



SEPTEMBER

HGL LIMITED  
ANNUAL REPORT



**HGL Limited** ABN 25 009 657 961  
Incorporated in Queensland  
Australian Stock Exchange code: **HNG**

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#### ANNUAL GENERAL MEETING

The one hundredth Annual General Meeting of Shareholders of HGL Limited will be held in the Seminar Room, Level 8, 123 Pitt Street, Sydney NSW 2000 on 20 January 2004.

*HGL invests in companies that need capital to fund growth, or to buy out an exiting shareholder. HGL assists management privatise a listed company or a division of a listed company.*

*All businesses within HGL are partially owned by their management. An equity and management structure closely links our equity partners' wealth to the profitability of the business they operate, this greatly assists in focusing each enterprise on its goals. Procedures exist to ensure we monitor our ability to continue to create value, resulting in HGL regularly selling assets and reinvesting in others.*

*HGL invests for the long term. We do not expect to sell operating investments in the typical three year timescale of other capital providers.*

*HGL has achieved an average compound earnings per share growth of 11% a year since 1990.*

*investing in  
businesses*

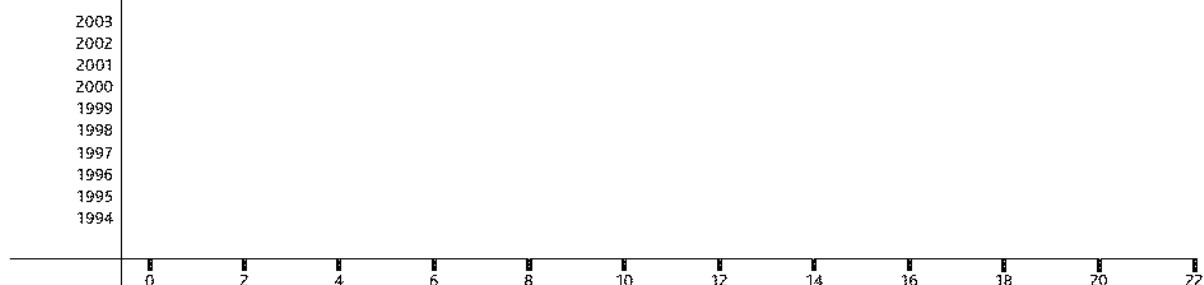


## TEN YEAR PERFORMANCE

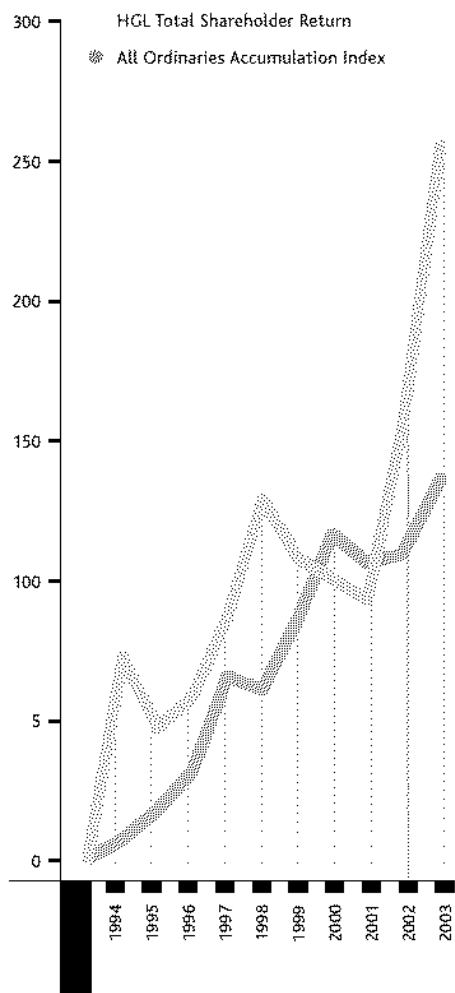
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Revenue (\$'000)	71,473	81,067	80,589	96,441	106,870	94,530	94,354	107,648	114,252	116,449
Earnings before interest and tax (\$'000)	6,435	8,331	8,416	10,194	10,943	12,098	10,226	10,581	14,564	15,233
Profit before tax (\$'000)	5,189	7,410	7,575	9,340	9,762	10,773	9,382	9,625	14,372	14,873
Profit after tax and before minorities (\$'000)	4,606	6,414	6,356	7,598	7,998	8,504	8,174	8,103	10,412	12,669
Profit attributable to HGL shareholders (\$'000)	3,027	3,798	4,244	5,238	6,052	6,264	6,066	6,112	8,013	9,938
Shares on issue ('000)	30,059	32,338	37,471	41,479	46,288	46,346	46,110	46,507	46,583	47,213
Shareholders' equity (\$'000)	31,365	34,385	37,903	45,689	49,781	52,567	55,860	57,599	54,451	65,744
Total assets (\$'000)	53,057	58,234	61,351	84,195	89,689	92,843	88,108	90,148	78,897	94,053
Total interest bearing debt and leases net of cash (\$'000)	(6,426)	(10,140)	(7,811)	(15,122)	(16,172)	(16,683)	(10,719)	(7,187)	5,968	8,678
Debt to equity (%)	21	30	21	33	33	32	19	12	n/a	n/a
Debt to total assets (%)	12	17	13	18	18	18	12	8	n/a	n/a
Equity to total assets (%)	59	59	62	54	56	57	63	64	69	70
Earnings per share (c)	11.0	10.6	11.4	12.3	13.2	13.5	13.2	13.2	17.2	21.2
Dividend per share* (c)	6.4	6.8	6.8	6.8	7.8	8.0	10.25	10.25	12.0	8.6
Net tangible assets (c)	59	63	65	66	74	80	85	86	96	95

\* All dividends are fully franked other than 6.5 cents in both 2000 and 2001 and 12.0 cents in 2002.

### Earnings per share



*HGL Ten Year Performance*



The HGL Total Shareholder Return is the increase in the share price assuming reinvestment of dividend payments.

- *Acquisition of SPOS*
- *Acquisition of Thalgo*
- *Acquisition of a 23% interest in MMC Asset Management*
- *Earnings per share increases by 23%*
- *Import and distribution businesses earnings up 25%*
- *Sell Sabre for \$9.9 million in cash*
- *Sell Lemarne for \$6.0 million in cash*
- *Strong cash generation*
- *Sound balance sheet, net cash of \$9 million*

On behalf of your board I am pleased to present your company's annual report. Profit after tax and minorities was \$9.9 million, a 24% increase from last year's \$8.0 million. The increase is the result of strong performances by our eleven import and distribution businesses combined with the realisation of profits from sales of listed securities.

The results could not have been achieved without the efforts of our employees, at all levels, and our joint venture partners. On behalf of the board I thank them all.

*Import and distribution businesses*

Earnings before interest and tax from the import and distribution businesses we owned for the full year are up 25% to \$8.4 million from \$6.7 million. Earnings have been augmented by the acquisitions of SPOS in April and Thalgo in July. These acquisitions are described in more detail in the Chief Executive's review.

We now have approximately \$41 million invested in import and distribution businesses generating post goodwill EBIT to capital employed return in excess of 26% per annum. We continue to search for import and distribution businesses we can acquire where the return is likely to exceed 20% of capital employed in a reasonably short period of time. HGL is targeting to invest \$30 million in such businesses over the next few years. This is dependent, however, on identifying suitable opportunities that successfully satisfy our extensive due diligence procedures. Our acquisition criteria are explained in more detail on page 7.

*Listed securities*

I have previously commented that HGL has somewhat irregular earnings due to the timing of investment transactions. The current year has seen two significant investment profits. Firstly, in August 2003, we sold our 15% shareholding in Sabre Group for \$9.9 million in cash recognising a profit before tax of \$4.3 million. Secondly, in September, we received \$6 million in cash and recognised a \$1.5 million pre tax profit following the completion of the share buy back agreement with Lemarne Corporation.

At 30 September 2003, we had approximately \$13 million invested in listed securities. These listed securities have a market value of approximately \$18 million at 25 November 2003.

In December 2002, HGL acquired 23% of MMC Asset Management, an Adelaide based boutique funds manager for \$1.9 million. HGL has recently agreed to increase our shareholding to 40% for an additional \$3 million, subject to receipt of MMC shareholder approval.

In November 2003 a listed investment company, MMC Contrarian, which will be managed by a company owned 40% by HGL and 60% by MMC Asset Management raised \$200 million of capital. The management fee to be charged to MMC Contrarian is 1.25% of gross assets per annum, with a 15% out performance fee. It is envisaged HGL will add its listed security experience to MMC Contrarian.

*Dividend and outlook*

A final dividend of 4.4 cents fully franked will be paid on 19 December 2003, two months earlier than previous years. The total dividend for the year will be 8.6 cents per share fully franked. Last year, dividends of 12.0 cents per share (unfranked) were paid, equivalent to 8.4 cents per share fully franked. The company has sufficient franking credits to continue to fully frank dividends for the foreseeable future. HGL now generates recurring profit after tax and minorities of between \$5.0 million and \$5.5 million per annum. This is before any contribution from investment transactions, performance fees or revaluations. HGL is budgeting for dividends to remain at least at current levels.

In August 2003 Mr David Constable resigned as a director after thirteen years of service and Mr Julian Constable was appointed to the board. The AGM is scheduled for 20 January 2004 and I am looking forward to updating shareholders.



Peter G Miller  
26 November 2003

SUMMARY OF RESULTS

	Capital Employed \$'000	2002 Earnings \$'000	Annual Return %	Capital Employed \$'000	2003 Earnings \$'000	Annual Return %
Import and distribution	25,894	6,748	26	26,007	8,446	32
Acquisitions of import and distribution	-	-	-	14,617	901	18
GMA	-	1,842	16	-	-	-
	25,894	8,590	23	40,624	9,347	30
Profit on sale of GMA	-	5,906	-	-	-	-
Goodwill and asset write downs	-	(2,687)	-	-	-	-
Property	2,982	255	-	3,300	809	-
Profit on sale of Sabre	5,306	-	-	-	4,295	-
Profit on sale of Lemarne	4,209	-	-	-	1,522	-
Hunter Hall revaluation	6,829	3,823	-	6,131	(323)	-
Other listed securities	5,315	1,476	-	9,075	2,968	-
Total listed securities	21,659	5,299	-	15,206	8,462	-
Unallocated	2,481	(2,799)	-	(383)	(3,385)	-
EBIT and capital employed	53,016	14,564	-	58,747	15,233	-
Interest	-	(192)	-	-	(360)	-
Profit before tax	-	14,372	-	-	14,873	-
Tax	-	(3,960)	-	-	(2,204)	-
Profit after tax	-	10,412	-	-	12,669	-
Partners' equity interests	-	(2,399)	-	-	(2,731)	-
Profit after tax and equity partners' interests	-	8,013	-	-	9,938	-
Earnings per share (c)	-	17.24	-	-	21.21	-
Return on shareholders' equity (%)	-	18	-	-	21	-

The capital employed is funded by: shareholders' equity \$65.74 million (2002: \$54.45 million), net cash \$8.68 million (2002: net cash \$5.97 million), dividend provisions \$nil million (2002: \$3.00 million) and net tax creditors of \$1.68 million (2002: \$1.54 million).

- Acquisitions comprise SPOS and Thalgo.
- Property income in 2003 includes \$0.7 million from the sale of a surplus property.
- Other listed securities includes the investment in MMC Asset Management, the Strategic Value Trust and listed securities held by HGL.
- The capital employed in Hunter Hall is shown excluding the associated deferred tax liability.
- GMA was sold in March 2002.
- In 2002 \$2.0 million of goodwill write downs were previously disclosed within import and distribution.

## *Equity Partnerships and Acquisitions.*

HGL achieved record earnings per share this year. This was due to an excellent performance from the import and distribution businesses together with the realisation of profits from listed securities. This year pre tax profits of \$5.8 million were realised from the sale of Sabre Group and Lemarne Corporation, last year we sold our investment in GMA realising a pre tax profit of \$5.9 million.

### *Acquisitions*

We are targeting to invest \$30 million in import and distribution business acquisitions where the return is likely to exceed 20% of capital employed in a reasonably short period of time, this is dependent on identifying suitable opportunities that successfully satisfy our due diligence procedures. The cash for these investments will come from selling listed securities and from bank borrowing facilities. Increasing the amount invested in import and distribution businesses will reduce the relative importance of one off profits from investment transactions and performance fees.

During the year we have made two acquisitions of import and distribution businesses investing a total of \$15 million. In April 2003 we acquired SPOS, a Sydney based import and distribution business. SPOS supplies Australian and New Zealand retailers and brand manufacturers with a wide range of shelf management systems, promotional display products and price ticketing. Annual turnover is approximately \$15 million.

HGL has brought in two partners, Mike Farley and Remy Morello, as joint CEOs of SPOS. Mike is a sales and marketing business builder with approximately 30 years experience in Australia and the USA. Remy has over 30 years experience in finance and general management. We have structured SPOS so that the joint CEOs each have a 20% equity interest in the increase in the value of SPOS achieved over the coming years. 15% of the total purchase price is deferred until August 2004 and is subject to certain performance targets, we have accrued \$0.9 million in respect of this obligation.

In June 2003 we acquired the Sydney based exclusive Australian importer and distributor of Thalgo natural beauty and skin care products. The Thalgo brand is one of the market leaders in the growing beauty salon market. Thalgo has customer training centres in Sydney, Melbourne and Brisbane.

HGL has introduced Sol Caganoff as a 40% shareholder and CEO of Thalgo. Sol was previously Managing Director and co founder, together with HGL, of Luxottica Australia. From a small base that company became the market leader in the import and distribution of high quality branded spectacle frames and sunglasses in Australia.

As part of the acquisition of Thalgo we also agreed to acquire the two freehold properties owned and occupied by the business for market value. The market value of the two properties is \$2.1 million, this amount is payable in August 2004 and has been reflected in these financial statements.

