

# Strategy Strength Growth



# Key Highlights

## Consistently Strong Performance

*'...Sigma has continued to demonstrate strong performances in all facets of the business – Pharmaceuticals, Healthcare, retail and general corporate governance. It is this performance that...lays the foundations for a strong future for Sigma.'*

John Stocker, **page 6**

## Sustained Profit Growth

*'Profit after tax has increased from \$31.0 million in 2002/2003 to \$44.2 million in 2003/2004, an increase of 42.7%. This follows increases of 30% in 2001/2002 and 41% in 2002/2003, confirming the strength of the underlying business.'*

Mark Hooper, **page 8**

## Implementing our Strategy

*'The year has seen the successful integration of the Herron Group, and the growth of key product ranges. The Healthcare Division has continued to produce profitable sales growth and efficiency gains whilst at the same time enhancing our service to customers.'*

Elmo de Alwis, **page 7**

## Planning for the Future

*'This focus has seen Sigma retain and recruit the right people with the right skills to lead the business into the future – people with the strategy, the drive, and the ability to deliver.'*

Elmo de Alwis, **page 16**

## Contents

### Overview of the Company

1	Our Strategy
2–3	Company Profile
4	Highlights
5	Five Year Summary

### Year in Review

6	Chairman's Report
7	Managing Director's Report
8–9	Chief Financial Officer's Report
10–11	Pharmaceutical Division
12–13	Healthcare Division
14–15	Sigma Products

### Shareholder Information

16–17	Management Profiles
18–19	Board of Directors
20–22	Corporate Governance
23	Shareholder Information
24–61	Financial Report
62	Independent Audit Report
63–64	Security Holders Information
IBC	Group Directory

## Our Strategy

To be the leading Australian pharmaceutical manufacturer and marketer, and the most efficient pharmaceutical wholesaler in Australia.

Our success is supported by our partnership with the two largest and most recognised pharmacy retail brands in Australia, Amcal and Guardian, as well as the special relationship we have with our independent pharmacist customers and medical practitioners. Our ability to leverage the strength of the group's portfolio of strong brands across a broader distribution network enhances these relationships.



## Company Profile

The company has annual sales of \$1.9 billion and EBIT of \$83.6 million

### Divisional sales contribution:

Healthcare

86%

Pharmaceutical

14%

### Divisional EBIT contribution:

Healthcare

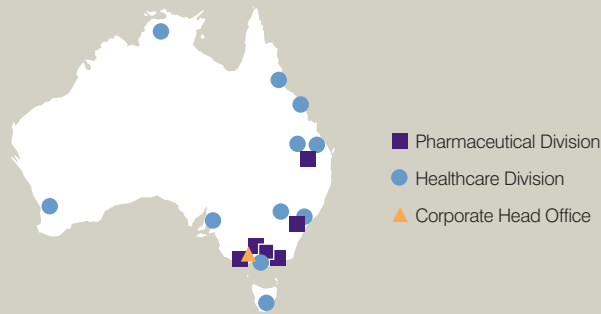
41%

Pharmaceutical

59%

## Sigma History

- Founded in Melbourne in 1912 by two pharmacists
- Manufacturing activities commenced in 1942
- Acquisition of QDL in 1996
- Listing on Exempt Stock Exchange in 1997
- Acquisition of Guardian pharmacy banner group in 1997 and Amcal in 1998
- Acquisition of SmithKline Beecham's Dandenong manufacturing facility in 1999
- Full ASX listing in 1999
- Acquisition of Aventis' Baulkham Hills manufacturing business in June 2000
- Acquisition of the Herron Group in May 2003
- Included in the ASX Top 100 in November 2003



	Strategic Objectives	Financial Objectives
Pharmaceutical	<p>Leverage key competencies in manufacturing and marketing to:</p> <ul style="list-style-type: none"> <li>• Profitably grow sales through organic growth of existing product ranges and registrations of new products</li> <li>• Profitably grow sales through strategically aligned acquisitions</li> <li>• Continually review product ranges to eliminate non-core products that are not economically viable to maintain</li> <li>• Build local and international strategic alliances with pharmaceutical companies that further strengthen our product range as well as our manufacturing capabilities</li> <li>• Review and implement our future facilities strategy and requirements</li> <li>• Ensure quality assurance practices to enable Sigma to operate at sustainable high levels of good manufacturing practices (GMP)</li> </ul>	<ul style="list-style-type: none"> <li>• Grow EBIT margin</li> <li>• Improve Return on Capital Employed</li> </ul>
Healthcare	<p>Drive operational efficiencies and profitable sales growth through:</p> <ul style="list-style-type: none"> <li>• Leveraging banner membership alliances to achieve maximum compliance for Sigma distributed and manufactured products</li> <li>• Improved stock management and supplier relationships</li> <li>• Consistently high levels of logistics services at a reduced overall cost</li> <li>• Successful implementation of the new IT Replacement Healthcare System (RHS)</li> </ul>	<ul style="list-style-type: none"> <li>• Grow EBIT margin</li> <li>• Improve Return on Capital Employed</li> <li>• Continued growth in Sigma Rewards</li> <li>• Continued improvement in bank support for pharmacies resulting in a decreased reliance on pharmacy guarantees</li> </ul>
Corporate/Group	<ul style="list-style-type: none"> <li>• Maximising return on shareholders' investments</li> <li>• Maintaining quality corporate governance for the benefit of all stakeholders</li> <li>• Employing and retaining the highest quality employees</li> <li>• Ensuring our operations do not adversely impact the environment or community</li> </ul>	<ul style="list-style-type: none"> <li>• Deliver Group PAT growth of 20–25% for 2004/2005</li> <li>• Continue to reduce Corporate costs as a percentage of Group EBIT</li> </ul>

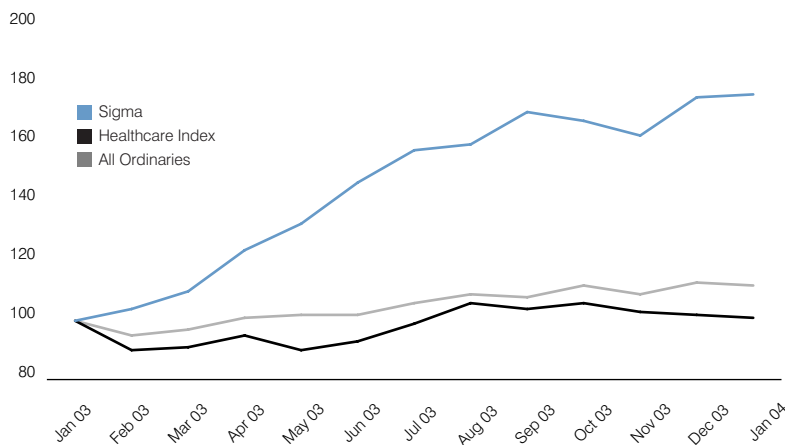
# Highlights

The 2003/2004 year has seen group profit after tax grow by 42.7% through a combination of organic growth in sales, the full year effects of brand acquisitions, the successful integration of the Herron Group into Sigma Pharmaceuticals, and gains in efficiency and banner member sales in Healthcare.

Key measures (A\$m)			
	2004	2003	Change
<b>Operating Results</b>			
Sales revenue	1,909	1,733	10.1%
EBIT	83.6	57.2	46.0%
Profit After Tax	44.2	31.0	42.7%
<b>Key measures</b>			
EBIT to sales	4.4%	3.3%	
Return on Capital Employed <sup>(1)</sup>	18.6%	17.0%	
Dividends per share	20.0c	13.5c	48.1%
Gearing (year-end)	32.4%	16.9%	

<sup>(1)</sup> Adjusted for the timing of the Herron acquisition in 2004, Wyeth and Abbott brand purchases (2003) and change in the Australian Accounting Standard for provisions in 2004.

Company Share Performance %

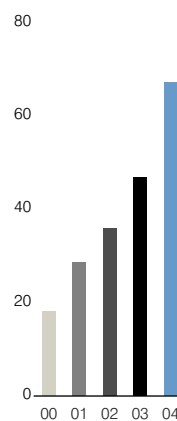


## Five Year Summary

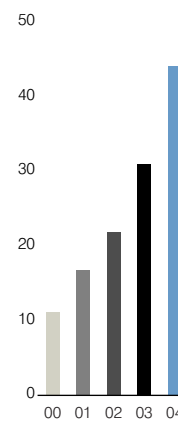
	2004	2003	2002	2001	2000
<b>Operating result (\$'000) (excludes significant items)</b>					
Sales revenue	1,908,607	1,733,403	1,663,970	1,522,130	1,308,212
EBITDA	101,280	74,224	61,641	53,614	40,533
EBIT	83,600	57,246	46,454	38,575	28,618
Profit before tax	67,297	47,040	35,886	28,717	18,200
Profit after tax	44,195	30,963	21,935	16,809	11,194
<b>Financial Position (\$'000)</b>					
Working capital	145,299	129,108	147,525	172,597	162,053
Fixed assets (incl intangibles)	342,056	212,560	184,254	194,634	186,025
Other assets & liabilities	(6,895)	(9,202)	(5,644)	(8,127)	7,840
Capital employed (year-end)	480,460	332,466	326,135	359,104	355,918
Net debt	155,862	56,303	64,854	108,460	101,409
Net assets	324,598	276,163	261,281	250,644	254,509
<b>Shareholder Related</b>					
Dividend					
– per share	20.0c	13.5c	10.0c	7.5c	7.5c
– total (\$'000)	28,344	18,866	13,813	10,295	7,786
Earnings per share					
– Before significant items	31.4c	22.4c	16.0c	12.3c	12.0c
– After significant items	31.4c	22.4c	16.0c	6.5c	11.2c
Dividend payout ratio	64%	61%	63%	61%	63%
Market capitalisation (year-end)	\$999m	\$554m	\$548m	\$193m	\$240m
Shares on issue (thousands)	141,737	138,863	138,138	137,216	137,149
<b>Ratios &amp; Returns</b>					
Return on capital employed <sup>(1)</sup>	18.6%	17.0%	14.2%	10.7%	8.0%
Return on shareholders' equity	13.6%	11.2%	8.4%	3.6%	4.1%
EBIT margin	4.4%	3.3%	2.8%	2.5%	2.2%
Gearing	32.4%	16.9%	19.9%	30.2%	28.4%
Net tangible assets (plus trademarks) per share	157c	160c	147c	137c	134c
Interest cover (times)	5.1	5.6	4.4	2.8	2.6
Current ratio	1.1	1.4	1.6	1.3	1.2

<sup>(1)</sup> Adjusted for the timing of the Herron acquisition in 2004, Wyeth and Abbott brand purchases (2003) and change in the Australian Accounting Standard for provisions in 2004.

Sigma Group  
Profit before Tax  
\$m



Sigma Group  
Net Profit after Tax  
\$m



# Chairman's Report

The 2003 calendar year was another turbulent year for the pharmaceutical industry. It is therefore pleasing to report that through this, Sigma has continued to demonstrate strong performances in all facets of the business – Pharmaceuticals, Healthcare, retail and general corporate governance. It is this performance that has again contributed to a record result for 2003/2004, and lays the foundations for a strong future for Sigma.

## Consistently strong growth

Sigma has continued to produce improved profit growth over the past 3 years, with the 2003/2004 year again delivering strong profit performance.

This has seen the Sigma share price increase by 500% over the last three years, with Sigma recently entering the ASX Top 100 index. This growth in share price combined with the increasing dividend payments has delivered excellent returns to shareholders.

## Strategic development initiatives

The 2003/2004 year has seen the continued success of Sigma's strategy. Focus in the Pharmaceutical Division has been on expanding the business through organic growth, combined with strategic acquisitions such as the Herron Group and the Ural brand. The acquisition of the Herron Group during the year has been a major initiative that promises increasing profitability into the future.

The Board has also endorsed management's recommendation to undertake a facilities strategy review and is committed to the necessary level of investment in manufacturing facilities in order to position Sigma for future growth.

The Healthcare Division has focussed on improvements across all parts of the business. Efficiency gains achieved through procurement practices and logistics operations have enabled Healthcare to contain its costs. Concurrently, Healthcare has focussed on ongoing improvements in customer service levels and on the provision of greater service offerings to customers. This will be underpinned by the \$12 million investment in a new IT system for the Healthcare Division which is scheduled for implementation in the 2004/2005 year.

## Corporate governance

Sigma is committed to good Corporate Governance practices. This commitment has seen Sigma review and improve its policies, and the Directors undertake additional development programs to strengthen compliance with these policies where necessary.

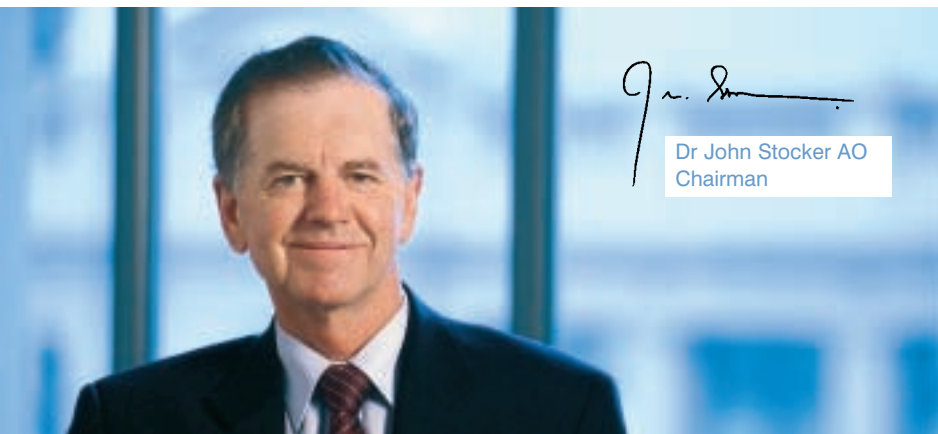
The commitment of all employees to these Corporate Governance practices and processes is a critical factor in the success of Sigma. Our company has a dedicated team of management and specialists working together throughout the business to ensure that Sigma meets the highest standards.

## The way forward

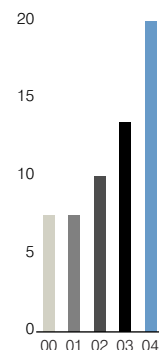
The Sigma Board would like to extend sincere thanks to all employees of Sigma for their contribution to what has been a challenging yet highly successful and gratifying year. The successful implementation of our strategy through the commitment of all employees has put Sigma in a strong position for continued and sustainable growth.

Sigma will not rest on the success of the past, and will seek strategic opportunities for growth in areas that fit our business model and that offer the promise of delivering greater value to shareholders.

**Dr John Stocker AO**  
Chairman



Dividend Payout per Share cents



# Managing Director's Report

It is very pleasing to report that 2003/2004 has seen Sigma continue to produce strong results throughout the business. The year has seen the successful integration of the Herron group, and the growth of key product ranges. The Healthcare Division has continued to produce profitable sales growth and efficiency gains whilst at the same time enhancing our service to customers.

## Sustained profit growth

Profit after tax has increased from \$31.0 million in 2002/2003 to \$44.2 million in 2003/2004, an increase of 42.7%. This was achieved due to another year of strong performance from both the Pharmaceutical and Healthcare businesses.

The Pharmaceutical Division has achieved growth in sales of 23% over the past 12 months, which includes the impact in sales resulting from Herron branded products. This is a pleasing result and demonstrates the strength of the brand portfolio and the commitment and effectiveness of a strong sales and marketing team.

Healthcare has improved operating margins through efficiency and market share gains. Healthcare is focussed on cementing its key relationships with customers through improving its service and doing so in a more efficient and cost-effective manner. This relationship has helped to improve Sigma's share of wholesale sales to banner members from 56% to 65% for Amcal, and from 74% to 80% for Guardian.

## Focus on capital

Sigma has continued to focus on the return on capital employed (ROCE) ratio, improving to 18.6%. This follows returns of 14.2% in 2001/2002 and 17.0% in 2002/2003. This was supplemented by the strength of the Sigma Rewards Program, and the focus on supporting pharmacists with their financing needs without the use of guarantees.

## Foundations laid for the future

The 2003/2004 year has been a highly successful year for the Sigma Group, and the results in each Division put us in a strong position for future success.

Pharmaceuticals will continue to leverage opportunities from our existing strong brand portfolio. The acquisition of the Herron Group has provided Sigma with further opportunities for growth across an even broader distribution network. The recent launch of Herron Blue has been a major success, and signifies the strength of the Herron brand.

Following the growth in sales and the integration of Herron, we are currently reviewing our facility requirements to identify what investments are needed to be made in our manufacturing and regulatory activities necessary to place Sigma in a strong position to capitalise on current and future demand and opportunities.

We will also continue our strategy of actively seeking other opportunities to expand our business through acquisitions that fit our business model. The Pharmaceutical Division is undertaking a product rationalisation program focussed on eliminating the need

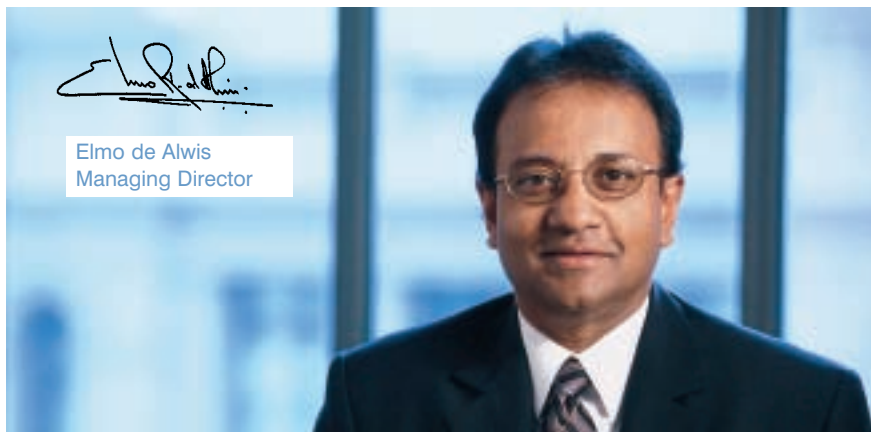
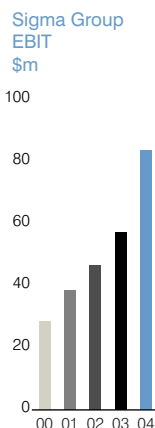
to manufacture a number of mature product lines where the cost of maintenance in terms of compliance is no longer viable.

The Healthcare Division will continue to focus on delivering efficiency gains through better buying practices and streamlining logistics. Retail will further cement the key relationship with existing and new customers through an expanded range and service offering, and encourage greater banner member purchases of products and services from our wholesaling division. The increased level of investment in retailing programs and systems is designed to deliver increasing value to the many members of Amcal and Guardian.

The improvements throughout the Healthcare Division will be supported by the implementation of the new IT Replacement Healthcare System (RHS) during the 2004/2005 year. RHS is expected to deliver considerable efficiency gains through the supply and information chain, and at the same time provide Sigma with a much stronger platform from which to maximise service to our customers and to grow the business.

I would like to sincerely thank all employees of Sigma and the Board for the significant contributions they have made in delivering the results that the company has delivered in 2003/2004 and in shaping a strong future for Sigma.

**Elmo de Alwis**  
Managing Director



# Chief Financial Officer's Report

## Overview

Sigma has performed strongly in the 2003/2004 year, which was the third year in succession of 30%+ profit growth. Importantly this has been in conjunction with ongoing improvement in our capital management practices and a more effective approach to financial risk management.

A more specific discussion of the year's result is detailed below.

