

REVIEW 2011

Summary

For the year ended 30 September 2011 HGL reports a 6% increase in underlying profit to \$7.2 million (2010: \$6.8 million) and a reported loss of \$2.4 million (2010: \$13.4 million profit). Our balance sheet remains strong with net cash at 30 September 2011 of \$6.6 million (2010: \$2.0 million). We are well placed to fund both organic growth and future dividends.

Included in the reported loss is a \$9.6 million after tax non cash write down of the Biante business unit. The \$9.6 million principally comprises goodwill of \$6.4 million, fixed asset write downs of \$1.8 million and stock related provisions of \$1.0 million. Last year the reported profit included a \$6.6 million after tax profit from the sale of listed shares.

The 2011 year has been one of building on the change of strategy implemented last year and on continuing business improvement. The 6% increase in underlying profit in the face of tough external conditions demonstrates the success to date.

Dividends

The final dividend for 2011, payable on 16 December 2011, will be 5.5 cents (2010: 5.0 cents) per share fully franked bringing the total dividend for the year to 11.5 cents (2010: 11.0 cents) per share fully franked. The dividend represents a payout ratio of 83% (2010: 83%) of underlying profit.

The dividend policy has been amended to distributing no less than 75% of underlying profit from distributing between 70% and 80% of underlying profit. Current and foreseeable future dividends are anticipated to be fully franked.

Business approach

HGL is a supplier of market leading branded products and services into specialist markets. The fragmented nature of the specialist markets and the strength of the brands and services supplied ensure we have a reasonable level of pricing power. Typically we do not sell low margin mass market commodity type products. Approximately 70% of sales are to businesses and 30% are to retailers.

Operating a decentralised business model, each business unit is focussed on its specific markets. Most decision making is made as close to the customers, suppliers and markets as possible to facilitate satisfying customer needs and more fully exploiting growth opportunities. Our people and financial resources are directed to increasing sales and profits with only 5 of our 390 employees employed in the central office.

SUMMARY OF RESULTS

	2011 \$millions	2010 \$millions
Underlying profit	7.2	6.8
Other	(9.6)	6.6
Reported (loss)/profit	(2.4)	13.4
Net cash	6.6	2.0

	cents per share	cents per share
Underlying profit	13.9	13.3
Other	(18.6)	13.0
Reported (loss)/profit	(4.7)	26.3

DIVIDENDS

	cents per share	cents per share
Interim	6.0	6.0
Final	5.5	5.0
Total	11.5	11.0

first choice distributor in our markets

market leading branded products for specialist markets

focus sharpened by a business unit for each market

SUMMARY OF TRADING RESULTS

	2011	2010
	\$millions	\$millions
Sales	163.4	170.1
Cost of goods sold	(85.8)	(93.5)
Gross margin	77.6	76.6
Expenses	(63.7)	(61.5)
Business EBIT	13.9	15.1
Gross margin %	47.5	45.0

Michael Mahoney was appointed Chief Executive in October 2010 and the strategy to increase sales, profit and the dividend is to:

- Broaden our product offering and distribute these products into both our existing and adjacent markets. Successes to date include, leveraging our market leading position in the school hat market to sell school uniforms and delivering creative solutions in the point of sale market where previously sales were more product based.
- Increase the quality and experience of the senior management teams. A number of changes were made in 2011 and more are anticipated in the coming year. In August new Chief Executives were appointed for Leutenegger and Biante.
- Improve processes and increase efficiency.

The plan for organic growth shown above may be supplemented through acquisition at the business unit level. Our focus is on growing the profitability of our current business units.

To facilitate growth, and to provide appropriate focus, the potential for each business unit has been reviewed and three non core business units have been identified:

- Aarque Group, a New Zealand supplier of printing equipment with limited growth and sales of \$23 million in 2011; and
- The small shareholdings in Amcla and Safilo.

Since the end of the financial year we have disposed of Aarque and Amcla realising a loss of \$0.1 million and generating cash of \$4.4 million. Discussions are ongoing to sell our holding in Safilo.