Although it is still early days, these two businesses are progressing well and generating a post goodwill EBIT return of 18% in the periods from acquisition to 30 September 2003. We are budgeting for an increased return in 2004. The acquisition of these two businesses resulted in the goodwill on our balance sheet increasing by \$8.8 million. In future years the total goodwill amortisation charge will reduce profit before tax by approximately \$0.6 million.

In December 2002 we paid \$1.9 million for 23% of MMC Asset Management, an Adelaide based boutique funds manager. HGL has recently agreed to increase its shareholding to 40% for an additional \$3 million, subject to receipt of MMC shareholder approval. MMC is discussed in more detail in the listed security section of this report.

## HGL EQUITY PARTNERSHIPS - ACQUISITION CRITERIA

### *Acquisition Criteria*

HGL is currently able to fund approximately \$30m of new investments and is seeking businesses that satisfy the following criteria:

- **Pre-tax profit of \$1.5m or greater**  
HGL is seeking established businesses with a track record of profitability. HGL does not invest in start-ups or businesses requiring development capital. HGL targets a return on capital employed of at least 20%.
- **Distribution based with a niche focus**  
HGL's existing equity partnerships are niche import and distribution businesses which are not capital intensive, HGL is most attracted to businesses of this type. HGL may consider a business which has a service or light manufacturing component if this aspect is easily understood.
- **Investment by management**  
HGL believes its interests are best aligned with management when they invest or retain personal capital in the business.

### *What makes HGL an ideal equity partner*

- **Experience**  
Over 15 years experience working with our partners to solve business problems and improve financial performance.
- **Profitable**  
Strong profit history which mirrors the success of our equity partners.
- **Capital**  
Listed on the ASX with a significant and supportive shareholder base, conservative balance sheet and strong banking relationships.
- **Long Term Focus**  
HGL invests for the long term and typically only seeks to sell a business if it fails to achieve satisfactory returns on capital employed.

*Do you know of a business that meets HGL's acquisition criteria and may represent an investment opportunity. If you do we would appreciate discussing it with you.*

*Please contact Andrew Bath on (02) 9221 7155 or [andrewbath@hgl.com.au](mailto:andrewbath@hgl.com.au).*

*HGL will pay an appropriate fee where a successful transaction occurs.*

In addition to these three acquisitions we have looked at many other possible investments. We remain firmly committed to only growing existing businesses and making new acquisitions when this can demonstrably increase shareholder value.

#### *HGL Philosophy*

HGL owns its operating investments in conjunction with the management of the relevant business. We refer to this as the "partnership of equity and skills". Having management with equity in their business is highly effective in obtaining the best returns. HGL executives review the monthly results and balance sheets of each business and assist management to reduce the risk in each business.

HGL has developed this partnership model into a successful strategy. What we look for in an acquisition is summarised on the previous page.

#### *Import and Distribution Businesses*

In previous years I have analysed and discussed our import and distribution businesses in three divisions; fabrics, optical and information technology. Given the acquisitions we have made and the likelihood of additional acquisitions of import and distribution businesses I believe it is more appropriate to discuss the eleven import and distribution businesses as a whole, while commenting on important matters.

The import and distribution businesses owned throughout the year increased their earnings by 25% to \$8.4 million from \$6.7 million. The outstanding performer was Anitech; its profit trebled. Excluding Anitech, the import and distribution businesses increased earnings by an average of 8%.

*Thalgo was acquired  
in July 2003.*

In my report on the 2002 financial year I commented on the sale of 50% of Anitech to its management team, this sale was effective from 30 September 2002. To facilitate the sale, \$1.7 million of goodwill was written off and a further loss on disposal of \$0.3 million was incurred. We expected that introducing management as equity partners would assist Anitech continue its profitable growth. Anitech is based in Sydney with branches in all major Australian cities and a network of agents covering some 200 county towns. It distributes equipment for the production and display of large format images, associated consumable and maintenance agreements.

The improvement in the results from Anitech is not solely due to introducing management as equity partners. The speed and size of the profit improvement would not have been possible if not for the foundations laid over the previous three years. However having management with an equity interest has assisted in creating a more focused and hence profitable business.

Several years ago HGL assisted the management of Aarque Graphics to buy out a shareholder who was exiting the business. This resulted in HGL increasing its shareholding from 50% to 54.5%. During the year these shares were sold to members of the management team for broadly the same price we paid for them. We view this investment by management as an indication they share our confidence in the future of this business. Aarque Graphics is based in Auckland, New Zealand, it distributes digital colour equipment, consumables and provides maintenance agreements through its network of branches.

Leutenegger a Sydney based importer of fabrics has renewed its distribution agreement with DMC for a further five years. Retaining this major brand is evidence of the success we have marketing imported branded products, leading to a strengthening of relationships with our overseas suppliers.



*SPOS was acquired  
in April 2003.*

Brisbane based hat maker and distributor Mountcastle was proud this year to be reselected as the principal fur felt hat supplier to the Australian army for the next eight years. Whilst Mountcastle remains the major contract headwear supplier to many sectors of the Australian workplace it has reduced risk through broadening its customer base and product ranges. Notable areas of diversification have been importing headwear for sale to leading retailers and the import and distribution of school bags to its private school hat customers. It is pleasing to report that the increase in sales and profitability over recent years has been achieved with no increase in working capital.

All of the businesses have to some extent benefited from the strength of the Australian dollar. As our competitors receive the same benefit the market tends to force the majority of these foreign exchange gains to be passed onto customers. Likewise when the Australian dollar weakens market forces tend to allow price increases to our customers.

The amount of capital employed within the import and distribution businesses continues to be closely controlled. Return on capital employed is a key performance ratio that is never overlooked. The improved profitability, working capital control and the benefits of the acquisitions has resulted in the cash generated from operations increasing by 15% to \$9.2 million for the year.

For those import and distribution businesses owned throughout 2003 we are budgeting for earnings growth of only slightly above the rate of inflation. Most of these businesses are relatively mature and so generate free cash flow as there is no requirement for significant increases in working capital. We are continuing to look for add on acquisitions or additional brands for our current businesses.

#### *Listed Securities*

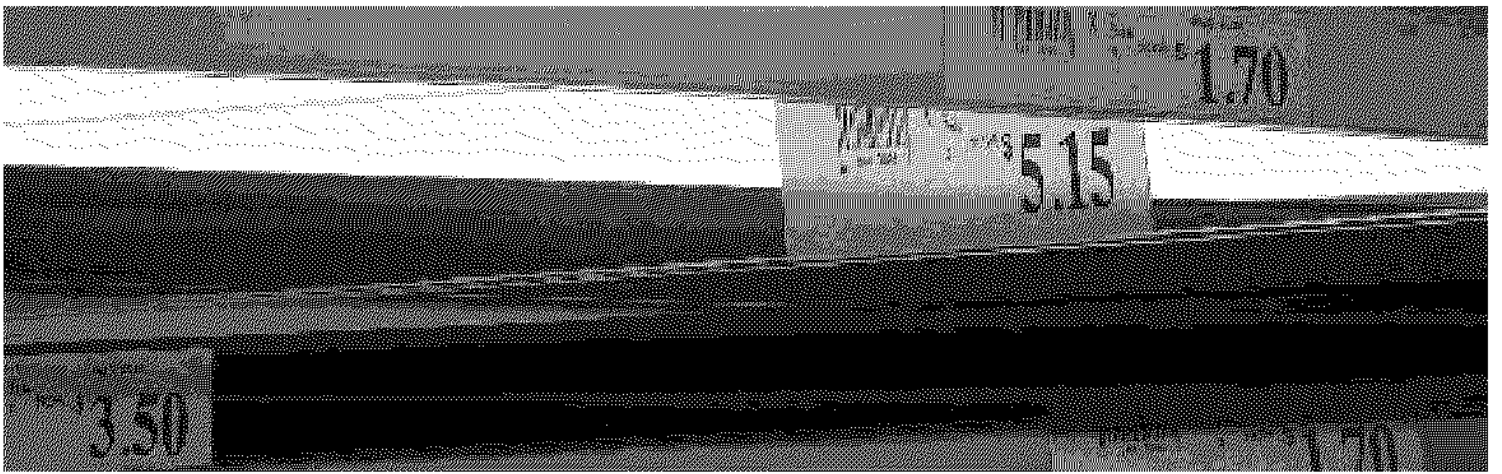
We believe that HGL's first hand experience of owning and managing private business contributes greatly to enhanced listed security investment decisions.

In December 2002, HGL acquired 23% of MMC Asset Management, an Adelaide based boutique funds manager for \$1.9 million. MMC Asset Management was founded in 1993 by Erik Metanowski. Subject to MMC shareholder approval, HGL has recently agreed to increase its shareholding to 40% for an additional \$3 million.

MMC has increased funds under management from \$150 million in December 2002 to \$200 million at 30 September 2003 and was a finalist in the Morningstar Emerging Fund Manager of the year awards. The flagship fund of MMC the Value Growth Trust had a net performance of 12.7% for the year to 30 June 2003 and a 10 year performance history of 22.1%.

In October 2003, MMC strengthened its investment team by the acquisition of AM Constable Limited, a boutique funds manager with funds under management of approximately \$8 million. HGL owned 15% of AM Constable and has \$3.5 million invested in units of the Strategic Value Trust managed by AM Constable. For the year to 30 June 2003 this trust achieved a net performance of 21.2%.

In November 2003 MMC Contrarian a listed investment company to be managed by a company owned 40% by HGL and 60% by MMC Asset management raised \$200 million of capital. In addition, MMC Contrarian has \$200 million of options exercisable by 30 June 2005. The management fee to be charged to MMC Contrarian is 1.25% of gross assets per annum, with a 15% out performance fee. It is envisaged HGL will add its listed security experience to MMC Contrarian.



## CHIEF EXECUTIVE'S REVIEW

*continued*

At 30 September 2003 HGL owned the following listed securities:

- \$6.2 million is invested in Hunter Hall International (ASX code: HHL). HGL owns 6% of Hunter Hall. Hunter Hall is a boutique international funds manager. This investment is marked to market and so the market price of \$4.18 on 30 September 2003 is also the value in our balance sheet. Last year's profit before tax included a revaluation gain of \$4.1 million, this year a revaluation deficit of \$0.3 million was recorded.
- \$1.9 million is invested in Reinsurance Australia Corporation (ASX code: RAC), at a book cost of 14 cents a share. HGL owns 7% of RAC. The company is in the process of managing the run off of its existing insurance arrangements. In October 2003 RAC announced it had settled the majority of its exposure to film indemnity business, this was the trigger for a surge in its share price to about 44 cents. At this price HGL has a \$4.2 million unrecognised surplus on this investment.

In addition to these two listed investments, there is a further \$1.5 million invested in 7 other listed securities.

During the year we sold two large investments. In August 2003 HGL sold its 15% shareholding in Sabre Group, we received \$9.9 million in cash and recognised a profit before tax of \$4.3 million. In September HGL received \$6 million in cash and recognised a \$1.5 million pre tax profit following the completion of the share buy back agreement with Lemarne Corporation. The buy back price of \$1.80 a share included 69 cents treated as a fully franked dividend, giving HGL an effective exit price of \$2.12 a share.

Listed securities income mainly comprises dividend income of \$0.7 million mainly associated with Sabre, Lemarne and Hunter Hall, \$0.8 million increase in value of the Strategic Value Trust, and profits of \$1.0 million from the disposal and revaluation of a number of small investments.

### *Taxation*

The effective tax rate this year was 15%. This is mainly due to \$1.1 million of past losses being brought to account and offset against profits and the fully franked dividend received from Lemarne. The effective tax rate after adjusting for these two unusual items was 25%.

### *Property*

HGL has \$3 million invested in three properties occupied by import and distribution businesses. During the year a surplus property was sold for \$2.7 million, creating a profit before tax of \$0.7 million, the cash will be received in February 2004.

### *Cash*

The group has net cash of \$9 million and undrawn bank facilities of \$18 million which would represent a conservative 25% debt to equity ratio if fully drawn. HGL is in an excellent position to pursue acquisitions and growth opportunities.



KJ Eley

26 November 2003



# *Statutory Reports and Financial Statements*

*for the year ended 30 September 2003*

# '03

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The Directors of HGL Limited present their annual financial report for the year ended 30 September 2003.

### 1. Principal activities

The principal activities of the consolidated entity during the year were:

- import and distribution of branded products
- purchase and sale of listed securities.

The quarrying and distribution of garnet was discontinued during the previous year.

### 2. Directors

**PG Miller, FCA**, 56 years old, Appointed Chairman on 29 October 2002. Non-executive Director since March 2000 and previously an Alternate Director for MA Hershon. Member of Audit, Nomination and Remuneration Committees. Chartered Accountant with over 25 years experience in public practice.

Attended 19 (out of 19) meetings of the Board, 4 (out of 4) Audit Committee meetings, 3 (out of 3) meetings of the Remuneration Committee, and 1 (out of 1) meeting of the Nomination Committee. 39,723 ordinary shares held beneficially and 7,756,304 ordinary shares held non-beneficially.

**KJ Eley, CA, ASIA**, 54 years old, Chief Executive. Executive Director since 1985. Chartered Accountant. Prior to joining HGL, over 10 years of business experience gained in management consulting, financing and corporate advice at a major international firm of Chartered Accountants and two investment banks. Member of Nomination and Remuneration Committees.

Attended 19 (out of 19) meetings of the Board, 3 (out of 3) meetings of the Remuneration Committee, and 1 (out of 1) meeting of the Nomination Committee. 1,841,733 ordinary shares held beneficially.

**FM Wolf, BA (Hons), PhD**, 50 years old, Non-executive Director since November 2000. Chairman of Audit Committee. Director of Abacus Property Group with over 20 years of experience in strategic planning, financing and corporate advice.

Attended 19 (out of 19) meetings of the Board and 3 (out of 3) Audit Committee meetings. 147,578 ordinary shares held beneficially.