## Continued growth in earnings

### Sales revenue (A\$m)

	2004	2003
Pharmaceutical	301	244
Healthcare	1,647	1,522
Inter group Sales	(39)	(33)
Total group	1,909	1,733

Sales for the Sigma Group have improved by 10.1% on last year's performance. Pharmaceutical sales improved by 23%, which mainly reflects the impact of the purchase of Herron whose sales have increased by 20% since Sigma's acquisition. Healthcare sales increased by 8.3%, which reflects underlying PBS growth, as well as increased market share particularly in the second half of the year where sales grew by 11%.

### EBIT (A\$m)

	2004	2003
Pharmaceutical	53.2	35.3
Healthcare	36.3	29.7
Corporate & unallocated	(5.9)	(7.8)
Total	83.6	57.2

Group EBIT increased by 46% over the 2003/2004 year. The Pharmaceutical result was positively impacted by the Herron acquisition, and a combination of increase in market share and a continued focus on costs were the key drivers in the 21.9% improvement in Healthcare EBIT. Corporate costs for 2003 include costs relating to the failed API merger.

### Profit after tax (A\$m)

	2004	2003
Group	44.2	31.0

Profit after tax has increased from \$31.0 million in 2002/2003 to \$44.2 million in 2003/2004, an increase of 42.7%. This follows increases of 30% in 2001/2002 and 41% in 2002/2003, confirming the strength of the underlying business.

### Dividends (cents per share)

	2004	2003
Dividends declared	20.0c	13.5c
Franking	100%	100%

## Strong Cash Flow

### Strong Operating Cash Flow (A\$m)

	2004	2003
Cash Flow from Operations	63	50
Sigma Rewards Impact	12	18
Operating Cash Flow	75	68

A key focus for the Group is to ensure that strong operating performance is also reflected in cash flow from operations. This helps lower our overall debt position and improves flexibility to fund future acquisitions.

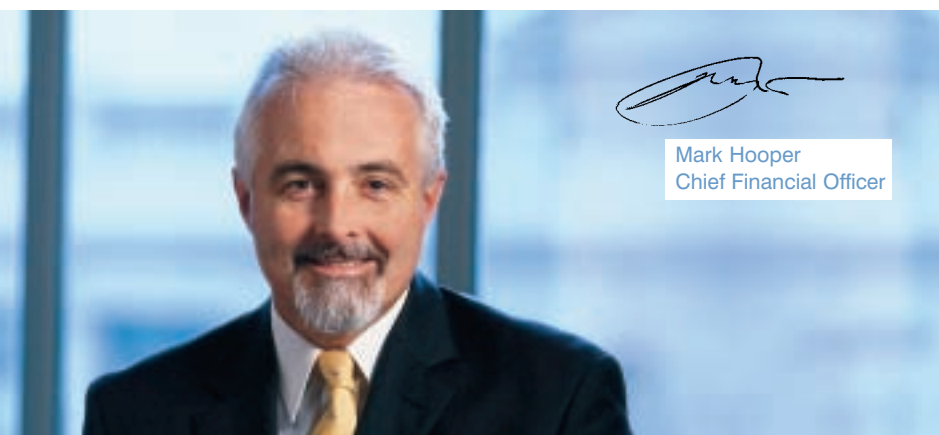
The operating cash flow for the 2003/2004 year increased a further 11% to \$75 million.

### Net debt (A\$m)

	2004	2003
Group	156	56

The increase in debt levels is the net effect of the additional funds borrowed for the Herron purchase offset by cash flow generated from operations after meeting dividend payments and general capital requirements.

Allowing for mid-month funding peaks Sigma's gearing presently sits between 35% and 40%. At these levels Sigma can comfortably take on small to medium size acquisitions. Our medium target remains to hold gearing between 25% and 40%.



Mark Hooper  
Chief Financial Officer

### Efficient use of Capital

Capital Employed (A\$m)	2004	2003
Group	449.7	337.2

The increase in capital employed is mainly driven by the Herron purchase.

We continue our efforts to maintain the efficiency of working capital within the divisions. After adjusting for the impact of Herron, overall working capital remained steady.

### Earnings Per Share/Return on Capital Employed

	2004	2003
Return on Capital Employed	18.6%	17.0%
Earnings Per Share	31.4	22.4

Adjusting for the timing of the Herron acquisition, Wyeth and Abbott brand purchases, return (EBIT) on capital employed has again shown a strong improvement in the 2003/2004 year. The 18.6% return is well in excess of the Group's current cost of capital, which is approximately 12% (pre-tax).

Earnings per share growth of 40.2% is consistent with the movement in Group profit performance offset by additional shares issued as part of the Herron acquisition and the Employee Share Plan.

### Managing financial risk

Pharmacy Guarantees (A\$m)	2004	2003
Gross Liability	170	240
Outstanding Contingent Liability	52	76

All full-line wholesalers in Australia have traditionally provided pharmacy guarantees to their customers in order to support the purchase of pharmacy businesses. Sigma has succeeded in working with its banks in developing more innovative solutions that provide a better outcome for the pharmacist and remove the obligation for Sigma to provide a formal guarantee. Despite the reduction in the outstanding contingent liability associated with guarantees, Sigma has provided over \$300 million of funding support for pharmacists through a combination of guarantees and innovative programs put into place in conjunction with a number of leading Australian banks.

Importantly this has also been during a period where Sigma has been able to grow market share, which reinforces our belief that this approach results in a more effective solution for our pharmacist customers.

### Interest rate hedging

The increased debt arising from the Herron purchase and the restructuring of the Sigma Rewards funding mechanism now means Sigma has arrangements totalling \$250-\$300 million where BBSY is the key determinant of the overall cost of these programs.

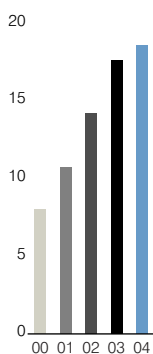
At year-end Sigma has hedged \$100 million of this exposure using a combination of swap and options (full details are shown at Note 31 to the financial statements).

### Outlook

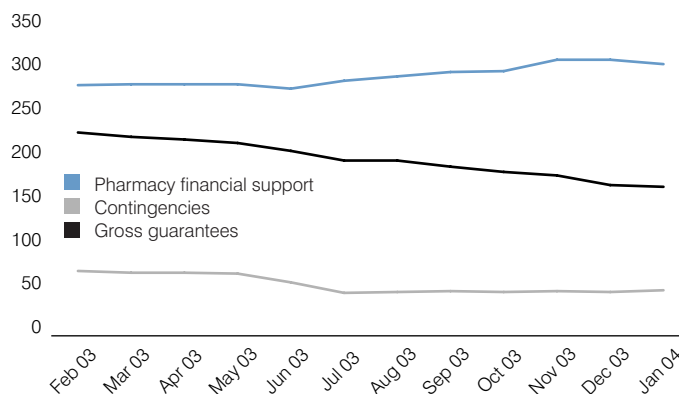
Sigma currently expects that profitability for the 2004/2005 year will grow by approximately 20% to 25%. As in previous years we will continue to explore opportunities to improve this performance further.

**Mark Hooper**  
Chief Financial Officer

Sigma Group  
Return on Capital Employed  
%



Pharmacy Lending/Guarantees  
\$m



# Pharmaceutical Division

## Overview of the year

The 2003/2004 year was another year of strong growth, highlighted by the acquisition of the Herron Group (including Chemists' Own) in May 2003, the acquisition of the Ural brand, and continued organic growth from our core portfolio of brands.

## Business development

The integration of the Herron Group into Sigma has been successfully implemented ahead of schedule. This integration has achieved significant cost savings through streamlining the sales functions, integrating back office support functions, production efficiencies, and aligning purchasing and distribution practices. The Herron acquisition has provided Sigma with a significant opportunity to leverage the suite of consumer brands across a wider distribution network.

Sigma continues to seek opportunities for further brand acquisitions to the extent that they meet our criteria and are consistent with our strategy.

In relation to the manufacture of generic drugs, we continue to explore opportunities with Arrow Pharmaceuticals in order to further enhance our relationship.

The 2004 year was a difficult year for exports with the appreciation of the Australian dollar against most currencies. Sigma has continued work to improve supply costs to in part offset the currency effect. Sales to the Middle East continued to grow despite a somewhat difficult regulatory environment. Sigma continues to work hard to build up a successful product range across the region. The Codalgin brand was successfully launched in New Zealand and is a clear market leader in its category.

## Sales & marketing

Sigma's existing brand portfolio has continued to grow, with good performances from promoted products including Aristocort, Azep, Klacid, Sigmacort, Chlorsig and Coloxyl. The most significant gains have been with Codalgin Forte, which increased sales from \$0.6 million in 2002/2003 to \$7.2 million in 2003/2004. Sigma has furthermore recently launched the 'pharmacy only' Butalgin brand of ibuprofen.

Sales of Herron branded products for the nine months of 2003/2004 have increased by over 20%. Herron Paracetamol continues to gain market share, with 31.6% of the market to January 2004. Both the Herron and Chemists' Own brands have achieved solid market share gains in the Natural Healthcare range following the collapse of Pan Pharmaceuticals.

The Osteoeze brand, a clear market leader in the glucosamine arthritis segment, has continued its solid growth and now has 56.8% market share in the grocery channel.

In December 2003 Sigma acquired the Ural brand from Abbott. Ural is a urinary alkaliniser with 89% market share in pharmacy and is expected to be a consistent contributor to profit.

The group has focussed on introducing key Herron lines into the pharmacy channel, and most significantly has recently launched Herron Blue ibuprofen in both the pharmacy and grocery channels. This has been a highly successful launch, achieving over 20% market share in grocery within the first month of the launch.

The acquisition of the Herron Group has added \$70 million to sales and contributed \$4.1 million to profit after tax for the nine months.

### Financial summary

Sales increased significantly from \$244 million for the 2002/2003 year to \$301 million for the 2003/2004 year. This increase reflects strong organic growth of existing brands along with the addition of Herron for nine months of the year.

Capital employed increased from \$160 million to \$266 million during the year, reflecting the debt funding of the acquisition of the Herron Group. As a result, return on capital employed decreased slightly from 22.1% to 20%. This is a significant indicator of the strength of the underlying Pharmaceutical Division and Sigma's ability to extract greater business benefits from the integration of Herron.

### The future

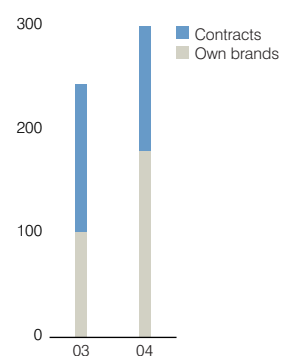
Sigma Pharmaceuticals is well placed to continue its growth. Indications are that organic growth in the core portfolio of brands is set to continue, to be bolstered by further new product acquisitions and launches.

Sigma has and continues to increase its quality assurance practices to ensure Sigma operates at sustainable high levels of GMP in order to meet Sigma's own standards and that specified by the code of GMP.

Sigma is concurrently undertaking a review of our future facilities strategy to ensure that we make the necessary changes to facilities that place us in a position to capitalise on opportunities available in the future.

Sigma will continue to seek efficiency gains in the export market to offset the effects of the appreciation of the Australian dollar. We are also focussed on growing the product range offered in the Middle East. Further product registration submissions are planned for New Zealand and Scandinavia that should provide greater opportunity for growth in these markets.

Pharmaceuticals Sales Split by Category \$m



### Key measures (A\$m)

	2004	2003	Movement
<b>Operating Results</b>			
External Sales	261.1	211.6	23.4%
Internal Sales	39.8	33.1	20.4%
<b>Total Sales Revenue</b>	<b>300.9</b>	<b>244.7</b>	<b>23.0%</b>
Depreciation and Amortisation	12.5	9.8	27.9%
EBIT	53.3	35.3	50.7%
Profit Before Tax	46.1	32.8	40.6%
<b>Financial Position</b>			
Working Capital	52.0	42.0	23.8%
Capital Employed	266.5	159.8	66.8%
<b>Ratios &amp; Other</b>			
EBIT margin	17.7%	14.4%	
Return on Capital	20.0%	22.1%	



# Healthcare Division

## Overview of the year

During the 2003/2004 year, new senior management appointments in Inventory and Merchandise, Logistics, and Retail have added to our leadership team and focussed development across the business.

Sigma Healthcare has targeted improvements across all areas of the business so as to be in a position to maintain the strategy of being a full line service provider whilst being able to maintain competitive pricing strategies.

## Inventory and Merchandise

Stock management and supplier relationships have been and will continue as a major area of focus for the business.

During the year, Healthcare has improved efficiency of its investment in inventory. This reduction has been achieved through improved buying practices, without compromising the high stock service levels and the full line service offered to customers. The reduced holding costs combined with increased stock turnover and a reduction in excess and discontinued and dated stock, has made a significant contribution to the improved profit for Healthcare.

Our relationships with suppliers combined with market-leading promotional programs have enabled Sigma to offer its customers market-leading products at very competitive prices.

## Logistics

There has been considerable focus on operational efficiencies, including route profitability analysis, and cost per pick reductions.

During the year Healthcare has put out to tender the national country distribution network with the aim of providing a single supplier for our country distribution requirements. The metro Melbourne distribution contract has also been put out to tender, to be followed in 2004 by the metropolitan distribution contracts for other states.

The aim of the tender process is to provide customers with a consistently high level of distribution service at a reduced overall distribution cost to Sigma.

## Customer service

Healthcare values its customers and is committed to providing customers with premium service that is reliable, accurate and personable. It is this service that has seen sales increase by 8.3% (11.1% in the second half) compared with the industry average of approximately 6%, reflecting Sigma's reputation as a quality wholesaler and distributor.

Importantly, sales growth has been achieved without the need to sacrifice profit, as reflected in profit growth from \$21.4 million in 2002/2003 to \$26.7 million in 2003/2004.

## Retail

Healthcare has focussed on expanding Sigma's offering to banner members and leveraging this growth platform for the future.

The Reduced Fee Structure program (RFS) was introduced to reward pharmacists through lower banner membership fees in recognition of greater support of Sigma. RFS has contributed to the monthly average percentage of wholesale business sourced from Sigma increasing from 56% in January 2003 to 65% in January 2004 for Amcal, and 74% to 80% for Guardian over the same period. This is an area of continued focus for the future as considerable opportunities for improvement still exist.

Retail launched new Category Management pilots with groups of Amcal and Guardian stores to test opportunities to grow traditional front of shop sales. Initial results show in store sales increases of 25% with future flow through opportunities for Sigma.

## Sigma Rewards

The Sigma Rewards program has continued the consistently strong growth since its introduction in 2001. The Sigma Rewards program is designed to encourage loyalty amongst customers, and assist Sigma in managing trade debtors. This success has seen member numbers again grow from 664 members in January 2003 to 788 members in January 2004. Sales revenue through Sigma

Sustained focus on improvements to purchasing, logistics, sales and retail continue to drive the business forward.



Rewards has also continued to grow, representing approximately \$60 million of monthly sales in January 2004, up from \$50 million in the equivalent month last year.

**Financial summary**

The strategic focus of the business has resulted in EBIT margin continuing its consistent growth to 2.2% in 2004, up from 2.0% in 2003 and 1.8% in 2002.

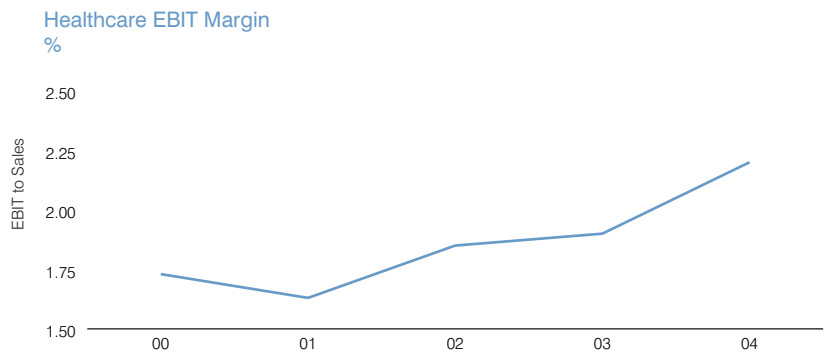
Return on capital employed increased to 20.2% in 2004, up from 16.9% in 2003 and 13.1% in 2002. This increase reflects the ability of the business to continue to grow sales profitably off a relatively fixed level of capital costs.

**The future**

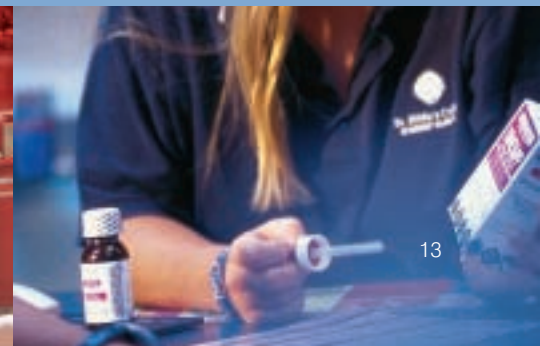
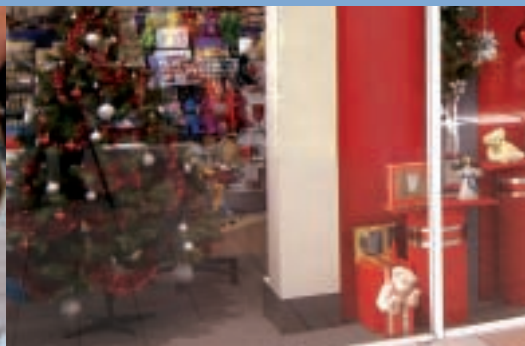
Continued improvement is expected across the Healthcare Division in the 2005 year. Efficiency gains from the logistics tender process and greater inventory and merchandise controls will commence to be realised during 2004/2005 and beyond. It is expected that the Reduced Fee Structure (RFS) program will continue to increase the level of wholesale purchases from banner member pharmacies.

The service level offering to customers will be further enhanced through the introduction of the new IT Replacement Healthcare System (RHS) during 2004/2005. This is a \$12 million investment in an end-to-end IT system to support the business through the supply chain. The system will provide further efficiency gains, and provide greater capability to improve the service to customers.

Through these initiatives combined with general business growth, Healthcare is expecting continued growth, with a target EBIT margin of 2.4% for the 2004/2005 year.



Key measures (A\$m)			
	2004	2003	Movement
<b>Operating Results</b>			
Sales Revenue	1,647.5	1,521.8	8.3%
Depreciation and Amortisation	4.6	6.5	(29.1)%
EBIT	36.3	29.8	21.9%
Profit Before Tax	26.7	21.4	24.9%
<b>Financial Position</b>			
Working Capital	103.0	108.0	(4.6)%
Capital Employed	179.7	176.0	2.1%
<b>Ratios &amp; Other</b>			
EBIT margin	2.2%	2.0%	
Return on Capital	20.2%	16.9%	
Debtor days	41	42	



# Sigma Products

Building Brands with our Customers

 **Amcal**

 **Guardian**





# Management Profiles

During the 2003/2004 year, Sigma has continued to focus on the critical needs of all areas of the business to achieve profitable growth. This focus has seen Sigma retain and recruit the right people with the right skills to lead the business into the future – people with the strategy, the drive and the ability to deliver.



Mark Hooper

Jackie Toh

Gary Harbor

Dusko Pejnovic

Dr Richard Treagus

## Corporate

**Mark Hooper**, BBus(Acc) CPA FTA MAICD, joined Sigma in 2001 and is currently Chief Financial Officer for the Sigma Group. Prior to this he had an extensive career in resources most recently as the Chief Financial Officer for the Ashton Mining Group.

Mark and his team have made significant progress over the past three years in rebuilding critical areas of the finance function and positioning the company to optimise future growth opportunities.

**Jackie Toh**, BEc CPA MBS, General Manager Group IT and Management Systems, has been with Sigma for 15 years, covering both the Healthcare and Pharmaceuticals sides of the business. Jackie has played a key role in the integration of the Herron Group with Sigma in 2003/2004, and is driving the implementation of the new RHS system within Healthcare, which promises to deliver ongoing benefits going forward.