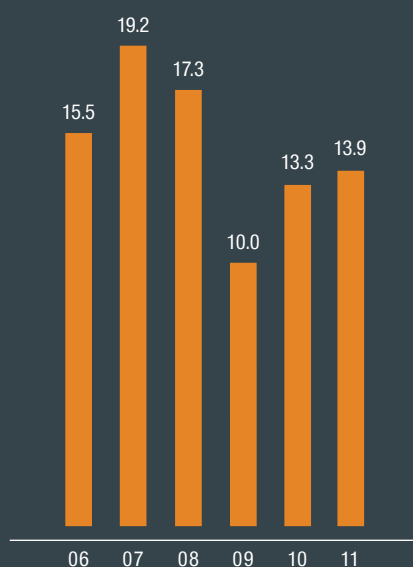
The performance of both Biante and BLC is disappointing. We are adopting new strategies and operational improvements to increase profitability.

Financial summary

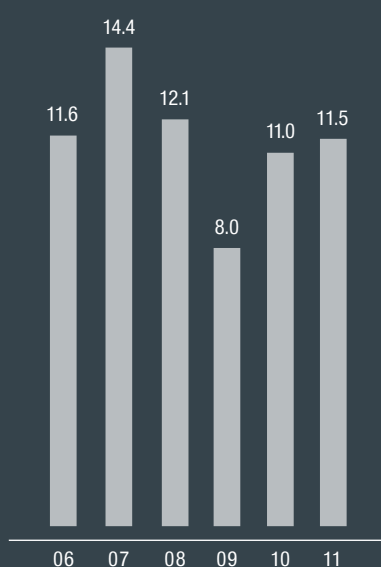
The financial performance for the year ended 30 September 2011 is summarised as follows:

- Underlying profit after tax increased by 6% to \$72 million (2010: \$6.8 million) being 13.9 cents per share (2010: 13.3 cents per share).
- A non cash charge excluded from underlying profit of \$9.6 million to write down inventories, fixed assets and goodwill in the Biante business unit.
- Fully franked dividends per share of 11.5 cents (2010: 11.0 cents).
- At the end of September 2011 capital employed was \$62.9 million (2010: \$74.7 million). The EBIT to capital employed ratio was 22.1% (2010: 20.2%) and remains above our internal hurdle rate of 20%.
- The operational cash flow of \$13.2 million (2010: \$11.5 million) enabled net cash balances to increase to \$6.6 million.
- Underlying return on equity of 11.4% (2010: 9.7%).

UNDERLYING EARNINGS PER SHARE - CENTS



DIVIDENDS PER SHARE - CENTS



SUMMARY OF UNDERLYING PROFIT

	2011 \$millions	2010 \$millions
Business EBIT	13.9	15.1
Dividend income	-	0.2
Net interest expense	(0.3)	(0.7)
Underlying profit before tax	13.6	14.6
Taxation	(4.0)	(4.3)
Minorities	(2.4)	(3.5)
Underlying profit after tax	7.2	6.8

Trading summary

Full year underlying profit was up 6%, buoyed by a 14% increase in the second half. This second half increase was particularly pleasing bearing in mind the significantly weaker external environment during that period.

JSB Lighting, SPOS and Mountcastle business units drove the 2011 result; they all delivered double digit earnings growth. Their growth reflected their achievement in building stronger teams and diversifying product offerings into adjacent markets.

Overall sales fell by 4% largely due to lower demand for printers at Anitech and for eye testing equipment at BOC. Both of these product categories had benefited in the prior year from the Government Stimulus Package which we believe brought forward some sales from 2011 to 2010. Excluding sales of printers and eye testing equipment sales increased 1%.

The gross margin increased to 47.5% (2010: 45.0%). This improvement was driven by lower sales of printers and eye testing equipment, which have lower margins, combined with a move to higher margin products and through retaining part of the benefit of lower product costs.



