Hedge Funds Ltd

ABN 25 082 852 364

Annual report - 30 June 2003

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Your directors present their report on Hedge Funds Ltd (the Company) for the year ended 30 June 2003.

Directors
The following persons were directors of Hedge Funds Ltd during the whole of the financial year and up to the date of this report:

Spencer M Young
Maurice R Kluge
Paul J Manka
Christopher N Cunnington
Peter D Launders (alternate director for M Kluge)
Chris Skilton (alternate director for C Cunnington)
Michael Horton (alternate director for P Manka)

Graham N Nock was a director from the beginning of the financial year until he retired on 28 April 2003.

Principal activities
The principal activity of the Company is the promotion of unlisted managed investment Schemes.

Review of operations
Comments on the operations are set out below:

The Company continued to provide responsible entity services with funds under management increasing to $161 million (an increase in excess of 120%). The additional funds under management saw revenues increase by 99% while expenses were contained to an increase of 3%. Despite the growth, revenues remain insufficient to meet the expenses of the Company and a loss after tax of $654,890 was recorded for the financial year (2002: loss of $1,549,452).

On 1 January 2003 Suncorp Custodian Services Pty Ltd was contracted to provide administration and accounting services to the Company.

Dividends - Hedge Funds Ltd
No Dividends were declared or paid during the course of the financial year.

Significant changes in the state of affairs
Significant changes in the state of affairs of the Company during the financial year were as follows:

On 19 August 2002, the Company resolved that in accordance with the Shareholders' Deed dated 21 December 2001, a capital call of $998,728 be made to Suncorp Metway Investment Management Limited (SMIML) in respect of its partly paid B Class shares. Suncorp Metway Investment Management Limited paid the call amount on 11 December 2002.

Matters subsequent to the end of the financial year
The Spencer Young Family Trust or its nominee (SY Trust), a minority shareholder in HFL has entered into a Heads of Agreement with SMIML and a number of other minority shareholders to acquire their interests in HFL. On completion of this transaction, the SY Trust will cause to be injected significant additional capital into HFL (the Responsible Entity for the Schemes) to further develop the business and to meet future regulatory requirements.

The SY Trust has entered into a Confidentiality Agreement with an established and substantial organisation (the Financier) to partially finance the acquisition of HFL. The Financier is engaged in a range of activities and holds an Australian Financial Services Licence under the new Financial Services Reform Act. The Financier has substantial funds under management, experienced personnel and a strong corporate governance and compliance regime.

No other matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the entity, the results of those operations, or the state of affairs of the Company in subsequent financial years.

Environmental regulation
The operations of the Company are not subject to any particular and significant environmental regulation under any law of the Commonwealth of Australia or any of its states and territories. The Company has not incurred any liability (including for rectification costs) under any environmental legislation.

Likely developments and expected results of operations
At the date of this report there have been developments in the operations of the Company that are likely to be finalised in the 2004 financial year. This includes:

Financial Services Reform
The purpose of FSR is to introduce uniform licensing, disclosure and conduct across a broad range of financial services currently available in the market. The Financial Services Reform Act is regulated by the Australian Securities and Investments Commission and was introduced on 11 March 2002. However, there is a two-year transition period for most of the changes.

The Company is currently targeting the fourth quarter of calender year 2003 to obtain the Australian Financial Services Licence required to function under the FSR. This licence will be obtained once all FSR specifications have been satisfied.

Further information about likely developments in the operations of the Company and the expected results of those operations have not been included in this report as the directors are of the opinion that the inclusion of such information would be likely to result in unreasonable prejudice to the Company.

Meetings of directors
The number of meetings of the Company's board of directors held during the year ended 30 June 2003, and the number of meetings attended by each director are:

	Board Meetings		**Audit Committee Meeting**	
	Attended (a)	**Eligible (b)**	**Attended (a)**	**Eligible (b)**
Spencer M Young	4	6		
Maurice R Kluge	5	6		
Graham N Nock	6	6	1	1
Paul J Manka	5	6	1	1
Christopher N Cunnington	5	6		
Peter D Launders	1*	6**		
Chris Skilton	0	6**		
Michael Horton	1*	2**		

(a) = Number of meetings attended
(b) = Number of meetings held during the time the director held office
* = Number of meetings attended in place of director to whom an alternate was nominated
** = Number of meetings eligible to attend in place of director to whom an alternate was nominated

