

REVIEW 2012

Summary

For the year ended 30 September 2012 HGL reports a loss of \$5.1 million (2011: \$2.4 million) and an underlying loss of \$0.5 million (2011: profit \$7.2 million). The underlying loss is in line with the August 2012 trading update.

The reported loss of \$5.1 million includes:

- \$3.6 million after tax charge in SPOS;
- \$0.7 million after tax non cash impairment charge to reflect the decline in the HGL share price on the carrying value of the non recourse interest bearing employee share scheme loans; and
- \$0.3 million after tax loss on the sale of business units.

Trading summary

HGL continues as a supplier of market leading branded products and services into specialist Australian markets.

Sales from operations excluding Biante, which was restructured at the end of 2011, fell 14% from \$132.3 million to \$113.5 million. The performance of several of the business units has shown resilience in spite of the fact that most businesses in markets that are largely dependent on consumer activity have found the 2012 financial year to have been very challenging. The underlying loss of \$0.5 million reflects the difficult trading conditions and a number of specific circumstances:

- SPOS provides solutions for marketing at the point of purchase and has significant revenue from project business. The company was structured at the commencement of the year to deliver substantial sales growth. A number of factors and in particular the postponement of projects by major clients resulted in sales decreasing by 25% over last year and 50% compared to budget. We are confident that some of the postponed client projects will occur in the near future. SPOS accounted for 72% of the fall in underlying profit excluding the contribution of Aarque which was sold in November 2011.

To combat this result, action has been taken to refocus on the core sales and reduce overheads to match. Actions have included closing our operations in the UK and scaling back in China. Operating costs will reduce by 20% and the resources are now aligned to likely future sales.

- The sales of Anitech are 20% lower than last year largely due to the loss of a major service contract late last financial year. Anitech provides consumables, printers and technical support to the CAD printing, design, graphic arts and sign industries. Anitech also provides technical support and maintenance services to a wider market. The Anitech business unit accounted for 13% of the fall in underlying profit excluding the contribution of Aarque.

SUMMARY OF RESULTS

	2012 \$millions	2011 \$millions
Underlying (loss)/profit	(0.5)	7.2
Other	(4.6)	(9.6)
Reported loss	(5.1)	(2.4)
Net cash	5.0	6.6

	cents per share	cents per share
Underlying (loss)/profit	(0.9)	13.9
Other	(9.0)	(18.6)
Reported loss	(9.9)	(4.7)

DIVIDENDS

	cents per share	cents per share
Interim	4.0	6.0
Final	2.0	5.5
Total	6.0	11.5

first choice
distributor
in our markets

market leading
branded products
for specialist
markets

focus sharpened
by a business unit
for each market

UNDERLYING (LOSS)/PROFIT EXCLUDING AARQUE

	2012 \$millions	2011 \$millions
Sales	118.2	140.3
Cost of goods sold	(66.5)	(71.4)
Gross margin	51.7	68.9
Expenses	(51.4)	(56.7)
EBIT	0.3	12.2
Net interest	-	(0.1)
Underlying profit before tax	0.3	12.1
Taxation	(0.2)	(3.6)
Minorities	(0.6)	(1.7)
Underlying (loss)/profit after tax	(0.5)	6.8
Gross margin %	43.7	49.1

Underlying profit in 2011 excludes Aarque which was sold in November 2011.

Sadly the CEO of Anitech, Chris Wagstaff, passed away in September 2012. We are in the final stages of recruiting a successor. The strategies of Anitech are being reassessed and the initial findings indicate there are organic growth opportunities.

- The sales of JSB which supplies architectural lighting are down 17% on an exceptional performance last year. The decline follows a slowdown of building fitouts, especially in New South Wales. The JSB business unit accounted for 14% of the fall in underlying profit excluding the contribution of Aarque.

JSB is investing in Melbourne and Perth providing an opportunity to make a further presence in these major commercial markets.

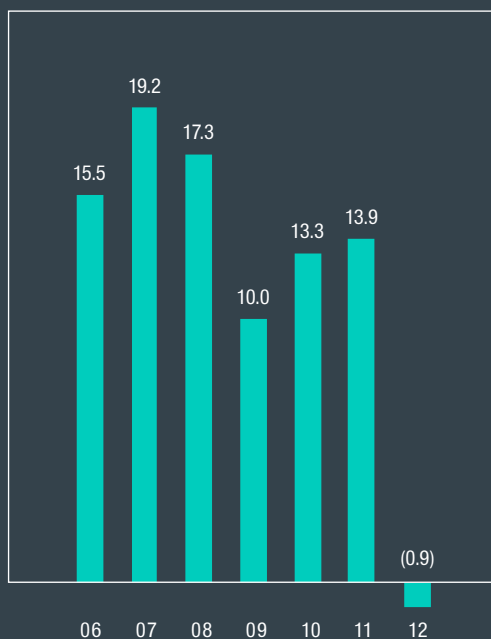
Collectively SPOS, Anitech and JSB comprise the majority of the decline in underlying profitability excluding the contribution of Aarque. In other business units:

- Leutenegger increased sales by 8% as it follows the strategy of expanding into markets adjacent to its traditional sewing and craft heartland. The development of the cushion product portfolio is progressing well.
- Mountcastle continues to increase its market share in the school uniform and bag markets.
- Biante successfully returned to profitability following the restructuring which occurred this time last year. Last year a \$9.6 million restructuring charge was taken in respect of this business unit. During the year Biante was refocused on its core area of operations. This strategy has been successful and with the sale of surplus stock generated cash in excess of its profit. This strong cash flow enabled the business unit to invest for the future by the development of new moulds. Last year, our stated financial goal for Biante was to ensure it did not incur losses it is pleasing to note this was achieved in very difficult retail conditions.
- XLN and BOC both performed creditably.
- At BLC, after the acquisition of our Partners's shares, a plan was put in place to create a more clearly focussed and higher profit generating operation. BLC has been refocused on its area of strength, the salon and spa market, and has ceased distributing a number of loss making brands into the retail market during the year to enable it to concentrate on its core brands.

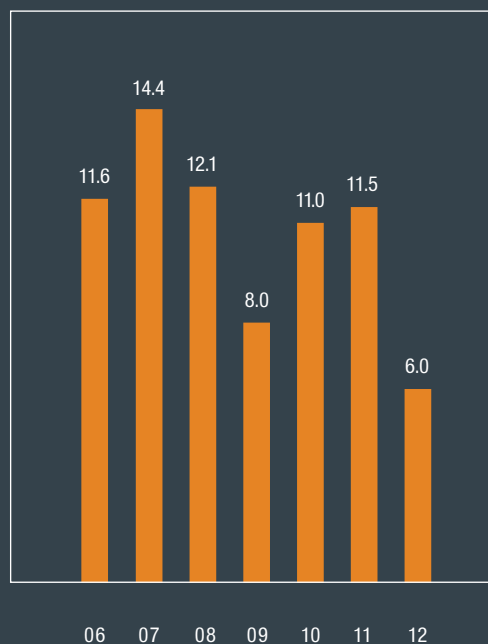
The AUD traded within a narrower band this year and averaged 1.03 (2011: 1.02). A higher AUD reduces the cost of imported products. As our competitors receive the same benefit market forces tend to result in these lower product costs being passed through to customers. Lower selling prices necessitate the sale of more units to maintain sales. When the USD exchange rate weakens market forces tend to allow price increases to customers and price reductions to be negotiated with suppliers.

The two key financial performance measures are the underlying EBIT to sales ratio and the underlying 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. These ratios are negative as they are adversely impacted by the loss in SPOS. Excluding SPOS from the current year the EBIT to sales ratio was 4.2% (2011: 8.5%) and the EBIT to capital employed ratio was 9.5% (2011: 22.1%).

UNDERLYING EARNINGS PER SHARE - CENTS



DIVIDENDS PER SHARE - CENTS



Chief Executive Officer

On 1 November 2012 due to ill health Michael Mahoney resigned as the Chief Executive Officer and a Director. From this date Andrew Whittles the Chief Financial Officer has acted as Chief Executive Officer whilst the company searches for a suitable replacement.

Financial Summary

The financial performance for the year ended 30 September 2012 is summarised as follows:

- A reported loss of \$5.1 million (2011: \$2.4 million) being a loss of 9.9 cents per share (2011: 4.7 cents per share)
- An underlying loss of \$0.5 million (2011: profit of \$7.2 million) being a loss of 0.9 cents per share (2011: profit of 13.9 cents per share)
- Underlying loss is the reported loss and adjustments totalling \$4.6 million. These adjustments comprise three significant items; \$3.6 million of charges in SPOS, a \$0.7 million non cash impairment charge for employee share loans and a \$0.3 million loss on the sale of business units. The SPOS charge largely comprises \$1.4 million of inventory write offs, \$0.6 million of other asset write offs, \$0.5 million of restructuring, \$0.4 million of doubtful debt provisions and \$0.3 million of additional depreciation. The inventory write offs together with the other asset write offs arose due to the reassessment of estimated recoverable amounts in the light of sales being 25% lower than last year and 50% lower than budget.

ABOUT HGL

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- Fully franked dividends per share of 6.0 cents (2011: 11.5 cents)
- At 30 September 2012 capital employed was \$49.2 million (2011: \$62.9 million). The EBIT to capital employed ratio was 0.5% (2011: 22.1%). Excluding SPOS the EBIT to capital employed ratio was 9.5% (2011: 20.0%)
- Operational cash outflow of \$3.4 million (2011: inflow \$13.2 million)

Sale of non core assets

During the year three non core business units were sold:

- In October 2011 Amcla was sold for cash proceeds of \$0.5 million;
- In November 2011 Aarque Group in New Zealand was sold for cash proceeds of \$3.9 million; and
- In July 2012 Safilo was sold for cash proceeds of \$1.6 million. This was the result of Safilo S.p.A. exercising its option to acquire the HGL interest in the partnership.