**JD Constable**, 44 years old, Non-executive Director since 1 August 2003 and previously an Alternate Director for DN Constable since January 1996. Member of Audit Committee. Authorised representative of Bell Potter Securities Limited. Over 18 years experience in the stockbroking industry.

Attended 3 (out of 3) meetings of the Board, 16 (out of 16) as an alternate director and 4 (out of 4) Audit Committee meetings. 44,000 ordinary shares held beneficially and 625 ordinary shares held non-beneficially.

**DN Constable, AM, ASIA**, Non-executive Director since 1990. Resigned on 1 August 2003. Resident of the United Kingdom.

Attended 2 (out of 2) meetings of the Board (alternate attended 16) and none of the meetings of the Audit Committee (alternate attended 3).

**RJ Constable, BEc**, Chairman until 29 October 2002. Non-executive Director since 1978 and appointed Chairman in 1979. Chairman of the Nomination and Remuneration Committees until 29 October 2002. Over 30 years experience in investment banking, manufacturing, distribution and property.

Attended 1 (out of 1) meeting of the Board. Mr Constable resigned as Chairman and as a Director on 29 October 2002.

**MA Hershon**, Non-executive Alternate Director for PG Miller, previously a director since 1990. Resident of the United Kingdom.

Attended 1 (out of 19) meetings of the Board. 7,756,304 ordinary shares held non-beneficially.

In addition to the regular monthly board meetings there were a number of additional board meetings relating to the off market bid for Lemarne Corporation Limited.

### 3. Review of operations

The Directors report a consolidated profit before income tax and outside equity interests of \$14,873,000 (2002: \$14,372,000). Further details are in the Chairman's Report and the Chief Executive's Review.

### 4. Dividends

The Directors have declared a final fully franked dividend of 4.4 cents per share (2002: 6.0 cents per share unfranked). Interim fully franked dividends of 4.2 cents per share were paid during the year (2002: 6.0 cents per share unfranked).

<i>Ordinary Shares</i>	2003 \$'000	2002 \$'000
Interim dividend paid 11 July 2003 (2002: paid 12 July 2002)	1,970	2,779
Final dividend payable on 19 December 2003 (2002: paid 14 February 2003)	2,077	2,795
	<b>4,047</b>	<b>5,574</b>

## 5. Events subsequent to balance date

No matters or circumstances have arisen since the end of the financial year which have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in subsequent financial years, other than those referred to in the Chief Executive's Review and in note 34 to the Financial Statements.

## 6. Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity other than those referred to in the Chief Executive's Review.

## 7. Future developments

Likely developments in operations and operating results are detailed in the Chief Executive's Review.

## 8. Directors' and executives' remuneration

Name	Office	Salary/Fees	Benefits	Subtotal Fixed Package	2002 Performance Related Incentives**	2003 Performance Related Incentives***	Total Package
PG Miller*	Chairman	72,800	7,200	80,000	—	—	80,000
FM Wolf*	Non-executive Director	38,652	3,823	42,475	—	—	42,475
JD Constable*	Non-executive Director	5,877	1,290	7,167	—	—	7,167
DN Constable*	Non-executive Director	30,000	—	30,000	—	—	30,000
RJ Constable*	Non-executive Director	9,510	1,942	11,452	—	—	11,452
MA Hershon*	Alternate Director	—	—	—	—	—	—
KJ Eley*	Chief Executive & Director	199,651	65,349	265,000	205,519	310,005	780,524
MP Mahoney*	Executive	169,531	26,469	196,000	139,960	224,753	560,713
AJ Whittles*	Executive	119,891	36,109	156,000	71,311	147,252	374,563
RC Thomas	Executive	139,481	30,519	170,000	73,437	30,000	273,437
PS Caldelis*	Executive	95,660	27,340	123,000	38,066	93,001	254,067

\* remunerated by the Company.

The consolidated entity's Executive remuneration strategy seeks to match the goals of executives to those of the shareholders. This is effected through combining conservative levels of guaranteed remuneration with attractive incentive payments. These incentive payments are only paid on attainment of previously agreed performance targets. Executives', as well as our equity partners', income is largely dependent on increasing shareholder value.

\*\* The 2002 performance related incentives relate to the year ended September 2002. Amounts were accrued in September 2002 balance sheet for the following executives, Mr KJ Eley \$74,250, Mr RC Thomas \$73,437, Mr MP Mahoney \$66,680, Mr AJ Whittles \$41,100 and Mr PS Caldelis \$24,866.

\*\*\* The 2003 performance related incentives relate to the year ended September 2003. The following amounts will be paid in December 2004, if the Executive is still employed, Mr KJ Eley \$131,269, Mr MP Mahoney \$73,280, Mr AJ Whittles \$30,211 and Mr PS Caldelis \$13,200. The balance of the 2003 incentives are payable in December 2003.

The following payments have been made in accordance with the Directors' Retirement Scheme whereby Directors may receive on retirement a maximum benefit equal to the aggregate of the last 36 months emoluments payable to that Director. In October 2002 Mr MA Hershon, who retired as a director in March 2000 received \$40,000. The estate of Mr JL Parker received \$119,167 in October 2002. These two payments were accrued in the September 2002 balance sheet. Provision was also made in the September 2002 balance sheet for \$345,000 relating to Mr RJ Constable and \$77,500 for Mr DN Constable. In December 2002 Mr RJ Constable, who resigned as a director in October 2002 received \$345,000. Mr DN Constable who resigned as a director in August 2003 has not yet been paid \$94,167 he is entitled to under the scheme. The Directors' Retirement Scheme was revoked in January 2003, other than for the benefit due to Mr DN Constable.

The aggregate amount of Directors' fees will not exceed \$300,000 per annum. This maximum is subject to change if approved by shareholders in future general meetings.

## **9. Corporate governance**

The Board of Directors of HGL Limited are responsible for the consolidated entity's corporate governance. The Board guides and monitors the business and affairs of the consolidated entity on behalf of shareholders, by whom they are elected and to whom they are accountable. To ensure the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of Directors and for the operation of the Board. Various charters and policy documents are currently being revised and copies will be available to shareholders on request.

### **Board composition and primary functions**

As of the date of this report, the Board is comprised of four Directors (one Executive and three non-Executive members). Mr FM Wolf is the sole independent director, as defined by the ASX Corporate Governance Council (CGC) in their paper titled "Principles of Good Corporate Governance and Best Practice Recommendations" dated March 2003. The board does not have a majority of independent directors.

As the Chairman of the board is associated with a substantial shareholder he is not deemed independent in accordance with the CGC paper referred to above. The Chairman is on the board of a substantial shareholder, he does not benefit financially from its shareholding in HGL Limited.

The board has considered its composition and believes the current composition is in the interests of all shareholders.

The Board meets on a monthly basis with its primary functions including:

- establishment of long-term goals for the Company and strategic and operational plans to achieve those goals;
- allocation of capital and funding;
- review and adoption of annual strategic and operational budgets for the performance of the Company and all its operating businesses;
- monitoring of the performance on a monthly basis of the Company and its operating businesses against its operating and strategic plans;
- ensuring that the Company has implemented adequate systems of internal control and risk management;

- approval of the half yearly and annual financial reports;
- ensuring effective external disclosure policies so that the market is fully informed on all matters that may influence the share price; and
- monitoring corporate governance.

### **Board responsibilities**

The Board is elected to act on behalf of the Company's shareholders, and is therefore accountable to them. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The responsibility for the operation and administration of the consolidated entity is delegated by the Board to the Chief Executive and his executive team. The Board ensures that this team is appropriately qualified and experienced to discharge this responsibility. The Board is responsible for ensuring that management's objectives are aligned with the expectations and the risks identified by the Board. The Board discharges this responsibility via several mechanisms that it has in place. In addition to the Committees referred to below, these mechanisms include:

- approval by the Board of the consolidated entity's strategic plan;
- establishment and monitoring of key performance indicators, both financial and non-financial;
- establishment of guidelines to report on trade practices legislation compliance, occupational health and safety and environmental issues;
- establishment and maintenance of sound ethical standards; and
- monitoring the board's performance, shareholder communication and continuous disclosure.

The performance of the Board members is reviewed by the Chairman to ensure that the Board discharges its responsibilities.

The Board aims to ensure that shareholders, on whose behalf they act, are informed of all information necessary to assess the performance of the Company. Information is communicated to the shareholders through:

- compliance with Australian Stock Exchange reporting and disclosure requirements;

- the annual and interim reports; and
- the Annual General Meeting and any other meetings so called to obtain approval for Board action as appropriate.

The company secretary is responsible for communications with the Australian Stock Exchange.

#### Audit committee

It is the Board's ultimate responsibility to ensure that effective internal controls exist within the consolidated entity. To this end the Board established an Audit Committee. As at the date of this report, the Committee consisted of the following non-Executive Directors:

FM Wolf (Chairman) - appointed 27 November 2002

JD Constable

PG Miller

The Chairman of this committee is an independent director. Committee meetings are usually held four times a year.

The functions of the Committee are to:

- consider the half yearly and annual financial reports before they are approved by the Board;
- ensure the effectiveness of management information systems and systems of internal control;
- review the appointment of the external auditors, the terms of their engagement, the scope and quality of the audit and the auditor's independence;
- establish and maintain the framework of internal control;
- ensure compliance with statutory, Australian Stock Exchange and other reporting requirements; and
- review corporate governance compliance.

The Audit Committee generally invites the Chief Executive Officer, Chief Financial Officer, Company Secretary and external auditors to attend Audit Committee meetings.

The external auditors can meet privately with the committee. The partner managing the audit was appointed in March 2001 and will be rotated after a maximum of five years. It is the policy of the external auditors to provide an annual declaration of their independence to the Committee.

#### Nomination and remuneration committees

The Company also has Nomination and Remuneration Committees. As at the date of this report the Committees consisted of the following Directors:

PG Miller (Chairman) - appointed 27 November 2002

KJ Eley - appointed 27 November 2002

The primary functions of the Nomination and Remuneration Committees are to review:

- the composition of the Board on a regular basis and make recommendations to the Board, when considered necessary, to ensure that the Board comprises a majority of non-Executive Directors with the appropriate mix of skills and experience; and
- the remuneration packages of all Directors, the Chief Executive, and all managers who report to him, on an annual basis and make recommendations to the Board.

Remuneration packages are reviewed with due regard to performance and other relevant factors. In order to retain and attract executives of sufficient calibre to facilitate the effective and efficient management of the Company's operations, the Remuneration Committee, when necessary, seeks the advice of external advisers in connection with the structure of remuneration packages.

Packages contain the following key elements:

- a) salary/fees;
- b) benefits - including the provision of motor vehicles, subscriptions and superannuation;
- c) performance related incentives; and
- d) employee share scheme.

#### Risk assessment and management

The Board is responsible for ensuring the risk management systems are effective. The board approves each proposed business acquisition. Proposed new business acquisitions are analysed by management, this includes a risk assessment and extensive due diligence. Businesses that meet the Company's return and risk parameters are presented in a formal proposal document to the Board for consideration.

## DIRECTORS' REPORT

*continued*

### Independent professional advice

All Directors have the right to seek independent legal and financial advice, at the expense of the Company, concerning any aspect of consolidated entity operations or undertakings. However, prior approval of the Chairman is required, which is not unreasonably withheld.

### Share trading policy

The Company does not have trading windows, Directors and employees of the Company are permitted to deal in the securities of the Company at any time, subject to the insider trading provisions of the Corporations Act. The insider trading provisions of the Corporations Act have been drawn to the attention of all Directors and employees of the Company.

Prior to dealing in HGL shares Directors and employees must notify the Chairman of the number of shares involved, the proposed date of the transaction and whether it is a sale or a purchase. The Directors and employees must consider any views expressed by the Chairman.

Notification to the Chairman does not constitute approval. It is the responsibility of the person dealing in the HGL shares to ensure it does not constitute insider trading and to ensure the proposed dealing preserves the reputation of each of HGL, the Directors and employees and is not only fair but seen to be fair. Dealings of the Chairman must be notified to the Chairman of the Audit Committee.

The share trading policy relates not only to those HGL shares held directly but also to HGL shares where the Director or employee of HGL has in substance, rather than form, the ability or power, whether direct or indirect, to dominate the decision about the trading of HGL shares.

### 10. Indemnification of directors and officers

During the year, the Company purchased Directors' and Officers' Liability Insurance to provide cover in respect of claims made against the directors and officers in office during the financial year and at the date of this report, as far as is allowable by the Corporations Act 2001. The policy also covers the Company for reimbursement of directors' and officers' expenses associated with such claims if the defence

to the claim is successful. The total amount of insurance premium paid and the nature of the liability are not disclosed due to a confidentiality clause within the agreement. As at the date of this report, no amounts have been claimed or paid in respect of this indemnity and insurance, other than the premium referred to above.

### 11. Rounding of amounts

The consolidated entity is of a kind referred to in ASIC Class Order 98/0100 dated 10 July 1998 and in accordance with that Class Order amounts in this report, and the financial report, have been rounded off to the nearest thousand dollars. Signed in accordance with a resolution of the Board of Directors made pursuant to section 298(2) of the Corporations Act 2001.