Compliance Committee
The following persons were members of the Compliance Committee during the financial year and up to the date of this report:

David Grace (external member)	Resigned Aug 2002
Peter Lynn (external member)	Resigned Aug 2002
Fernando P Esteban (external member)	
Ray Kellerman (external member)	
Philip Anthon (compliance officer)	

The Board has established the Compliance Committee to monitor compliance with the provisions of the Compliance Plans adopted by the Company. The Compliance Plans apply to the operations of the Schemes and are regulated by the Corporations Act 2001. The majority of the Compliance Committee members are independent of the company and were selected from suitably qualified persons with a background in professional disciplines related to the investment management operations of the Company.

Meetings of Compliance Committee

The numbers of meetings of the Company's compliance committee held during the year ended 30 June 2003 and the numbers of meetings attended by each committee member:

	Committee Meetings	
	Attended (a)	Eligible (b)
David Grace	1	1
Peter Lynn	1	1
Fernando P Esteban	4	4
Ray Kellerman	4	4
Philip Anthon	5	5

(a) = Number of meetings attended
(b) = Number of meetings held during the time the committee member held office

Directors' remuneration

Directors' benefits are reported in note 16.

Insurance of directors' and officers'

During the financial year ended 30 June 2003 Suncorp-Metway Ltd, the ultimate parent entity, paid insurance premiums in respect of a Directors' and Officers' Liability insurance contract. The contract insures each person who is or has been a director or executive officer (as defined in the Corporations Act 2001) of the Company against certain liabilities arising in the course of their duties to the Company. The directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the insurance contract as such disclosure is prohibited under the terms of the insurance contract.

Indemnification of directors' and officers'

Under the ultimate parent entity's Constitution, the ultimate parent entity indemnifies each person who is or has been a director or officer of the Company. The indemnity relates to all liabilities to another party (other than the Company or a related body corporate) that may arise in connection with the performance of their duties to the Company, except where the liability arises out of conduct involving a lack of good faith. The Constitution stipulates that the ultimate parent entity will meet the full amount of such liabilities, including costs and expenses incurred in successfully defending civil or criminal proceedings or in connection with an application, in relation to such proceedings, in which relief is granted under the Corporations Act 2001.

This report is made in accordance with a resolution of directors.

Spencer M Young
Managing Director

Christopher N Cunnington
Non-executive Director

Brisbane
19 September 2003

This financial report covers Hedge Funds Ltd as an individual entity.

Hedge Funds Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered Office
Level 21
300 Queen Street
Brisbane QLD 4000

Principal Place of Business
Level 23, Suncorp Metway Plaza
Cnr Turbot & Albert Street
Brisbane QLD 4000

A description of the nature of the Company's operations and its principal activities is included in the directors' report on pages 1 to 3.

During the whole financial year, the Company employed 8 staff.

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Hedge Funds Ltd
Statement of financial performance
For the year ended 30 June 2003

	Notes	2003 $	2002 $
Revenue from ordinary activities	3	**2,565,879**	1,074,453
Employee expenses		**(1,114,246)**	(1,084,077)
Depreciation	4	**(13,552)**	(10,574)
Professional services		**(413,283)**	(434,858)
Advertising and promotion		**(433,463)**	(120,487)
Occupancy costs		**(104,597)**	(180,797)
Investment management costs		**(837,371)**	(305,499)
Information technology expenses		**(60,202)**	(49,091)
Travel expenses		**(132,486)**	(96,453)
Insurance		**(82,254)**	(162,928)
Other expenses from ordinary activities		**(29,315)**	(179,141)
Loss from ordinary activities before related income tax expense		**(654,890)**	(1,549,452)
Income tax expense	5	**-**	-
Loss from ordinary activities after related income tax expense		**(654,890)**	(1,549,452)
Total changes in equity attributable to members of Hedge Funds Ltd other than those resulting from transactions with owners as owners		**(654,890)**	(1,549,452)

The above statement of financial performance should be read in conjunction with the accompanying notes.