**Gary Harbor**, BEc MBA, was appointed Head of Human Resources in December 2001. Gary has considerable human resource management experience with Toyota and Email, and was General Manager of Human Resources for Email Metals. Gary is responsible for overseeing all HR-related issues across the group, including Industrial Relations and Enterprise Agreement negotiations, HR Policy and practice, and OH&S management.

## Pharmaceuticals

During 2003/2004 the management of all pharmaceutical manufacturing plants was centralised under the control of **Dusko Pejnovic**, BSc (Chem) MBA FAIM, General Manager Operations, Contracts and Exports. Dusko has been with Sigma for 11 years in various roles, including as plant manager for Dandenong. Dusko and his team are responsible for all production issues, including managing production schedules, negotiating contract manufacturing agreements, and developing exports. Dusko is also responsible for developing Sigma's facility strategy to ensure Sigma is well placed to continue to grow as a major Australian pharmaceutical company.

**Dr Richard Treagus**, BscMed MBChB MpharmMed MBA, joined Sigma in the role of General Manager New Business, after five years in a similar role with Aspen Pharmaceuticals in South Africa. Richard has since expanded this role to incorporate strategic management of the Sales and Marketing division of Sigma Pharmaceuticals. In this role, Richard has played a major role in negotiating new business opportunities, and in establishing a strong and committed sales and marketing team targeting sustained growth for the business. This commitment has seen significant growth in a number of brands, and the recent highly successful launch of Herron Blue.

Most recently, **Dr Philip Marshall**, BSc (Hons) PhD FRACI CChem, has joined the Pharmaceutical Division in the newly-created role of General Manager, Scientific Affairs. This role has been created to further elevate the focus and coordination of Regulatory Affairs, Quality Assurance and GMP compliance across all Sigma sites. Philip holds a PhD in organic chemistry with 25 years' experience in scientific affairs gained with large pharmaceutical companies such as Pfizer, Mayne Pharmaceuticals and as an independent consultant to the pharmaceutical industry.



Dr Philip Marshall

Chris Wettasinghe

Steven Thacker

Grant McKirdy

Brendan Redmond

#### Healthcare

The Healthcare Division has continued to improve both its financial results and service level offerings to customers. A major influence on this progress has been the contributions from the existing management and staff, and the recruitment of new general managers and staff in targeted areas of development.

**Chris Wettasinghe**, FCA(SL) ACIS MNIA, joined the Sigma Healthcare Division in February 2003 in the role of General Manager Merchandise and Inventory. In this role, Chris has responsibility for supplier relations, continual development of Sigma's national buying practices and stock service levels, and managing stock holdings to improve stock turnover and reduce stock obsolescence and stock holding costs. Chris has brought to Sigma significant pharmaceutical industry experience, having spent the past 22 years with API in various finance, merchandise and marketing roles including General Manager-Merchandise and Inventory.

**Steven Thacker**, MBus(Log), was appointed General Manager Logistics in May 2003. As a wholesaler and distributor, strategic management of the logistics function is critical in the future success in Healthcare. Steven has considerable broad logistics experience spanning over 20 years in the logistics field through consultancy work and with such companies as Simplot, Linfox and TNT both in Australia and overseas, and is well placed to challenge traditional industry thinking. Steven and his team are in the process of implementing significant changes that will lay the foundations for a strong performance from Healthcare in future years.

**Grant McKirdy**, CPA FAIPM, joined Sigma in October 1998 in the role of General Manager, Healthcare Services. Grant has significant industry experience gained from 12 years with F.H. Fauldings in various roles including General Manager Operations and Asia. Grant and his team have made significant contributions towards ensuring Sigma provides a premium service to customers, and continues to profitably grow market share.

During the 2003/2004 year, Sigma established the newly created Retail Division, and appointed **Brendan Redmond**, BSc, as General Manager Retail to lead the Division. Brendan and his team have concentrated significant effort towards defining Sigma's strategy in managing its banner groups, and in encouraging greater purchasing pull-through from banner members. Brendan has considerable retail experience obtained through four years with Repco and 15 years with General Electric in both Europe and the USA, and has brought to Sigma a fresh approach in retail management.

The combination of Sigma's strong leadership group with diverse backgrounds and skills, and the strong team of dedicated employees supporting them, is helping to ensure Sigma implements its strategy to achieve continued growth.

# Board of Directors



Pictured top to bottom:

Dr John W Stocker  
Mr Elmo R de Alwis  
Mr Lewis C Butler  
Mr William J Scott

## **Dr John W Stocker AO**

MB, BS, BMedSc, PhD, FRACP FTSE,  
Non-Executive Chairman and Director.

Appointed a Director in December 1998 and became Chairman on 1 February 1999. Dr Stocker is a Director of Telstra Corporation Limited, Cambridge Antibody Technology Group plc, Circadian Technologies Ltd. and Nufarm Ltd. Formerly Chief Scientist, Commonwealth of Australia 1996-1999 and former Chief Executive of CSIRO Australia 1990-1995. Chairman of the Remuneration Committee, member of Nomination and Corporate Governance Committee. Age 58.

## **Mr Elmo R de Alwis**

CPA, MAICD, Executive Director.

Appointed Managing Director in February 2001. Mr de Alwis has had over 25 years experience in the pharmaceutical industry and during his career with Sigma has managed both the manufacturing and wholesaling operations. President of the National Pharmaceutical Services Association. Age 51.

## **Mr Lewis C Butler**

BPharm, MPS, AFAIPM, MACPP, MSHP, FAICD,  
CDA Dip, Non-Executive Director.

Appointed a Director in July 1995. Mr Butler, a community pharmacist, is an active member of the Amcal banner group and is involved in the community aged care and private hospital healthcare sectors. Chairman of Nomination and Corporate Governance Committee. Age 50.

## **Mr William J Scott**

JP, BPharm, MPS, FAIPM, MACPP, F.DipMgt,  
FAICD, CDA Dip, Non-Executive Director.

Appointed a Director in February 1996. Mr Scott is a community pharmacist and an active participant in industry affairs. Mr Scott is the current President of The Pharmacy Guild of Australia (Victorian Branch) and is also the National Vice President of The Pharmacy Guild, having been a National Councillor for the past nine years. Also Chairman of the Guild National Health Economics Committee. Mr Scott is an Associate Director of the Australian Chamber of Commerce and Industry, and the Chairman of the Community Pharmacy Agreement Management Committee. Age 58.



Pictured top to bottom:  
 Prof. William N Charman  
 Ms Linda B Nicholls  
 Mr H Kenneth Windle  
 Mr Brian Jamieson  
 Mr Euan F Murdoch

**Prof. William N Charman**

BPharm, PhD, MAICD, Non-Executive Director.

Appointed a Director in 1996. Professor Charman is currently Professor of Pharmaceutics and Director, Centre for Drug Candidate Optimisation at the Victorian College of Pharmacy, Monash University. Professor Charman has over 18 years experience in commercial and academic pharmaceutical research and product development conducted in the USA, Europe and Australia, and is a consultant to national and international pharmaceutical companies. Member of the Risk Management & Audit Committee. Age 44.

**Ms Linda B Nicholls**

BA (Econ), MBA, FAICD, Non-Executive Director.

Appointed a Director in April 1997. Ms Nicholls is currently Chairman of Australia Post, Deputy Chairman Healthscope Limited, and a Director of Perpetual Trustees Australia Limited, St George Bank Limited and Insurance Manufacturers of Australia Limited. Ms Nicholls has over 25 years experience in banking and finance in Australia, the USA and New Zealand. Chairman of the Risk Management & Audit Committee and a member of the Nomination and Corporate Governance and Remuneration Committees. Age 55.

**Mr H Kenneth Windle**

BPharm, MPS, FAIM, Non-Executive Director.

Appointed a Director in August 2000. Mr Windle is Chairman and CEO of Kinacia Pty Ltd, Chairman of Advent Pharmaceuticals Limited, and Director of the Woolcock Institute of Respiratory Medicine, Aus Bio Ltd., and Acrux Ltd., A former Regional Director, Glaxo Wellcome Asia Pacific with over 30 years experience in the Glaxo Group and in the world-wide pharmaceutical industry. A former non-executive Director of the Singapore Economic Development Board, and former member of the Australian Prime Minister's Science Council with a strong involvement in pharmaceutical research committees and boards, as well as in pharmaceutical and pharmacy education. Member of the Risk Management & Audit Committee. Age 59.

**Mr Brian Jamieson**

FCA, Non-Executive Director

Appointed a Director in May 2003. Mr Jamieson is currently Managing Partner, Melbourne, of Minter Ellison, a Director of Care Australia, a Director of the Bionic Ear Institute and Deputy Chairman of the Committee for Melbourne. He is a former Chief Executive Officer of KPMG Australia. He has over 30 years experience in providing advice and audit services to a diverse range of public and large private companies. Member of the Risk Management & Audit Committee. Age 59

**Mr Euan F Murdoch**

B. Comm, Non-Executive Director

Appointed a Director in June 2003. Mr Murdoch is founder and former owner of Herron Pharmaceuticals Pty Ltd. Mr Murdoch is a member of Queensland Biotechnology Advisory Council and the University of Queensland Institute of Molecular Biosciences Commercialisation Board. He is a former director of the Australian Food and Grocery Council and the Reserve Bank's Small Business Advisory Board. He has over 20 years experience in the pharmaceutical industry with particular expertise in the grocery sector. Member of the Remuneration Committee. Age 56.

# Corporate Governance

## Board Responsibilities and Objectives

Your Board of Directors is primarily responsible for setting the strategic direction and corporate governance of Sigma with the aim of maximising long-term returns to shareholders at an acceptable level of risk. The implementation of Sigma's strategic direction and the management of the business have been delegated to the Managing Director as its Chief Executive Officer. Whilst there is ongoing interaction between the Board and management, your Board functions independently of management.

Your Board draws on corporate governance best practice to contribute to Sigma's performance.

Sigma has reviewed its corporate governance practices and procedures in light of the ASX Corporate Governance Council's 'Principles of Good Corporate Governance and Best Practice Recommendations'. The Corporate Governance section of Sigma's website ([www.sigmaco.com.au](http://www.sigmaco.com.au)) sets out the Company's practices and procedures in the context of the Best Practice Recommendations.

As at the date of the Director's Report, the Board considers that Sigma complies with the ASX Corporate Governance Council's Best Practice Recommendations in all material respects.

## Board Composition

Your Board currently consists of one Executive and eight Non-Executive Directors, including the Chairman. The maximum number of Directors allowed is nine. There is also a requirement that there be a minimum number of 'Pharmacist Directors', depending on the number of shares held by 'Pharmacist Shareholders'. Presently two community pharmacists serve as Directors on your Board.

On a regular basis your Board reviews both the number and skills of Directors. Sigma sees benefits in having a Board with a diversity of backgrounds, experience and skills.

On a regular basis your Board arranges for a formal, independent performance review of individual Directors and the Board as a whole to ensure it is operating effectively. The last formal review was undertaken in 2003. The review comprised individual interviews with all directors and selected senior managers. A presentation of the findings was given to the Board as a whole. In addition, the Chairman reviewed the findings of the report with each director on a one-on-one basis.

All Directors (with the exception of the Managing Director) must retire from office no later than the third annual general meeting (AGM) following their last election. If eligible, a Director may stand for re-election subject to the following limitations:

- no Director (other than the Managing Director) should serve more than fifteen years, and
- on attaining the age of 65 years a Director will retire, by agreement, at the next AGM and not seek re-election.

## Independence

Sigma has adopted a definition of 'independence' for directors that is consistent with that suggested by the ASX Corporate Governance Council. This definition is included in the Corporate Governance section of the Company's website. Applying this definition, Messrs Butler and Scott as practising pharmacists are not independent, due to the level of transactions between the pharmacies they are associated with and Sigma. These transactions were on the same terms and conditions that would apply to any customer of Sigma. In addition to the constitutional requirement, the Board greatly values the insight and advice provided by the pharmacist directors into this important part of the Company's business.

As Mr Murdoch has within the last three years been employed in an executive capacity with Herron Pharmaceuticals Pty Ltd, which was acquired by Sigma in May 2003, Mr Murdoch is not considered independent applying the terms of our definition.

All other Non-Executive Directors are considered by the Board to be independent, meaning that each one is generally free from any management role, or business interest or other relationship that could materially interfere with the Director's ability to act in the best interests of the Sigma Group as a whole.

Only those transactions permitted by Sigma's Constitution and the Corporations Act take place with Directors or their related parties. These are on the same commercial terms and conditions applying to any other external party, supplier or customer. Directors are required to disclose in writing any related party transactions. Related party transactions are set out in Note 28 of this financial report.

Directors are also required to identify any conflict of interest they may have in dealing with Sigma's affairs and subsequently to refrain from participating in any discussion or voting on those matters. If a potential conflict of interest is likely to arise, the Director concerned does not receive copies of the relevant Board papers and withdraws from the Board meeting while those matters are considered. Accordingly the Director concerned takes no part in discussion nor exercises any influence over other members of the Board if a potential conflict of interest exists.

## Board and Committee Meetings

There were 12 scheduled Board meetings during the year. Three additional meetings were also held. The frequency of Board and Committee meetings and Directors' attendance at those meetings is set out in the Directors' Report.

In addition to their scheduled meetings the Board and Board Committees meet as required to deal with any specific or urgent matters requiring their attention or action. At their scheduled meetings Directors receive detailed financial, operational and strategy reports from senior managers. Management is available to discuss these reports with the Board.

On a regular basis Non-Executive Directors meet without the Managing Director or other members of management being present, to ensure that the Non-Executive Directors maintain independence of thought and judgment.

The Non-Executive Directors also meet independently with the internal and external auditors at least twice per year.

#### Independent Professional Advice and Access to Information

Directors have a right of access to all Company information and executives. Subject to prior consultation with the Chairman, Directors are entitled to seek independent professional advice at the Company's expense in connection with their duties and responsibilities. Directors also execute an agreement with Sigma giving them a right of access to board papers after their directorship concludes.

#### Board Committees

The Board has established the following committees to assist it in carrying out its duties and to allow detailed consideration of issues:

- Risk Management and Audit
- Nomination and Corporate Governance
- Remuneration

Each committee comprises Non-Executive Directors, although the Managing Director and relevant senior executives attend by invitation. The committee structure, its membership and its effectiveness are reviewed on a regular basis.

Each committee has its own written charter setting out its role and responsibilities and the manner in which it is to operate. All matters determined by committees are submitted to the full Board as recommendations for decision.

#### Nomination and Corporate Governance Committee

The Nomination and Corporate Governance Committee comprises Mr L C Butler (Chairman), Mr J W Stocker and Ms L B Nicholls.

Its main responsibility is to review the Board's experience and skills and assess individual Director and Board performance as well as succession planning. It also has responsibility for reviewing and making recommendations on Sigma's corporate governance practices and procedures.

#### Risk Management and Audit Committee

The Risk Management and Audit Committee comprises Ms L B Nicholls (Chairman), Mr B Jamieson, Prof. W N Charman and Mr H K Windle.

Its main responsibility is to review the Company's financial reporting process, management of financial risks, audit processes and regulatory compliance processes. In particular, it is responsible for making recommendations to the Board with respect to all financial information released by the Company.

The Committee also recommends the appointment, removal and remuneration of the external auditors, together with their terms of engagement. It also reviews the activities and organisational structure of the internal audit function and reviews the appointment or replacement of the internal auditor.

The Committee receives regular reports from management and from the internal and external auditors. It also meets with the internal and external auditors without the Managing Director or other members of management being present at least twice a year. The internal and external auditors are free at any time to communicate directly with either the Chairman of the Committee or the Board.

The Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Prior approval of the Committee must be gained for any non-audit work to be performed by the external auditor. There are specified limits on this non-audit work to ensure that the independence of the auditor is maintained.

There is also a requirement that the audit partner responsible for the audit not perform in that role for greater than five years.

#### Remuneration Committee

The Remuneration Committee comprises Dr J W Stocker (Chairman), Mr E F Murdoch and Ms L B Nicholls.

The Committee's main responsibility is to advise the Board on remuneration policies and practices generally, and to make specific recommendations on remuneration packages for the Managing Director, and Non-Executive Directors, based on an annual review.

Remuneration packages are set at levels that are intended to attract and retain quality Directors and executives with the skills necessary to successfully manage Sigma's operations and achieve the Group's strategic objectives.

## Corporate Governance continued

Total remuneration for Non-Executive Directors is determined by shareholders. Non-Executive Directors' fees are determined by the Board within the maximum aggregate amount approved by shareholders. The total fees and details of remuneration paid to Non-Executive Directors for the last financial year are set out in the Directors' Report and in Note 23 to the financial statements. A proportion (presently 25%) of each Non-Executive Director's base remuneration is taken in the form of Sigma shares purchased on market in accordance with terms and conditions of the Non-Executive Directors' Share Plan. Details of directors' entitlements upon retirement and accrued retirement benefits are set out in the Directors' Report.

Evaluation of senior executive performance and remuneration is undertaken by the Managing Director on an annual basis.

### Risk Assessment and Management

The Board is committed to the identification, assessment and management of risk throughout Sigma's business activities.

The Board's committee structure forms an important part of the risk management process. Through the Risk Management and Audit Committee, the Board receives regular reports on specific business areas where there may exist significant business risk or exposure.

Sigma recognises that risk management is an intrinsic part of each manager's day-to-day activity. Each business division is individually responsible and financially accountable for ensuring that there are appropriate systems and structures in place for the protection of its people and assets.

The effectiveness and appropriateness of specific risk management systems are monitored and reviewed on a regular basis. For example, the internal audit plan is developed following risk analysis and assessment, and is focussed to confirm the operation of the internal controls and to assess the effectiveness and efficiency of the control environment.

### Health and Safety Management

The Board receives regular management reports that cover compliance and performance matters in respect of health and safety matters.

The Company is committed to the highest standards of occupational health and safety (OHS) in all its operations. Sigma:

- monitors its compliance with relevant legislation;
- encourages employees to actively participate in the management of OHS issues; and
- undertakes annual systems and performance reviews as part of its continuous improvement program.

### Ethical Standards

Sigma has adopted a Code of Conduct that applies to all Directors and employees.

The Code requires that at all times all Company personnel must act with the utmost integrity and objectivity and in compliance with all laws and Company policies.

### Share Trading

Sigma's share trading policy prohibits Directors or employees from trading in the Company's shares if they are in possession of non-public price sensitive information. It also prohibits short-term trading.

Trading is not permitted in the week immediately prior to the release of full or half-year results or prior to the Annual General Meeting. In addition, Directors must obtain prior approval from the Chairman for any trading, and staff must seek prior approval from the Managing Director or the Company Secretary.

Regular reminders of the company's share trading policy are issued to senior management.

### Continuous Disclosure

Sigma is committed to ensuring that all shareholders, the market and other stakeholders are provided with and have access to full and timely information about its activities. The Company has procedures in place to satisfy this commitment and its continuous disclosure obligations.

Regular briefings and presentations are given in all Australian States and selected overseas locations. Any new information that is presented will have been disclosed to the ASX and posted on the Company's website. All ASX releases are also posted on the Company website [www.sigmaco.com.au](http://www.sigmaco.com.au)

# Shareholder Information

## Annual General Meeting

ANZ Pavilion, Victorian Arts Centre, St Kilda Road, Melbourne 11:00am Wednesday 26 May 2004

### Shareholders' Calendar\* 2004

March	24	Ex-dividend date
	31	Record date for dividend entitlement
April	23	Final Dividend Payment
Sep	8	Half-year profit and interim dividend announcement
	13	Ex-dividend date
	20	Record date for interim dividend entitlement
Oct	18	Interim Dividend Payment

\*Dates may be subject to change

### Company Details

Sigma Company Limited  
(ABN 44 004 132 923)

Locked Bag 268, Croydon VIC 3136  
Telephone + 61 3 9839 2737  
Facsimile + 61 3 9839 2752

### Registered Office

1408 Centre Road Clayton VIC 3168

### Sigma Internet Site

Visit the Sigma website at  
[www.sigmaco.com.au](http://www.sigmaco.com.au)  
to keep up to date on Company  
announcements, share price movements  
and other investor information.