For and on behalf of the Board of Directors of HGL Limited:



PG Miller  
Chairman



KJ Eley  
Director

Sydney 26 November 2003

## STATEMENT OF FINANCIAL PERFORMANCE

for the Financial Year ended 30 September 2003

	Note	Consolidated		Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Revenue from ordinary activities	2	116,233	114,623	9,907	12,225
Share of associates' profit/(loss)		216	(371)	–	–
Change in inventories of finished goods and work in progress		(3,941)	3,551	–	–
Raw materials and consumables used		(45,402)	(47,478)	–	–
Cost of disposal of controlled entity	26	–	(12,304)	–	–
Employee benefits expense		(21,919)	(19,603)	(2,552)	(2,154)
Cost of disposal of listed securities		(12,421)	(3,478)	(71)	–
Freight and packaging		(1,750)	(2,662)	–	–
Depreciation and amortisation expense		(1,859)	(2,322)	(39)	(18)
Advertising, marketing and distribution		(3,227)	(3,619)	–	–
Write off intangibles		–	(1,676)	–	–
Operating lease expense		(2,080)	(1,814)	(106)	(103)
Borrowing costs		(825)	(818)	(1,732)	(1,269)
Other expenses from ordinary activities		(8,152)	(7,657)	(1,067)	(1,189)
<b>Profit from ordinary activities before income tax</b>	2	<b>14,873</b>	<b>14,372</b>	<b>4,340</b>	<b>7,492</b>
Income tax (expense)/benefit relating to ordinary activities	4	(2,204)	(3,960)	299	(274)
<b>Profit from ordinary activities after related income tax expense</b>		<b>12,669</b>	<b>10,412</b>	<b>4,639</b>	<b>7,218</b>
Net profit attributable to outside equity interests		(2,731)	(2,399)	–	–
<b>Net profit attributable to members of HGL Limited</b>		<b>9,938</b>	<b>8,013</b>	<b>4,639</b>	<b>7,218</b>
Increase in foreign currency translation reserve arising on translation of self-sustaining foreign operations	18	(184)	77	–	–
<b>Total revenue, expense and valuation adjustments attributable to members of HGL Limited recognised directly in equity</b>		<b>(184)</b>	<b>77</b>	<b>–</b>	<b>–</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>9,754</b>	<b>8,090</b>	<b>4,639</b>	<b>7,218</b>
<b>Earnings per share based on profit after income tax attributable to the members of HGL Limited</b>		<b>cents</b>	<b>cents</b>		
		<b>21.21</b>	<b>17.24</b>		
Weighted average number of ordinary shares on issue used in the calculation of earnings per share		<b>46,863,600</b>	<b>46,485,167</b>		

The diluted earnings per share is the same as basic earnings per share as the Company does not have any potential ordinary shares on issue.

No adjustments have been made to the net profit attributable to members of HGL Limited when calculating earnings per share.

Notes to the financial statements are included on pages 22 to 47.

## STATEMENT OF FINANCIAL POSITION

as at 30 September 2003

	Note	Consolidated		Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Current Assets</b>					
Cash assets		11,464	9,175	7,907	843
Receivables	5	22,983	17,509	38,449	36,577
Inventories	6	33,931	29,357	–	–
Current tax assets	7	1,815	1,090	330	–
<b>Total Current Assets</b>		<b>70,193</b>	<b>57,131</b>	<b>46,686</b>	<b>37,420</b>
<b>Non-current Assets</b>					
Receivables	5	1,189	1,071	1,189	1,071
Investments accounted for using the equity method	8	2,047	252	–	–
Other financial assets	9	2,541	11,258	24,724	23,260
Property, plant and equipment	10	7,830	7,094	164	154
Intangibles	11	10,253	2,091	–	–
<b>Total Non-current Assets</b>		<b>23,860</b>	<b>21,766</b>	<b>26,077</b>	<b>24,485</b>
<b>Total Assets</b>		<b>94,053</b>	<b>78,897</b>	<b>72,763</b>	<b>61,905</b>
<b>Current Liabilities</b>					
Payables	12	19,343	13,254	1,788	1,344
Interest bearing liabilities	13	913	1,063	36,897	27,134
Current tax liabilities	14	1,401	596	–	–
Provisions	15 and 16	1,429	4,298	119	2,879
<b>Total Current Liabilities</b>		<b>23,086</b>	<b>19,211</b>	<b>38,804</b>	<b>31,357</b>
<b>Non-current Liabilities</b>					
Interest bearing liabilities	13	1,873	2,144	–	–
Deferred tax liabilities	14	2,095	2,030	–	–
Provisions	15 and 16	1,255	1,061	160	145
<b>Total Non-current Liabilities</b>		<b>5,223</b>	<b>5,235</b>	<b>160</b>	<b>145</b>
<b>Total Liabilities</b>		<b>28,309</b>	<b>24,446</b>	<b>38,964</b>	<b>31,502</b>
<b>Net Assets</b>		<b>65,744</b>	<b>54,451</b>	<b>33,799</b>	<b>30,403</b>
<b>Equity</b>					
Contributed equity	17	28,721	27,994	28,721	27,994
Reserves	18	(250)	(66)	111	111
Retained profits	19	26,678	18,710	4,967	2,298
<b>HGL Limited equity interest</b>		<b>55,149</b>	<b>46,638</b>	<b>33,799</b>	<b>30,403</b>
<b>Outside equity interest</b>					
Contributed equity		4,724	3,784	–	–
Reserves		169	169	–	–
Retained profits		5,702	3,860	–	–
<b>Outside equity interests in controlled entities</b>		<b>10,595</b>	<b>7,813</b>	<b>–</b>	<b>–</b>
<b>Total equity</b>		<b>65,744</b>	<b>54,451</b>	<b>33,799</b>	<b>30,403</b>

Notes to the financial statements are included on pages 22 to 47.

## STATEMENT OF CASH FLOWS

for the Financial Year ended 30 September 2003

	Note	Consolidated		Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers		97,030	83,471	3,172	3,399
Payments to suppliers and employees		(89,719)	(74,699)	(2,972)	(2,821)
Dividends received		3,822	1,046	5,139	7,901
Income tax paid		(1,581)	(1,545)	(31)	(7)
Interest received		465	552	1,398	730
Interest paid		(825)	(818)	(1,732)	(1,269)
<b>Net cash inflow from operating activities</b>	31	<b>9,192</b>	<b>8,007</b>	<b>4,974</b>	<b>7,933</b>
<b>Cash flows from investing activities</b>					
Payment for purchase of property, plant and equipment		(2,296)	(2,058)	(47)	(86)
Proceeds from sale of property, plant and equipment	2	580	1,598	1	1
Proceeds from sale of controlled entity	24 and 26	1,863	16,652	-	-
Payment for purchase of listed securities		(2,895)	(11,974)	(180)	(10)
Payment for purchase of associate		(1,952)	-	-	-
Payment for purchase of controlled entities	25	(12,301)	-	-	-
Proceeds from sale of listed securities	2	16,289	4,432	91	-
Loan to controlled entities		-	-	(16,210)	(9,628)
Loan repaid by controlled entities		-	-	13,028	4,680
Loan to other entities		(588)	(143)	(523)	(139)
Loan repaid by other entities		333	1,314	204	415
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(967)</b>	<b>9,821</b>	<b>(3,636)</b>	<b>(4,767)</b>
<b>Cash flows from financing activities</b>					
Payment for share buy back		(41)	(916)	(41)	(916)
Proceeds from borrowings		8,589	5,084	10,191	9,508
Repayment of borrowings		(9,392)	(9,925)	(427)	(6,331)
Dividends paid:					
Members of the parent entity		(3,997)	(4,838)	(3,997)	(4,838)
Outside equity interests		(1,095)	(1,280)	-	-
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(5,936)</b>	<b>(11,875)</b>	<b>5,726</b>	<b>(2,577)</b>
<b>Net increase in cash held</b>		<b>2,289</b>	<b>5,953</b>	<b>7,064</b>	<b>589</b>
Cash at the beginning of the financial year		9,175	3,222	843	254
<b>Cash at the end of the financial year</b>		<b>11,464</b>	<b>9,175</b>	<b>7,907</b>	<b>843</b>

Notes to the financial statements are included on pages 22 to 47.

## 1 - Summary of significant accounting policies

The principal accounting policies adopted by HGL Limited and its controlled entities are stated to assist in a general understanding of this financial report. These policies have been consistently applied by the consolidated entity except as otherwise indicated.

### (a) Basis of accounting

This financial report being a general purpose financial report, has been prepared on the basis of historical costs and except where stated, does not take into account current valuations of non-current assets.

The financial report has been prepared in accordance with the Corporations Act 2001, applicable Accounting Standards and other mandatory professional reporting requirements (Urgent Issues Group Consensus Views).

### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by HGL Limited ("Company") as at 30 September 2003 and the results of all controlled entities for the year then ended. The Company and its controlled entities together are referred to in these financial statements as the "consolidated entity". The effects of all transactions between entities included in the consolidated financial statements are eliminated in full.

Outside interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where controlled entities are acquired, their results are included only from the date control commenced. For controlled entities disposed of, their results are included up to the date control ceased.

In accordance with applicable Accounting Standards, any discount arising on acquisition is applied to write down non-monetary assets of the entities acquired to the cost to the consolidated entity. If these assets are subsequently disposed of at or above written down value, then a portion of the discount on acquisition is thus realised and recognised in the Statement of Financial Performance.

### (c) Goodwill

Goodwill on consolidation is recorded at the amount by which the cost of the investment in a controlled entity exceeds the fair value of its identifiable net assets at the date of acquisition.

Goodwill is amortised by systematic charges against income over the appropriate period in which benefits are expected to be received, being twenty years. The period over which goodwill is amortised is subject to annual review.

### (d) Investments

The consolidated entity's interests in listed and unlisted securities, including its controlled entities, are carried at cost where the intention is for these to be long term holdings. Income is recognised in the statement of financial performance on an accruals basis.

The equity method of accounting for investments in associates has been applied in the consolidated financial statements and the cost method has been applied in the Company's financial statements.

### (e) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials, direct labour and an appropriate portion of overheads. Cost is based on a weighted average cost. Short term trading interests in listed securities are marked to market.

The adequacy of inventory provisioning, application of inventory write offs against the provision, and reversals of provisions are assessed on a regular basis by each entity within the consolidated entity to ensure inventories are stated at the lower of cost and net realisable value.

### (f) Land and buildings

Land and Buildings are measured at cost. The consolidated entity obtains a current valuation, for disclosure purposes, for its interests in land and buildings, periodically at intervals not exceeding three years. Note 10 discloses details of the most recent valuations.

### (g) Depreciation and amortisation

Buildings are depreciated over their estimated useful lives using the straight-line method. Leasehold properties are amortised over their lease term using the straight-line method. Items of plant and equipment are depreciated over their estimated useful lives using the reducing-balance method.

The following estimated useful lives are used in the calculation of depreciation and amortisation: Buildings – 40 years; Plant and equipment – 3 to 10 years; and Leased plant and equipment – 3 to 5 years.

**(h) Leased assets**

Operating lease payments, where the lessor effectively retains substantially all the risks and benefits incidental to ownership of the leased items, are charged to the profit and loss in the period in which they are incurred.

Finance leases, which effectively transfer to the consolidated entity substantially all the risks and benefits incidental to ownership of leased items, are capitalised at the present value of the minimum lease payments, disclosed as property, plant and equipment, and amortised over the period during which the consolidated entity is expected to benefit from use of the leased assets.

**(i) Employee benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and are capable of being measured reliably. Employee entitlements expected to be settled within 12 months are measured at their nominal values. Long service leave provisions, which are not expected to be settled within 12 months, are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

**(j) Revenue**

Service contract revenue is brought to account by reference to the stage of completion of the contract. Amounts received and receivable in relation to the unexpired period of contracts at year end are treated as deferred revenue. Provision is made, out of revenue, for the estimated liability on all products still under service warranty at balance date. This provision is estimated having regard to service warranty experience over past periods.

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

**(k) Foreign currency transactions**

Foreign currency transactions are translated into Australian currency at the rate of exchange at the date of the transaction. Amounts receivable or payable in foreign currencies are translated at the rates of exchange ruling at balance date. Resulting exchange differences are brought to account in determining the profit for the year, except that exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

**Translation of foreign controlled entities**

For investments in self-sustaining foreign operations, the assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while their revenue and expenses are translated at the average of rates ruling during the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

**(l) Income Tax**

Income tax has been brought to account using the liability method of tax-effect accounting. Income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of certain timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

The future income tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation.

**(m) Derivative financial instruments**

The consolidated entity enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including forward foreign exchange contracts and interest rate swaps. Further details of derivative financial instruments are disclosed in Note 29 to the financial statements.

**Foreign exchange contracts**

Exchange differences on forward foreign exchange contracts to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

In the event of the early termination of a foreign currency hedge or an anticipated purchase or sale of goods and services, the deferred gains and losses that arose on the foreign exchange contract prior to its termination are:

- (i) deferred and included in the measurement of the purchase or sale when it takes place, where the anticipated transaction is still expected to occur; or
- (ii) recognised in the profit and loss at the date of termination, if the anticipated transaction is no longer expected to occur.

*Interest rate swaps*

Gains and losses on interest rate swaps are included in the determination of interest expense.

**(n) Receivables**

Trade receivables and other receivables are recorded at amounts due less any allowance for doubtful debts.

**(o) Accounts payable**

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

**(p) Interest bearing liabilities**

Bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accruals basis.

**(q) Financial instruments issued by the consolidated entity**

*Debt and equity instruments*

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

*Interest and dividends*

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments.

**(r) Cash**

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

**(s) Recoverable amount of non-current assets**

Non-current assets are written down to recoverable amounts where the carrying value of any non-current asset exceeds its recoverable amount. Recoverable amount is determined as the present value of the amount expected to be recovered through the cash inflows and outflows arising from the continued use and subsequent disposal of the non-current asset.

**(t) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority; and
- (ii) for receivables and payables which are recognised exclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

**(u) Provisions**

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable and the amount of the provision can be measured reliably. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

**(v) Changes in accounting policies**

In accordance with Accounting Standard AASB 1044 'Provision, Contingent Liabilities and Contingent Assets', on 1 October 2002, the consolidated entity changed its policy for providing for dividends. Under the new policy a provision for dividend is recognised when the directors have declared, determined or publicly recommended the dividend. The effect of this change in accounting policy is to adjust opening retained profits for the consolidated entity and the company by the amount of the dividend provision at 30 September 2002.