These disposals were foreshadowed in 2011. In total the after tax loss from these disposals, excluded from underlying loss, was \$0.3 million.

In June 2012 the property owned and occupied by BLC Cosmetics was sold for \$1.5 million. It is part of the strategy not to own freehold land and buildings as this more freely allows the business unit to move location as required by the demands of the business.

Purchase of minority

In July 2012 \$0.7 million was paid to buy the 40% minority in BLC Cosmetics. Additional payments totalling \$0.7 million are payable contingent upon the attainment of profits for period to 30 June 2013. Mr Sol Caganoff resigned as a Director and Mr Gavin Caganoff remains as CEO.

Foreign exchange management

HGL continues to sell products where most of the medium and long term effects of exchange fluctuations are borne by our customers and suppliers. Foreign currency bank accounts and foreign currency exchange contracts are utilised to afford sufficient time for the necessary operational adjustments to occur.

People and the environment

The Board acknowledges and thanks our 315 employees for their effort and contribution. Our people are integral to our future success. We will continue to recruit with the objective of improving human resource skills in our business.

Our activities have a relatively low environmental impact. We embrace technologies that further reduce the impact on the environment.

Balance sheet

The total net assets of the group have decreased by \$14.3 million during the year. Net cash has decreased by \$1.6 million to \$5.0 million. The majority of the reduction in net assets was a result of the sale of business units and the SPOS charges. Net tangible assets are 64.2 cents per share.

Dividends

As a result of the underlying loss and the uncertain future economic conditions the Board has decided it should preserve cash balances, consequently the final dividend has been reduced to 2.0 cents per share fully franked (2011: 5.5 cents per share fully franked). The final dividend will be paid on 14 December 2012. An interim dividend of 4.0 cents per share fully franked (2011: 6.0 cents fully franked) was paid on 13 July 2012.

Outlook

With continuing weak business confidence and subdued consumer spending, the outlook for the Australian economy is uncertain. The Board anticipates the Group will return to profitability in 2013. Whilst the result for 2012 is disappointing, particularly SPOS, we continue to believe in organic growth and to further improve profits by acquisition where appropriate. With cash in the bank, the Board remains confident about the underlying strength of the group and its longer term prospects.

At the Annual General Meeting on 30 January 2013 a review of the first quarter's trading will be presented.

21 November 2012



Peter Miller
Chairman



Andrew Whittles
Acting Chief Executive Officer

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



Retail Marketing

Sales \$23m

SPOSgroup

SPOS Group - 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 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 \$15m



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

www.jsblighting.com.au





LEUTENEGGER

ESTABLISHED 1891

Home Sewing and Craft

Sales \$17m

Leutenegger - a market leading supplier in the craft and textile industry distributing its own design driven collections and internationally recognised global ranges. Beutron, DMC, Zwiegart and Prym 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

ADORNit_®
just sew



BEUTRON



country threads



[make it]_®

makower



one·duck·two



R O W A N



degitSTELLA



WESTMINSTER
FIBERS
Lifestyle Fabrics



Large Format Printing

Sales \$29m

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. The management team own 50% of the business.

www.anitech.com.au





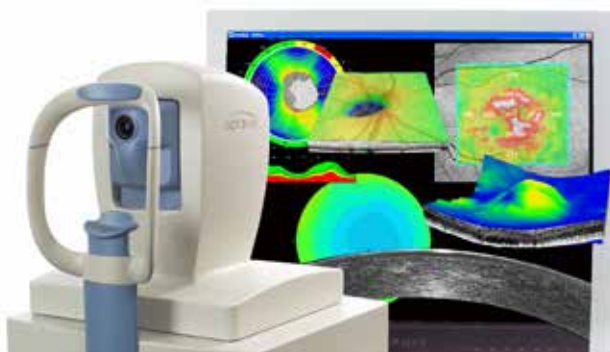
Specialist Headwear and Uniforms

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

www.trutex.com.au



Eye Testing Instruments

Sales \$7m

BOC - imports and distributes ophthalmic equipment to retail optometrists, ophthalmologists and laboratories. Agencies include Nidek, Optovue, Righton, Reichert and Welch Allyn. BOC continues to develop 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 \$10m

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. 2012 has seen the development of the Kerstin Florian brand into the hotel spa segment. The business is based in Sydney and distributes Australia wide. Mr Gavin Caganoff is the Chief Executive.