Hedge Funds Ltd
Statement of financial position
As at 30 June 2003

	Notes	2003 $	2002 $
Current assets			
Cash assets	6	**716,084**	1,383,222
Receivables	7	**1,431,851**	315,726
Other	8	**111,238**	22,862
		2,259,173	1,721,810
Non-current assets			
Plant and equipment	9	**21,638**	34,573
		21,638	34,573
Total assets		**2,280,811**	1,756,383
Current liabilities			
Payables	10	**609,988**	449,340
Provisions	11	**102,460**	82,518
		712,448	531,858
Total liabilities		**712,448**	531,858
Net assets		**1,568,363**	1,224,525
Equity			
Contributed equity	14	**6,150,791**	5,152,063
Accumulated losses	12	**(4,582,428)**	(3,927,538)
Total equity		**1,568,363**	1,224,525

The above statement of financial position should be read in conjunction with the accompanying notes.

Hedge Funds Ltd
Statement of cash flows
For the year ended 30 June 2003

	Notes	2003 $	2002 $
Cash flows from operating activities			
Management fees received from Funds		**1,437,002**	801,075
Interest received		**20,510**	34,931
Payments to suppliers and employees		**(3,189,386)**	(2,280,594)
GST received/(paid)		**66,625**	51,179
Net cash used in operating activities	19	**(1,665,249)**	(1,393,409)
Cash flows from investing activities			
Payments for office equipment		**(617)**	(22,634)
Net cash used in investing activities		**(617)**	(22,634)
Cash flows from financing activities			
Proceeds from issues of shares		**-**	2,001,553
Proceeds from calls on shares		**998,728**	500,000
Net cash inflow from financing activities		**998,728**	2,501,553
Net increase (decrease) in cash held		**(667,138)**	1,085,510
Cash at the beginning of the financial year		**1,383,222**	297,712
Cash at the end of the financial year	6	**716,084**	1,383,222

The above statement of cash flows should be read in conjunction with the accompanying notes.

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Note 1. Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Revenue recognition

All revenue is recognised on an accrual basis. Revenue includes manager's base fee, performance fees, entry commissions and interest. The reimbursement of establishment costs by the various Funds is also included in revenue and recognised on an accrual basis.

(b) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(c) Depreciation of office equipment

Depreciation is calculated on a diminishing value basis to write off the net cost of each item of office equipment over its expected useful life to the Company. The expected useful lives are as follows:

	Depreciation Rate	
Category	**2003**	**2002**
Computer Equipment	30-50%	30-50%

(d) Goods and services tax

Revenues, expenses & assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or in the amount of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to, the ATO is included as an asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

(e) Cash

For purposes of the statement of cash flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

Note 1. Summary of significant accounting policies (continued)

(f) Financial instruments

Bank deposits are carried at face value or gross value of the outstanding balance. There are currently no other financial instruments utilised by the Company.

(g) Employee benefits

Liabilities for employee benefits, primarily annual leave, expected to be settled within 12 months of the year-end represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at the reporting date including related on-costs.

(h) Receivables

Loans, deposits and advances with related parties are settled on a regular basis. Other debtors include responsible entity fee revenue which are settled on differing agreed terms.

The collectibility of debts is assessed at balance date and specific provisions are made for any doubtful accounts.

(i) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Company. Accounts Payable are normally settled in 30 days.

Note 2. Segment information

The Company operates predominantly in the investment management business segment. The Company's operations are located predominantly in Australia.

Note 3. Revenue

	2003 $	2002 $
Revenue from ordinary activities : related parties		
Manager's base fee income	**1,266,691**	686,444
Performance fee	**893,979**	12,132
Entry commissions	**70,087**	96,664
Establishment costs reimbursed	**195,120**	241,050
Recoupment of administrative expenses	**93,724**	-
	2,519,601	1,036,290
Revenue from ordinary activities : other parties		
Interest	**20,510**	34,931
Other income	**25,768**	3,232
	46,278	38,163
Revenue from ordinary activities	**2,565,879**	1,074,453

Note 4. Loss from ordinary activities

	2003 $	2002 $
Loss from ordinary activities before income tax expense includes the following specific net expenses:		
Expenses		
Depreciation		
Office equipment	13,552	10,574
Other Provisions		
Employee entitlements	19,942	44,302
Rental expense relating to operating leases		
Minimum lease payments	61,651	62,576

Note 5. Income tax

	2003 $	2002 $
The income tax expenses for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:		
Loss from ordinary activities before income tax expense	(654,890)	(1,549,452)
Prima facie income tax benefit calculated at 30% (2002 - 30%) on loss from ordinary activities before income tax	(196,467)	(464,836)
Tax effect of permanent differences		
Non-deductible expenditure	4,723	-
Income tax adjusted for permanent differences	(191,744)	(464,836)
Current year tax losses not brought to account	191,744	464,836
Income tax expense	-	-

As at 30 June 2003, there are unconfirmed unrecouped tax losses of $3,963,209 (2002: $3,428,324) available to offset future years taxable income. The benefit of these tax losses of $1,188,963 (2002: $1,028,497) has not been brought to account as realisation is not virtually certain.