ABOUT HGL

first choice distributor in our markets

market leading branded products for specialist markets

focus sharpened by a business unit for each market

STRATEGY EXECUTION

- Broaden product offering
- Distribute products into both existing and adjacent markets
- Increase quality, experience and depth of senior management team
- Improve processes and increase efficiency

The A\$ strengthened from an average of 90 cents against the US\$ last year to an average of \$1.02 in 2011. When the A\$ strengthens our competitors receive the same benefit and market forces tend to result in lower product costs being passed onto our customers. As a result of lower selling prices we need to sell more units to maintain sales. When the US\$ exchange rate weakens market forces tend to allow price increases to our customers and price reductions to be negotiated with our suppliers.

The strategy of raising internal standards and entering adjacent markets is in place to not only provide sustainable long term growth but also to counteract weak external demand and any A\$ led price deflation.

Two key financial performance measures are the EBIT to sales ratio and the EBIT to capital employed ratio. The EBIT to sales ratio measures how much of each sales dollar is flowing through to profit and the EBIT to capital employed ratio ensures prudent growth and working capital management. The EBIT to sales ratio declined slightly to 8.5% from 8.9% largely following weakened performance from Leutenegger and BLC. The EBIT to capital employed ratio increased to 22.1% (2010: 20.2%) and is above our internal target rate of 20%.

A number of the business units are owned in conjunction with management, this creates a minority interest in the accounts. The minority interest fell to \$2.4 million (2010: \$3.5 million) as the earnings in Anitech, BOC and BLC decreased. HGL now typically owns 100% of the larger business units.

Biante

There has been continuing weakness in demand for the collector model cars sold by the Biante business unit. The market for high quality collector model cars suffered a serious contraction in the wake of the global financial crisis and sales have not recovered and are not expected to recover in the medium term. To address this management changes have been implemented, costs have been significantly reduced and the range of Biante's product offering has been modified.

In October 2011 the major supplier to Biante went into bankruptcy without warning. The majority of the moulds used to manufacture Biante's model cars were in the care of this supplier and its sub contractors. It is unlikely Biante will be able to recover these moulds from this Chinese based supplier.

As a result reported profit for 2011 includes non cash write downs associated with the Biante business unit of approximately \$9.6 million after tax. The \$9.6 million principally comprises goodwill of \$6.4 million, fixed asset write downs of \$1.8 million and additional stock related provisions of \$1.0 million.

We are reviewing the options for Biante. While the options are being assessed our financial goal is to ensure Biante does not incur losses.

Foreign exchange management

HGL sells products where most of the medium and long term exchange fluctuations can be carried by our customers and our suppliers. To provide sufficient time for operational adjustments to occur a combination of foreign currency bank accounts and foreign exchange contracts are utilised.

People and the environment

Our success is a result of the skills and efforts of our people and this is even more the case in the current tough trading times. The board acknowledges and thanks our 390 employees for their commitment and contribution throughout the year.

Our drive to lift operational standards is dependent on recruiting, managing and providing opportunity more effectively for our people. This remains a key objective of senior management and the board.

We put the safety of our staff first. Despite operating in low risk environments there is a high level of awareness concerning occupational health and safety, there is no complacency.

Although our activities have limited environmental impact we strive to be environmentally friendly and embrace technologies that limit environmental impact. This strategy is particularly prevalent in our point of sale, architectural lighting and large format printing business units.

Balance sheet

The balance sheet remains strong with net cash of \$6.6 million. The main changes compared to last year are associated with the non cash write downs in the Biante business unit. Following the sale of Aarque and Amcla net cash increased to \$14.0 million.

Outlook

We remain cautious in outlook due to the prevailing uncertainty and weakened business confidence in the wider economy. With cash in the bank and a sound strategy the Board is confident about the long term future of the company.

At the Annual General Meeting on 31 January 2012 a review of the first quarter's trading will be presented.



