miller  
Chairman

## Summary of half year profit and loss account

	2011 Total \$'000	2010 Underlying profit \$'000	2010 Other \$'000	2010 Statutory \$'000
Sales	81,818	84,787	5,228	90,015
Cost of sales	(42,442)	(46,610)	-	(46,610)
Gross profit	39,376	38,177	5,228	43,405
Expenses	(31,268)	(29,358)	-	(29,358)
Business EBIT	8,108	8,819	5,228	14,047
Dividend income	-	230	-	230
Net interest	(214)	(557)	-	(557)
Profit before tax	7,894	8,492	5,228	13,720
Tax expense	(2,425)	(2,238)	(1,568)	(3,806)
Profit after tax	5,469	6,254	3,660	9,914
Minority interests	(1,350)	(2,139)	-	(2,139)
Profit after tax and minorities	4,119	4,115	3,660	7,775

In 2011 underlying profit and statutory profit are the same. Other in 2010 is the profit on sale of the share portfolio.

## Summary of balance sheets

	March 2011 \$'000	September 2010 \$'000
Cash	9,730	8,432
Trade and other debtors	32,067	31,589
Inventories	33,453	33,322
<b>Current assets</b>	<b>75,250</b>	<b>73,343</b>
Equity accounted investments	2,065	1,749
Other financial assets	1,980	2,011
Property, plant and equipment	12,224	11,842
Intangibles	27,359	27,394
Deferred tax assets	3,564	3,716
<b>Non current assets</b>	<b>47,192</b>	<b>46,712</b>
Trade and other payables	(17,424)	(20,697)
Borrowings	(3,368)	(3,117)
Provisions	(3,580)	(3,905)
Current tax liabilities	(1,619)	(2,951)
<b>Current liabilities</b>	<b>(25,991)</b>	<b>(30,670)</b>
Borrowings	(7,529)	(3,296)
Provisions	(1,648)	(1,453)
<b>Non current liabilities</b>	<b>(9,177)</b>	<b>(4,749)</b>
<b>Net assets</b>	<b>87,274</b>	<b>84,636</b>
HGL equity interest	71,561	69,729
Outside equity interest	15,713	14,907
<b>Equity</b>	<b>87,274</b>	<b>84,636</b>

## Summary of cash flows

	March 2011 \$'000	March 2010 \$'000
Receipts from customers	89,549	92,904
Paid to suppliers and employees	(84,701)	(85,258)
Dividends received	-	230
Income tax paid	(3,544)	(1,526)
Net interest paid	(304)	(557)
<b>Inflow from operating activities</b>	<b>1,000</b>	<b>5,793</b>
Purchase of plant and equipment	(1,665)	(1,511)
Proceeds from sale of listed shares	-	7,146
Others, net	140	(409)
<b>(Outflow)/inflow from investing activities</b>	<b>(1,525)</b>	<b>5,226</b>
Payment for share buy back	-	(318)
Net proceeds from borrowings	4,485	(9,168)
Dividends paid to HGL shareholders	(2,213)	(1,587)
Dividends paid to minorities	(435)	(660)
<b>Inflow/(outflow) from financing activities</b>	<b>1,837</b>	<b>(11,733)</b>
<b>Net movement in cash held</b>	<b>1,312</b>	<b>(714)</b>
Cash at beginning of half year	8,432	8,126
Foreign exchange effects on opening cash	(14)	(48)
Cash at end of half year	9,730	7,364