This benefit for tax losses will only be obtained if:

(i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; or
(ii) the losses are transferred to an eligible entity in the consolidated entity; and
(iii) the Company continues to comply with the conditions for deductibility imposed by tax legislation; and
(iv) no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

The ability of the Company to utilise the current and prior year tax losses ('the unrecouped losses') will depend on the Company satisfying the continuity of ownership test and the same business test. As a change in ownership of greater than 50% occurred on 7 May 2002, the Company has failed the continuity of ownership test. As a result, the Company can only utilise the unrecouped tax losses if it continues to satisfy the same business test during the year that the loss is recouped and as existed immediately before 7 May 2002.

Note 6. Current assets - Cash assets

	2003 $	2002 $
Cash at bank	716,084	1,383,222
	716,084	1,383,222

Note 7. Current assets - Receivables

	2003 $	2002 $
Related party debtor: Funds for which the Company acts as a responsible entity	1,402,835	315,726
Other receivables	29,016	-
	1,431,851	315,726

Note 8. Current assets - Other

	2003 $	2002 $
Prepayments	111,238	-
Goods and services tax (GST) receivable	-	19,300
Sundry debtor	-	3,562
	111,238	22,862

Note 9. Non-current assets - Plant & equipment

	2003 $	2002 $
Computer equipment - at cost	57,165	56,548
Less: Accumulated depreciation	35,527	21,975
	21,638	34,573

Reconciliations

Reconciliation of the carrying amount of computer equipment is as follows:

	2003 $	2002 $
Opening balance	34,573	22,513
Additions	617	22,634
Depreciation in year (note 4)	(13,552)	(10,574)
Closing balance	21,638	34,573

Note 10. Current liabilities - Payables

	2003 $	2002 $
Accounts payable	151,197	249,293
Payable to immediate parent entity	49,749	-
Payable to ultimate parent entity	17,162	-
Other payables	355,364	200,047
Goods and services tax (GST) payable	36,516	-
	609,988	449,340

Note 11. Current liabilities - Provisions

	2003 $	2002 $
Provisions - annual leave	102,460	82,518
	102,460	82,518

Note 12. Accumulated losses

	2003 $	2002 $
Accumulated losses at the beginning of the financial year	(3,927,538)	(2,378,086)
Net loss attributable to members of Hedge Funds Ltd	(654,890)	(1,549,452)
Accumulated losses at the end of the financial year	(4,582,428)	(3,927,538)

Note 13. Employee benefits

	2003 $	2002 $
Employee benefit and related on-costs liabilities		
Provision for employee benefits - current (note 11)	102,460	82,518
Aggregate employee benefit and related on-costs liabilities	102,460	82,518
	Number	Number
Employee numbers		
Average number of employees during the financial year	8	7

Note 14. Contributed equity

	2003 Shares	2002 Shares	2003 $	2002 $
Issued and paid up capital Class A Shares	1,036	1,036	4,495	4,495
Issued and paid up capital Class B shares	848,416	848,416	6,146,296	5,147,568
	849,452	849,452	6,150,791	5,152,063

(a) Movements in ordinary share capital

Date	Details	Number of shares	$
01-07-2001	A Class Shares - Opening balance	500	500
31-12-2001	Shares issued	636	3,995
30-06-2002	Shares cancelled	(100)	-
30-06-2002	A Class Share - Balance at end of year	1,036	4,495
01-07-2002	A Class Shares - Opening Balance	1,036	4,495
30-06-2003	A Class Share - Balance at end of year	1,036	4,495
01-07-2001	B Class Shares - Opening balance	375,000	2,650,003
31-12-2001	Shares issued	473,416	2,497,565
30-06-2002	B Class Shares - Balance at end of year	848,416	5,147,568
01-07-2002	B Class Shares - Opening balance	848,416	5,147,568
11-12-2002	Called up capital	-	998,728
30-06-2003	B Class Shares - Balance at end of year	848,416	6,146,296

(b) A Class Shares

A Class shares carry the right to appoint and remove directors of the Company and the right to vote at all meetings of members of the Company. No other class of shares holds any voting rights in the Company. A Class shares carry no ownership right to the Company or the property of the Company.

