HGL Limited
ACN 009 657 961

HGL today announced a net profit after tax and minorities of $2.0 million for the half year to 31 March 2003. The earnings before interest and tax from continuing operating businesses are up 78% to $4.4 million from $2.5 million while sales have increased by 17% to $40 million. The profit before tax in the same period last year was $8.5 million higher.

The comparative period included the sale of GMA and the revaluation of Hunter Hall. A revaluation deficit of $1.2 million before tax for Hunter Hall has been recognised in the results for this half year. A detailed comparison of the 2003 and 2002 half year results is contained in the financial commentary section of this report.

At the Annual General Meeting in January of this year I commented that HGL has somewhat irregular earnings due to the timing of investment transactions. Investment profits of $4.5 million are anticipated in the second half.

We are currently reviewing a number of potential opportunities and have made two acquisitions of operating businesses, both of which are summarised below:

- In December, HGL acquired 28% of MMC Asset Management, an Adelaide based boutique funds manager for $1.9million; and
- In April, HGL acquired 100% of Sydney Point-of-Sale (SPOS) for $7.0 million, with an additional $1.2 million payable subject to performance targets. SPOS imports and distributes price ticketing, and shelf management systems, merchandising and promotional display products to retailers, brand manufacturers, shopfitters and advertising agencies.

MMC has increased funds under management to $172 million from $151 million in December 2002 and was a finalist in the Morningstar Emerging Fund Manager of the year awards.

Dividends

With franking credits now available, the Directors have declared a fully franked interim dividend of 4.2 cents per share. The company has sufficient franking credits to continue to fully frank the dividend for the foreseeable future.

Outlook

Including SPOS, HGL now generates recurring profit after tax and minorities of about $4 million per annum. This is before any contribution from investment transactions or revaluations. If the sale of our investments in Sabre and Lemarne proceed the disposals would contribute $4.5 million to the full year profit after tax.

HGL is striving to increase the amount invested in operating businesses to strengthen and enhance our ongoing profits and cash flows. We will continue to acquire easily understood businesses with an EBIT in excess of $2 million.

On the successful completion of the sale of Sabre and Lemarne HGL would receive $16 million. In addition we have $24 million of available bank borrowing facilities and $8 million of listed securities. With approximately $50 million to invest while still maintaining a prudent debt to equity ratio, the Directors believe this strategy will lead to a substantial increase in the value of HGL over the coming years.

Operating businesses

Earnings before interest and tax from continuing operating businesses were up 78% to $4.4 million from $2.5 million, sales increased 17% to $40 million. The improvement is the result of the continuing efforts over the past two years to ensure the operating businesses are well structured and focused.

The IT division has seen substantial improvements, earnings increased by $1.7 million to $1.9 million, sales increased by 35% to $18 million.

Investments

Sabre Group Limited

Sabre has received a $2.15 cash offer for all its shares under a scheme of arrangement. If the scheme of arrangement is completed HGL will receive $9.9 million cash and recognise a profit after tax of $3 million. HGL owns 15% of Sabre and intends to vote in favour of the scheme.

Lemarne Corporation

In November 2002 HGL made a bid for Lemarne, the bid is scheduled to close on 27 June 2003. On 22 May 2003 a subsidiary of HGL entered into a buy back agreement with Lemarne for the shares it owns in Lemarne. Subject to a number of conditions HGL will recognise a profit after tax of $1.5 million and receive $6 million in cash.

Hunter Hall

HGL owns 6% of Hunter Hall International Limited (ASX code: HHL). Hunter Hall is a boutique international funds manager. This investment is marked to market and the price of $3.60 on 31 March 2003 is our book cost of $5.6 million. As the market price was $4.40 at 30 September 2002 a revaluation deficit of $1.2 million before tax has been recognised in the results for this half year.

Financial commentary

Summary of balance sheet and results

A summary of the profit for the six months to 31 March and net assets at 31 March is shown below:

	Net assets 2003 $'000	EBIT 2003 $'000	Net assets 2002 $'000	EBIT 2002 $'000
Continuing operating businesses	27,626	4,380	28,397	2,462
GMA	0	0	0	1,842
Operating businesses	27,626	4,380	28,397	4,304
Non operating	30,467	(286)	24,855	8,747
Unallocated central costs		(1,135)		(1,317)
Net assets/EBIT	**58,093**	**2,959**	**53,252**	**11,734**
Net interest payable		(87)		(318)
Profit before tax		**2,872**		**11,416**
Tax		433		(3,712)
Profit after tax		3,305		7,704
Minority interests		(1,293)		(1,381)
Profit after tax and minorities		2,012		6,323
Earnings per share		4.31		13.59
Dividends per share - unfranked				6.0
Dividends per share - fully franked		4.2		

