HGL

2013

ASX code: HNG

SUPPLYING MARKET LEADING BRANDED PRODUCTS

Results for six months ended 31 March 2013

The Directors of HGL Limited ("HGL" or the "Company", ASX: HNG) provide the Company's financial result for the half year ended 31 March 2013.

Results Overview

For the six months ended 31 March 2013 reported and underlying profit was $0.2 million (H1 2012: reported profit $1.2 million and underlying profit $1.3 million). Earnings before Interest & Tax (EBIT) amounted to $1.1 million, a reduction of 63% on H1 2012. The decline in earnings was primarily driven by Anitech and SPOS. While depressed economic conditions impacted these two businesses, internal performance factors also contributed to the earnings decline.

Earnings per share for the six month period were 0.3 cents, compared to 2.2 cents in H1 2012.

The Directors have declared an interim dividend of 2.0 cents fully franked (2012: 4.0 cents fully franked) to be paid on 12 July 2013. The dividend reinvestment plan will continue to be available to shareholders with no discount.

Trading Overview

The retail market in Australia continued to experience difficult trading conditions. Consumer demand, household spending and business confidence has remained weak impacting overall sales activity and trading performance.

Total sales fell 10% to $54 million, primarily due to the decreased trading performance of Anitech and SPOS. Excluding discontinued product sales these two business units accounted for almost the entire decline in Group sales. At a Group level gross margin remained resilient at 46%, validating the commercial appeal of HGL's premium products and customer value perception.

BOC Instruments, JSB Lighting and Biante increased sales compared to last year and Mountcastle achieved sales only marginally lower than last year without benefiting from the significant defence sales in the first half of last year.

At an EBIT level, the Company experienced positive growth compared to the same period last year in JSB Lighting, BOC Instruments, Biante, BLC with only marginal declines in Mountcastle and XLN. The positive EBIT growth from these business units was offset by the decline in Anitech and SPOS.

Extensive reorganisation and restructure projects have commenced in Anitech and SPOS to address internal performance issues. The Board believes these transformation initiatives will positively impact the current performance trend and anticipates an annual expense reduction in the range of $3 million to $4 million before tax.

Reorganisation and redundancy costs, together with associated asset write downs are estimated to be in the range of $4.0 million to $5.0 million after tax. The cash impact of these charges is approximately $1.0 million. These costs are anticipated to occur in the second half of the year, all such charges will be excluded from underlying profit.

From a balance sheet perspective, HGL remains financially strong with net cash of $4.1 million (September 2012: $5.0 million) plus $8.0 million of unutilised borrowing facilities. Net cash from operations was $1.2 million (compared to an outflow of $1.4 million in H1 2012). $0.7 million was invested to fit out a new building and showroom for JSB as part of the growth strategy for this business.

Corporate Strategy

HGL Limited supplies market leading premium products into specialist markets. HGL is a partner of choice for our global supplier base, corporate clients and retail networks, operating dedicated business units in large industry segments. HGL is an active management company with an 'improve, accelerate and leverage' portfolio development strategy.

For further information
Henrik Thorup Chief Executive
P +612 9221 7155 **M** +61 419 268 560

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.

Under the leadership of our new HGL Chief Executive and in conjunction with each business Chief Executive the Company has undertaken a comprehensive market sector analysis and is reviewing each business unit to identify competitive advantages, internal inefficiencies and performance issues.

The HGL business units operate within niche industry sectors. The majority of our business units operate in an Australian market of greater than $2.5 billion and only have a current market share of less than 5%. Each business is strategically positioned within its market and is being driven to achieve long-term organic growth and enhanced market share.

HGL's core purpose is to continue to position itself as:

- An industry leading supplier of superior branded products to specialist markets
- A partner of choice for our global suppliers, corporate clients and retail networks
- A diversified Group operating profitable business units in large local market sectors with growth potential

Based on identified competitive advantages and internal business improvement opportunities the Company has clarified its corporate strategy emphasising focus on three core objectives – Growth, Profitability and Sustainability (GPS).

The key drivers of the GPS Strategy Plan are:

- Growth from existing and new product sales in core markets and expansion into new markets
- Profitability through continuous improvement of work flow processes, systems, working capital management and staff performance management procedures

- Sustainability through investment in leadership and talent management programs, staff engagement and group management oversight function to drive best practice processes.

The GPS Strategy will produce restructuring, transformation and expansion activities improving profitability across the Group. Restructuring activities have commenced in SPOS and Anitech with transformation and market share expansion activities underway in the other business units of the Group.