### Investor Relations

Gary Woodford  
96 Merrindale Drive, Croydon South VIC 3136  
Email [investor.relations@signet.com.au](mailto:investor.relations@signet.com.au)

### Share Registry Details

Computershare Investor Services Pty Ltd  
GPO Box 2975  
Melbourne VIC 8060 Australia  
Telephone 1300 850 505 (within Australia)  
+61 3 9415 4000 (International)  
Email [web.queries@computershare.com.au](mailto:web.queries@computershare.com.au)

### Recent Dividends

2004 Full Year Dividend	12.5c
2004 Interim Dividend	7.5c
2003 Full Year Dividend	8.0c
2003 Interim Dividend	5.5c
2002 Full Year Dividend	5.0c
2002 Interim Dividend	5.0c

### Summary of ASX/Media announcements

#### 17 March 2003

'Market Commitments Exceeded' –  
Full Year 2002/2003 Profit Presentation

'Sigma delivers strong result above market  
expectations for full year profit growth'

#### 15 April 2003

'Sigma to acquire Herron Pharmaceuticals'

#### 1 May 2003

'Sigma completed the acquisition  
of Herron'

#### 28 May 2003

AGM: Chairman's shareholder address,  
and the Chairman and Managing Director's  
presentations to shareholders.

#### 9 September 2003

'Sigma's half-year profit increases by  
49% putting the Group on track to achieve  
upgraded full year profit growth of 30%  
to 35%'

# Financial Report

Directors' Report	25
Statements of Financial Performance	29
Statements of Financial Position	30
Statements of Cash Flows	31
Directors' Declaration	61
Independent Audit Report to the Members	62
Shareholder Information	63
Group Directory	IBC

## Notes to the Financial Statements

1	Summary of Significant Accounting Policies	32
2	Segment Information	35
3	Revenue	36
4	Net Gains and Expenses	37
5	Net Borrowing Costs	38
6	Income Tax	38
7	Dividends	39
8	Earnings per Share	40
9	Receivables	41
10	Inventories	41
11	Investments	41
12	Property, Plant and Equipment	42
13	Intangible Assets	43
14	Deferred Tax Assets	43
15	Payables	43
16	Interest Bearing Liabilities	43
17	Tax Liabilities	44
18	Provisions	44
19	Contributed Equity	45
20	Reserves and Retained Profits	46
21	Expenditure Commitments	47
22	Remuneration of Auditors	47
23	Remuneration of Directors and Executives	48
24	Contingent Liabilities	50
25	Details of Controlled Entities	51
26	Superannuation and Share Ownership Plan	52
27	Standby Arrangements and Credit Facilities	53
28	Related Party Information	53
29	Notes to the Statements of Cash Flows	55
30	Deed of Cross Guarantee	57
31	Financial Instruments	59

# Directors' Report

Your Directors present their report on the consolidated entity consisting of Sigma Company Limited and the entities it controlled at the end of, or during, the year ended 31 January 2004.

## Directors

The following persons were Directors of Sigma Company Limited during the financial year and up to the date of this report (particulars of their qualifications, experience and special responsibilities are found on pages 18 to 19 of this Annual Report):

Dr J W Stocker

Mr E R de Alwis

Mr L C Butler

Professor W N Charman

Mr B Jamieson (appointed 28 May 2003)

Mr P A Jones (retired 28 May 2003)

Mr E F Murdoch (appointed 2 June 2003)

Ms L B Nicholls

Mr W J Scott

Mr H K Windle

*\* Mr P A Jones served as a Non-Executive Director from December 1991 until his retirement on 28 May 2003.*

## Principal Activities

The principal activities of the consolidated entity during the course of the financial year were the manufacture, marketing and wholesale distribution of pharmaceutical and allied products through the pharmacy and grocery channels and the provision of financial and other services to retail pharmacists.

There have been no significant changes in the principal activities of the consolidated entity during the financial year except as noted below in Significant Changes in State of Affairs.

## Review of Operations

The consolidated entity's earnings before interest and tax was \$83,600,000 compared with \$57,246,000 for 2003.

The consolidated entity's net profit attributable to members of the Company for the financial year was \$44,195,000 compared with \$30,963,000 for 2003

During the financial year, the consolidated entity acquired Herron Company Limited and its controlled entities.

Further details on this acquisition are included in the State of Affairs below and in Note 29 of the financial statements.

A review of the operations of the consolidated entity during the financial year is set out on pages 6 to 13 of this Annual Report.

## Significant Changes in State of Affairs

Effective 1 May 2003, the Group acquired 100% ownership of the Herron Group of companies for total consideration of \$100,198,000.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

## Significant Events Subsequent to the End of the Financial Year

No matter or circumstance has arisen since 31 January 2004 that has significantly affected, or may significantly affect:

- the consolidated entity's operations in future financial years, or
- the results of those operations in future years, or
- the consolidated entity's state of affairs in future financial years, with the exception of the Directors having declared final dividends for the financial year ending 31 January 2004, as set out in the Dividends section of this report.

## Likely Developments and Expected Results of Operations

Comments on expected results of certain of the operations are contained in the Annual Report from pages 6 to 13.

Further information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

## Environmental Regulation

The consolidated entity is required to observe legislation and codes of practice prescribed by the various authorities, including those prescribed by the Environmental Protection Agency.

Management ensures that licences and permits required by local, state and federal bodies are in place. The Company maintains contact with regulatory authorities to ensure its operations maintain compliance with applicable environmental requirements.

Various authorities and trading partners inspect the consolidated entity's facilities, including reviewing the environmental impact of the operations. The consolidated entity has not been prosecuted nor received any notification of intention to prosecute for any failure to comply with environmental regulations.

The consolidated entity is in the fourth year of reporting through the National Pollution Inventory for Medicinal and Pharmaceutical Product Manufacturing at the relevant manufacturing sites.

All relevant manufacturing sites have been registered, and comply with the relevant state legislation associated with cooling towers.

The Directors are not aware of any material issues affecting the consolidated entity or its compliance with the relevant environmental agencies or regulatory authorities.

## Dividends

The following dividends have been paid or recommended by the Company since the end of the previous financial year:

### Ordinary shares

A final ordinary dividend of eight cents per share amounting to \$11,251,521 fully franked at 30% in respect of the year ended 31 January 2003 was paid on 29 May 2003.

An interim ordinary dividend of seven and a half cents per share amounting to \$10,615,007 fully franked at 30% in respect of the half-year ended 31 July 2003 was paid on 10 October 2003.

A final ordinary dividend of twelve and a half cents per share recommended by Directors of the company amounting to \$17,694,389 fully franked at 30% in respect of the year ended 31 January 2004. This final dividend was not declared until 22 March 2004 and is payable on 23 April 2004 and accordingly no provision for this dividend has been recognised in the financial statements for the year ended 31 January 2004.

### Investor (preference) shares

A final dividend of eight cents per share amounting to \$14,549 fully franked at 30% in respect of the year ended 31 January 2003 was paid on 29 May 2003.

An interim dividend of seven and a half cents per share amounting to \$12,528 fully franked at 30% in respect of the half-year ended 31 July 2003 was paid on 10 October 2003.

## Directors' Report continued

A final dividend of twelve and a half cents per share recommended by Directors of the company amounting to \$18,586 fully franked at 30% in respect of the year ended 31 January 2004. This final dividend was not declared until 22 March 2004 and is payable on 23 April 2004 and accordingly no provision for this dividend has been recognised in the financial statements for the year ended 31 January 2004.

### 8.5% preference shares

A final dividend of four and a quarter cents per share amounting to \$1,560 fully franked at 30% in respect of the year ended 31 January 2003 was paid on 29 May 2003.

An interim dividend of four and a quarter cents per share amounting to \$1,560 fully franked at 30% in respect of the half-year ended 31 July 2003 was paid on 10 October 2003.

A final dividend of four and a quarter cents per share recommended by Directors of the company amounting to \$1,418 fully franked at 30% in respect of the year ended 31 January 2004. This final dividend was not declared until 22 March 2004 and is payable on 23 April 2004 and accordingly no provision for this dividend has been recognised in the financial statements for the year ended 31 January 2004.

### Options

Details of the options on issue at the end of the financial year and at the date of signing this Report are contained in Note 19 of the financial statements.

Details of the options on issue to the Executive Director and the senior executive of the Company at the end of the financial year are as follows:

#### Name of Director or Executive and options held

E R de Alwis	M R Hooper	Exercise price	Grant date	Expiry date
100,000		\$2.17	24 May 2001	23 May 2005
	45,090	\$1.97	2 May 2001	1 May 2005
125,000	50,000	\$3.84	29 January 2003	8 October 2006
125,000	48,000	\$5.22	23 June 2003	23 June 2007
<b>350,000</b>	<b>143,090</b>			

The above share options were acquired under the Sigma Senior Executive Option Plan.

### Directors' Interests in Shares and Options of the Company

Details of the Directors' interests in shares and options of the Company at the date of this report are as follows:

	Number of fully paid ordinary shares	Number of options over fully paid ordinary shares
J W Stocker	46,054	–
E R de Alwis	59,829	350,000
L C Butler	1,290,516	–
W N Charman	14,172	–
B Jamieson	1,798	–
E F Murdoch	2,020,984	–
L B Nicholls	28,580	–
W J Scott	1,018,503	–
H K Windle	6,559	–

## Board and Committee Meeting Attendance

The attendance of Directors at meetings of the Board and its Committees during the year were:

Director	Board of Directors' Meetings		Risk Management and Audit Committee Meetings		Nomination and Corporate Governance Committee Meetings		Remuneration Committee Meetings	
	No. Held	No. Attended	No. Held	No. Attended	No. Held	No. Attended	No. Held	No. Attended
J W Stocker	15	15	–	–	1	1	3	3
E R de Alwis	15	15	–	–	–	–	–	–
L C Butler	15	15	1	1	1	1	–	–
W N Charman	15	13	4	4	–	–	–	–
B Jamieson*	8	8	3	3	–	–	–	–
P A Jones**	7	7	–	–	–	–	1	1
E F Murdoch***	8	7	–	–	–	–	1	1
L B Nicholls	15	15	4	4	1	1	3	3
W J Scott	15	14	–	–	–	–	–	–
H K Windle	15	13	4	4	–	–	–	–

\* Appointed 28 May 2003

\*\* Retired 28 May 2003

\*\*\* Appointed 2 June 2003

The number of meetings held refers to the meetings held during the Director's membership of the relevant Committee.

### Directors' and Officers' Indemnities and Insurance

As provided under the Constitution, the Company indemnifies Directors and senior officers for any loss arising from any claim by reason of any wrongful act committed by them in their capacity as Director or officer. During the year, the Company has paid a premium in respect of a contract insuring its Directors and senior employees against a liability of this nature. In accordance with normal commercial practices, under the terms of the insurance contracts, the nature of the liabilities insured against and the amount of premiums paid are confidential. Part of the insurance costs are personally borne by the Directors and senior officers.

### Directors' and Senior Executives' Emoluments

#### (a) Remuneration policy

The Board's Remuneration Committee is responsible for reviewing the remuneration policies and practices of the Company, including the compensation arrangements for the CEO and Managing Director, Non-Executive Directors and senior executives.

#### Non-Executive Director Remuneration

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by the shareholders at each Annual General Meeting. Recommendations based on comparative independent market data are made to the Annual General Meeting. Non-Executive Directors also receive (in accordance with the Constitution):

- superannuation contributions
- payments for performing extra services (including Committee fees), and
- retirement benefits for eligible Directors in accordance with a shareholder approved scheme.

Twenty-five percent of the base remuneration is paid in the form of ordinary shares in the Company, in accordance with the Non-Executive Directors Share Plan approved at the May 2000 Annual General Meeting.

As approved by shareholders at the Annual General Meeting on 28 May 2003, retirement benefits for Non-Executive Directors were 'grandfathered'. Accordingly, Non-Executive Directors in office at that date retained their right to these benefits. Directors appointed on or after 28 May 2003 are not entitled to retirement benefits. Consequently a two-tiered remuneration structure exists with all Non-Executive Directors appointed on or after 28 May 2003 receiving a higher base fee than Non-Executive Directors in office prior to 28 May 2003. The total retirement benefit accrued in respect of each Non-Executive Director entitled to receive such benefits are outlined in Note (b) – Details of amounts paid on page 28 of this Report.

The Board undertakes regular reviews of its performance and the performance of Board Committees.

#### Executive Director and Senior Executive Remuneration

The Remuneration Committee has responsibility for reviewing the remuneration arrangements of the CEO and Managing Director and senior executives. In considering the composition and structure of the CEO and Managing Director and senior executive emoluments, the Remuneration Committee is primarily concerned with providing a competitive remuneration package which will attract and retain top calibre executives to support the growth of shareholder value. The three principal elements of executive emoluments are total fixed remuneration, short-term incentives and long-term incentives. In determining the appropriate mix of these elements in executive's emoluments, consideration is given to appropriate advice from external consultants on local market practices and market comparisons for similar roles, the level of responsibility, performance and potential of the executive, the performance of Divisions within the Company and the performance of the Company as a whole.

## Directors' Report continued

### (b) Details of amounts paid

#### Non-Executive Directors

The following table sets out the remuneration provided to Non-Executive Directors of the Company for the financial year:

	Base fee	Committee fee	Superannuation	Retirement benefits paid <sup>(1)</sup>	Total	Retirement benefits accrued <sup>(2)</sup>
J W Stocker	\$150,000	–	\$13,500	–	\$163,500	\$395,077
L C Butler	\$58,667	\$5,483	\$5,280	–	\$69,430	\$184,073
W N Charman	\$58,667	\$7,000	\$5,280	–	\$70,947	\$161,999
B Jamieson	\$51,272	\$4,747	\$4,615	–	\$60,634	–
P A Jones	\$25,996	\$1,500	\$2,400	\$210,520	\$240,416	–
E F Murdoch	\$50,400	\$750	\$4,536	–	\$55,686	–
L B Nicholls	\$58,667	\$19,583	\$5,280	–	\$83,530	\$184,482
W J Scott	\$58,667	\$1,500	\$5,280	–	\$65,447	\$145,173
H K Windle	\$58,667	\$7,000	\$5,280	–	\$70,947	\$107,273

<sup>(1)</sup> A retirement benefit of \$210,520 was paid to Mr P A Jones in 2003 in connection with his retirement as a Director of Sigma Company Limited.

<sup>(2)</sup> Represents total retirement benefits accrued as at 31 January 2004. For all eligible Non-Executive Directors an accrual is recognised for retirement benefits after a Director has served in that capacity for at least five years, with a pro-rata entitlement accrual commencing after three years service.

#### Senior Executives

The following table sets out the remuneration provided to the Executive Director and the most highly remunerated executives of the Company and the consolidated entity for the financial year:

	Salary <sup>(1)</sup>	Bonus <sup>(2)</sup>	Super-annuation	Options value <sup>(3)</sup>	Total
Elmo de Alwis CEO & Managing Director	\$571,113	\$174,000	\$23,547	\$124,583	\$893,243
Mark Hooper Chief Financial Officer	\$309,267	\$66,000	\$23,284	\$50,709	\$449,260
Jackie Toh General Manager – Group IT & Management Systems	\$216,841	\$46,457	\$19,483	–	\$282,781
Grant McKirdy General Manager – Healthcare Services	\$215,212	\$35,234	\$28,490	–	\$278,936
Dr Richard Treagus General Manager – Sales & Marketing	\$243,075	–	\$15,256	–	\$258,331
Chris Wettasinghe General Manager – Merchandise & Inventory	\$210,633	–	\$10,074	–	\$220,707
Brendan Redmond General Manager – Retail	\$197,019	–	\$21,891	–	\$218,910

<sup>(1)</sup> Salary includes other benefits including provision of motor vehicle.

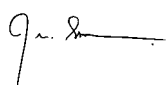
<sup>(2)</sup> Bonus amounts relate to performance for the 2002/2003 financial year.

<sup>(3)</sup> Options issued to executives have been valued at the date of issue using the Black-Scholes pricing model. In accordance with guidelines issued by the Australian Securities and Investments Commission (ASIC) on 30 June 2003, the value of options granted is required to be disclosed as remuneration over the option vesting period from the date of grant. Accordingly, the value of remuneration included for options represents the value of all outstanding options (determined at the date of grant) equally apportioned over the option vesting period. Options are issued at market price and are not exercisable until specific performance hurdles are met by the Company. Generally these hurdles require the performance return of Sigma shares to exceed the performance return of a specified composite index for a continuous period of 15 working days during the period of 12 months commencing on the third anniversary date from the issue of the options.

#### Rounding

The Company is of the kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the Directors' Report and the financial report. Amounts in the Directors' Report and the financial report have been rounded off to the nearest thousand dollars in accordance with the Class Order, unless specifically stated to be otherwise.

This report is made in accordance with a resolution of the Board of Directors, and is signed for and on behalf of the Directors by:



John W Stocker AO  
Chairman

Melbourne,  
22 March 2004



Elmo de Alwis  
CEO & Managing Director

# Statements of Financial Performance

For the year ended 31 January 2004

	Notes	Consolidated		Parent entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Sales revenue	3	<b>1,908,607</b>	1,733,403	<b>934,044</b>	888,416
Cost of sales of goods		(1,688,766)	(1,558,838)	(873,309)	(825,567)
Gross profit		219,841	174,565	60,735	62,849
Other revenue	3	31,267	30,272	39,584	22,672
Warehousing and delivery		(49,674)	(46,722)	(25,421)	(24,749)
Marketing and sales		(68,641)	(49,036)	(9,224)	(8,090)
Administration and other expenses		(48,703)	(51,316)	(20,098)	(25,012)
Borrowing costs	5	(16,793)	(10,723)	(12,504)	(8,164)
<b>Profit from ordinary activities before income tax</b>		<b>67,297</b>	47,040	<b>33,072</b>	19,506
Income tax expense relating to ordinary activities	6	23,102	16,077	2,478	2,543
<b>Net profit attributable to Sigma Company Limited shareholders</b>	20	<b>44,195</b>	30,963	<b>30,594</b>	16,963
Net exchange differences on translation of financial report of foreign controlled entity	20	229	(236)	–	–
Net increase in asset revaluation reserve	20	722	–	134,248	–
Total revenues, expenses and valuation adjustments attributable to Sigma Company Limited shareholders recognised directly in equity		951	(236)	134,248	–
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>45,146</b>	30,727	<b>164,842</b>	16,963
				Cents	Cents
<b>Earnings Per Share</b>					
Basic earnings per share	8	<b>31.4</b>	22.4		
Diluted earnings per share	8	<b>31.3</b>	22.3		

The above Statements of Financial Performance should be read in conjunction with the accompanying notes.