www.blccosmetics.com

essie

GEHWOL

KERSTIN
FLORIAN

THALGO
LA BEAUTE MARINE



TERRAKE



Collector Model Cars

Sales \$5m

BIANTE

MODEL CARS

Biante - one of Australia's leading distributors of diecast collector model cars. The cars are scale replicas designed in Australia. The design centre is located in Perth with sales offices in Sydney and Perth. The General Manager is Mr William Hall.

www.biante.com.au



BALANCE SHEET

AS AT 30 SEPTEMBER 2012

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
Current assets		
Cash and cash equivalents	7,594	11,762
Trade and other receivables	21,547	28,868
Inventories	24,034	32,424
Current tax assets	1,779	–
Total current assets	54,954	73,054
Non current assets		
Investments accounted for using the equity method	–	2,003
Other financial assets	975	2,003
Property, plant and equipment	4,326	9,542
Intangible assets	19,896	21,085
Deferred tax assets	7,401	4,988
Total non current assets	32,598	39,621
Total assets	87,552	112,675
Current liabilities		
Trade and other payables	15,602	20,921
Borrowings	2,329	3,244
Current tax liabilities	–	2,105
Provisions	2,606	3,647
Total current liabilities	20,537	29,917
Non current liabilities		
Borrowings	255	1,937
Provisions	2,412	2,124
Total non current liabilities	2,667	4,061
Total liabilities	23,204	33,978
Net assets	64,348	78,697
Equity		
Issued capital	36,027	35,249
Reserves	1,344	2,152
Retained earnings	16,236	25,383
Equity attributable to the parent entity	53,607	62,784
Non controlling interests	10,741	15,913
Total equity	64,348	78,697





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PROFIT AND LOSS STATEMENT

FINANCIAL YEAR ENDED 30 SEPTEMBER 2012

	CONSOLIDATED	
	2012 \$'000	2011 \$'000
Sales revenue	118,237	163,431
Cost of sales	(66,579)	(85,811)
Gross profit	51,658	77,620
Other revenue	426	497
Share of associates' profit	302	254
Sales, marketing and advertising expenses	(19,219)	(26,792)
Freight and distribution expenses	(5,657)	(7,113)
Administration expenses	(22,401)	(25,561)
Occupancy expenses	(4,424)	(4,474)
SPOS charges	(5,217)	-
Impairment of loans to key management personnel	(1,022)	-
Loss on disposal of controlled entity and associates	(830)	-
Impairment of Biante goodwill	-	(6,358)
Biante write off of fixed assets and stock provisions	-	(4,596)
Finance costs	(359)	(865)
(Loss)/profit before tax	(6,743)	2,612
Income tax benefit/(expense)	2,142	(2,669)
Loss for the period	(4,601)	(57)
Attributable to		
Equity holders of the parent	(5,149)	(2,425)
Non controlling interests	548	2,368
	(4,601)	(57)
	CENTS	CENTS
Basic earnings per share	(9.9)	(4.7)
Diluted earnings per share	(9.9)	(4.7)

RECONCILIATION OF UNDERLYING PROFIT BEFORE INTEREST, TAX AND NON CONTROLLING INTERESTS TO NET (LOSS)/PROFIT AFTER TAX:

	CONSOLIDATED 2012			CONSOLIDATED 2011		
	UNDERLYING PROFIT/(LOSS) \$'000	OTHER \$'000	TOTAL \$'000	UNDERLYING PROFIT/(LOSS) \$'000	OTHER \$'000	TOTAL \$'000
Underlying profit before interest, tax and non controlling interests	259	-	259	13,934	-	13,934
SPOS charges	-	(5,217)	(5,217)	-	-	-
Impairment of loans to key management personnel	-	(1,022)	(1,022)	-	-	-
Loss on disposal of controlled entity and associates	-	(830)	(830)	-	-	-
Impairment of Biante goodwill	-	-	-	-	(6,358)	(6,358)
Biante write off of fixed assets and additional stock provisions	-	-	-	-	(4,596)	(4,596)
Interest income	426	-	426	497	-	497
Interest expense	(359)	-	(359)	(865)	-	(865)
Net profit/(loss) before tax	326	(7,069)	(6,743)	13,566	(10,954)	2,612
Income tax (expense)/benefit	(235)	2,377	2,142	(4,048)	1,379	(2,669)
Profit/(loss) after tax	91	(4,692)	(4,601)	9,518	(9,575)	(57)
Non controlling interests	(548)	-	(548)	(2,368)	-	(2,368)
(Loss)/profit after tax and non controlling interests	(457)	(4,692)	(5,149)	7,150	(9,575)	(2,425)

Revenue is predominately derived, in Australia, from supplying branded products into specialist markets. Approximately 5% (2011: 9%) of revenue is derived from providing maintenance and repair services. Revenue from no single customer is greater than 10% of the Group's revenues in the current or prior year.