(c) B Class Shares

B Class shares carry the right to receive dividends declared by the Company however they have no right to vote at any meetings of members of the Company. B Class shares carry 100% ownership rights to the Company or the property of the Company now and on the winding up of the Company.

As at 30 June 2002, there remained uncalled capital on 163,914 B Class shares of $998,728. During the year ended 30 June 2003 the Company made a call for this capital to Suncorp Metway Investment Management Limited. On 11 December 2002, the payment of $998,728 was made and at this time these B Class shares became fully paid.

Note 15. Financial instruments

(a) Interest rate risk

The Company is exposed to interest rate risk through term deposits, cash at bank and payables.

2003	Weighted average interest rate %	Floating interest rate $	Fixed interest maturing in: 1 year or less $	Fixed interest maturing in: Over 1 to 5 years $	Non interest bearing $	Total $
Financial assets						
Cash at Bank	2.75	716,084	-	-	-	716,084
Receivables		-	-	-	1,402,835	1,402,835
		716,084	-	-	1,402,835	2,118,919
Financial liabilities						
Payables		-	-	-	609,988	609,988
Provisions		-	-	-	102,460	102,460
		-	-	-	712,448	712,448
Net financial assets (liabilities)		716,084	-	-	690,387	1,406,471

2002	Weighted average interest rate %	Floating interest rate $	Fixed interest maturing in: 1 year or less $	Fixed interest maturing in: Over 1 to 5 years $	Non interest bearing $	Total $
Financial assets						
Cash and deposits	3.4	1,383,222	-	-	-	1,383,222
Receivables		-	-	-	338,588	338,588
		1,383,222	-	-	338,588	1,721,810
Financial liabilities						
Payables		-	-	-	449,340	449,340
Provisions		-	-	-	82,518	82,518
		-	-	-	531,858	531,858
Net financial assets (liabilities)		1,383,222	-	-	(193,270)	1,189,952

(b) Credit risk

Credit risk is the likelihood of future financial loss resulting from the failure of clients or counter parties to meet contractual payment obligations to the Company as they fall due. There is a reduced credit risk associated with entry fees, performance fees and responsible entity fees receivable as the majority of these fees are due from related parties.

(c) Liquidity risk

Financial position liquidity risk is the risk of being unable to meet financial obligations as they fall due. In accordance with the requirements of the Australian Securities and Investments Commission dealer's licence, the Company must ensure that at all times the value of the Company's net tangible assets are maintained at a minimum of $50,000 or, where the value of scheme property of registered schemes operated by HFL is greater than $10,000,000, an amount equal to not less than 0.5% of that scheme property, up to a maximum of $5,000,000. Management is actively monitoring the Company's position to ensure compliance with this requirement and that financial position liquidity is maintained.

Note 15. Financial instruments (continued)

(d) Operational risk

Operational risk is the potential exposure to unexpected financial or non financial losses arising from the way in which the Company conducts its business. Operational risk is managed through formal policies, documented procedures, business practices and compliance monitoring.

Note 16. Remuneration of directors

The number of directors of the Company, including alternate directors, who were paid or were due to be paid income (including directors fees and salaries), from the Company or any related party, as shown in the following bands, were :

$		$	2003	2002
0	-	9,999	6	4
20,000	-	29,999	-	1
40,000	-	49,999	1	-
110,000	-	119,999	-	1
260,000	-	269,999	1	-
280,000	-	289,999	-	1

The total of all income paid or payable, directly or indirectly, from the Company or any related party to all directors was $303,937 (2002: $580,995). This amount includes the value of insurance premiums paid to cover the directors and officers liability.

Messrs Kluge and Cunnington are executive officers of the ultimate parent entity and as such are not separately remunerated for their directorships.