# Statements of Financial Position

As at 31 January 2004

	Notes	Consolidated		Parent entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Current Assets</b>					
Cash assets		12,724	13,875	13	2,450
Receivables	9	221,835	200,923	118,388	114,238
Inventories	10	179,297	181,369	67,703	76,520
Prepayments		4,156	2,435	2,059	611
<b>Total current assets</b>		<b>418,012</b>	<b>398,602</b>	<b>188,163</b>	<b>193,819</b>
<b>Non-Current Assets</b>					
Receivables	9	10,376	8,460	357,095	191,055
Investments	11	22	22	454,738	322,188
Property, plant and equipment	12	120,189	94,370	46,363	43,683
Intangible assets	13	221,867	118,190	–	–
Deferred tax assets	14	11,539	11,365	4,490	4,915
<b>Total non-current assets</b>		<b>363,993</b>	<b>232,407</b>	<b>862,686</b>	<b>561,841</b>
<b>Total Assets</b>		<b>782,005</b>	<b>631,009</b>	<b>1,050,849</b>	<b>755,660</b>
<b>Current Liabilities</b>					
Payables	15	244,925	232,579	117,483	119,588
Interest bearing liabilities	16	95,111	16,464	141,533	18,198
Current tax liabilities	17	12,942	10,369	–	3,598
Provisions	18	10,908	20,605	5,726	16,425
<b>Total current liabilities</b>		<b>363,886</b>	<b>280,017</b>	<b>264,742</b>	<b>157,809</b>
<b>Non-Current Liabilities</b>					
Payables	15	11,715	14,419	–	–
Interest bearing liabilities	16	73,475	53,714	96,252	76,110
Deferred tax liabilities	17	3,349	3,584	–	89
Provisions	18	4,982	3,112	668	596
<b>Total non-current liabilities</b>		<b>93,521</b>	<b>74,829</b>	<b>96,920</b>	<b>76,795</b>
<b>Total Liabilities</b>		<b>457,407</b>	<b>354,846</b>	<b>361,662</b>	<b>234,604</b>
<b>Net Assets</b>		<b>324,598</b>	<b>276,163</b>	<b>689,187</b>	<b>521,056</b>
<b>Equity</b>					
Contributed equity	19	235,684	221,605	235,684	221,605
Reserves	20	12,639	11,688	413,500	279,252
Retained profits	20	76,275	42,870	40,003	20,199
<b>Total Equity</b>		<b>324,598</b>	<b>276,163</b>	<b>689,187</b>	<b>521,056</b>

The above Statements of Financial Position should be read in conjunction with the accompanying notes.

# Statements of Cash Flows

For the year ended 31 January 2004

	Notes	Consolidated		Parent entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Cash flows from operating activities</b>					
Receipts from customers (GST inclusive)		2,024,679	1,935,905	1,024,620	986,934
Payments to suppliers and employees (GST inclusive)		(1,912,368)	(1,844,740)	(995,862)	(956,929)
		112,311	91,165	28,758	30,005
Interest received		490	517	7,714	3,742
Borrowing costs		(16,793)	(10,723)	(12,504)	(8,164)
Income taxes paid		(20,978)	(13,254)	(6,936)	(4,183)
<b>Net cash flows from operating activities</b>	29(b)	<b>75,030</b>	<b>67,705</b>	<b>17,032</b>	<b>21,400</b>
<b>Cash flows from investing activities</b>					
Payments for property, plant and equipment		(8,851)	(6,663)	(2,940)	(740)
Payments for controlled entities net of cash acquired	29(c)	(89,258)	–	–	–
Payments for intangibles		(12,174)	(38,181)	–	–
Proceeds from sale of property, plant and equipment		185	165	18	44
<b>Net cash flows from investing activities</b>		<b>(110,098)</b>	<b>(44,679)</b>	<b>(2,922)</b>	<b>(696)</b>
<b>Cash flows from financing activities</b>					
Net proceeds/(repayments) of borrowings		56,719	(3,922)	89,000	(4,000)
Net (repayments)/proceeds of loans to related entities		–	–	(137,683)	(22,977)
Principal repayments under finance leases		(889)	(134)	–	(106)
Dividends paid	7	(21,899)	(14,504)	(21,899)	(14,504)
<b>Net cash flows from financing activities</b>		<b>33,931</b>	<b>(18,560)</b>	<b>(70,582)</b>	<b>(41,587)</b>
Net (decrease)/increase in cash held		(1,137)	4,466	(56,472)	(20,883)
Cash at the beginning of the financial year		13,875	9,380	2,450	23,333
Effects of exchange rate changes on cash		(14)	29	–	–
<b>Cash at the end of the financial year</b>	29(a)	<b>12,724</b>	<b>13,875</b>	<b>(54,022)</b>	<b>2,450</b>

The above Statements of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

For the year ended 31 January 2004

## 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. The accounting policies adopted in preparing the financial report have been consistently applied by each entity in the consolidated entity.

The report is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at fair value. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year. The report is prepared on an accruals basis.

Comparative information is reclassified where appropriate to enhance comparability.

### Changes in Accounting Policies

#### Employee Benefits

The consolidated entity has applied the revised AASB 1028 Employee Benefits for the first time from 1 February 2003. The liability for wages, salaries and annual leave is now calculated using the remuneration rates that each entity expects to pay when the liability is settled. Previously, the liability was calculated based on employees' remuneration rates at the end of the financial year. The effect on the financial statements from this change in accounting policy was not material.

#### Provisions, contingent liabilities and contingent assets

The consolidated entity has applied AASB 1044 Provisions, Contingent Liabilities and Contingent Assets for the first time from 1 February 2003. Dividends are now recognised at the time they are declared, determined or publicly recommended. Previously, final dividends were recognised in the financial year to which they related, even though the dividends were declared after the end of that financial year.

An adjustment of \$11,109,000 was made against the consolidated and parent entity's retained profits and provision for dividends at the beginning of the financial year to reverse the amount of the final dividend provided at 31 January 2003. The restatements of consolidated and parent entity retained profits, provisions and total dividends provided for or paid during the year set out below show the information that would have been disclosed had the new accounting policy always been applied.

### (a) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of the Company, Sigma Company Limited, being the parent entity, and its controlled entities, together referred to in this financial report as the consolidated entity. Where an entity either began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased. The effects of all transactions between entities in the consolidated entity are eliminated in full.

### (b) Earnings Per Share

#### (i) Basic

Basic earnings per share is determined by dividing the net profit after income tax attributable to shareholders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

#### (ii) Diluted

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

### (c) Foreign Currency

#### (i) Transactions

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated at exchange rates current at that date. Exchange gains and losses are brought to account in determining the profit or loss for the period.

#### (ii) Translation of controlled foreign entities

Foreign controlled entities have been assessed as self-sustaining. Assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while revenues and expenses are translated at the average of rates ruling during the year. Exchange rate differences are taken to the foreign currency translation reserve.

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Restatement of retained profits</b>				
Previously reported retained profits at the end of the previous financial year (Note 20)	42,870	30,613	20,199	21,942
Change in accounting policy for providing for dividends	11,109	6,907	11,109	6,907
Restated retained profits at the beginning of the financial year	53,979	37,520	31,308	28,849
Net profit attributable to shareholders of Sigma Company Limited	44,195	30,963	30,594	16,963
Total available for appropriation	98,174	68,483	61,902	45,812
Dividends paid (Note 7)	(21,899)	(14,504)	(21,899)	(14,504)
<b>Restated retained profits at the end of the financial year</b>	<b>76,275</b>	<b>53,979</b>	<b>40,003</b>	<b>31,308</b>

## 1. Summary of Significant Accounting Policies continued

### (d) Assets

#### (i) Acquisition of assets

The purchase/cost method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued, or liabilities undertaken at the date of acquisition, plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

The fair value of cash consideration with deferred settlement terms is determined by discounting any amounts payable in the future to their present value as at the date of acquisition. Present values are calculated using rates applicable to similar borrowing arrangements of the consolidated entity.

Assets contributed for nil value are recognised at market value on the basis of existing use as at the date of donation. Market values are determined by independent valuers.

#### (ii) Measurement of non-current assets

##### Land and Buildings

Subsequent to initial recognition as assets, land and buildings are measured at fair value. Fair value is assessed on existing use.

Valuations are made with sufficient regularity by Directors to ensure that the carrying amount of each piece of land and each building does not differ materially from its fair value at the reporting date, supplemented by independent assessment at least every three years.

Fair value increments are credited directly to the asset revaluation reserve, unless they are reversing a previous decrement charged to the statement of financial performance, in which case the increment is credited to the statement of financial performance.

Fair value decrements are recognised as expenses in the statement of financial performance, unless they are reversing revaluation increments previously credited to and still included in the balance of the asset revaluation reserve in which case they are debited directly to the asset revaluation reserve.

Potential capital gains tax is not taken into account in determining fair value amounts unless it is expected that a liability for such tax will crystallise.

Fair value adjustments do not result in the carrying value of land or buildings exceeding their recoverable amount.

Revaluation increments and decrements are offset against one another within a class of non-current assets, but not otherwise.

##### Investments

Investments in controlled and other entities are measured at fair value in accordance with the same principles adopted for measurement of land and buildings above. Fair value represents the estimated discounted cash flows to be generated from each investment.

##### Other non-current assets

The cost basis is used to value all non-current assets except investments and land and buildings.

#### (iii) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets.

The expected net cash flows included in determining recoverable amounts of non-current assets are discounted to their present values, except for overseas based assets.

#### (iv) Intangibles

The unamortised balance of intangibles is reviewed semi-annually and any material diminution in value is immediately charged to the statement of financial performance.

##### Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of the net assets of the business or entity acquired, including any liability for restructuring costs. A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof, when there is a demonstrable commitment to a restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

When settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value at the date of acquisition. The discount rate used is the rate at which a similar borrowing could be obtained under comparable terms and conditions.

Goodwill is amortised on a straight line basis over the period during which benefits are expected to be received, being no greater than twenty years.

##### Brand names

The Amcal, Guardian and Chemist's Own brand names are being amortised on a straight line basis over their expected useful life of sixty years.

All other brand names are amortised over the lesser of their expected useful life or twenty years on a straight line basis.

##### Trademarks

Trademarks acquired with the acquisition of Herron are being amortised on a straight line basis over their expected useful life of between twenty and sixty years.

All other trademarks are amortised over the lesser of their expected useful life or twenty years on a straight line basis.

##### Deferred expenditure

Deferred expenditure is amortised on a straight line basis over no more than five years.

#### (v) Research and Development

Research and development costs are charged against the statement of financial performance as incurred.

#### (vi) Depreciation of property, plant and equipment

Property, plant and equipment is depreciated over the estimated useful lives of the assets using the straight line method. Annual reassessments are made for major items.

The expected useful lives are as follows:

Buildings	40 years
Plant and Equipment	5–20 years

# Notes to the Financial Statements continued

For the year ended 31 January 2004

## 1. Summary of Significant Accounting Policies continued

Where items of plant and equipment have major separately identifiable components which are subject to regular replacement, those components are assigned useful lives distinct from the item of plant and equipment to which they relate.

### (vii) Receivables

Trade debtors are generally settled within 60 days and are carried at amounts due. A provision is raised for any doubtful debts based on a review of outstanding amounts at balance date. Bad debts are written off during the period in which they are identified.

### (viii) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost is determined on a first-in first-out basis. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure. Overhead costs are allocated on the basis of normal operating capacity.

### (ix) Leases

Assets of the consolidated entity which are subject to finance leases are capitalised. The initial amount of the lease asset and corresponding lease liability is the present value of minimum lease payments. Lease assets are amortised on a straight line basis over the life of the relevant lease, or where it is likely the consolidated entity will obtain ownership of an asset, the life of the asset. Lease assets held at the reporting date are being amortised over periods not exceeding five years.

Operating leases are not capitalised. Rental payments are charged to the statement of financial performance in equal installments over the terms of the leases.

### (e) Liabilities

#### (i) Trade payables

Liabilities are recognised for amounts to be paid in the future for goods or services provided to the consolidated entity prior to the end of the reporting period. Trade accounts payable are normally settled within 60 days.

#### (ii) Interest bearing liabilities

Bank and other loans are carried at their principal amount, subject to set-off arrangements. Interest is charged to the statement of financial performance as it accrues.

#### (iii) Leases

Lease liabilities are reduced by repayments of principal. The interest components of lease payments are charged against the statement of financial performance.

#### (iv) Employee benefits

Liabilities for employee benefits in the form of wages, salaries, annual leave, vesting sick leave and other current employee benefits are accrued at nominal amounts based on the amounts expected to be paid when the liabilities are settled, including on costs.

The liability for non-current long service leave is recognised in the provision for employee benefits and is accrued in respect of all employees, at the present values of future amounts expected to be paid, based on the projected weighted average increase in wage and salary rates. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Contributions to superannuation plans are charged against the statement of financial performance as the contributions are paid or become payable.

### (f) Provisions

A provision is recognised when a legal, equitable or constructive obligation exists as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

#### (i) Dividends

A provision for dividends is recognised in the reporting period in which the dividends are declared.

#### (ii) Rationalisation and restructuring

A provision for rationalisation or restructuring is recognised for the expected costs associated with the restructuring and is based on the best estimate of the direct expenditures to be incurred which are both directly and necessarily caused by the restructuring and not associated with the ongoing activities of the economic entity.

#### (iii) Directors' retirement

A provision for directors' retirement benefits is recognised in respect of all eligible non-executive directors who have served in that capacity for at least five years with a pro-rata entitlement accrual commencing after three years service.

### (g) Income Tax

Tax effect accounting principles 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.

### (h) Revenue

Sales revenue represents revenue earned from the sale of the consolidated entity's products and services, net of returns, discounts, allowances, duties and taxes paid. Sales revenue is recognised when the goods are provided, or when the fee in respect of the services is receivable.

Income from the rendering of services is recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated.

Dividend income is brought to account as revenue when declared. All other revenue is brought to account as it accrues.

Other revenue includes commissions and fees earned, marketing services and promotional income, membership income from banner groups, sub-lease rentals and interest income on short-term investments.

### (i) Borrowing Costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings
- interest payable on Sigma Rewards funding
- finance lease charges
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

### (j) Cash Flows

For purposes of the statement of cash flows, cash includes:

- deposits at call with financial institutions
- other highly liquid investments with short periods to maturity
- outstanding bank overdrafts

All of the above are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

## 1. Summary of Significant Accounting Policies continued

### (k) Nature and Purpose of Reserves

#### (i) Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 1(d) (ii).

#### (ii) Foreign currency translation reserve

Exchange differences arising on the translation of foreign controlled entities, as described in Note 1(c) (ii) above, are taken to the foreign currency translation reserve.

### (l) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST, except as stated below or if 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 as part of an item in 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 a current asset or current liability in the Statements of Financial Position.

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

## 2. Segment Information

### Business segments

The consolidated entity is organised into the Pharmaceutical and Healthcare Divisions by service type.

#### Detail of segments

Pharmaceutical includes contract manufacture for Australian and overseas pharmaceutical companies and the manufacture, sale and marketing of Sigma, Herron and other allied products. The results of the Herron Group have been included within the Pharmaceutical segment from 1 May 2003, the effective date of its acquisition.

Healthcare includes wholesale and distribution to pharmacy of prescription and over the counter products, management of banner groups, and the development and provision of private label products.

Corporate includes corporate head office costs and all items associated with the New Zealand operations.

### Geographical segments

The consolidated entity operates predominantly as a manufacturer, distributor and marketer of pharmaceutical and allied products through the pharmacy and grocery channels within Australia.

2004 Business segments	Pharmaceutical \$'000	Healthcare \$'000	Corporate & Unallocated \$'000	Intersegment eliminations \$'000	Consolidated \$'000
Segment assets	357,860	386,543	29,557	(4,679)	769,281
Cash assets	–	–	12,724	–	12,724
Total assets per statement of financial position					782,005
Segment liabilities	60,561	206,858	21,402	–	288,821
Interest bearing liabilities	–	–	168,586	–	168,586
Total liabilities per statement of financial position					457,407
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	131,289	15,753	–	–	147,042
Depreciation and amortisation expense	12,518	4,641	521	–	17,680
Other non-cash expenses	545	1,817	(109)	–	2,253
Sales to external customers	261,121	1,647,486	–	–	1,908,607
Intersegment sales	39,766	–	–	(39,766)	–
Total sales revenue	300,887	1,647,486	–	(39,766)	1,908,607
Other non-interest segment revenue	4,779	25,226	772	–	30,777
Total revenue before interest	305,666	1,672,712	772	(39,766)	1,939,384
Profit from ordinary activities before interest and income tax	53,258	36,275	(5,933)	–	83,600
Net interest expense	(7,166)	(9,586)	449	–	(16,303)
Profit from ordinary activities before income tax	46,092	26,689	(5,484)	–	67,297
Income tax expense					(23,102)
<b>Profit from ordinary activities after income tax</b>					<b>44,195</b>

Intersegment transfers are on an arm's length basis.

Following the change in accounting policy, the 2004 segment liabilities for Corporate and Unallocated exclude a provision for dividends. The 2003 segment liabilities for Corporate and Unallocated include a provision for dividends of \$11,109,000.

# Notes to the Financial Statements continued

For the year ended 31 January 2004

## 2. Segment Information continued

2003 Business segments	Pharmaceutical \$'000	Healthcare \$'000	Corporate & Unallocated \$'000	Intersegment eliminations \$'000	Consolidated \$'000
Segment assets	214,178	382,275	25,413	(4,732)	617,134
Cash assets	–	–	13,875	–	13,875
Total assets per statement of financial position					631,009
Segment liabilities	47,974	206,217	30,477	–	284,668
Interest bearing liabilities	–	–	70,178	–	70,178
Total liabilities per statement of financial position					354,846
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	43,145	1,699	–	–	44,844
Depreciation and amortisation expense	9,788	6,544	646	–	16,978
Other non-cash expenses	314	8,735	(34)	–	9,015
Sales to external customers	211,634	1,521,769	–	–	1,733,403
Intersegment sales	33,028	–	–	(33,028)	–
Total sales revenue	244,662	1,521,769	–	(33,028)	1,733,403
Other non-interest segment revenue	2,365	26,426	964	–	29,755
Total revenue before interest	247,027	1,548,195	964	(33,028)	1,763,158
Profit from ordinary activities before interest and income tax	35,344	29,753	(7,851)	–	57,246
Net interest expense	(2,573)	(8,377)	744	–	(10,206)
Profit from ordinary activities before income tax	32,771	21,376	(7,107)	–	47,040
Income tax expense					(16,077)
<b>Profit from ordinary activities after income tax</b>					<b>30,963</b>

Intersegment transfers are on an arm's length basis.