<i>Consolidated</i>		<i>Company</i>	
2003	2002	2003	2002
\$'000	\$'000	\$'000	\$'000

## 2 – Profit from ordinary activities

Profit from ordinary activities before income tax includes the following items of revenue and expense:

### a) Operating Revenue

<b>Sales revenue – sale of goods</b>	<b>90,131</b>	<b>83,874</b>	<b>–</b>	<b>–</b>
Dividends:				
Wholly owned controlled entities	–	–	<b>5,243</b>	7,782
Partly owned controlled entities	–	–	–	237
Other entities	<b>3,025</b>	964	<b>1</b>	–
Interest:				
Wholly owned controlled entities	–	–	<b>927</b>	450
Partly owned controlled entities	–	–	<b>303</b>	49
Directors and director-related entities	<b>43</b>	134	<b>43</b>	134
Associates	<b>2</b>	13	–	–
Other entities	<b>420</b>	479	<b>124</b>	174
Proceeds from sale of property, plant and equipment	<b>3,481</b>	1,598	<b>1</b>	1
Proceeds from sale of listed securities	<b>16,640</b>	4,432	<b>91</b>	–
Proceeds from sale of controlled entity	–	18,210	–	–
Foreign exchange gain	<b>553</b>	428	–	–
Marking to market of listed securities	<b>918</b>	3,409	–	–
Investment, corporate head office and other income	<b>1,020</b>	1,082	<b>3,174</b>	3,398
<b>Total</b>	<b>116,233</b>	<b>114,623</b>	<b>9,907</b>	<b>12,225</b>

All revenue is derived from operating activities.

### b) Expenses

<b>Cost of sales</b>	<b>49,343</b>	<b>43,927</b>	<b>–</b>	<b>–</b>
Borrowing costs:				
Interest:				
Wholly owned controlled entities	–	–	<b>1,680</b>	1,204
Partly owned controlled entities	–	–	<b>25</b>	28
Directors and director-related entities	<b>2</b>	16	<b>2</b>	16
Associates	<b>33</b>	27	–	–
Other entities	<b>685</b>	507	<b>25</b>	21
Finance charges relating to finance leases	<b>105</b>	268	–	–
	<b>825</b>	<b>818</b>	<b>1,732</b>	<b>1,269</b>

## NOTES TO THE FINANCIAL STATEMENTS

*continued*

	<i>Consolidated</i>		<i>Company</i>	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>2 - Profit from ordinary activities (continued)</b>				
<b>b) Expenses (continued)</b>				
Amortisation:				
Agency agreement	7	7	--	--
Goodwill	336	305	--	--
Royalty	--	3	--	--
	<b>343</b>	<b>315</b>	<b>--</b>	<b>--</b>
Depreciation:				
Buildings	36	116	--	--
Leased plant and equipment	359	511	--	--
Leasehold improvements	161	183	5	5
Mining tenements	--	111	--	--
Plant and equipment	960	1,086	34	13
	<b>1,516</b>	<b>2,007</b>	<b>39</b>	<b>18</b>
Movement in Provisions:				
Doubtful debts	63	21	--	334
Employee entitlements	3	1	50	8
Stock obsolescence movements	798	863	--	--
	<b>864</b>	<b>885</b>	<b>50</b>	<b>342</b>
Operating lease expenses:				
Minimum lease payments	2,080	1,814	106	103

### 3 - Sales of Assets

Sales of assets in the ordinary course of business have given rise to the following profits and losses:

Profit/(loss) on sale of property, plant and equipment	644	(42)	1	(1)
Profit on sale of controlled entities	--	5,906	--	--
Profit/(loss) on sale of business	104	(316)	--	--
Profit on sale of listed securities	4,219	953	20	--

	Consolidated		Company	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>4 - Income Tax</b>				
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:				
<b>Prima facie income tax expense on the operating profit at 30% (2002: 30%)</b>	<b>4,462</b>	<b>4,312</b>	<b>1,302</b>	<b>2,248</b>
Tax effect of permanent differences:				
Rebatable dividends	(1,265)	(215)	(1,573)	(2,406)
Tax rate differential relating to overseas controlled entities	72	36	-	-
Equity share of associates' (profit)/loss	(65)	111	-	-
Initial tax on marking to market of securities	-	821	-	-
Prior year tax losses booked	(1,092)	-	-	-
Utilisation of prior year unbooked future income tax benefit	(90)	(1,246)	(30)	430
Amortisation of intangibles	103	95	-	-
Amortisation and depreciation on buildings	10	35	1	1
Non-allowable expenses	12	11	1	1
Prior year underprovision	57	-	-	-
<b>Income tax expense/(benefit) on operating profit</b>	<b>2,204</b>	<b>3,960</b>	<b>(299)</b>	<b>274</b>

## 5 - Receivables

### Current

Trade receivables	18,206	13,517	-	-
Less: Allowance for doubtful debts	(420)	(369)	-	-
	17,786	13,148	-	-
Other debtors and prepayments	4,111	3,376	209	365
Loans to controlled entities	-	-	37,002	35,177
Loans to other entities	130	435	282	485
Advance to operating entity	956	550	956	550
	22,983	17,509	38,449	36,577

### Non-current

Loan to Director*	914	822	914	822
Loan to other entities*	275	249	275	249
	1,189	1,071	1,189	1,071

At 30 September 2003 HGL Limited and wholly owned subsidiaries have \$18,598,000 (2002: \$7,734,000) of interest bearing loans outstanding to import and distribution businesses. Interest charged on these loans during the year amounted to \$1,199,000 (2002: \$568,000).

\* Pursuant to the HGL Limited Employee Share Scheme (1999) loans of \$1,189,000 (2002: \$1,071,000) are outstanding from two participants of that Scheme.

## NOTES TO THE FINANCIAL STATEMENTS

*continued*

	<i>Consolidated</i>		<i>Company</i>	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>6 - Inventories</b>				
<b>Current</b>				
Listed securities – at cost	4,626	4,595	–	–
Mark to market increment	6,728	6,106	–	–
	<b>11,354</b>	<b>10,701</b>	<b>–</b>	<b>–</b>
Raw materials – at cost	3,058	3,078	–	–
Work in progress – at cost	605	685	–	–
Finished goods at net realisable value	18,914	14,893	–	–
	<b>33,931</b>	<b>29,357</b>	<b>–</b>	<b>–</b>

## 7 - Current Tax Assets

<b>Future income tax benefit</b>	<b>1,815</b>	<b>1,090</b>	<b>330</b>	<b>–</b>
----------------------------------	--------------	--------------	------------	----------

The future income tax benefit comprises short-term timing differences relating to the differing accounting and taxation treatment of expenses and provisions.

The Directors estimate that the potential income tax benefit at 30 September 2003 in respect of past tax losses not brought to account is \$449,000 (2002: \$1,000,000).

Timing differences, the benefits of which are not assured beyond any reasonable doubt, not brought to account are \$50,000 (2002: \$225,000).

The income tax benefit will only be obtained if:

- the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses and timing differences to be realised;
- the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses or timing differences.

Legislation to allow groups, comprising a parent entity and its Australian resident wholly owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the Company.

At the date of this report the directors have not assessed the financial effect, if any, the legislation may have on the Company and the consolidated entity and, accordingly, the directors have not made a decision whether or not to elect to be taxed as a single entity. The financial effect of the implementation of the tax consolidation system on the consolidated entity has not been recognised in the financial statements.

**8 - Investments Accounted for Using the Equity Method**

Name of Entity	Principal Activity	Ownership Interest Consolidated		Carrying Amount Consolidated		Carrying Amount Company	
		2003 %	2002 %	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
Charmant Australia Pty Limited (i)	Optical Frame Distribution	25.0	25.0	180	215	--	--
MMC Asset Management Limited (ii)	Funds Manager	23.2	--	1,831	--	--	--
				<b>2,011</b>	215	--	--
Other immaterial associates				36	37	--	--
				<b>2,047</b>	252	--	--

(i) The reporting date of Charmant Australia Pty Limited is 31 December.

(ii) The reporting date of MMC Asset Management Limited is 30 June.

Consolidated	
2003	2002
\$'000	\$'000

**Equity accounted investments**

Equity accounted amount of investment at the beginning of the financial year	252	5,772
Share of operating profit before income tax	312	(32)
Share of associate written down to nil	--	(300)
Share of income tax	(96)	(39)
Share of dividend	(373)	(203)
Opening balance of entities transferred to other financial assets	--	(4,946)
Acquisition of additional interest in associates	1,952	--
Equity accounted amount of investment at the end of the financial year	<b>2,047</b>	252

## NOTES TO THE FINANCIAL STATEMENTS

*continued*

*Consolidated*  
2003      2002  
\$'000      \$'000

### 8 - Investments Accounted for Using the Equity Method *(continued)*

#### Summarised financial position of associates

Current assets		
Cash	1,398	81
Inventories	1,625	1,940
Receivables	1,192	819
Other	380	168
Current liabilities		
Payables	(552)	(1,005)
Interest bearing liabilities	(909)	(761)
Provisions	(47)	(38)
Non-current assets		
Property, plant and equipment	260	523
Non-current liabilities		
Provisions	(54)	(48)
Interest bearing liabilities	(800)	(973)
Net assets	<u>2,493</u>	<u>706</u>
Net Profit/(loss)	<u>1,046</u>	<u>(244)</u>

### 9 - Other financial assets

	<i>Consolidated</i>		<i>Company</i>	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Non-current</b>				
Listed securities – at cost	2,021	10,958	–	–
Shares in controlled entities – at cost	–	–	24,556	23,200
Unlisted securities – at cost	118	10	118	10
Partnership investment:				
Partnership interest – at cost	352	240	–	–
Partnership interest – at cost*	50	50	50	50
	<u>2,541</u>	<u>11,258</u>	<u>24,724</u>	<u>23,260</u>

The market value of listed securities was \$3,327,000 (2002: \$14,447,000) to the consolidated entity at 30 September 2003.

\* The Company has a 24.5% (2002: 24.5%) interest in Safilo Australia partnership which contributed \$321,000 (2002: \$450,000) to the after-tax profit of the consolidated entity for the year ended 30 September 2003. The principal activity of the partnership is the distribution of imported spectacle frames and sunglasses.

NOTES TO THE FINANCIAL STATEMENTS

continued

	Land & Buildings* \$'000	Leasehold Improvements \$'000	Consolidated Plant & Equipment \$'000	Leased Plant & Equipment \$'000	Total \$'000
<b>10 - Property, Plant and Equipment</b>					
<b>Gross Carrying Amount</b>					
Balance at 30 September 2002	3,707	1,139	6,237	2,047	13,130
Additions	84	129	1,419	690	2,322
Acquisition of businesses	2,095	-	2,089	3	4,187
Disposals	(2,451)	(548)	(4,967)	(471)	(8,437)
Net foreign currency exchange differences arising on translation of financial statements of self-sustaining foreign operations	26	3	7	-	36
<b>Balance at 30 September 2003</b>	<b>3,461</b>	<b>723</b>	<b>4,785</b>	<b>2,269</b>	<b>11,238</b>
<b>Accumulated Depreciation</b>					
Balance at 30 September 2002	(725)	(847)	(3,832)	(632)	(6,036)
Disposals	598	541	4,275	186	5,600
Acquisition of businesses	-	-	(1,457)	-	(1,457)
Depreciation expense	(36)	(161)	(959)	(359)	(1,515)
Net foreign currency exchange differences arising on translation of financial statements of self-sustaining foreign operations	2	-	(2)	-	-
<b>Balance at 30 September 2003</b>	<b>(161)</b>	<b>(467)</b>	<b>(1,975)</b>	<b>(805)</b>	<b>(3,408)</b>
<b>Net Book Value</b>					
<b>As at 30 September 2003</b>	<b>3,300</b>	<b>256</b>	<b>2,810</b>	<b>1,464</b>	<b>7,830</b>
As at 30 September 2002	2,982	292	2,405	1,415	7,094
<b>Company</b>					
	Land & Buildings \$'000	Leasehold Improvements \$'000	Plant & Equipment \$'000	Leased Plant & Equipment \$'000	Total \$'000
<b>Gross Carrying Amount</b>					
Balance at 30 September 2002	-	171	311	-	482
Additions	-	-	47	-	47
Disposals	-	-	(18)	-	(18)
<b>Balance at 30 September 2003</b>	<b>-</b>	<b>171</b>	<b>340</b>	<b>-</b>	<b>511</b>
<b>Accumulated Depreciation</b>					
Balance at 30 September 2002	-	(126)	(202)	-	(328)
Disposals	-	-	20	-	20
Depreciation expense	-	(5)	(34)	-	(39)
<b>Balance at 30 September 2003</b>	<b>-</b>	<b>(131)</b>	<b>(216)</b>	<b>-</b>	<b>(347)</b>
<b>Net book value</b>					
<b>As at 30 September 2003</b>	<b>-</b>	<b>40</b>	<b>124</b>	<b>-</b>	<b>164</b>
As at 30 September 2002	-	45	109	-	154

\* Current values based on the independent valuation made by Bristow Barbour & Walker Ltd (St. Doyle, ANZPI, B.Prop) in September 2003, of the interest in land and buildings, was \$2,149,000 compared to a written down value of \$1,205,000. In June 2003 Fitzroys Pty Limited (CB Mason AAPI) and Carritt Taylor Valuations Pty Limited (C Taylor FAPI) carried out the independent valuation of the interests in land and buildings relating to the Thalgo acquisition. The land and buildings were valued at \$2,095,000 compared to a book value of \$2,095,000.