Peter Miller
Chairman



Michael Mahoney
Director and Chief Executive

23 November 2011

FUNDING AND CAPITAL MANAGEMENT

At 30 September:

- The group has net cash of \$6.6 million
- Bank facility of \$10 million maturing December 2012
- Utilised bank facilities of \$1.0 million

After 30 September:

- The sale of Aarque increased net cash by \$6.9 million
- The sale of Amcla increased net cash by \$0.5 million

Capital management policy is to employ net cash together with prudent borrowings to support the growth in each business unit.



SPOSgroup

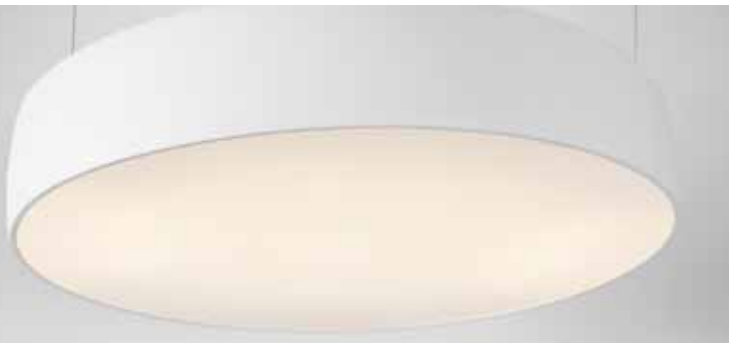
Retail Marketing

Sales \$30m

SPOS Group - is a leading provider of marketing at retail solutions in Australia and New Zealand, creating and supplying effective point-of-purchase materials designed to enhance the overall appearance of the products in-store and ultimately stimulate sales. SPOS includes 3 divisions: SPOS Retail, icandy Creative and Propel Interactive. The head office is located in Sydney with offices in Norwest, Melbourne, New Zealand, China, United Kingdom and Hong Kong. The Chief executive is Mr David Evans.

www.sposgroup.com
www.icandycreative.com.au

www.spos.com.au
www.propelinteractive.com.au



Architectural Lighting

Sales \$18m



JSB Lighting - supplier of architectural lighting and control equipment for the commercial market. World class brands include Modular, LTS, ACDC, Hess, Brick In The Wall, Luceplan and Sensor Switch. The business is based in Sydney with sales offices in Melbourne and Adelaide. The Chief Executive is Mr Dudley Hewitt.

www.jsblighting.com.au





Home Sewing and Craft

Sales \$18m

LEUTENEGGER

ESTABLISHED 1891

Leutenegger - is a market leading supplier in the craft and textile industry distributing its own design driven collections and internationally recognised global ranges. Beutron, DMC, Zweigart, Prym and Robert Kaufman form part of this exciting range which continues to set a benchmark in the industry. The business is based in Sydney. Mr Andrew Mills is the Chief Executive.

www.leutenegger.com.au



XLN Fabrics - imports and distributes quality home sewing fabrics. Exclusive agencies include Marcus Brothers, Westminster and Free Spirit. The business is based in Sydney. The Chief Executive is Mr Vince Parry who owns 50% of the business.

www.xln.com.au





Large Format Printing

Sales \$36m

Anitech - distributes large format printing solutions to the sign, advertising, point of sale, architects, engineers and construction markets as well as associated consumables and services. Provides third party maintenance and service support for a wide variety of computer based equipment. The business is based in Sydney and has branches in all major Australian cities. Mr Chris Wagstaff is the Chief Executive. The management team own 50% of the business.

www.anitech.com.au





Est. 1835

Specialist Headwear and Uniforms

Sales \$12m

Mountcastle - imports, distributes and manufactures specialist headwear and school uniforms. It is the market leader in supplying contract headwear to organisations such as the police, defence forces and schools. The business is based in Brisbane. The Chief Executive is Mr James Baldwin. The management team own 50% of the business.

www.mountcastle.com.au



Eye Testing Instruments

Sales \$8m



BOC - imports and distributes ophthalmic equipment to retail optometrists, ophthalmologists and laboratories. Agencies include Nidek, Optovue, Righton, Reichert and Welch Allyn. BOC continues to expand based on excellent customer service and increased penetration of the ophthalmology market. The business is based in Sydney. Mr Tony Cosentino is the Chief Executive. The management team own 50% of the business.