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>3. Revenue</b>				
<b>Revenue from operating activities</b>				
Sale of goods	<b>1,908,607</b>	1,733,403	<b>934,044</b>	888,416
Commissions and fees	1,731	1,903	697	932
Membership income	11,447	11,487	–	–
Marketing services and promotional income	8,130	11,257	2,770	3,073
	21,308	24,647	3,467	4,005
<b>Total revenue from operating activities</b>	<b>1,929,915</b>	<b>1,758,050</b>	<b>937,511</b>	<b>892,421</b>

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>3. Revenue continued</b>				
<b>Revenue from outside the operating activities</b>				
Dividends received/receivable				
– Controlled entities	–	–	25,000	12,000
Interest received/receivable				
– Controlled entities	–	–	7,414	3,324
– Other persons	490	517	300	418
Sub-lease rentals	996	1,037	129	128
Other revenues	8,288	3,906	3,256	2,753
Proceeds on sale of property, plant and equipment	185	165	18	44
	9,959	5,625	36,117	18,667
<b>Total revenue from ordinary activities</b>	<b>1,939,874</b>	<b>1,763,675</b>	<b>973,628</b>	<b>911,088</b>

#### 4. Net Gains and Expenses

Profit from ordinary activities before interest and income tax includes the following specific net gains and expenses:

##### Amortisation

Brand names	1,500	1,278	–	–
Goodwill	2,486	1,024	–	–
Trademarks	4,922	4,952	–	–
Deferred expenditure	–	2,612	–	2,112
<b>Total amortisation</b>	<b>8,908</b>	<b>9,866</b>	<b>–</b>	<b>2,112</b>

##### Depreciation

Land and buildings	993	660	682	660
Plant and equipment	7,779	6,452	1,271	1,308
<b>Total depreciation</b>	<b>8,772</b>	<b>7,112</b>	<b>1,953</b>	<b>1,968</b>

##### Provisions

Employee entitlements	3,750	3,534	2,232	2,253
Directors' retirement provision	176	542	176	542
Restructuring provisions	1,011	290	881	290
<b>Total provisions</b>	<b>4,937</b>	<b>4,366</b>	<b>3,289</b>	<b>3,085</b>

##### Charges against assets

Write down of inventory to net realisable value	4,369	5,542	1,528	2,028
(Profits)/losses from the sale of property, plant and equipment	(14)	402	(13)	36
Bad and doubtful debts – trade debtors	(2,115)	4,142	(1,788)	3,192
<b>Total other charges against assets</b>	<b>2,240</b>	<b>10,086</b>	<b>(273)</b>	<b>5,256</b>
Rental expenses relating to operating leases	10,989	9,246	3,315	2,557
Research and development expenditure	1,226	762	–	–

# Notes to the Financial Statements continued

For the year ended 31 January 2004

	Notes	Consolidated		Parent entity	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>5. Net Borrowing Costs</b>					
<b>Interest received/receivable</b>					
Controlled entities	3	–	–	7,414	3,324
Other persons	3	490	517	300	418
<b>Total interest revenue</b>		<b>490</b>	<b>517</b>	<b>7,714</b>	<b>3,742</b>
<b>Borrowing costs</b>					
Finance charges on finance leases		1,063	–	–	–
Interest paid on Sigma Rewards funding		5,438	4,428	3,442	2,788
Interest paid/payable – other persons		10,292	6,295	9,062	5,376
<b>Total borrowing costs</b>		<b>16,793</b>	<b>10,723</b>	<b>12,504</b>	<b>8,164</b>
<b>Net borrowing costs</b>		<b>16,303</b>	<b>10,206</b>	<b>4,790</b>	<b>4,422</b>

## 6. Income Tax

The income tax expense for the financial year differs from the amount calculated on the profit. The differences are reconciled as follows:

Profit from ordinary activities before income tax expense		67,297	47,040	33,072	19,506
Income tax calculated at 30%		20,189	14,112	9,922	5,852
Tax effect of permanent differences:					
– Goodwill and intangibles amortisation		2,167	1,212	–	–
– Non deductible depreciation		384	358	–	–
– Other permanent differences		730	(294)	21	56
– Tax rebate on dividend from controlled entity		–	–	(7,500)	(3,600)
(Over)/under provision in prior years		(368)	60	35	235
Write-off of previously recognised tax losses		–	629	–	–
<b>Income tax expense</b>		<b>23,102</b>	<b>16,077</b>	<b>2,478</b>	<b>2,543</b>
Potential future income tax benefit at the end of the financial year in respect of tax losses not brought to account		631	678	–	–

This benefit for tax losses will only be obtained if:

- (1) 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 to be realised, or
- (2) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- (3) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for tax losses.

In accordance with UIG 39 'Effect of Proposed Tax Consolidation Legislation on Deferred Tax Balances', the consolidated entity has commenced a preliminary assessment of the impact of the tax consolidation legislation on income tax expense and deferred tax assets and liabilities. The final assessment will be completed during the forthcoming financial year.

## 7. Dividends

Dividends recognised in the current year by Sigma Company Limited are:

Type	Cents per share	Total amount \$'000	Date of payment	Tax rate for franking credit %	Percentage franked %
<b>2004</b>					
Interim – Ordinary shares	7.5	10,615	10 October 2003	30	100
Interim – Investor shares	7.5	13	10 October 2003	30	100
Interim – 8.5% Preference shares	4.25	2	10 October 2003	30	100
2003 final – Ordinary shares	8.0	11,252	29 May 2003	30	100
2003 final – Investor shares	8.0	15	29 May 2003	30	100
2003 final – 8.5% Preference shares	4.25	2	29 May 2003	30	100
<b>Total amount</b>		<b>21,899</b>			
<b>2003</b>					
Interim – Ordinary shares	5.5	7,584	27 November 2002	30	100
Interim – Investor shares	5.5	11	27 November 2002	30	100
Interim – 8.5% Preference shares	4.25	2	27 November 2002	30	100
2002 final – Ordinary shares	5.0	6,895	23 May 2002	30	100
2002 final – Investor shares	5.0	10	23 May 2002	30	100
2002 final – 8.5% Preference shares	4.25	2	23 May 2002	30	100
<b>Total amount</b>		<b>14,504</b>			
<b>Subsequent Events</b>					
Since the end of the financial year, the Directors have declared the following dividends:					
2004 final – Ordinary shares	12.5	17,694	23 April 2004	30	100
2004 final – Investor shares	12.5	19	23 April 2004	30	100
2004 final – 8.5% Preference shares	4.25	1	23 April 2004	30	100
<b>Total amount</b>		<b>17,714</b>			

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Dividend franking account</b>				
Amount of franking credits available for the subsequent year	<b>69,457</b>	41,909	<b>14,002</b>	17,600

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the current tax liability
- franking credits that may be prevented from being distributed in subsequent financial years
- franking credits that will arise from the receipt of dividends recognised as receivables at the end of the financial year.

The franking account will be reduced by \$7,592,000 resulting from payment of the 2004 final dividend on 23 April 2004.

# Notes to the Financial Statements continued

For the year ended 31 January 2004

	Consolidated	
	2004 Cents	2003 Cents
<b>8. Earnings per Share</b>		
Basic earnings per share	31.4	22.4
Diluted earnings per share	31.3	22.3

	Consolidated	
	2004 \$'000	2003 \$'000
<b>Earnings used in the calculation of earnings per share</b>		
<i>Basic earnings per share</i>		
Net profit	44,195	30,963
Costs of servicing equity other than dividends on ordinary shares	(4)	(4)
Earnings used in calculating basic earnings per share	44,191	30,959
<i>Diluted earnings per share</i>		
Net profit	44,195	30,963

	Consolidated	
	2004 No. '000s	2003 No. '000s
<b>Weighted average number of shares</b>		
Weighted average number of ordinary and investor shares on issue used in the calculation of basic earnings per share	140,773	138,202
Weighted average number of ordinary and investor shares on issue adjusted for the dilutive effect of the 8.5% preference shares and outstanding share options used in the calculation of diluted earnings per share	140,985	138,559

## Information concerning the classification of securities

### (a) 8.5% Preference Shares

There are 33,375 (2003 – 36,708) 8.5% \$1 preference shares included within Equity which rank ahead of ordinary shares for the return of capital on a winding up of the Company. Apart from the fixed dividend entitlements, the shares have no right to participate in any other distributions at this time. Preference shares are considered dilutive and are included in the calculation of diluted earnings per share.

### (b) Options

Full details of share options are included in Note 19. The options are considered dilutive and are included in the calculation of diluted earnings per share.

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>9. Receivables</b>				
<b>Current</b>				
Trade debtors	226,023	207,999	115,424	113,830
Provision for doubtful debts	(5,799)	(8,945)	(2,119)	(4,035)
	220,224	199,054	113,305	109,795
Other debtors – unsecured	1,611	1,869	1,396	57
Loans and advances to controlled entities	–	–	3,687	4,386
<b>Total current receivables</b>	<b>221,835</b>	<b>200,923</b>	<b>118,388</b>	<b>114,238</b>
<b>Non-current</b>				
Other debtors				
– Secured	874	2,173	611	611
– Unsecured	9,502	6,287	8,830	5,615
Loans and advances to controlled entities	–	–	347,654	184,829
<b>Total non-current receivables</b>	<b>10,376</b>	<b>8,460</b>	<b>357,095</b>	<b>191,055</b>

**(a) Other debtors**

Other debtors generally arise from transactions outside the usual operating activities of the consolidated entity, including sale and lease back transactions. Such contracts may involve a charge over the property being sold.

**(b) Loans to employees**

Included within current and non-current other debtors is a loan to a related company, Sigma Employee Share Administration Pty. Ltd., of \$9,371,314 (2003 – \$5,615,187). Sigma Employee Share Administration Pty. Ltd. administers the employee share ownership plan, details of which are set out in Note 26.

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>10. Inventories</b>				
<b>At Cost</b>				
Raw materials and stores	23,689	22,554	–	–
Work in progress	6,327	8,458	–	–
Finished goods	148,028	146,252	67,359	75,596
	178,044	177,264	67,359	75,596
<b>At Net Realisable Value</b>				
Finished goods	1,253	4,105	344	924
	1,253	4,105	344	924
<b>Total current inventories</b>	<b>179,297</b>	<b>181,369</b>	<b>67,703</b>	<b>76,520</b>

**11. Investments**

**Other entities – listed shares**

At fair value	22	22	–	–
---------------	----	----	---	---

**Controlled entities – unlisted shares**

At fair value	–	–	454,738	322,188
<b>Total non-current investments</b>	<b>22</b>	<b>22</b>	<b>454,738</b>	<b>322,188</b>

The increase in the carrying value of Investments in controlled entities to \$454,738,000 results from their revaluation to fair value in accordance with the accounting policy as outlined in Note 1. Fair value represents the estimated discounted cash flows to be generated from each investment.

# Notes to the Financial Statements continued

For the year ended 31 January 2004

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>12. Property, Plant and Equipment</b>				
<b>Land and buildings</b>				
At fair value	60,019	41,769	42,203	41,769
Accumulated depreciation	(377)	(1,381)	(67)	(1,381)
	59,642	40,388	42,136	40,388
<b>Plant and equipment</b>				
At cost	125,154	96,132	16,825	14,777
Accumulated depreciation	(64,607)	(44,780)	(12,598)	(11,498)
Assets under construction	–	2,630	–	16
	60,547	53,982	4,227	3,295
<b>Total non-current property, plant and equipment</b>	<b>120,189</b>	<b>94,370</b>	<b>46,363</b>	<b>43,683</b>

The fair value of land and buildings is supported by independent valuations. The most recent independent valuation was performed on land and buildings as at 30 November 2003 by Colliers International Consultancy and Valuation Pty. Ltd.

## Reconciliations

Reconciliations of the carrying amount of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	Land and buildings \$'000	Plant and equipment \$'000	Total \$'000
<b>Consolidated</b>			
Carrying amount 1 February 2003	40,388	53,982	94,370
Additions	1,794	7,057	8,851
Assets acquired under finance leases	11,421	–	11,421
Acquisition of controlled entities	6,310	7,458	13,768
Revaluation increment/(decrement)	722	–	722
Disposals	–	(171)	(171)
Depreciation (Note 4)	(993)	(7,779)	(8,772)
<b>Carrying amount 31 January 2004</b>	<b>59,642</b>	<b>60,547</b>	<b>120,189</b>
<b>Parent entity</b>			
Carrying amount 1 February 2003	40,388	3,295	43,683
Additions	732	2,208	2,940
Revaluation increment/(decrement)	1,698	–	1,698
Disposals	–	(5)	(5)
Depreciation (Note 4)	(682)	(1,271)	(1,953)
<b>Carrying amount 31 January 2004</b>	<b>42,136</b>	<b>4,227</b>	<b>46,363</b>

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>13. Intangible Assets</b>				
Goodwill at cost	55,920	20,793	–	–
Accumulated amortisation	(9,922)	(7,436)	–	–
	45,998	13,357	–	–
Trademarks and licence fees at cost	137,028	77,036	–	–
Accumulated amortisation	(17,659)	(12,737)	–	–
	119,369	64,299	–	–
Deferred expenditure at cost	12,213	12,213	5,907	5,907
Accumulated amortisation	(12,213)	(12,213)	(5,907)	(5,907)
	–	–	–	–
Brands at cost	62,850	45,384	–	–
Accumulated amortisation	(6,350)	(4,850)	–	–
	56,500	40,534	–	–
<b>Total non-current intangibles</b>	<b>221,867</b>	<b>118,190</b>	<b>–</b>	<b>–</b>
<b>14. Deferred Tax Assets</b>				
<b>Future income tax benefit</b>				
Tax losses carried forward	–	538	–	–
Timing differences carried forward	11,539	10,827	4,490	4,915
<b>Total non-current deferred tax assets</b>	<b>11,539</b>	<b>11,365</b>	<b>4,490</b>	<b>4,915</b>
<b>15. Payables</b>				
<b>Current</b>				
Trade creditors	217,175	211,068	104,266	109,721
Other creditors	27,750	21,511	13,217	9,867
<b>Total current payables</b>	<b>244,925</b>	<b>232,579</b>	<b>117,483</b>	<b>119,588</b>
<b>Non-current</b>				
Other creditors	11,715	14,419	–	–
<b>Total non-current payables</b>	<b>11,715</b>	<b>14,419</b>	<b>–</b>	<b>–</b>
<b>16. Interest Bearing Liabilities</b>				
<b>Current</b>				
Bank overdraft	–	–	54,035	–
Other unsecured loans	75,000	464	75,000	–
Short-term money market borrowings	10,000	16,000	10,000	16,000
Loans and advances from controlled entities	–	–	2,498	2,198
Lease liability – secured (Note 21)	10,111	–	–	–
<b>Total current borrowings</b>	<b>95,111</b>	<b>16,464</b>	<b>141,533</b>	<b>18,198</b>
<b>Non-current</b>				
Other secured loans	70,000	50,000	70,000	50,000
Other unsecured loans	3,475	3,714	–	–
Loans and advances from controlled entities	–	–	26,252	26,110
<b>Total non-current borrowings</b>	<b>73,475</b>	<b>53,714</b>	<b>96,252</b>	<b>76,110</b>

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Other current unsecured loans are classified as current liabilities however, it is expected that these loans will be rolled over in the second half of the financial year ending 31 January 2005 for a minimum term of twelve months.

Other non-current secured loans are secured against the trade debtors balance, as detailed in Note 27.

The loans and advances from controlled entities do not attract an interest charge.

# Notes to the Financial Statements continued

For the year ended 31 January 2004

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>17. Tax Liabilities</b>				
<b>Current</b>				
Income tax	12,942	10,369	–	3,598
<b>Non-current</b>				
Provision for deferred income tax	3,349	3,584	–	89

## 18. Provisions

### Current

Dividends	–	11,109	–	11,109
Employee benefits <sup>(a)</sup>	8,371	7,923	3,767	3,743
Rationalisation and restructure	1,359	360	781	360
Directors' retirement	1,178	1,213	1,178	1,213
<b>Total current provisions</b>	<b>10,908</b>	<b>20,605</b>	<b>5,726</b>	<b>16,425</b>

### Non-current

Employee benefits <sup>(a)</sup>	4,982	3,112	668	596
<b>Total non-current provisions</b>	<b>4,982</b>	<b>3,112</b>	<b>668</b>	<b>596</b>

<sup>(a)</sup> As at 31 January 2004 the aggregate employee benefits, including on-costs for the consolidated entity, are \$13,353,000 (2003 – \$11,035,000) and for the Company \$4,435,000 (2003 – \$4,339,000).

### Employee Numbers

As at 31 January 2004, there were 1,523 full time equivalent employees (2003 – 1,268) employed by the consolidated entity.

### Reconciliations

Reconciliations of the carrying amounts of each class of provision, except for employee benefits, from the beginning to the end of the financial year, are set out below.

	Dividends \$'000	Rationalisation & restructure \$'000	Directors' retirement \$'000
<b>Consolidated</b>			
Carrying amount 1 February 2003	11,109	360	1,213
Adjustment on adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets (refer Note 1)	(11,109)	–	–
Acquisition of controlled entities	–	1,907	–
Provisions recognised during the year	–	1,011	300
Reversals	–	–	(124)
Payments made during the year	–	(1,919)	(211)
<b>Carrying amount 31 January 2004</b>	<b>–</b>	<b>1,359</b>	<b>1,178</b>
<b>Parent entity</b>			
Carrying amount 1 February 2003	11,109	360	1,213
Adjustment on adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets (refer Note 1)	(11,109)	–	–
Provisions recognised during the year	–	881	300
Reversals	–	–	(124)
Payments made during the year	–	(460)	(211)
<b>Carrying amount 31 January 2004</b>	<b>–</b>	<b>781</b>	<b>1,178</b>

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>19. Contributed Equity</b>				
<b>(a) Share capital</b>				
141,555,113 ordinary shares fully paid (2003 – 138,642,010)	235,323	221,164	235,323	221,164
148,687 investor (preference) shares, fully paid (2003 – 183,857)	327	404	327	404
33,375 – 8.5% preference shares fully paid (2003 – 36,708)	34	37	34	37
<b>Total contributed equity</b>	<b>235,684</b>	<b>221,605</b>	<b>235,684</b>	<b>221,605</b>

**(b) Movements in ordinary share capital**

Date	Details	Notes	No. of shares	Issue price	\$'000
01.02.02	Opening balance		137,882,150		218,242
09.12.02	Employee share plan issue	(f)	724,500	\$3.95	2,861
During year	Conversion between classes	(e)	21,958	\$2.20	48
During year	Conversion between classes	(e)	13,402	\$1.00	13
01.02.03	Opening balance		138,642,010		221,164
15.04.03	Issued as part consideration for acquisition of the Herron Group		2,000,000	\$4.56	9,120
04.08.03	Employee share plan issue	(g)	874,600	\$5.67	4,959
During year	Conversion between classes	(e)	35,170	\$2.20	77
During year	Conversion between classes	(e)	3,333	\$1.00	3
<b>31.01.04</b>	<b>Balance</b>		<b>141,555,113</b>		<b>235,323</b>

**(c) Movements in investor (preference) share capital**

Date	Details	Notes	No. of shares	Issue price	\$'000
01.02.02	Opening balance		205,815		452
During year	Conversions between classes	(e)	(21,958)	\$2.20	(48)
01.02.03	Opening balance		183,857		404
During year	Conversions between classes	(e)	(35,170)	\$2.20	(77)
<b>31.01.04</b>	<b>Balance</b>		<b>148,687</b>		<b>327</b>

**(d) Movements in 8.5% preference share capital**

Date	Details	Notes	No. of shares	Issue price	\$'000
01.02.02	Opening balance		50,110		50
During year	Conversions between classes	(e)	(13,402)	\$1.00	(13)
01.02.03	Opening balance		36,708		37
During year	Conversions between classes	(e)	(3,333)	\$1.00	(3)
<b>31.01.04</b>	<b>Balance</b>		<b>33,375</b>		<b>34</b>

(e) In accordance with the provisions of the Company's Constitution, holders of investor and 8.5% preference shares are able to request conversion of their shares to ordinary shares. Most of the former holders of these classes of shares have now converted their holdings to ordinary shares.

Ordinary, Investor and Preference shares voting rights are summarised on page 64 of this report under the heading 'Shareholder Information'.

(f) Pursuant to the Rules of the Sigma Employee Share Plan and the Information Booklet dated 25 October 2002, the Company on 9 December 2002 issued 724,500 shares at \$3.95 per share to employees of the Company. The costs associated with this issue were expensed.

(g) Pursuant to the Rules of the Sigma Employee Share Plan and the Information Booklet dated July 2003, the Company on 4 August 2003 issued 874,600 shares at \$5.67 per share to employees of the Company. The costs associated with this issue were expensed.

# Notes to the Financial Statements continued

For the year ended 31 January 2004

## 19. Contributed Equity continued

(h) Details of options on issue by the Company at 31 January 2004:

	Number	Grant date	Exercise price <sup>(1)</sup>	Vesting date	Expiry date
Executive Director Options	100,000	24.05.01	\$2.17	24.05.04	23.05.05
Senior Executive Options	45,090	02.05.01	\$1.97	01.05.04	01.05.05
Executive Director Options	125,000	29.01.03	\$3.84	08.10.05	08.10.06
Senior Executive Options	50,000	29.01.03	\$3.84	08.10.05	08.10.06
Executive Director Options	125,000	23.06.03	\$5.22	23.06.06	23.06.07
Senior Executive Options	48,000	23.06.03	\$5.22	23.06.06	23.06.07
Total options issued at 31 January 2004	493,090				

For further information on these options please refer to Note 23(b).