Note 17. Remuneration of auditors

	2003 $	2002 $
The following total remuneration was received, or is due and receivable by auditors in respect of :		
Audit Services		
Auditors of the company - KPMG - audit of the financial report	13,000	10,000
Auditors of the company - KPMG - other regulatory audit services	3,000	2,000
Other Services		
Auditors of the company - KPMG - other assurance services	5,000	26,000
Auditors of the company - KPMG - other assurance services in respect of previous years	-	25,550
Auditors of the company - KPMG - taxation services	30,983	32,747
Other auditors - Andersen - other assurance services	-	28,550
Other auditors - Andersen - taxation services	-	8,545
	51,983	133,392

Note 18. Related parties

Directors
The names of persons who were directors of Hedge Funds Ltd at any time during the financial year are as follows:

Spencer M Young (appointed 4 June 1998)
Maurice R Kluge (appointed 21 December 2001)
Graham N Nock (appointed 11 May 1999, retired 28 April 2003)
Paul J Manka (appointed 8 June 2000)
Christopher N Cunnington (appointed 23 April 2002)
Peter D Launders (alternate director for M Kluge)
Chris Skilton (alternate director for C Cunnington)
Michael Horton (alternate director for P Manka)

Apart from details disclosed in this note, no director has entered into a material contract with the company since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

Remuneration and retirement benefits
Information on remuneration and retirement benefits of directors is disclosed in note 16.

Directors' shareholdings
Directors and their director-related entities hold beneficially or non-beneficially as at the reporting date the following equity interests in the Company:

	2003 Number	2002 Number
Ordinary Shares		
A Class shares fully paid	**299**	299
B Class shares fully paid	**225,000**	225,000
	225,299	225,299

Directors' transactions with the Company or related parties
From time to time, directors of the Company, or their director-related entities, may purchase units of the Funds managed by the Company. These purchases are on the same terms and conditions as those entered into by other company employees or customers.

Transactions with related parties
Transactions with related parties are on normal commercial terms and conditions that are no more favourable than those available to other parties unless otherwise stated.

Rent was paid or payable during the financial year to 30 June 2003 to Suncorp Metway Investment Management Limited (the parent entity) for the lease of office space in Brisbane and Melbourne was $16,575 (2002:$2,074). Investment management fees paid by the Company on behalf of the HFA Australian Shares Long Short Fund to the parent entity were $109,760 (2002:$24,750). Accounting & administration fees paid by the Company to the parent entity were $157,246 (2002:$0).

Suncorp Metway Investment Management Limited is the custodian of all HFA Schemes and does not receive a fee for this service.

Note 18. Related parties (continued)

Responsible Entity
Hedge Funds Ltd is the responsible entity for the following Schemes:

(a) HFA Australian Shares Long Short Fund (ARSN 093 495 599)
(b) HFA Conservative Investments Fund (ARSN 093 495 848)
(c) HFA Diversified Investments Fund (ARSN 093 497 468)
(d) HFA Strategic Investments Fund (ARSN 093 497 600)
(e) Hedge Funds of Australia Equity Fund No. 4 (ARSN 093 497 735)
(f) Hedge Funds of Australia Equity Fund No. 5 (ARSN 093 497 860)

The Company has significant influence in the operations of these Schemes. These Schemes are termed other related parties.

Manager's Fees
Under the terms of the Constitutions of the Schemes, the Company is entitled to receive a base fee calculated daily and charged monthly by reference to the Schemes assets.

The Company is entitled to entry commissions from applications to the Schemes and to recover the establishment costs of the Schemes incurred by the Company.

The Company is also entitled to performance incentives. The HFA Australian Shares Long Short Fund incentive is based on the increase in the net tangible assets of the Scheme. The other Schemes performance fees are similarly based on the increase in the net tangible assets of the Scheme above a "highwater mark" as defined in the latest prospectus.

The total amount brought to account as income by the Company from the Schemes for which it acts as responsible entity is set out in Note 3. The amounts due from the Schemes at balance date are disclosed in Note 7.

Note 19. Reconciliation of loss from ordinary activities after income tax to net cash used in operating activities

	2003 **$**	2002 $
Operating loss after income tax	**(654,890)**	(1,549,452)
Depreciation	**13,552**	10,574
Decrease (increase) in receivables	**(1,116,125)**	(213,763)
Decrease (increase) in other current assets	**(88,376)**	44,667
Increase (decrease) in payables	**(31,185)**	230,216
Increase (decrease) in accrued expenses	**191,833**	40,046
Increase (decrease) in provisions	**19,942**	44,303
Net cash used in operating activities	**(1,665,249)**	(1,393,409)

Note 20. Parent entity

The immediate parent entity is Suncorp Metway Investment Management Limited, a company incorporated in Queensland. The ultimate parent entity is Suncorp-Metway Ltd, a company incorporated in Queensland.