## NOTES TO THE FINANCIAL STATEMENTS

continued

	Note	Consolidated		Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>11 - Intangibles</b>					
Agency agreement – at cost		136	136	–	–
Less: Accumulated amortisation		(92)	(85)	–	–
		<b>44</b>	<b>51</b>	<b>–</b>	<b>–</b>
Goodwill		11,427	2,992	–	–
Less: Accumulated amortisation		(1,218)	(952)	–	–
		<b>10,209</b>	<b>2,040</b>	<b>–</b>	<b>–</b>
		<b>10,253</b>	<b>2,091</b>	<b>–</b>	<b>–</b>
<b>12 - Payables</b>					
Trade payables and accruals		16,167	13,254	1,788	1,344
Deferred consideration	25	3,176	–	–	–
		<b>19,343</b>	<b>13,254</b>	<b>1,788</b>	<b>1,344</b>
<b>13 - Interest bearing liabilities</b>					
<b>Current (unsecured)</b>					
Loan from controlled entities		–	–	36,822	26,631
Loan from Director-related entities	28	–	211	–	211
Other borrowings		75	292	75	292
		<b>75</b>	<b>503</b>	<b>36,897</b>	<b>27,134</b>
<b>Current (secured)</b>					
Lease liabilities**	20	638	560	–	–
Other borrowings***		200	–	–	–
		<b>838</b>	<b>560</b>	<b>–</b>	<b>–</b>
		<b>913</b>	<b>1,063</b>	<b>36,897</b>	<b>27,134</b>
<b>Non-current (secured)</b>					
Other borrowings***		–	200	–	–
Bank loans*	30	1,158	1,160	–	–
Lease liabilities**	20	715	784	–	–
		<b>1,873</b>	<b>2,144</b>	<b>–</b>	<b>–</b>

\* Bank facilities are secured by first registered charge over the consolidated entity's assets and undertakings.

\*\* Lease liabilities are secured by the respective assets acquired.

\*\*\* Second registered mortgage charge over the assets of Mountcastle Pty Ltd.

## 14 - Tax liabilities

### Current

Income tax payable		1,401	596	–	–
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### Non-current

Deferred tax liabilities		2,095	2,030	–	–
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	<i>Consolidated</i>		<i>Company</i>	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>15 - Provisions</b>				
<b>Dividend</b>				
Balance at 30 September 2002	2,997	2,997	2,795	2,795
Adjustment to retained profits on initial application of AASB 1044	(2,997)	–	(2,795)	–
Additional provisions recognised	2,997	–	2,795	–
Reductions arising from payments/other sacrifices of future economic benefits	(2,997)	–	(2,795)	–
<b>Balance at 30 September 2003</b>	<b>–</b>	<b>2,997</b>	<b>–</b>	<b>2,795</b>

The provision for dividends represents the aggregate amount of dividends declared, determined or publicly recommended on or before the reporting date, which remain undistributed as at reporting date, regardless of the extent to which they are expected to be paid in cash.

### 16 - Employee Benefits

<b>Provision for employee benefits</b>				
Current	1,429	1,301	119	84
Non-current	1,255	1,061	160	145
	<b>2,684</b>	<b>2,362</b>	<b>279</b>	<b>229</b>

<b>Employee numbers</b>	Number	Number	Number	Number
Number of employees at end of financial year	<b>433</b>	362	<b>10</b>	8

### 17 - Contributed equity

<b>Issued share capital</b>				
47,212,767 (2002: 46,582,668) fully paid ordinary shares	<b>28,721</b>	27,994	<b>28,721</b>	27,994

	<i>Consolidated</i>		<i>Consolidated</i>	
	2003 Number	2003 \$'000	2002 Number	2002 \$'000

During the year the following changes occurred in fully paid ordinary shares:

Balance at beginning of financial year	46,582,668	27,994	46,507,189	27,947
Allotted pursuant to HGL Dividend Reinvestment Plan	664,081	768	802,341	964
Cancellation of capital pursuant to the on-market share buy-back*	(33,982)	(41)	(726,862)	(917)
<b>Balance at end of financial year</b>	<b>47,212,767</b>	<b>28,721</b>	<b>46,582,668</b>	<b>27,994</b>

\* The company currently operates an on-market share buy-back under which it can purchase 4,511,374 of its shares. The buy-back unless renewed will cease on 14 January 2004. During the year 33,982 ordinary shares were purchased at an average price of \$1.19 pursuant to the on-market share buy-back.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Details of the HGL Dividend Reinvestment Plan are disclosed in the Shareholder Information on page 51.

## NOTES TO THE FINANCIAL STATEMENTS

continued

	Note	Consolidated		Company	
		2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>18 - Reserves</b>					
Asset realisation reserve		96	96	96	96
Asset revaluation reserve		15	15	15	15
Foreign currency translation reserve		(361)	(177)	-	-
		<b>(250)</b>	<b>(66)</b>	<b>111</b>	<b>111</b>
<b>Foreign currency translation reserve</b>					
Opening balance		(177)	(254)	-	-
Translation of overseas controlled entities		(184)	77	-	-
<b>Closing balance</b>		<b>(361)</b>	<b>(177)</b>	<b>-</b>	<b>-</b>

The foreign currency translation reserve arises on the retranslation of the opening net assets of overseas subsidiaries at the year end rates of exchange.

## 19 - Retained profits

Balance at beginning of financial year		18,710	16,271	2,298	654
Write-back of prior year dividend provision		2,997	-	2,795	-
Net profit		9,938	8,013	4,639	7,218
Dividends provided for or paid	23	(4,967)	(5,574)	(4,765)	(5,574)
<b>Balance at end of financial year</b>		<b>26,678</b>	<b>18,710</b>	<b>4,967</b>	<b>2,298</b>

## 20- Lease Commitments

### Finance leases

Plant and equipment		1,482	1,478	-	-
Payable not later than one year		689	636	-	-
Payable later than one, not later than five years		793	842	-	-
		<b>1,482</b>	<b>1,478</b>	<b>-</b>	<b>-</b>
Less: Future finance charges		(129)	(134)	-	-
<b>Provided for in the financial statements</b>		<b>1,353</b>	<b>1,344</b>	<b>-</b>	<b>-</b>
Representing lease liabilities:					
Current	13	638	560	-	-
Non-current	13	715	784	-	-
		<b>1,353</b>	<b>1,344</b>	<b>-</b>	<b>-</b>

Aggregate lease expenditure contracted for at balance date but not provided for in the financial statements:

### Operating leases

Land and buildings		5,922	4,935	269	362
Motor vehicles		47	124	-	-
		<b>5,969</b>	<b>5,059</b>	<b>269</b>	<b>362</b>
Payable not later than one year		2,062	1,838	108	103
Payable later than one, not later than five years		3,907	3,221	161	259
		<b>5,969</b>	<b>5,059</b>	<b>269</b>	<b>362</b>

The land and buildings operating leases are in respect of warehouses and offices occupied by group companies. The leases expire at various future dates between two and five years and a number contain option provisions to extend the term.

<i>Consolidated</i>		<i>Company</i>	
2003	2002	2003	2002
\$	\$	\$	\$

**21 - Directors' and Executives' Remuneration**

**Directors' remuneration**

Income paid or payable, or otherwise made available, to Directors from entities in the consolidated entity or related parties.

<b>3,352,416</b>	<b>1,578,928</b>	<b>891,035</b>	<b>587,700</b>
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The number of Company Directors is shown below in the relevant income bands:

	Number	Number
\$ 0 – \$ 9,999	2	2
\$ 10,000 – \$ 19,999	1	–
\$ 30,000 – \$ 39,999	–	4
\$ 40,000 – \$ 49,999	2	–
\$ 80,000 – \$ 89,999	1	–
\$110,000 – \$119,999	–	1
\$340,000 – \$349,999	–	1
\$700,000 – \$709,999	1	–

<i>Consolidated</i>		<i>Company</i>	
2003	2002	2003	2002
\$	\$	\$	\$

**Executives' remuneration**

Income received, or due and receivable, from entities in the consolidated entity or related parties by executive officers (including Directors) whose income was at least \$100,000:

<b>4,737,837</b>	<b>1,988,277</b>	<b>1,759,971</b>	<b>1,008,875</b>
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	Number	Number	Number	Number
\$100,000 – \$109,999	5	3	–	–
\$110,000 – \$119,999	2	2	–	1
\$120,000 – \$129,999	4	1	–	–
\$130,000 – \$139,999	6	2	–	–
\$140,000 – \$149,999	3	1	–	1
\$160,000 – \$169,999	–	1	–	–
\$170,000 – \$179,999	–	1	–	1
\$200,000 – \$209,999	1	–	–	–
\$220,000 – \$229,999	1	–	1	–
\$230,000 – \$239,999	–	1	–	1
\$270,000 – \$279,999	1	–	–	–
\$330,000 – \$339,999	1	–	1	–
\$340,000 – \$349,999	–	1	–	1
\$490,000 – \$499,999	1	–	1	–
\$700,000 – \$709,999	1	–	1	–

## NOTES TO THE FINANCIAL STATEMENTS

*continued*

	<i>Consolidated</i>		<i>Company</i>	
	2003 \$	2002 \$	2003 \$	2002 \$
<b>22 - Auditors' Remuneration</b>				
<b>Auditing the financial report</b>				
Company auditor	241,252	200,351	86,066	82,240
Other auditors	44,407	32,676	-	-
	<b>285,659</b>	<b>233,027</b>	<b>86,066</b>	<b>82,240</b>
<b>Other services</b>				
Company auditor	143,997	102,192	109,847	93,073
Other auditors	9,257	-	-	-
	<b>153,254</b>	<b>102,192</b>	<b>109,847</b>	<b>93,073</b>

## 23 - Dividends - Company

	<i>Company</i>	
	2003 \$'000	2002 \$'000
<b>Ordinary Shares</b>		
Interim dividend paid		
4.2 cents 100% franked at 30% (2002: 6.0 cents unfranked)	1,970	2,779
Final dividend provided		
In accordance with AASB 1044, HGL Limited has not provided for the final dividend. The final dividend of 4.4 cents 100% franked at 30% will be payable on 19 December 2003. (2002: 6.0 cents unfranked)	-	2,795
<b>Total dividends provided for or paid</b>	<b>1,970</b>	<b>5,574</b>
Dividends actually paid or satisfied by the issue of shares under the Dividend Reinvestment Plan during the year ended 30 September 2003 were as follows:		
Paid in cash	3,997	4,838
Satisfied by issue of shares	768	964
<b>Dividends actually paid</b>	<b>4,765</b>	<b>5,802</b>

With effect from 1 July 2002, Australian Tax Law requires companies to maintain franking accounts on a tax paid basis. The following disclosures, including the prior year comparatives, reflect this tax paid basis of measuring franking credits. The consolidated entity has \$4,220,000 franking credits (2002: \$598,000).

Company	Country of Incorporation/Formation	Equity Holding	
		2003 %	2002 %
HGL Limited	Australia	–	–
<b>Import &amp; Distribution Businesses</b>			
BLC Cosmetics Pty Limited (trading as Thalgo)	Australia	60	–
BOC Ophthalmic Instruments Unit Trust	Australia	50 **	50
Createc Pty Limited (trading as Anitech)	Australia	50 **	50
Hamlon Pty Limited (trading as Sydney Point of Sale (SPOS))	Australia	100	–
The Point-of-Sale Centre (New Zealand) Ltd (SPOS)*	NZ	100	–
Kinsole Pty Limited (trading as XLN Fabrics)	Australia	50 **	50
J Leutenegger Pty Limited	Australia	50 **	50
Radda Pty Limited	Australia	50 **	50
Mountcastle Pty Limited	Australia	50 **	50
OP's Optical Products Unit Trust	Australia	50 **	50
Aarque Graphics New Zealand Limited*	NZ	50.0 **	54.5
Aarcato Properties Limited*	NZ	36.0 **	39.2
<b>Head Office Entities</b>			
AarqueAnitech Pty Limited	Australia	100	100
HGL Company Two Pty Limited	Australia	100	100
HGL Company Six Limited	Australia	100	100
HGL Group Pty Limited	Australia	100	100
Leutenegger Pty Limited	Australia	100	100
Martin Wells Holdings Pty Limited	Australia	100	100
Neltaro Pty Limited	Australia	100	100

\* Controlled entities of which Deloitte Touche Tohmatsu has not acted as auditors.

\*\* These entities are controlled by the Company as the Directors believe that the Company has the capacity to dominate decision making in relation to the financial and operating policies of the entity, in order to pursue the objectives of the Company.

Certain immaterial entities have not been disclosed in the above listing of controlled entities.

**Purchase of business (See note 25)**

SPOS was acquired on 3 April 2003. Options in SPOS have been issued to the joint CEO's of SPOS such that each have a 20% equity interest in the increase in the value of SPOS over the coming years.

On 1 July 2003, 60% of BLC Cosmetics was acquired.

**Sale of business**

At September 2002 the consolidated entity disposed of a 50% interest in the AarqueAnitech Pty Ltd business for a loan consideration of \$1,500,000 this was repaid in December 2002. There was a loss on disposal of \$316,000. The business of AarqueAnitech Pty Ltd was transferred to Createc Pty Ltd.

During the year 4.5% of Aarque Graphics New Zealand Limited was sold to members of its management team for \$363,000. There was a profit on disposal of \$104,000.

## 25 - Acquisition of Businesses

Two import and distribution businesses were acquired during the year. On 3 April 2003 HGL acquired 100% of SPOS a supplier of price ticketing, shelf management systems, merchandising and promotional display products. HGL has introduced Mike Farley and Remy Morello as joint CEO's. Mike Farley is a sales and marketing business builder with approximately 30 years experience in Australia and the USA. Remy Morello, CPA, has over 30 years experience in finance and general management. HGL has structured SPOS so that the joint CEO's each have a 20% equity interest in the increase in value of SPOS if the value is crystallised by a sale or similar event.

On 1 July 2003 HGL acquired 60% of BLC Cosmetics. BLC is the Australian distributor of Thalgo a worldwide brand of beauty and skin care products. HGL has introduced Sol Caganoff as a 40% shareholder and CEO of BLC. Sol was previously Managing Director and co founder, together with HGL, of Luxottica Australia. From a small base that company became the market leader in the import and distribution of high quality branded spectacle frames and sunglasses to the professional optometry market in Australia.