Anitech is centralising its management and operations in Sydney and is transitioning to third party warehouses to streamline its distribution model to enhance delivery capability. The key focus of this initiative is to drive efficiency and profitability including a simplified management structure, optimised operational procedures and product portfolio development. The outcome will be an enhanced sales and service presence in each state at a lower cost.

SPOS is implementing a cost reduction initiative aligning operating expenses to current revenue levels. A new organisational model with direct profit responsibility has been implemented focusing on the core product offering in key markets driving sales growth, gross margin improvement and efficiency.

Corporate improvement programs in areas such as Business Development (Territory Management), Operations (Business Excellence) together with Human Resources Engagement and Development (HR) will develop coherent capabilities across the Group focused on One Team, One Purpose and One Direction principles and strengthen the promotion of HGL corporate culture.

Outlook

Despite the subdued economy and the reduction in underlying profits for H1 2013, the Board remains confident in the outlook for the Group. Operating in large markets with only small market shares provides the potential for organic growth in each of our businesses.

Our financial position remains strong and the Board is confident that with a new Chief Executive, refined strategy and business initiatives in place, the current performance trend will improve and deliver efficiencies which will enhance profit contribution in future periods.

Peter Miller
Chairman

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 account

	March 2013	March 2012		
	Underlying profit $'000	Underlying profit $'000	Other $'000	Statutory $'000
Sales	**54,295**	60,527	–	60,527
Cost of sales	**(29,210)**	(32,625)	–	(32,625)
Gross profit	**25,085**	27,902	–	27,902
Expenses	**(24,021)**	(24,984)	(600)	(25,584)
Earnings before interest and tax	**1,064**	2,918	(600)	2,318
Net interest	**(83)**	57	–	57
Profit before tax	**981**	2,975	(600)	2,375
Income tax expense	**(348)**	(947)	505	(442)
Profit for the period	**633**	2,028	(95)	1,933
Non controlling interests	**(455)**	(777)	–	(777)
Profit after tax and non controlling interests	**178**	1,251	(95)	1,156

In 2012 Other is the disposal of Aarque Group Limited and Amcla Pty Ltd.

Summary of balance sheets

	March 2013 $'000	September 2012 $'000
Cash	**6,569**	7,594
Trade and other debtors	**19,501**	21,547
Inventories	**23,450**	24,034
Current tax assets	**675**	1,779
Current assets	**50,195**	54,954
Other financial assets	**928**	975
Property, plant and equipment	**4,588**	4,326
Intangible assets	**19,896**	19,896
Deferred tax assets	**7,688**	7,401
Non current assets	**33,100**	32,598
Trade and other payables	**(12,819)**	(15,602)
Borrowings	**(2,237)**	(2,329)
Provisions	**(2,933)**	(3,286)
Current liabilities	**(17,989)**	(21,217)
Borrowings	**(191)**	(255)
Provisions	**(1,197)**	(1,732)
Non current liabilities	**(1,388)**	(1,987)
Net assets	**63,918**	64,348
HGL equity interest	**53,177**	53,607
Non controlling interests	**10,741**	10,741
Equity	**63,918**	64,348

Summary of cash flows

	March 2013 $'000	March 2012 $'000
Receipts from customers	**61,771**	65,568
Paid to suppliers and employees	**(60,944)**	(64,179)
Income tax refund/(paid)	**474**	(2,757)
Net interest paid	**(83)**	(42)
Inflow/(Outflow) from operating activities	**1,218**	(1,410)
Purchase of plant and equipment	**(1,138)**	(639)
Proceeds from disposal of controlled entity	**–**	4,398
Others, net	**162**	85
(Outflow)/inflow from investing activities	**(976)**	3,844
Net proceeds from borrowings	**(124)**	(483)
Dividends paid to HGL shareholders	**(690)**	(2,442)
Dividends paid to non controlling interests	**(455)**	(280)
Outflow from financing activities	**(1,269)**	(3,205)
Net movement in cash held	**(1,027)**	(771)
Cash at beginning of half year	**7,594**	11,762
Foreign exchange effects on opening cash	**2**	(2)
Cash at end of half year	**6,569**	10,989

HGL Limited abn 25 009 657 961
Level 11, 280 George Street Sydney NSW 2000 • GPO Box 4406 Sydney NSW 2001
P +612 9221 7155 F +612 9233 2713 W www.hgl.com.au

SUPPLYING MARKET LEADING BRANDED PRODUCTS