Note 21. Contingent liabilities

The Company as responsible entity for the HFA Schemes has underwritten their initial establishment costs. These costs include printing and distributing the prospectus, professional fees and other establishment costs as defined in the Constitution. They are a liability of the HFA Schemes payable to the responsible entity.

In accordance with the prospectus, Hedge Funds Ltd in its capacity as a responsible entity of the HFA Australian Shares Long Short Fund may recover prospectus and other setup costs from the Scheme. To equitably spread these costs over time, the Company may elect to accept cash or units in the Scheme as payment of the debt. These costs may be recovered at the rate of 0.75% p.a. of "Retail" Class net fund assets and 0.2% p.a. for "Wholesale" Class, with any balance outstanding issued at the end of the final year. The nominated repayment date for "Retail" Class will be the 1st of January each year and 1st July for "Wholesale" Class. A maximum total of 30,000 and a minimum total of 20,000 units may be issued to cover this initial establishment cost liability.

With reference to the HFA Conservative Investments Fund, HFA Strategic Investments Fund, and HFA Diversified Investments Fund, Hedge Funds Ltd in its capacity as responsible entity has agreed to accept reimbursement of the prospectus and other setup costs from the Schemes, annualised over the current year and last year. The Company may elect to receive cash or units in the Scheme as payment of the debt. Recovery of the debt will be limited to the equivalent of 0.5% p.a. of net Scheme assets, with any balance outstanding issued at the end of the final year. The nominated repayment date for each of the Schemes is 31 December. A maximum total of 300,000 and a minimum total of 200,000 units may be issued to cover this initial establishment cost liability.

Expenses incurred by the Company on behalf of the Funds

The Company has incurred some costs on behalf of all the Schemes which in the normal course of business, and if the Schemes were of sufficient magnitude, would have been expenses of the Scheme. This subsidy is at the discretion of the Company and in the past has included such items as the Custodian's minimum fee, accounting fees and marketing and distribution costs relative to the prospectus. The Company believes that this is reasonable, until the Schemes reach sufficient magnitude to meet their own costs.

Where expenses incurred by the Company on behalf of the Schemes are to be recovered from the Scheme, these costs are invoiced to the Scheme and treated as a debtor of the Company.

Note 22. Events occurring after reporting date

The Spencer Young Family Trust or its nominee ("SY Trust"), a minority shareholder in HFL has entered into a Heads of Agreement with SMIML and a number of other minority shareholders to acquire their interests in HFL. On completion of this transaction, the SY Trust will cause to be injected significant additional capital into HFL (the Responsible Entity for the Schemes) to further develop the business and to meet future regulatory requirements.

The SY Trust has entered into a Confidentiality Agreement with an established and substantial organisation (the Financier) to partially finance the acquisition of HFL. The Financier is engaged in a range of activities and holds an Australian Financial Services Licence under the new Financial Services Reform Act. The Financier has substantial funds under management, experienced personnel and a strong corporate governance and compliance regime.

Hedge Funds Ltd
Directors' declaration
30 June 2003

The directors declare that the financial statements and notes set out on pages 6 to 20:

(a) comply with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
(b) give a true and fair view of the Company's financial position as at 30 June 2003 and of its performance, as represented by the results of its operations and its cash flows, for the financial year ended on that date.

In the directors' opinion:

(a) the financial statements and notes are in accordance with the Corporations Act 2001; and
(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.

Spencer M Young
Managing Director

Christopher N Cunnington
Non-executive Director

Brisbane
19 September 2003

Independent audit report to the members of Hedge Funds Ltd

Scope

We have audited the financial report of Hedge Funds Ltd for the financial year ended 30 June 2003, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 21, and the directors' declaration set out on pages 6 to 21. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. 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. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's financial position, and performance as represented by the results of its operations and its cash flows.

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

Audit opinion

In our opinion, the financial report of Hedge Funds Ltd is in accordance with:

(a) the Corporations Act 2001, including:

  i. giving a true and fair view of the Company's financial position as at 30 June 2003 and of its performance for the financial 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.

KPMG

KPMG

R.S. Jones

Robert S Jones
Partner

Brisbane
19th September 2003