Explanation of balance sheet and results

- In 2002 $0.4 million of reorganisation costs were included within continuing operating businesses.
- In 2003 non operating comprised a $1.2 million revaluation deficit on Hunter Hall and investment income of $0.9 million.
- In 2002 non operating comprised a profit on the sale of GMA of $5.8 million, a $4.0 million revaluation surplus on Hunter Hall, $2.1 million of goodwill written off and asset write downs and $1.1 million of investment income.
- The goodwill written off in 2002 included $0.9 million of goodwill previously disclosed within continuing operating businesses.
- Working capital is well controlled with trade debtors and inventories remaining at September 2002 levels. Creditors have reduced by $2.7 million.
- The reduction in creditors resulted in net operating cash flows being only $0.5 million in the first half. We are anticipating strong cash creation in the second half.
- GMA was sold on 26 March 2002 for $18 million.

Taxation

The tax charge has benefited by $1.1 million due to past tax losses being brought to account and offset against the deferred tax liability associated with the revaluation of Hunter Hall. The effective tax rate before this $1.1 million credit was 23%.

Peter Miller
Chairman

28 May 2003.

Balance sheet

	31 March 2003 $'000	31 March 2002 $'000
Current assets		
Cash	8,131	18,536
Receivables	16,159	15,989
Inventories	28,462	26,737
Current tax assets	1,108	491
Total current assets	**53,860**	**61,753**
Non current assets		
Receivables	1,189	999
Investments accounted for using the equity method	2,058	449
Other financial assets	13,070	7,978
Property, plant and equipment	7,209	7,107
Intangibles	2,047	3,012
Total non current assets	**25,573**	**19,545**
Total assets	**79,433**	**81,298**
Current liabilities		
Payables	(10,600)	(9,011)
Interest bearing liabilities	(951)	(1,129)
Current tax liabilities	(765)	(826)
Provisions	(1,215)	(4,147)
Total current liabilities	**(13,531)**	**(15,113)**
Non current liabilities		
Interest bearing liabilities	(6,130)	(9,851)
Deferred tax liabilities	(571)	(2,024)
Provisions	(1,108)	(1,058)
Total non current liabilities	**(7,809)**	**(12,933)**
Total liabilities	**(21,340)**	**(28,046)**
Net assets	**58,093**	**53,252**
Equity		
Contributed equity	28,388	27,848
Reserves	(69)	(136)
Retained profits	20,722	19,808
HGL Limited equity interest	**49,041**	**47,520**
Outside equity interests in controlled entities	9,052	5,732
Total equity	**58,093**	**53,252**

Abridged profit and loss account

	31 March 2003 $'000	31 March 2002 $'000
Revenue	40,476	73,360
Expenses	(37,350)	(61,056)
Borrowing costs	(358)	(546)
Share of net profit (loss) of associates	104	(342)
Profit before taxation	**2,872**	**11,416**
Income tax	433	(3,712)
Profit after taxation	**3,305**	**7,704**
Net profit attributable to outside equity interests	(1,293)	(1,381)
Net profit for the period attributable to members	**2,012**	**6,323**
Retained profits at the beginning of the period	18,710	16,271
Dividends	-	(2,786)
Retained profits at the end of the period	**20,722**	**19,808**

Statement of cash flows

	31 March 2003 $'000	31 March 2002 $'000
Cash flows related to operating activities		
Receipts from customers	44,232	48,352
Payments to suppliers and employees	(43,594)	(46,349)
Dividends received	840	405
Net interest paid	(89)	(324)
Income taxes paid	(864)	(487)
Net cash inflow from operating activities	**525**	**1,597**
Cash flows relating to investing activities		
Payment for purchase of property, plant and equipment	(842)	(741)
Proceeds from sale of property, plant and equipment	93	1,222
Payment for purchase of equity investments	(4,113)	(8,270)
Proceeds from sale of equity investments	433	4,432
Net loans to other entities	(278)	540
Proceeds from sale of controlled entity	1,500	18,000
Cash in disposed entity	-	(1,558)
Net investing cash flows	**(3,207)**	**13,625**
Cash flows relating to financing activities		
Proceeds from borrowings	4,589	4,584
Repayment of borrowings	(162)	(425)
Dividends paid to members of the parent entity	(2,359)	(2,632)
Dividends paid to outside equity interests	(389)	(945)
Payment for share buyback	(41)	(490)
Net financing cash flows	**1,638**	**92**
Net increase in cash held	**(1,044)**	**15,314**
Cash at beginning of period	9,175	3,222
Cash at end of period	**8,131**	**18,536**