<sup>(1)</sup> One option is convertible to one ordinary share in the Company. No options were exercised or lapsed during the financial year ending 31 January 2004.

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>20. Reserves and Retained Profits</b>				
<b>(a) Reserves</b>				
Capital profits reserve	1,450	1,450	1,204	1,204
Foreign currency translation reserve	(139)	(368)	–	–
General reserve	2,280	2,280	1,575	1,575
Asset revaluation reserve	9,048	8,326	410,721	276,473
<b>Total reserves</b>	<b>12,639</b>	<b>11,688</b>	<b>413,500</b>	<b>279,252</b>
<i>Movements during the year:</i>				
<i>Asset Revaluation Reserve</i>				
Balance at beginning of the financial year	8,326	8,326	276,473	276,473
Increment on revaluation of land and buildings	722	–	1,698	–
Increment on revaluation of investments in controlled entities	–	–	132,550	–
<b>Balance at the end of the financial year</b>	<b>9,048</b>	<b>8,326</b>	<b>410,721</b>	<b>276,473</b>
<i>Foreign Currency Translation Reserve</i>				
Balance at beginning of the financial year	(368)	(132)	–	–
Exchange fluctuations on translation of controlled foreign entities' financial statements	229	(236)	–	–
<b>Balance at the end of the financial year</b>	<b>(139)</b>	<b>(368)</b>	<b>–</b>	<b>–</b>
<b>(b) Retained profits</b>				
Retained profits at the beginning of the financial year	42,870	30,613	20,199	21,942
Adjustment on initial adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets	11,109	–	11,109	–
Net profit attributable to shareholders of Sigma Company Limited	44,195	30,963	30,594	16,963
Dividends provided for or paid	(21,899)	(18,706)	(21,899)	(18,706)
<b>Retained profits at the end of the financial year</b>	<b>76,275</b>	<b>42,870</b>	<b>40,003</b>	<b>20,199</b>

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>21. Expenditure Commitments</b>				
<b>(a) Contracts for capital expenditure for which no amounts have been provided:</b>				
Payable not later than one year	377	548	–	–
<b>(b) Lease Commitments</b>				
<b>Non-cancellable operating leases</b>				
Expenditure contracted but not provided for in the financial statements:				
Payable not later than one year	11,372	14,105	3,165	2,541
Payable later than one year but not later than five years	36,543	38,962	12,123	9,168
Payable later than five years	84	33,323	84	8,266
	<b>47,999</b>	<b>86,390</b>	<b>15,372</b>	<b>19,975</b>
<b>Finance leases and hire purchase</b>				
Expenditure contracted and provided for in the financial statements:				
Payable not later than one year	10,365	–	–	–
Payable later than one year but not later than five years	–	–	–	–
Payable later than five years	–	–	–	–
Total minimum lease commitments	10,365	–	–	–
Less: Future finance charges	(254)	–	–	–
<b>Lease liability</b>	<b>10,111</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Current portion (Note 16)</b>	<b>10,111</b>	<b>–</b>	<b>–</b>	<b>–</b>

	Consolidated		Parent entity	
	2004 \$	2003 \$	2004 \$	2003 \$
<b>22. Remuneration of Auditors</b>				
During the year the auditor of Sigma Company Limited and its related practices earned the following remuneration:				
<b>Audit or review of financial reports of the entity or any controlled entity</b>	<b>377,980</b>	<b>332,400</b>	<b>225,600</b>	<b>190,000</b>
<b>Remuneration for other services:</b>				
PricewaterhouseCoopers Australian firm	5,500	151,813	5,500	151,813
Overseas PricewaterhouseCoopers firms	8,286	48,015	–	–
	<b>13,786</b>	<b>199,828</b>	<b>5,500</b>	<b>151,813</b>
<b>Detail of non-audit services:</b>				
Tax compliance advice	13,786	129,212	5,500	85,419
Consulting fees	–	42,794	–	42,794
Other assurance related fees	–	27,822	–	23,600
	<b>13,786</b>	<b>199,828</b>	<b>5,500</b>	<b>151,813</b>

The Risk Management and Audit Committee has a policy which requires Committee approval for any non-audit services provided by PricewaterhouseCoopers. This is to ensure the audit independence is maintained.

# Notes to the Financial Statements continued

For the year ended 31 January 2004

	Consolidated		Parent entity	
	2004	2003	2004	2003
	\$	\$	\$	\$

## 23. Remuneration of Directors and Executives

### (a) Directors' remuneration

Income paid or payable, or otherwise made available, to Directors

(including former Directors) of the parent entity or its controlled entities

<b>1,773,780</b>	1,362,235	<b>1,773,780</b>	1,362,235
------------------	-----------	------------------	-----------

Number of parent entity Directors (including former Directors) whose total income from the parent entity or related parties was within the following bands:

		Parent entity	
		2004	2003
		Number	Number
\$	\$		
50,000 –	59,999	1	3
60,000 –	69,999	3	2
70,000 –	79,999	2	–
80,000 –	89,999	1	1
130,000 –	139,999	–	1
160,000 –	169,999	1	–
190,000 –	199,999	–	1
240,000 –	249,999	1	–
640,000 –	649,999	–	1
890,000 –	899,999	1	–
		<b>10</b>	<b>9</b>

Details of options granted to the Executive Director are set out in Note 19.

The above amounts exclude insurance premiums related to Directors' and officers' liability insurance contracts as the contracts do not specify premiums paid in respect of individuals.

	Consolidated		Parent entity	
	2004	2003	2004	2003
	\$	\$	\$	\$

### 23. Remuneration of Directors and Executives continued

#### (b) Executives' remuneration\*

Remuneration received, or due and receivable, from entities in the consolidated entity by executive officers whose remuneration was at least \$100,000 (including contributions to superannuation funds and amounts paid for redundancy and retirement benefits)

From the Company	2,368,559	1,655,154	2,368,559	1,655,154
From other entities	643,319	535,649	132,781	101,222

Number of executive officers (including Directors) whose income was \$100,000 or more was within the following bands:

	Consolidated		Parent entity	
	2004	2003	2004	2003
	Number	Number	Number	Number
\$				
\$				
150,000 – 159,999	1	–	1	–
210,000 – 219,999	1	3	1	1
220,000 – 229,999	1	–	1	–
250,000 – 259,999	2	2	–	2
270,000 – 279,999	1	–	1	–
280,000 – 289,999	1	–	1	–
390,000 – 399,999	–	1	–	1
440,000 – 449,999	1	–	1	–
640,000 – 649,999	–	1	–	1
890,000 – 899,999	1	–	1	–
	9	7	7	5

\* Executives for this disclosure include only those persons directly accountable for the operational management and strategic direction of the consolidated entity.

Options issued to executives have been valued at the date of issue using the Black-Scholes pricing model. In accordance with guidelines issued by the Australian Securities and Investments Commission (ASIC) on 30 June 2003, the value of options granted is required to be disclosed as remuneration over the option vesting period from the date of grant. Accordingly, the value of remuneration included for options represents the value of all outstanding options (determined at the date of grant) equally apportioned over the option vesting period. Options are issued at market price and are not exercisable until specific performance hurdles are met by the Company. Generally these hurdles require the performance return of Sigma shares to exceed the performance return of a specified composite index for a continuous period of 15 working days during the period of 12 months commencing on the third anniversary date from the issue of the options.

# Notes to the Financial Statements continued

For the year ended 31 January 2004

## 24. Contingent Liabilities

### Pharmacist Guarantees

Sigma provides financial guarantees to a number of banks in relation to the borrowings of individual pharmacists. These borrowings relate to the financing of pharmacies. Sigma is therefore exposed to the financial viability of such pharmacies and the risk of their financial failure.

As at 31 January 2004, 339 guarantees (2003 – 453) had been provided. The amount outstanding in respect of these guarantees at this date was \$170 million (2003 – \$240 million). Sigma has established a loss indemnity program, which has had the effect of reducing the contingent liability under the guarantee program at 31 January 2004 to \$52 million (2003 – \$76 million). The program comprises a series of complimentary facilities, each addressing different aspects of the total exposure. The key elements are capping arrangements and a separate loss indemnity facility, both provided by Sigma's principal banker. The former is an ongoing program and the latter is available to Sigma on the payment of the required fee. Supplementing these facilities are annually reviewed aggregate liability facilities made available by the other major bankers participating in Sigma's guarantee program.

To further manage its guarantee risk, Sigma has implemented stringent review procedures and controls over the approval of new guarantees and the ongoing monitoring of guarantee exposures. These include:

- the appointment of bank-trained personnel to manage the processing and ongoing monitoring of guarantees;
- the establishment of extensive Board-approved policies and procedures for the processing of applications, approval standards, security and documentation standards, ongoing monitoring and review requirements and performance reporting; and
- regular reporting to the Board and senior management on the performance of the guarantee portfolio, including portfolio analysis based on approved risk categorisation criteria.

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>Other contingent liabilities are as follows:</b>				
Termination benefits under service agreements with persons who take part in the management of the Company or its controlled entities	999	923	999	923
Guarantee of losses under third party guarantee agreements	195	195	195	195

### Leases

The Company has guaranteed the operating lease commitments of controlled entities. These amounts are included within Lease Commitments in the Consolidated column (Note 21).

### Deed of Cross Guarantee

Under the terms of a Deed of Cross Guarantee dated 29 January 1998 and Deeds of Assumption dated 21 January 1999, 25 January 2000 and 16 January 2004 respectively, entered into in accordance with the ASIC Class Order 98/1418, the Company has undertaken to meet any shortfall which might arise on the winding up of controlled entities which are party to the Deed (Note 30).

### Strategic Alliance Agreement

The Company and GlaxoSmithKline have agreed to investigate jointly, alliance benefits relating to pre-distribution, sales and distribution and co-marketing of some products. Under the agreement dated 1 December 1999, the Company guarantees to deliver to GlaxoSmithKline alliance benefits of a minimum value of \$300,000 per annum in both the first and second year and \$2 million per annum in each of the third to fifth years of the agreement. To date the Company has delivered \$5.8 million of such benefits with an additional \$0.8 million to be achieved by November 2004.

Determination of whether the Company has satisfied its obligations to deliver these alliance benefits will be measured in accordance with methodologies and principles set out in the agreement. To the extent that alliance benefits meeting the minimum values are not delivered to GlaxoSmithKline in any year, the Company is obliged to pay the shortfall in cash.

Sigma Company Limited's  
direct or indirect interest in  
ordinary shares/equity

	Country of formation or incorporation	2004 %	2003 %
<b>25. Details of Controlled Entities</b>			
Details of the consolidated entity are set out below.			
Sigma Company Limited	Australia		
Sigma Pharmaceuticals Pty. Ltd. <sup>(b)</sup>	Australia	100	100
QDL Limited <sup>(b)</sup>	Australia	100	100
Sigma Finance Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Sigma Research Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Sigma (W.A.) Pty. Ltd. <sup>(b) (c)</sup>	Australia	100	100
Extend – A – Care Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Fawns & McAllan Proprietary Limited <sup>(b)</sup>	Australia	100	100
Commonwealth Drug Company Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Andrews Laboratories Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Building & Trading Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Guardian Pharmacies Australia Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Guardian Pharmaceutical Industries Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Griffith Drug Company Pty. Limited <sup>(b)</sup>	Australia	100	100
Sigma Services Proprietary Limited <sup>(a) (b)</sup>	Australia	100	100
Australian Pharmaceutical Distributors Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Sunshine Pharmacies Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Quality Pharmaceuticals Pty. Ltd. <sup>(b)</sup>	Australia	100	100
QDL Pharmaceuticals Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Sigma (Victoria) Pty. Ltd. <sup>(b)</sup>	Australia	100	100
Sigma NZ Limited	New Zealand	100	100
Pharmacy Wholesalers (Wellington) Limited	New Zealand	100	100
Allied Master Chemists of Australia Limited <sup>(b)</sup>	Australia	100	100
Amcal Pty. Limited <sup>(b)</sup>	Australia	100	100
Leodis (Australia) Company Proprietary Limited <sup>(b)</sup>	Australia	100	100
Herron Pharmaceuticals Pty. Ltd. <sup>(b) (d)</sup>	Australia	100	
Chemist's Own Pty. Ltd. <sup>(b) (d)</sup>	Australia	100	
Stephen Hunter (Pharmaceutical Exports) Pty. Ltd. <sup>(b) (d)</sup>	Australia	100	
Whole Health Solutions Pty. Ltd. <sup>(b) (d)</sup>	Australia	100	
Adrian Laboratories (Aust) Pty. Ltd. <sup>(b) (d)</sup>	Australia	100	
Integrated Naturopathic Services Pty. Ltd. <sup>(b) (d)</sup>	Australia	100	
Hilton Healthstream Pty. Ltd. <sup>(b) (d)</sup>	Australia	100	
Health Haven Pty. Ltd. <sup>(b) (d)</sup>	Australia	100	

(a) Ordinary shares in Sigma Services Proprietary Limited are owned 1% by Sigma Company Limited and 99% by a controlled entity.

(b) These wholly-owned companies are subject to a deed of cross guarantee. Refer to Note 30 of these financial statements.

(c) Ordinary shares in Sigma (W.A.) Pty. Ltd. are owned 52% by Sigma Company Limited and 48% by a controlled entity.

(d) Acquired effective 1 May 2003.

# Notes to the Financial Statements continued

For the year ended 31 January 2004

## 26. Superannuation and Share Ownership Plan

### Superannuation Funds

The consolidated entity participates in a number of superannuation funds which were established to provide benefits for employees and their dependants. The funds cover a corporate master trust (the Plum Superannuation Fund) and industry/union plans.

### Master Trust

The Sigma Superannuation Plan which operates under the Plum Superannuation Fund, provides lump sum benefits for members on resignation, retirement, death or total permanent disablement. The benefit is provided on an accumulation benefit basis.

Employee contribution rates are selected by members from a specified range of rates, but they are generally required to contribute at rates from three percent, with the option to increase contributions.

The consolidated entity meets all Superannuation Guarantee requirements and generally contributes at a level exceeding award and legislative requirements. There exists a legally enforceable obligation to make such contributions as are required by legislative requirements and by the rules of the Plan.

### Industry/union plans

The consolidated entity participates in industry and union plans on behalf of certain employees. These plans operate on an accumulation basis and provide lump sum benefits for members on resignation, retirement or death.

The employer companies have legally enforceable obligations to contribute at varying rates to these plans.

### Share Ownership Plan

The establishment of the present employee share plan was approved by shareholders effective 1 October 1998.

The Company's employee share plan periodically offers Ordinary shares to all full or part time employees of the consolidated entity. In all respects the ordinary shares issued under the plan rank equally with all other fully paid ordinary shares on issue. Interest free loans can be offered to acquire the shares. The share price is determined by the weighted average price of ordinary shares over the five trading days prior to and including the date of issue of shares, less an approved discount. At balance date the following shares were on issue:

Issue date	Issue price	Total shares on issue
05.07.1999	\$1.97	274,400
31.10.2001	\$2.93	681,900
09.12.2002	\$3.95	653,500
04.08.2003	\$5.67	839,300
		<b>2,449,100</b>

The plan is administered by Sigma Employee Share Administration Pty. Ltd.

Interest free loans are secured by the shares issued and the loans are for a period of 10 years. The loans are repayable from dividends received on the shares and from voluntary loan repayments. If an employee leaves employment within the consolidated entity, he or she can repay the loan in full and acquire unrestricted ownership of the shares. If the employee does not wish to acquire the shares and repay the loan, the shares are transferred to Sigma Employee Share Administration Pty. Ltd. for later sale on market to repay the remaining balance of the loan. The market value of Sigma ordinary shares at balance date was \$7.05. At balance date a loan of \$9.4 million was provided, as shown in Note 9.

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
<b>27. Standby Arrangements and Credit Facilities</b>				
Entities in the consolidated entity have access to:				
<b>Credit standby arrangements</b>				
Secured bank overdraft facilities subject to annual review with amounts drawn payable at call	4,000	4,000	54,035	4,000
Amount of credit unused	4,000	4,000	–	4,000
Debtors securitisation facility available <sup>(a)</sup>	100,000	100,000	100,000	100,000
Debtors securitisation facility unused	30,000	50,000	30,000	50,000
Uncommitted bill acceptance facilities	10,000	20,000	10,000	20,000
Amount of credit unused	–	4,000	–	4,000
Committed bill acceptance facilities reviewable for extension on either an annual or bi-annual basis	68,959	15,000	65,000	15,000
Amount of credit unused	65,484	15,000	65,000	15,000
Committed term loan facilities reviewable for extension on an annual basis	75,000	–	75,000	–
Amount of credit unused	–	–	–	–

<sup>(a)</sup> The Company has a debtor securitisation arrangement by which it transfers to a third party selected trade debtors in exchange for an immediate discounted cash payment while retaining an exposure to credit losses and continuing obligation to service its accounts with these customers. The maximum amount allowed to be drawn on this facility is \$100 million.

The consolidated entity has access to overdraft facilities totalling \$4 million which are included as part of set-off arrangements with the Group bank accounts. The parent entity's bank overdraft facility is dependant on the consolidated entity's overdraft facility not exceeding its \$4 million limit.

## 28. Related Party Information

### Directors

The following persons have held the position of Director of Sigma Company Limited (the Company) during the year:

Dr J W Stocker, Mr P A Jones (retired 28 May 2003), Mr E R De Alwis, Mr L C Butler, Professor W N Charman, Mr B Jamieson (appointed 28 May 2003), Mr E F Murdoch (appointed 2 June 2003), Ms L B Nicholls, Mr W J Scott and Mr H K Windle.

### Retirement benefits to Directors

Payments made to Non-Executive Directors for entitlements under shareholder approved retirement schemes:

	2004 \$	2003 \$
Mr P A Jones	210,520	–
Mr O B O'Duill	–	177,556

The balance of the Directors' retirement provision is disclosed in Note 18.

### Remuneration of Directors

Details of remuneration paid or payable to Directors is contained in the Directors' Report and Note 23.

The basis for determining Director remuneration is disclosed within the Directors' Report.

### Loans to Directors (or director-related entities)

There were no loans or guarantees in place with Directors or director-related entities during the period.

# Notes to the Financial Statements continued

For the year ended 31 January 2004

## 28. Related Party Information continued

### Director interests in equity of the Company

Aggregate number of shares and share options of the Company acquired or disposed of by Directors or director-related entities of the Company:

	2004 No.	2003 No.
<b>Acquired</b>		
Ordinary shares	14,810	14,435
Options over ordinary shares	125,000	125,000
<b>Disposed</b>		
Ordinary shares	–	42,868
Aggregate number of shares and share options of the Company held by Directors or director-related entities at balance date:		
Ordinary shares	4,486,995	2,582,691
Options over ordinary shares	350,000	225,000

On 15 April 2003, the Company issued 2,000,000 ordinary shares to Mr E F Murdoch as part consideration for the acquisition of the Herron Group (Herron). Subsequent to the acquisition, Mr E F Murdoch was invited to join the Board and he was formally appointed a Director on 2 June 2003.

Ordinary shares acquired by Directors and director-related entities were not acquired under terms or conditions more favourable than those available to other shareholders.

### Other transactions with Directors

#### (a) Trade receivables from Directors or director-related entities

Directors and their director-related entities purchased goods from the consolidated entity on terms and conditions no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to other customers of the consolidated entity.