The fair value of assets and liabilities acquired in SPOS as at 31 March 2003 and BLC Cosmetics as at 30 June 2003 are shown below:

	SPOS \$'000	BLC Cosmetics \$'000	Total \$'000
Consideration	7,088	9,633	16,721
Cost of acquisition	245	257	502
Less cash in business on acquisition	(2,741)	(1,281)	(4,022)
Less equity from partner	–	(900)	(900)
	4,592	7,709	12,301
Deferred consideration	924	2,252	3,176
Total consideration	5,516	9,961	15,477
<b>Net assets acquired:</b>			
<b>Current Assets</b>			
Receivables	2,072	1,550	3,622
Inventories	1,706	1,332	3,038
Current tax assets	247	24	271
<b>Non-current Assets</b>			
Property, plant and equipment	312	2,418	2,730
<b>Current Liabilities</b>			
Payables	(1,231)	(512)	(1,743)
Provisions	(104)	(23)	(127)
<b>Non-current Liabilities</b>			
Provisions	(126)	(57)	(183)
<b>Net Assets</b>	2,876	4,732	7,608
Goodwill	2,640	6,129	8,769
Minority interest	–	(900)	(900)
	5,516	9,961	15,477

Property, plant and equipment include \$2,095,000 of freehold land and buildings which is included within unallocated in Segment Reporting note 27.

The final amount of the deferred consideration for SPOS is dependent on certain performance targets for the period ending 30 June 2004. The deferred consideration is payable in August 2004. The deferred consideration for BLC Cosmetics is also payable in August 2004. Both of these payments have been provided for at 30 September 2003 as disclosed in the Payables note 12.

**26 - Disposal of controlled entity**

On 20 December 2001 HGL Limited announced its intention to dispose of its interest in the GMA businesses.

On 26 March 2002 the consolidated entity disposed of its 50% interest in GMA Garnet Partnership and GMA Garnet Pty Ltd. The disposed entities were producers and suppliers of industrial garnet to the abrasive blasting industry and were reported as the industrial abrasives segment.

There were no disposals during the current year.

*Consolidated*  
Period ended  
26 March 2002  
\$'000

**Financial performance**

Revenue from discontinued operation	10,661
Expenses from discontinued operation	(8,819)
Profit from ordinary activities of discontinued operation	1,842
Income tax expense related to discontinued operation	(540)
Profit after tax	1,302
Outside equity interest	(591)
HGL Limited share of profit after tax	711

**Cash flows**

Net cash flows from operating activities	2,808
Cash flows from investing activities	16,697
Cash flows from financing activities	(4,002)
Total net cash flows	15,503

*Consolidated*  
2002  
\$'000

**Consideration**

Cash	18,210
	18,210

Details of the disposal were as follows:

**Book value of net assets disposed of**

Current assets	22,488
Non-current assets	16,058
Current liabilities	(12,690)
Non-current liabilities	(4,684)

**Book value of net assets disposed of**

Outside equity interests	(8,642)
Cost of disposal	(226)
Profit on disposal	5,906
	18,210

**Net cash inflow on Disposal**

Cash consideration	18,210
Less cash balances disposed	(1,558)
	16,652

## NOTES TO THE FINANCIAL STATEMENTS

continued

	Industrial Abrasives \$'000	Import & Distribution \$'000	Listed Securities \$'000	Segment Total \$'000	Unallocated* \$'000	Consolidated \$'000
<b>27 - Segment Reporting</b>						
<b>Business segments</b>						
<b>30 September 2003</b>						
<b>Revenue</b>						
Segment Revenue – External Sales	--	90,131	--	90,131	--	90,131
Segment Revenue – Other	--	2,485	20,718	23,203	3,115	26,318
	--	92,616	20,718	113,334	3,115	116,449
<b>Segment Result</b>						
Profit before income tax	--	9,347	8,297	17,644	(2,771)	14,873
Income tax	--	--	--	--	(2,204)	(2,204)
Profit after income tax	--	9,347	8,297	17,644	(4,975)	12,669
<b>Segment assets</b>						
	--	56,944	15,206	72,150	21,903	94,053
<b>Segment liabilities</b>						
	--	(16,320)	--	(16,320)	(11,989)	(28,309)
<b>Net assets</b>						
	--	40,624	15,206	55,830	9,914	65,744
<b>Other disclosures:</b>						
Depreciation & Amortisation	--	1,820	--	1,820	39	1,859
Acquisition of segment assets	--	2,275	--	2,275	47	2,322
Assets of businesses acquired	--	2,730	--	2,730	--	2,730
Carrying value of equity investments	--	216	1,831	2,047	--	2,047
Share of associates profit	--	40	176	216	--	216
<b>Other significant revenue:</b>						
Sale of property	--	--	--	--	2,650	2,650
Sale of listed securities	--	--	16,640	16,640	--	16,640
Dividends	--	--	3,025	3,025	--	3,025
Marketing to market listed securities	--	--	918	918	--	918
<b>Other significant expenses:</b>						
Stock obsolescence	--	798	--	798	--	798

\* Unallocated refers to tax assets, tax liabilities and tax expenses, cash, properties, head office items and the employee share scheme.

The consolidated entities main business is carried on in Australia. There are no material geographical segments to report.

The import and distribution businesses obtain branded products mainly from overseas and distribute these products mainly within Australia. Listed securities comprises the listed investments, the equity accounted investment in MMC Asset Management Limited and the investment in the units of the Strategic Value Trust.

NOTES TO THE FINANCIAL STATEMENTS

continued

	Industrial Abrasives \$'000	Import & Distribution \$'000	Listed Securities \$'000	Segment Total \$'000	Unallocated* \$'000	Consolidated \$'000
<b>27 - Segment Reporting (continued)</b>						
<b>Business segments (continued)</b>						
<b>30 September 2002</b>						
<b>Revenue</b>						
Segment Revenue – External sales	10,134	73,740	–	83,874	–	83,874
Segment Revenue – Other	527	2,265	8,805	11,597	18,781	30,378
	10,661	76,005	8,805	95,471	18,781	114,252
<b>Segment Result</b>						
Profit before income tax	1,842	4,623	5,326	11,791	2,581	14,372
Income tax	–	–	–	–	(3,960)	(3,960)
Profit after income tax	1,842	4,623	5,326	11,791	(1,379)	10,412
<b>Segment assets</b>						
	–	39,466	21,659	61,125	17,772	78,897
<b>Segment liabilities</b>						
	–	(13,572)	–	(13,572)	(10,874)	(24,446)
<b>Net assets</b>						
	–	25,894	21,659	47,553	6,898	54,451
<b>Other disclosures:</b>						
Depreciation & Amortisation	590	1,715	–	2,305	17	2,322
Write off intangibles	–	1,676	–	1,676	–	1,676
Non-cash expenses other than depreciation & amortisation	–	–	–	–	316	316
Acquisition of segment assets	893	1,143	–	2,036	86	2,122
Carrying value of equity investments	–	252	–	252	–	252
Share of associates loss	–	(371)	–	(371)	–	(371)
<b>Other significant revenue:</b>						
Marking to market listed securities	–	–	3,409	3,409	–	3,409
Sale of controlled entity	–	–	–	–	18,210	18,210
Sale of listed securities	–	–	4,432	4,432	–	4,432
<b>Other significant expenses:</b>						
Stock obsolescence	–	792	–	792	71	863

\* Unallocated refers to tax assets, tax liabilities and tax expenses, cash, properties, head office items and the employee share scheme.

The consolidated entities main business is carried on in Australia. There are no material geographical segments to report.

The import and distribution businesses obtain branded products mainly from overseas and distribute these products mainly within Australia. Listed securities comprises the listed investments, the equity accounted investment in MMC Asset Management Limited and the investment in the units of the Strategic Value Trust.

## NOTES TO THE FINANCIAL STATEMENTS

*continued*

### 28 - Related Parties

#### Directors

The names of persons who were Directors of the Company at any time during the financial year and their relevant interest in the securities of the Company as at year end are as follows:

	<i>Beneficially</i>	<i>Number of Ordinary shares held Non- beneficially</i>	<i>Direct Interest</i>	<i>Indirect Interest</i>
PG Miller (alternate: MA Hershon)	39,723	7,756,304	39,723	7,756,304
Kj Eley	1,841,733	--	1,841,733	--
FM Wolf	147,578	--	--	147,578
JD Constable - appointed 1 August 2003	44,000	625	44,625	--
MA Hershon	--	7,756,304	--	7,756,304
DN Constable - resigned 1 August 2003	--	--	--	--
RJ Constable - resigned 29 October 2002	--	--	--	--

#### Related party transactions

(1) Pursuant to the HGL Limited Employee Share Scheme (1999), as approved at the ninety-fifth Annual General Meeting on 19 January 1999, a loan of \$543,000 was made to Kj Eley to enable the repayment of the loan balance under the previous share scheme.

During the year, an additional amount of \$101,000 (2002: \$114,000) was lent to Kj Eley, and repayments of \$9,000 (2002: \$9,000) were made by Kj Eley, in accordance with the terms of the HGL Limited Employee Share Scheme (1999). The balance of the loan account is \$914,000 (2002: \$822,000). Interest of \$43,000 (2002: \$134,000) was charged.

**Interest rate:** Under the HGL Employee Share Scheme (1999), the interest rate is equal to the dividend rate, based on the issue price of Scheme shares. For the year ended 30 September 2003, the interest rate was 12.48% pa (2002: 16.10% pa).

**Repayment of principal:** On the last day of each calendar year, an amount equal to the sum of franking credits received by Kj Eley under the HGL Limited Employee Share Scheme (1999) multiplied by one minus the top tax rate (including Medicare levy) and profit from sales of any such shares shall be used in partial discharge of the Scheme Loan (1999).

No demand for repayment of the principal shall be made before the earliest to occur of:

- (a) the expiration of six months after Kj Eley ceases, for any reason other than death, to be an employee of the Company or controlled entity;
- (b) the expiration of twelve months after death; and
- (c) the seventh anniversary of the making of the approval of the Scheme Loan (1999) on 19 January 1999.

**Security:** The Company retains a holding lock in respect of the Scheme shares registered in the name of Kj Eley. The value of this security as at 30 September 2003 was \$1,695,000 (2002: \$1,229,000).

**28 - Related Parties** (continued)

**Related party transactions** (continued)

(2) During the year, the Company received monies on deposit from the following parties:

	Interest paid during the year		Amount outstanding	
	2003 \$	2002 \$	2003 \$	2002 \$
Jancon Pty Limited (related entity of RJ Constable)	1,580	11,688	–	99,200
KJ Eley and KJE Super Fund	–	3,879	–	111,668

(3) Directors received or were entitled to receive dividends from the Company during the year ended 30 September 2003 on shares held in the Company in their own names and their associated entities. These transactions were on the same basis as with other shareholders.

(4) The aggregate number of shares acquired by Directors and their related entities in the Company was nil (2002: 80,000 acquired). The aggregate number of shares acquired through the Dividend Reinvestment Plan by Directors and their related entities in the Company was 99,914 (2002: 103,538).

(5) Transactions between the Company, its controlled entities and its associated entities relate to inter-entity loan account balances which carry interest at commercial rates. The amount of interest has been disclosed in Note 2 and balances at year end are disclosed in Notes 5 and 13.

(6) During the year, HGL Limited bought back shares pursuant to the on-market buy-back and listed security trades through Bell Potter Securities, the firm where JD Constable worked as a broker. Brokerage fees were paid in the ordinary course of business, totalling \$16,474 (2002: \$18,525).

(7) Transactions between the Company and its controlled entities and amongst the various controlled entities consist of the payment and receipt of dividends, the transfer of funds amongst the entities for day-to-day financing and investment of surplus funds, and the payment and receipt of interest on inter-entity balances. Such balances are unsecured and carry interest at commercial rates.

## NOTES TO THE FINANCIAL STATEMENTS

*continued*

### 29 - Financial Instruments

#### Significant Accounting Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

#### (a) Forward Foreign Exchange Contracts

It is the policy of the consolidated entity to enter into forward foreign exchange contracts to cover specific foreign currency payments and receipts. The consolidated entity also enters into forward foreign exchange contracts to manage the risk associated with anticipated transactions out to 6 months and longer.

The following table details the forward foreign exchange contracts outstanding as at the reporting date.

	Average Exchange Rate		Principal Amount	
	2003	2002	2003 \$'000	2002 \$'000
<b>Buy US Dollars</b>				
Less than 3 months	0.6493	0.5481	263	551
3 to 6 months	0.6625	–	70	–
			<u>333</u>	<u>551</u>
<b>Buy Euros</b>				
Less than 3 months	0.5759	0.5444	375	1,042
<b>Buy Great Britain Pound</b>				
Less than 3 months	–	0.3418	–	24
<b>Buy Japanese Yen</b>				
Less than 3 months	77.29	65.72	162	76

**29 - Financial Instruments** (continued)**(b) Interest Rate Risks**

The following table details the consolidated entity's exposure to interest rate risk as at the balance date:

	Average Interest Rate %	Variable Interest Rate \$'000	Fixed interest Rate Maturity		Non-interest Bearing \$'000	Total \$'000
			Less than 1 year \$'000	1 to 5 years \$'000		
<b>Year 2003</b>						
<b>Financial Assets</b>						
Cash	4.25	11,464	--	--	--	11,464
Trade receivables	--	--	--	--	17,786	17,786
Loan to Director	12.48	914	--	--	--	914
Loan to other entities	5.55	405	--	--	--	405
Advance to operating entities	--	--	--	--	956	956
			<b>12,783</b>	--	<b>18,742</b>	<b>31,525</b>
<b>Financial Liabilities</b>						
Trade payables and accruals	--	--	--	--	19,343	19,343
Bank loans	7.52	1,158	--	--	--	1,158
Other borrowings	4.00	275	--	--	--	275
Finance lease liabilities	8.30	--	638	715	--	1,353
Employee entitlements	--	--	--	--	2,684	2,684
			<b>1,433</b>	<b>715</b>	<b>22,027</b>	<b>24,813</b>
<b>Year 2002</b>						
<b>Financial Assets</b>						
Cash	4.80	9,175	--	--	--	9,175
Trade receivables	--	--	--	--	13,148	13,148
Loan to Director	16.10	822	--	--	--	822
Loan to other entities	6.47	684	--	--	--	684
Advance to operating entities	--	--	--	--	550	550
			<b>10,681</b>	--	<b>13,698</b>	<b>24,379</b>
<b>Financial Liabilities</b>						
Trade payables and accruals	--	--	--	--	13,254	13,254
Bank loans	6.15	1,160	--	--	--	1,160
Loan from Director and Director-related entities	4.00	211	--	--	--	211
Other borrowings	4.00	492	--	--	--	492
Finance lease liabilities	7.94	--	560	784	--	1,344
Dividend	--	--	--	--	2,997	2,997
Employee entitlements	--	--	--	--	2,362	2,362
			<b>1,863</b>	<b>784</b>	<b>18,613</b>	<b>21,820</b>

## NOTES TO THE FINANCIAL STATEMENTS

continued

### 29 - Financial Instruments (continued)

#### (c) Credit Risk

The consolidated entity has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, or other security where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated entity measures credit risk on a fair value basis.