www.bocinstruments.com.au



Advancing Frontline Care™



Beauty

Sales \$11m

BLC
COSMETICS

BLC Cosmetics - is the exclusive distributor of leading beauty and skin care brands in Australia and the South Pacific. Thalgo the company's heritage skincare brand remains the key product line in salons, day spas, hotels and resorts with the Terrake brand found at only the most luxurious properties. 2011 has seen the successful launch of the Kerstin Florian brand into the hotel spa segment. Essie continues its growth in the Australian marketplace by growing the distribution channel of retail stores, pharmacy, salon and nail bars. Grown an Australian made natural organic skincare brand continues gaining market share in pharmacy and department stores. A make-up brand "theBalm" presents a unique opportunity to expand sales to the retail channel. The business is based in Sydney and distributes Australia wide. Mr Gavin Caganoff is the Chief Executive. The management team own 40% of the business.

www.blccosmetics.com

essie

GEHWOL

BOTANICAL BEAUTY
GROWN
ORGANIC ALCHEMIST

KERSTIN
FLORIAN

theBalm[®]
COSMETICS

THALGO
LA BEAUTE MARINE

TERRAKE

VITAMIN



BIANTE[™]
MODEL CARS

Collector Model Cars

Sales \$8m

Biante - one of Australia's leading distributors of diecast collector model cars. The cars are scale replicas designed in Australia and made in world class factories. The design centre is located in Perth with sales offices in Sydney and Perth. Following the bankruptcy of the principal Chinese supplier, the business is in a rebuilding phase. The General Manager is Mr William Hall.

