



## Chairman's AGM address

With the appointment of Henrik Thorup as Chief Executive in January 2013, we commenced refining strategies and implementing change programs. Arresting the decline in underlying profit was the key priority for the year and it is pleasing to report this was achieved.

Whilst we do not expect general assistance from a more favourable economy the board believes that management initiatives taken should deliver profits that progressively increase from current levels.

During the initial 90 days after his appointment, Henrik and the executive team refined the corporate strategy plan which focuses on three core objectives: growth, profitability and sustainability:

- Growth will come from selling existing and new products in current markets while expanding into adjacent markets;
- Profitability will be established through the continuous improvement of processes, systems, working capital management and staff management procedures; and
- The growth and profitability will be sustainable through investment in leadership and talent management programs, staff engagement and group management oversight driving best practice.

This corporate strategy has three distinct but overlapping phases.

- Phase one is to rebuild the foundations. The outcome is to stabilise revenue, continue with strong gross margins, improve operational efficiency and reduce working capital levels. We are well advanced into this phase.
- Phase two is to firmly establish the future industry footprint of HGL.

- Phase three is to leverage the rebuilt foundations and new industry footprint to deliver enhanced revenue and profitability growth, improved cash flows and employee engagement thus securing long term sustainability and enhancing shareholder value.

HGL's businesses continued to experience difficult trading conditions and collectively HGL was exposed to increasing competition in all markets.

As market demand has changed our sales revenue has been affected and we have had to recognise excess inventory. All businesses are revising and improving their purchasing and inventory management processes and systems and are reducing the existing levels of inventory. These actions have and will continue to improve efficiency and release cash.

A short summary the 2013 financial results is:

- a reported loss of \$8.9 million
- an underlying EBIT of \$0.4 million
- cash inflow from operations of \$0.7 million
- fully franked dividends of 4 cents per share paid

The reported loss was after \$5 million of restructuring and reorganization charges arising from Phase One of the strategy and \$3.5 million goodwill impairment charge in BLC Cosmetics. As highlighted in the Annual Report this goodwill impairment arose from the Board adopting a more conservative view of the discount rate applied to future cash flows. This impairment charge has no cash effect.

The reorganization and restructuring costs incurred during 2013 arose from implementing phase one of the strategy. To improve operational efficiency we reduced employee numbers by 55 to 260 incurring redundancy costs and rationalised locations incurring surplus lease costs. Inventories were revalued and stock provisions recognised to reflect the anticipated likely lower selling prices.

Franked dividends of 4 cents were paid as cash and accumulated reserves were available. The longstanding dividend policy remains unchanged.

The diverse nature of our operations historically reveals that some businesses perform well while others experience reductions in activity. This was the case in 2012-13, where JSB Lighting, Mountcastle and Biante performed very well with EBIT to sales ratios above 15%. Mountcastle and Biante increased their profits as forecast at last year's Annual General Meeting. We are looking for further growth of our market share of these businesses.

In January 2013 JSB Lighting moved into new premises in inner city Sydney. The strategy for JSB is to expand its premium product range with categories adjacent to its portfolio and to leverage its excellent brand and first class business infrastructure and new facilities.

Mountcastle's market share of the school uniform and bag market continues to grow. The product range is growing and the sales force continues to expand. While Mountcastle's traditional hat market is under pressure from government spending cuts, the school business has firm foundations from which to grow.

Biante continued to build upon the progress it made last year. The strategy continues to be to provide high quality collector model cars, while also identifying additional products in similar channels.

Anitech, SPOS, BLC Cosmetics and Leutenegger are not performing to their potential.

Anitech continues to face reduced activity in the general printing industry. It is addressing new market opportunities in specialist markets such as Sign & Display and Textile printing as well as the provision of technical services. The technical service division is a focus area for long-term growth although in 2012-13 the service division experienced a decline in customer numbers. The business is being optimised to address these market segments with capable and efficient sales and service teams. We anticipate that the change program in Anitech will continue over the next 24 months with an expectation that the business will return to an acceptable profit level.

Leutenegger is expanding from servicing its traditional art and craft market to including offering own branded lifestyle product to the Homewares sector. The traditional art and crafts market is under severe price pressure from global online trading and major retailer promotional activities. Leutenegger's change program is extensive and involves a restructure of significant parts of the business system. In November 2013 Leutenegger was relocated into our SPOS facilities in Macquarie Park, Sydney operating with a redesigned warehouse, achieving significant cost efficiencies and focusing on reducing inventory levels. Our initiative to produce Leutenegger designed soft furnishing products under our own brands is showing promise and is growing according to plan.

During the last twelve months SPOS has undergone significant business model changes. We have exited high cost large retail technology projects with long incubation times and uncertain revenue to concentrate on the core business of designing quality retail marketing solutions. This change process has allowed us to lower our overhead cost structure and operate from fewer facilities. SPOS is now targeting its key markets of grocery, pharmacy, mass merchants and global brand owners with our dedicated bespoke design solutions and proprietary security and shelving products. The simplification of the business enables SPOS to utilize economies of scale and deliver profitable and competitive point-of-sale solution to a diverse customer base. After a break-even first quarter and losses in the second quarter this strategy delivered a profit in the third and fourth quarters of 2012-13.

BLC Cosmetics participates in a growing beauty and wellness market and our focus remains on expanding our product portfolio to the salon and spa market capitalizing on our large existing customer base. New product categories from the French Thalgo Group will be introduced in the second half of the year. BLC is now operating out of purpose built premises in Artarmon Sydney with its own training centre offering comprehensive educational services. BLC's premium products have high brand awareness and command strong margins which we believe will deliver future growth opportunities. In reviewing the carrying value of goodwill it was deemed prudent in view of the results in the recent past and the difficulty in comfortably predicting the future to reduce the value to \$2.4 million. However the Board firmly believes that this business is operating in an industry with growth opportunities and deserves our continued support.

In October 2013 two small 50% owned business units were sold to the respective joint venture partner. Kinsole Pty Limited (trading as XLN Fabrics) and BOC Ophthalmic Instruments Units Trust were sold for total proceeds of \$1.6 million. The decisions to sell were based on our new active management approach and the likely future industry footprint of HGL.

### **First quarter results and outlook**

The first quarter has produced:

- a decline in sales but the historically strong gross margin % has been maintained;
- a reduction in expenses with further reductions anticipated;
- an positive EBIT above our budget;
- an improvement in working capital as debtors and inventory have fallen; and
- a positive operating cash flow.

My comments about the outlook in the Annual Report remain largely unchanged. HGL's businesses are showing resilience. We are confident the continuing implementation of our corporate strategy will deliver efficiencies, improve sales performance and enhance both profit and dividends in future periods.

The underlying EBIT for 2013-14 is expected to be an improvement over last year and HGL has performed ahead of budget in the first quarter. With positive operating cash flows in the first quarter and cash in the bank we remain well positioned to invest in organic growth and suitable acquisitions.

Again, I conclude by thanking all our employees for their hard work and resilience and all our suppliers and customers for supporting the group during this challenging period.

Henrik will now expand on the corporate strategy.

Following Henrik's address I will open the meeting for questions on the Annual Report.