The consolidated entity does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying value of financial assets recorded in the financial report, net of any provision for losses, represents the consolidated entity's maximum exposure to credit risk.

#### (d) Net Fair Value

Except as detailed in the following table, the carrying amount of financial assets recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 to the financial statements.

The net fair value of financial assets and financial liabilities detailed in the following table have been determined as the net fair value of financial assets traded on active liquid markets and determined with reference to quoted market prices.

	Carrying Amount at Cost		Net Fair Value	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>Financial Assets</b>				
Traded on organised share markets				
Shares	2,021	10,958	3,327	14,447

### 30 - Financing Arrangements

Unrestricted access was available at balance date to the following lines of credit:

#### Total facilities

Bank overdrafts	88	87
Bank bill facilities – current	–	–
Bank bill facilities – non-current	19,158	23,160
	<b>19,246</b>	<b>23,247</b>

#### Utilised

Bank bill facilities – non-current	13	1,158	1,160
		<b>1,158</b>	<b>1,160</b>

#### Unused at balance date

Bank overdrafts	88	87
Bank bill facilities – current	–	–
Bank bill facilities – non-current	18,000	22,000
	<b>18,088</b>	<b>22,087</b>

Subject to compliance with the Bank's terms and conditions, the bank bill facilities may be drawn at any time. The maturity period for the bills is subject to the annual review of the consolidated entity's banking facilities. The bank overdraft facilities may be drawn at any time and may be terminated by the bank without notice. Interest rates on all facilities are variable at prevailing market rates.

	<i>Consolidated</i>		<i>Company</i>	
	2003 \$'000	2002 \$'000	2003 \$'000	2002 \$'000
<b>31 - Reconciliation of Operating Profit after Income Tax to Net Cash Inflow from Operating Activities</b>				
Profit from ordinary activities	12,669	10,412	4,639	7,218
Share of associates' loss/(profit)	(216)	371	-	-
Depreciation and amortisation	1,859	2,322	39	17
Write off intangibles	-	1,676	-	-
Mark to market of listed securities	(918)	(3,409)	-	-
(Profit) on foreign currency translation	(504)	(273)	-	-
	<b>12,890</b>	<b>11,099</b>	<b>4,678</b>	<b>7,235</b>
(Profit)/loss on sale of investments, property, plant and equipment and provision for investment	(4,967)	(6,501)	(21)	1
(Increase)/decrease in receivables and other assets	428	6,219	156	(61)
(Increase)/decrease in inventories	(672)	3,103	-	-
Increase/(decrease) in accounts payable	1,513	(5,913)	161	758
<b>Net cash inflow from operating activities</b>	<b>9,192</b>	<b>8,007</b>	<b>4,974</b>	<b>7,933</b>

### 32 - Non-cash Financing and Investing Activities

Acquisition of plant and equipment by means of finance leases	672	1,198	-	-
Dividend satisfied by the issue of shares under the Dividend Reinvestment Plan	768	964	768	964

### 33 - Contingent Liabilities and capital commitments

There are no contingent liabilities or capital commitments.

### 34 - Subsequent Events

On 10 October 2003 MMC Contrarian Limited, a listed investment company, lodged a prospectus with ASIC seeking to raise \$150 million. On 28 October 2003 a supplementary prospectus increasing the proposed capital raising to \$200 million was lodged with ASIC. For each share in MMC Contrarian there is a free option to subscribe for an additional share at an exercise price of \$1.00 exercisable by 30 June 2005.

The management of MMC Contrarian is to be provided by a company owned 40% by HGL and 60% by MMC Asset Management. The management fees from MMC Contrarian will be 1.25% of gross assets with a performance fee of 15% of any positive outperformance measured against the All Ordinaries Accumulation Index.

Also on 10 October 2003 HGL announced it had reached agreement with Australian Heritage Group Limited to acquire a further 16.5% of MMC Asset Management for \$3 million, subject to the approval by the other shareholders of MMC Asset Management. This acquisition would take HGL's interest in MMC Asset Management to 39.7%. HGL may sell approximately 3% of MMC Asset Management to members of its management team.

## DIRECTORS' DECLARATION

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The Directors declare that:

- (a) the attached financial statements and notes thereto comply with Accounting Standards;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the Company and the consolidated entity;
- (c) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- (d) in the Directors' opinion, at the date of this statement there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to section 295(5) of the Corporations Act 2001.

On behalf of the Directors:



PG Miller  
Chairman



KJ Eley  
Director

Sydney 26 November 2003

## Scope

### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cashflows, accompanying notes to the financial statements, and the directors' declaration for both HGL Limited (the disclosing entity) and the consolidated entity, for the financial year ended 30 September 2003 as set out on pages 19 to 48. The consolidated entity comprises the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

The directors of the disclosing entity are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

### Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the disclosing entity. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the disclosing entity's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

The audit opinion expressed in this report has been formed on the above basis.


### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

### Audit opinion

In our opinion, the financial report of HGL Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the disclosing entity's and consolidated entity's financial position as at 30 September 2003 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.



DELOITTE TOUCHE TOHMATSU



Margaret Dreyer  
Partner  
Chartered Accountants

Sydney 26 November 2003

The liability of Deloitte Touche Tohmatsu, is limited by, and to the extent of, the Accountant's Scheme under the Professional Standards Act 1994 (NSW).

## SHAREHOLDER INFORMATION

On 14 November 2003 there were 2,177 shareholders. All of the shares of the company are ordinary and fully paid carrying one vote.

### Distribution of shareholders

Category	No. of shareholders	No. of shares
1 - 1,000	556	271,760
1,001 - 5,000	856	2,335,229
5,001 - 10,000	326	2,463,287
10,001 - 100,000	393	9,545,264
100,001 - and over	46	32,597,227
	<b>2,177</b>	<b>47,212,767</b>

Number of shareholders holding less than a marketable parcel (300 shares) is 190.

Percentage of the total holdings of the 20 largest shareholders is 61.03%.

### Twenty largest ordinary shareholders

Name	No. of shares held	% of total issued capital
1. Sery Pty Ltd	6,426,187	13.61
2. Constable Investments Group Limited	5,717,153	12.11
3. Jancon Pty Limited	2,256,238	4.78
4. Westpac Custodian Nominees Limited	1,843,387	3.91
5. Kevin Eley	1,841,733	3.90
6. Knarsdale Pty Limited	1,600,001	3.39
7. LPO Investments Pty Ltd	1,297,809	2.75
8. ANZ Executors and Trustee Company Limited	929,088	1.97
9. Jancon Pty Limited (No 2 Account)	780,389	1.65
10. Mr Michael Edward Constable	730,782	1.55
11. Extra Edge Pty Limited	713,405	1.51
12. Ida Lichter	700,000	1.48
13. Tower Trust Limited	656,142	1.39
14. Mrs Berenice Mary McDonnell	601,301	1.27
15. Mr Robert J Constable (No 2 Account)	597,496	1.27
16. Kitwood Pty Limited	487,634	1.03
17. George Edward Curphey	455,488	0.96
18. Jennifer Anne Drummond	415,637	0.88
19. Tusa Pty Limited	400,000	0.85
20. Australasian & General Securities Limited	361,925	0.77
	<b>28,811,795</b>	<b>61.03</b>

### Substantial shareholders

The following information is extracted from the Company's Register of Substantial Shareholders as at 14 November 2003:

Name	No. of shares
1. Sery Pty Limited and its associates	7,638,324
2. Constable Investments Group Limited and its associates	5,500,612
3. Jancon Pty Limited and its associates	4,073,117

### Security holder information

#### Voting rights

Subject to the Articles of Association:

- at meetings of shareholders each shareholder is entitled to vote in person, by proxy, by attorney, or by representative;
- on a show of hands each shareholder present in person, by proxy, by attorney, or by representative has one vote; and
- on a poll each shareholder present in person, by proxy, by attorney, or by representative shall have one vote for every share held by the shareholder.

In the case of joint holdings, only one joint holder may vote.

#### Voting by proxy

Voting by proxy is a way shareholders can vote without attending a meeting in person.

All shareholders are encouraged to complete and return the proxy form that accompanies the Notice of Meeting enclosed with this Annual Report.

If you appoint a proxy and attend the meeting, you automatically revoke your proxy.

Shareholders may appoint a proxy or attorney to represent them at the meeting.

A corporate shareholder may appoint a representative, the instrument of appointment must be under common seal of the company where necessary.

#### Payment direct to a bank, building society or credit union

Security holders may have their dividend entitlements paid directly into any bank, building society or credit union within Australia. The necessary form is available from the Registry. Once your payment details have been recorded on your holding, they will remain in force until you notify the Registry of their alteration or cancellation.

#### Dividend reinvestment plan

Brief details of the Plan are:

- all shareholders are eligible to participate, except where local legislation prevents it;
- participation is optional;
- full or partial participation is available;
- payment is made through the allotment of shares, rather than cash, at a discount of up to 7.5% on the average market price of the Company's ordinary shares;
- no brokerage, commission, stamp duty, or administration costs are payable by shareholders; and
- participants may withdraw from the plan at any time by notice in writing to the Company. Shareholders wanting to participate should contact the Company's registry for an explanatory booklet and an application form.

## SHAREHOLDER INFORMATION

*continued*

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### Change of address

All changes of address or other particulars for issuer-sponsored holders, must be notified in writing to the Registry. Broker sponsored holders must advise all changes directly to their broker. Your securityholder reference number should always be quoted in either case.

### Removal from annual report mailing list

Shareholders who would prefer not to receive the HGL Limited Annual Report (or who are receiving more than one copy and would like to receive fewer) should advise the Registry in writing, quoting their securityholder reference number.

### Share registry

Computershare Investor Services Pty Limited  
Ph: toll free 1300 855 080 Ph: international +61 3 9615 5970  
Level 3, 60 Carrington Street, Sydney NSW 2000

### Stock exchange listing

HGL Limited is traded on the Australian Stock Exchange ("ASX"). The symbol under which the shares are traded is HNG (note: not HGL). Details of trading activity are usually published in most daily newspapers under the HNG abbreviation. HGL Limited is a participant in the ASX's Flexible Accelerated Security System (FAST).

### Requests for publications and media and public relations enquiries should be directed to:

Claire Vicars, HGL Limited  
Tel: (02) 9221 7155 Fax: (02) 9233 2713  
Email: [hgl@hgl.com.au](mailto:hgl@hgl.com.au)  
Level 5, 34 Hunter Street, Sydney NSW 2000  
GPO Box 4406, Sydney NSW 2001

## DIRECTORY

### Directors

PG Miller, FCA (*Chairman*)  
(*alternate: MA Hershon*)

Kj Eley, CA, ASIA (*Chief Executive*)

JD Constable, AM, ASIA

Dr FM Wolf, BA (Hons), PhD

### Chief Executive

Kj Eley, CA, ASIA

### Secretary and Operations Manager

MP Mahoney, ACA (Eng & Wales), CA

### Chief Finance Officer

AJ Whittles, ACA (Eng & Wales)

### Head Office and Registered Office

Level 5, 34 Hunter Street,  
Sydney NSW 2000

GPO Box 4406, Sydney NSW 2001

Ph: (02) 9221 7155

Fax: (02) 9233 2713

Email: [hgl@hgl.com.au](mailto:hgl@hgl.com.au)

Web site: [www.hgl.com.au](http://www.hgl.com.au)

### HGL Group web sites

*HGL Limited*

[www.hgl.com.au](http://www.hgl.com.au)

*Anitech*

[www.anitech.com.au](http://www.anitech.com.au)

*OP's Optical Products*

[www.ops.com.au](http://www.ops.com.au)

*SPOS*

[www.spos.com.au](http://www.spos.com.au)

*Thalgo*

[www.thalgo.com.au](http://www.thalgo.com.au)

*Aarque Graphics*

[www.aarque.co.nz](http://www.aarque.co.nz)

### Associated web sites

*Safilo Australia*

[www.safilo.com](http://www.safilo.com)

*Charmant Australia*

[www.charmant.com.au](http://www.charmant.com.au)

### Share Registry

Computershare Investor Services  
Pty Limited

Level 3, 60 Carrington Street,  
Sydney NSW 2000

Ph: toll free 1300 855 080

Ph: international +61 3 9615 5970

### Auditors

Deloitte Touche Tohmatsu

### Bankers

ANZ Banking Group Limited

### Solicitors

Abbott Tout Solicitors

Dibbs Barker Gosling

### Stock Exchange Listing

Australian Stock Exchange

Code: HNG (not HGL)

## FINANCIAL CALENDAR

### Final Dividend

19 December 2003

### Proxy Deadline

19 January 2004

### Annual General Meeting

20 January 2004

### Half Year End

31 March 2004

### Half Year Report

June 2004

### Interim Dividend

July 2004

### Year End

30 September 2004

### Annual Report

December 2004

**HGL LIMITED**

ABN 25 009 687 961

**ASX code: HNG**

Level 5, 34 Hunter Street  
Sydney NSW 2000

GPO Box 4406  
Sydney NSW 2001

Phone: +612 9221 7155  
Fax: +612 9233 2713

Email: [hgl@hgl.com.au](mailto:hgl@hgl.com.au)  
Web: [www.hgl.com.au](http://www.hgl.com.au)