www.biante.com.au

A
AUTOCAR

KYOSHO
DIE-CAST MODEL COLLECTION

VITESSE

Sun Star

The Brian Brock
COLLECTION

Eric Jack Brabham
COLLECTION

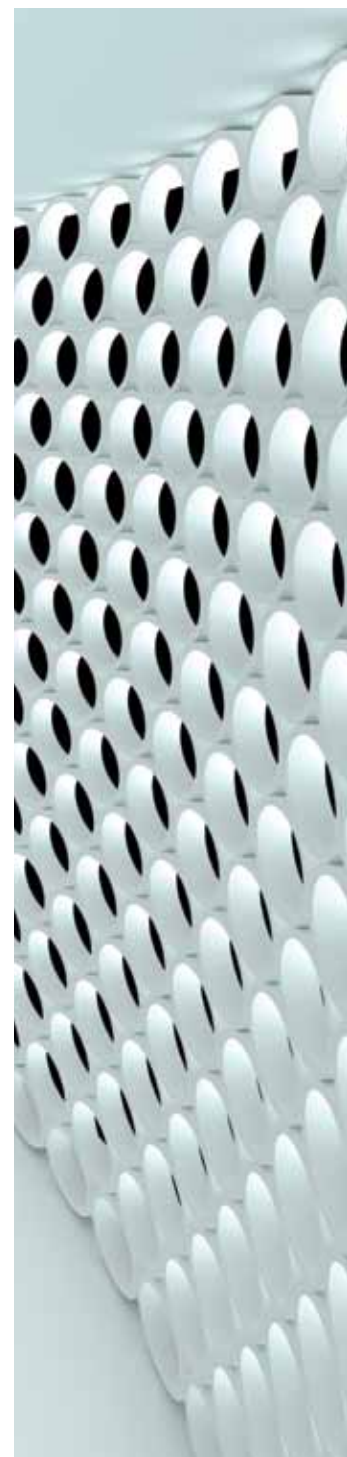
The Dick Johnson
COLLECTION

The Allan Moffat
COLLECTION

BALANCE SHEET

AS AT 30 SEPTEMBER 2011

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Current assets		
Cash and cash equivalents	11,762	8,432
Trade and other receivables	28,868	31,589
Inventories	32,424	33,322
Total current assets	73,054	73,343
Non current assets		
Investments accounted for using the equity method	2,003	1,749
Other financial assets	2,003	2,011
Property, plant and equipment	9,542	11,842
Intangibles	21,085	27,394
Deferred tax assets	4,988	3,716
Total non current assets	39,621	46,712
Total assets	112,675	120,055
Current liabilities		
Trade and other payables	20,921	20,697
Borrowings	3,244	3,117
Current tax liabilities	2,105	2,951
Provisions	3,647	3,905
Total current liabilities	29,917	30,670
Non current liabilities		
Borrowings	1,937	3,296
Provisions	2,124	1,453
Total non current liabilities	4,061	4,749
Total liabilities	33,978	35,419
Net assets	78,697	84,636
Equity		
Issued capital	35,249	34,479
Reserves	2,152	1,943
Retained earnings	25,383	33,307
HGL Limited equity interest	62,784	69,729
Non controlling interest	15,913	14,907
Total equity	78,697	84,636





HGL Limited ASX CODE > HNG

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PROFIT AND LOSS STATEMENT

FINANCIAL YEAR ENDED 30 SEPTEMBER 2011

	CONSOLIDATED	
	2011 \$'000	2010 \$'000
Sales revenue	163,431	170,067
Cost of sales	(85,811)	(93,497)
Gross profit	77,620	76,570
Other revenue	497	10,887
Share of associates' profit	254	484
Sales, marketing and advertising expenses	(26,792)	(25,055)
Freight and distribution expenses	(7,113)	(7,116)
Administration expenses	(25,561)	(25,373)
Occupancy expenses	(4,474)	(4,614)
Impairment of Biante goodwill	(6,358)	-
Biante write off of fixed assets and stock provisions	(4,596)	-
Finance costs	(865)	(1,229)
Profit before income tax expense	2,612	24,554
Income tax expense	(2,669)	(7,211)
(Loss)/profit for the period	(57)	17,343
Attributable to:		
Equity holders of the parent	(2,425)	13,416
Non controlling interest	2,368	3,927
	(57)	17,343
	CENTS	CENTS
Basic earnings per share	(4.7)	26.3
Diluted earnings per share	(4.7)	26.3

Reconciliation of underlying profit before interest, tax and non controlling interest to net profit after tax:

	CONSOLIDATED 2011			CONSOLIDATED 2010		
	UNDERLYING PROFIT \$'000	OTHER \$'000	TOTAL \$'000	UNDERLYING PROFIT \$'000	OTHER \$'000	TOTAL \$'000
Underlying profit before interest, tax and non controlling interest	13,934	-	13,934	15,365	-	15,365
Impairment of Biante goodwill	-	(6,358)	(6,358)	-	-	-
Biante write off of fixed assets and inventory provisions	-	(4,596)	(4,596)	-	-	-
Realised profit on sale of listed securities	-	-	-	-	9,373	9,373
Write off lease incentive	-	-	-	-	(239)	(239)
Acquisition discount	-	-	-	-	761	761
Interest income	497	-	497	523	-	523
Interest expense	(865)	-	(865)	(1,229)	-	(1,229)
Net profit before tax	13,566	(10,954)	2,612	14,659	9,895	24,554
Income tax (expense)/benefit	(4,048)	1,379	(2,669)	(4,306)	(2,905)	(7,211)
Profit after tax	9,518	(9,575)	(57)	10,353	6,990	17,343
Non controlling interest	(2,368)	-	(2,368)	(3,586)	(341)	(3,927)
Profit after tax and non controlling interest	7,150	(9,575)	(2,425)	6,767	6,649	13,416

Revenue is predominately derived, in Australia, from supplying branded products into specialist markets. Approximately, 9% (2010: 9%) of revenue is derived from providing maintenance and repair services. Revenue from no single customer is greater than 10% (2010: 10%) of the Group's revenues. There were no intersegment sales during the year (2010: \$nil).