	2004 \$	2003 \$
Amounts receivable at balance date from Directors or director-related entities included within Trade Debtors in Note 9	546,775	1,122,459

#### (b) Purchases of pharmacy products by director-related entities

Mr W J Scott and Mr L C Butler and their director-related entities purchased pharmacy products from the consolidated entity in the ordinary course of business and on normal commercial terms and conditions. The amount of these purchases were as follows:

	2004 \$	2003 \$
Mr W J Scott and director-related entities	7,323,977	3,893,149
Mr L C Butler and director-related entities	1,890,572	1,467,700

#### (c) Provision of guarantees by director-related entities

Ms L B Nicholls is also a Director of St George Bank Limited. Prior to Ms Nicholls becoming a Director, St George Bank Limited provided loans to pharmacists and these loans were guaranteed by the Company. These guarantees are not provided on terms more favourable than those available to other guarantee holders.

	2004 \$	2003 \$
Outstanding St George Bank Limited loan amounts guaranteed by the Company at the end of the financial year	2,097,173	2,439,023

## 28. Related Party Information continued

### (d) Other related party transactions

Dr J W Stocker is a Director of Telstra Corporation Limited. The Company obtains telecommunications services from Telstra Corporation Limited. Ms L B Nicholls is a Director of Australia Post. The Company obtains postal services from Australia Post. Mr B Jamieson is the Managing Partner Melbourne, Minter Ellison. During the course of the year the Company obtained legal advice from Minter Ellison incurring legal expenses of \$10,000.

On 1 May 2003, the Company acquired Herron from Mr E F Murdoch and related entities for total consideration including costs of \$100,198,000. Subsequent to the acquisition, Mr E F Murdoch was invited to join the Board and he was formally appointed a Director on 2 June 2003.

Other transactions entered into by Sigma Company Limited and the consolidated entity with Directors and their director-related entities are within normal employee, customer or supplier relationships on terms and conditions no more favourable than those available in similar arm's length dealings.

### Controlled entities

The Company transacted business throughout the financial year with certain controlled entities whereby it purchased finished goods as part of its normal commercial trading activities. The Company also received dividends and interest as detailed in Note 3.

	Consolidated		Parent entity	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000

## 29. Notes to the Statements of Cash Flows

### (a) Reconciliation of cash

Cash at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the balance sheets as follows:

Cash assets	12,724	13,875	13	2,450
Bank overdraft	–	–	(54,035)	–
	<b>12,724</b>	<b>13,875</b>	<b>(54,022)</b>	<b>2,450</b>

### (b) Reconciliation of net cash flows from operating activities to operating profit after income tax

Profit from ordinary activities after income tax	44,195	30,963	30,594	16,963
Depreciation of property, plant and equipment	8,772	7,112	1,953	1,968
Amortisation of intangible assets	8,908	9,866	–	2,112
(Profit)/loss on sale of property, plant and equipment	(14)	402	(13)	36
Increase/(decrease) in income taxes payable	2,573	5,279	(3,598)	875
Increase/(decrease) in net deferred taxes payable	797	(2,510)	336	(2,459)
Changes in assets and liabilities:				
(Increase)/decrease in inventories	11,764	(18,788)	8,817	(13,465)
(Increase)/decrease in trade, other debtors and prepayments	(5,722)	8,081	(8,814)	6,168
Increase/(decrease) in trade, other creditors, employee entitlements and other provisions	3,757	27,300	(12,243)	9,202
<b>Net cash flows from operating activities</b>	<b>75,030</b>	<b>67,705</b>	<b>17,032</b>	<b>21,400</b>

# Notes to the Financial Statements continued

For the year ended 31 January 2004

2004  
\$'000

## 29. Notes to the Statements of Cash Flows continued

### (c) Entities acquired during the year

Effective 1 May 2003, Sigma Pharmaceuticals Pty. Ltd. acquired Herron Pharmaceuticals Pty. Ltd. and its controlled entities (Herron). Herron's principal activities are the manufacture and sale of pharmaceutical and healthcare products.

Details of the acquisition were as follows:

#### *Fair value of identifiable net assets of controlled entities acquired*

Cash	1,820
Receivables	19,953
Inventory	9,692
Future income tax benefit	1,992
Property, plant and equipment	13,768
Intangibles	65,702
Trade and other creditors	(13,681)
Interest bearing loans	(31,482)
Current tax liabilities	(786)
Provision for restructuring	(1,907)
	65,071
Goodwill on consolidation	35,127
<b>Total consideration</b>	<b>100,198</b>

#### *Cash flow on acquisition*

The payment for acquisition of Herron as disclosed in the Statements of Cash Flows was determined as follows:

Total consideration	100,198
Less ordinary shares issued	(9,120)
Less cash acquired	(1,820)
<b>Cash flow on acquisition</b>	<b>89,258</b>

### (d) Details of non-cash transactions

As detailed in Note 26, the Company issued shares to employees during the year. The consideration for these shares is a loan payable by the employee to Sigma Employee Share Administration Pty Ltd.

During the financial year the consolidated entity acquired land and buildings with an aggregate fair value of \$11,421,000 by means of finance leases. These acquisitions are not reflected in the Statements of Cash Flows.

### 30. Deed of Cross Guarantee

Pursuant to ASIC Class Order 98/1418 (as amended by Class Orders 98/2017 and 00/0321) the wholly-owned Australian controlled entities listed in Note 25 footnote (b) are relieved from the Corporations Law requirement for the preparation, audit and lodgement of financial reports. These entities which are also referred to in the Directors' Declaration are, together with the Company, all members of the 'Extended Closed Group' as defined under the Class Order and are parties to a Deed of Cross Guarantee dated 29 January 1998 which provides that the parties to the Deed will guarantee to each creditor payment in full of any debt of these entities on winding up of that entity.

A consolidated statement of financial performance and consolidated statement of financial position, comprising the Company and those Australian controlled entities which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee at 31 January 2004 is set out below:

	2004 \$'000	2003 \$'000
<b>Statements of Financial Performance</b>		
Sales revenue	1,908,607	1,733,403
Cost of sales of goods	(1,688,766)	(1,558,838)
Gross profit	219,841	174,565
Other revenue	30,447	29,320
Warehousing and delivery	(49,674)	(46,722)
Marketing and sales	(68,641)	(49,036)
Administration and other expenses	(47,872)	(50,385)
Borrowing costs	(16,557)	(10,433)
<b>Profit from ordinary activities before income tax expense</b>	<b>67,544</b>	<b>47,309</b>
Income tax expense	23,081	15,583
<b>Net Profit</b>	<b>44,463</b>	<b>31,726</b>
Retained profits at the beginning of the financial year	44,828	31,808
Adjustment on initial adoption of AASB 1044 Provisions, Contingent Liabilities and Contingent Assets	11,109	–
Total available for appropriation	100,400	63,534
Dividends provided for or paid	21,899	18,706
<b>Retained profits at the end of the financial year</b>	<b>78,501</b>	<b>44,828</b>

# Notes to the Financial Statements continued

For the year ended 31 January 2004

	2004 \$'000	2003 \$'000
<b>30. Deed of Cross Guarantee continued</b>		
<b>Statements of Financial Position</b>		
<b>Current Assets</b>		
Cash assets	12,675	13,556
Receivables	221,763	205,619
Inventories	179,297	181,369
Prepayments	4,155	2,435
<b>Total current assets</b>	<b>417,890</b>	<b>402,979</b>
<b>Non-Current Assets</b>		
Receivables	10,376	8,460
Investments	22	22
Property, plant and equipment	120,189	94,370
Intangible assets	214,502	109,959
Deferred tax assets	11,477	11,277
<b>Total non-current assets</b>	<b>356,566</b>	<b>224,088</b>
<b>Total Assets</b>	<b>774,456</b>	<b>627,067</b>
<b>Current Liabilities</b>		
Payables	243,288	229,632
Interest bearing liabilities	95,112	16,000
Current tax liabilities	12,943	10,369
Provisions	10,908	21,468
<b>Total current liabilities</b>	<b>362,251</b>	<b>277,469</b>
<b>Non-Current Liabilities</b>		
Payables	11,715	14,419
Interest bearing liabilities	65,098	50,000
Deferred tax liabilities	3,349	3,584
Provisions	4,982	3,112
<b>Total non-current liabilities</b>	<b>85,144</b>	<b>71,115</b>
<b>Total Liabilities</b>	<b>447,395</b>	<b>348,584</b>
<b>Net Assets</b>	<b>327,061</b>	<b>278,483</b>
<b>Equity</b>		
Contributed equity	235,684	221,605
Reserves	12,876	12,050
Retained profits	78,501	44,828
<b>Total Equity</b>	<b>327,061</b>	<b>278,483</b>

### 31. Financial Instruments

#### (a) Off-balance sheet derivative instruments

The consolidated entity is exposed to financial risks associated with movements in interest and foreign exchange rates. These risk exposures are managed by quantifying the impact of adverse interest and foreign exchange rate movements on the overall profitability of the consolidated entity. Derivative financial instruments are used to manage these risks and the types of instruments used by the consolidated entity include interest rate swaps, options, foreign exchange options and forward currency contracts. Derivative financial instruments are only entered into within Board approved guidelines.

#### (b) Interest rate risk

##### *Interest rate swap contracts*

Interest rate swaps allow the consolidated entity to swap floating rate borrowings into fixed rate obligations. Each swap entered into involves the payment or receipt of the net amount of interest between fixed and floating rates on a monthly basis, calculated by reference to an agreed notional principal amount. The weighted average fixed interest rate on the consolidated entity's interest rate swap contracts for the financial year ending 31 January 2004 was 5.0%.

##### *Interest rate option contracts (floors and caps)*

Interest rate options allow the consolidated entity to achieve a predetermined interest rate range for its exposure to floating interest rate obligations on an agreed notional principal amount. Premiums paid or received for such options are amortised over the life of the instrument, thus increasing or decreasing the effective interest cost of the underlying obligation. Each floor (cap) involves the receipt (payment) of an upfront premium amount as well as an exchange of the net amount of interest between the floor or cap rate (if necessary) and the floating rate on a monthly basis. The cap rate is 5.5%. The rates of the floor vary between 4.85% and 5.25%.

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity period is set out in the following table:

	Weighted average effective interest rate %	Floating interest rate \$'000	Fixed interest rate maturities			Non- interest bearing \$'000	Total \$'000
			1 year or less \$'000	1 to 5 years \$'000	over 5 years \$'000		
<b>2004</b>							
<i>Recognised Financial Instruments</i>							
<i>Financial Assets</i>							
Cash assets	4.8	12,724	–	–	–	–	12,724
Receivables	15.0	2,618	–	–	–	229,593	232,211
<b>Total financial assets</b>		<b>15,342</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>229,593</b>	<b>244,935</b>
<i>Financial Liabilities</i>							
Payables	–	–	–	–	–	256,640	256,640
Interest bearing liabilities							
– loans and advances	5.3	148,475	20,111	–	–	–	168,586
Provisions	–	–	–	–	–	15,890	15,890
<b>Total financial liabilities</b>		<b>148,475</b>	<b>20,111</b>	<b>–</b>	<b>–</b>	<b>272,530</b>	<b>441,116</b>
<b>Net financial (liabilities)/assets</b>		<b>(133,133)</b>	<b>(20,111)</b>	<b>–</b>	<b>–</b>	<b>(42,937)</b>	<b>(196,181)</b>
<i>Unrecognised Financial Instruments</i>							
<i>Interest rate derivatives</i>							
Interest rate swaps	5.0	–	40,000	20,000	–	–	60,000
Interest rate caps	–	–	–	40,000	–	–	40,000
<b>Total derivatives</b>		<b>–</b>	<b>40,000</b>	<b>60,000</b>	<b>–</b>	<b>–</b>	<b>100,000</b>

# Notes to the Financial Statements continued

For the year ended 31 January 2004

## 31. Financial Instruments continued

	Weighted average effective interest rate %	Floating interest rate \$'000	Fixed interest rate maturities			Non- interest bearing \$'000	Total \$'000
			1 year or less \$'000	1 to 5 years \$'000	over 5 years \$'000		
<b>2003</b>							
<b>Recognised Financial Instruments</b>							
<i>Financial Assets</i>							
Cash assets	4.6	13,875	–	–	–	–	13,875
Receivables	15.0	4,714	–	–	–	204,669	209,383
<b>Total financial assets</b>		<b>18,589</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>204,669</b>	<b>223,258</b>
<i>Financial Liabilities</i>							
Payables	–	–	–	–	–	246,998	246,998
Interest bearing liabilities							
– loans and advances	5.2	54,178	16,000	–	–	–	70,178
Provisions	–	–	–	–	–	23,717	23,717
<b>Total financial liabilities</b>		<b>54,178</b>	<b>16,000</b>	<b>–</b>	<b>–</b>	<b>270,715</b>	<b>340,893</b>
<b>Net financial (liabilities)/assets</b>		<b>(35,589)</b>	<b>(16,000)</b>	<b>–</b>	<b>–</b>	<b>(66,046)</b>	<b>(117,635)</b>
<b>Unrecognised Financial Instruments</b>							
<i>Interest rate derivatives</i>							
Interest rate swaps	–	–	–	–	–	–	–
Interest rate caps	–	–	–	–	–	–	–
<b>Total derivatives</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>

### (c) Credit risk

Major concentrations of credit risk arise in that the principal activity of the consolidated entity and, hence receivables, is within the healthcare industry. Concentration of individual credit risk is limited due to the large number of customers. The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position is generally the carrying amount, net of any provisions for doubtful debts.

Credit risk also arises on guarantees provided, as detailed in Note 24.

### (d) Foreign exchange risk

The consolidated entity has limited exposure to foreign exchange risk and where applicable enters into option and forward currency contracts to reduce this risk. There were no forward currency contracts outstanding at balance date.

### (e) Net fair value of financial assets and liabilities

#### (i) On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles. The carrying amounts of receivables, cash assets, payables, loans and other advances, lease liabilities, and provisions approximates net fair value.

#### (ii) Off-balance sheet

The parent entity and certain controlled entities have potential financial liabilities which may arise from certain contingencies disclosed in Note 24. As explained in that note, no material losses are anticipated in respect of any of those contingencies.

The amount disclosed in Note 24 approximates the net fair value of financial liabilities as at balance date.

The net fair value of the consolidated entity's off-balance sheet derivative financial instruments are as follows:

	Gain/(loss) 2004 \$'000	Gain/(loss) 2003 \$'000
<b>Net fair values</b>		
<i>Interest rate derivatives</i>		
Interest rate swaps	320	–
Interest rate caps	224	–
<b>Total derivatives</b>	<b>544</b>	<b>–</b>

# Directors' Declaration

The Directors declare that the financial statements and notes set out on pages 29 to 60:

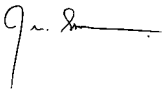
- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's and consolidated entity's financial position as at 31 January 2004 and of their performance, as represented by the results of their operations and their 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; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 25 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the Deed of Cross Guarantee described in Note 30.

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

For and on behalf of the Board



**John W Stocker AO**  
Chairman

Melbourne,  
22 March 2004



**Elmo de Alwis**  
CEO & Managing Director

# Independent Audit Report to the Members of Sigma Company Limited

## Audit opinion

In our opinion, the financial report of Sigma Company Limited:

- gives a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Sigma Company Limited and the Sigma Group (defined below) as at 31 January 2004, and of their performance for the year ended on that date, and
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the rest of our audit report.

## Scope

### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Sigma Company Limited (the Company) and the Sigma Group (the consolidated entity), for the year ended 31 January 2004. The consolidated entity comprises both the Company and the entities it controlled during that year.

The directors of the Company 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 conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to 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 control, 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 assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

## Independence

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



PricewaterhouseCoopers



Andrew J Mill  
Partner

Melbourne,  
22 March 2004

# Security Holders Information

The shareholder information set out below was applicable as at 22 March 2004.

	Class of Equity Security		
	Ordinary Shares	Investor Preference Shares	8.5% Preference Shares
<b>(a) Distribution of Equity Securities</b>			
Analysis of numbers of equity security holders by size of holding:			
1 – 1,000	3,779	17	46
1,001 – 5,000	5,640	29	6
5,001 – 10,000	1,395	5	2
10,001 – 100,000	1,298	2	–
100,001 and over	140	–	–
Total number of holders	12,252	53	54
Number of holders of less than a marketable parcel	77	2	15
Percentage held by the 20 largest holders	37%	77%	91%

## (b) Equity Security Holders

The names of the 20 largest holders of quoted equity securities are listed below:

Name	Ordinary Shares	
	Number Held	% of Issued Shares
J P Morgan Nominees Australia Limited	12,932,006	9.42
National Nominees Limited	8,673,076	6.31
Westpac Custodian Nominees Limited	5,388,203	3.92
Queensland Investment Corporation	2,925,759	2.13
Computershare Plan Co Pty Ltd	2,402,200	1.75
AMP Life Limited	1,908,098	1.39
Citicorp Nominees Pty Limited (CFS Future Leaders Fund A/c)	1,768,169	1.29
UBS Nominees Pty Ltd	1,736,811	1.26
ANZ Nominees Limited	1,714,362	1.25
Citicorp Nominees Pty Limited (CFS WSLE Imputation Fund)	1,573,127	1.15
Citicorp Nominees Pty Limited	1,494,986	1.09
Citicorp Nominees Pty Limited (CFS WSLE Aust Share Fund a/c)	1,212,879	0.88
Cogent Nominees Pty Limited	993,505	0.72
Citicorp Nominees Pty Limited (CFS WSLE Industrial Share Fund)	960,400	0.70
Citicorp Nominees Pty Limited (CFS Imputation Fund a/c)	911,137	0.66
Mr John William Evans (Evans Family Super Fund a/c)	861,425	0.63
Government Superannuation Office (State Super Fund A/c)	789,478	0.57
PSS Board	673,895	0.49
Cogent Nominees Pty Limited (SMP accounts)	630,374	0.46
CSS Board	596,929	0.43

## Security Holders Information *continued*

### **(c) Substantial Shareholders**

As at 22 March 2004, no shareholder held 5% or more of the ordinary (voting) shares in the Company except for Barclays Global Investors and Commonwealth Bank of Australia and their subsidiaries. Under the Constitution, no person is entitled to more than 10% of the total voting shares in Sigma. The Company is empowered to require the divestment of shareholdings over the 10% limit. This shareholding restriction expires on the fifth anniversary of the date of listing on the ASX (3 November 2004), at which time it will lapse.

### **(d) Voting Rights**

The voting rights attaching to each class of equity securities are set out below.

#### ***Ordinary Shares***

Holders of Ordinary Shares have the right to vote at every general meeting of the Company and at separate meetings of holders of Ordinary Shares. At a general or separate meeting, every holder of Ordinary Shares present in person or by proxy has, on a poll, one vote for each Ordinary Share held. On a show of hands, shareholders (apart from corporate shareholders) present only by proxy are not entitled to vote.

#### ***Investor Preference Shares***

Holders of Investor Preference Shares have the same rights as the holders of Ordinary Shares to receive notices, reports, profit and loss accounts and balance sheets and to attend and be heard at all general meetings, and have the right to vote on the following but not otherwise:

- On any question considered at a general meeting if, at the date of the meeting, the dividend on preference shares is in arrears by more than six months;
- At a general meeting upon a proposal:
  - (a) to reduce the share capital of the Company;
  - (b) that affects rights attached to the preference shares;
  - (c) to wind up the Company; or
  - (d) for the disposal of the whole of the property, business and undertaking of the Company; and
- On any question considered at a general meeting held during the winding up of the Company.

#### ***Preference Shares***

Holders of Preference Shares are entitled to vote (on the same basis as holders of Ordinary Shares) on any resolution for the election or removal of a Director, but otherwise are not entitled to vote at any general meeting of the Company.

# Group Directory

## Company Personnel

### Directors

J.W. Stocker AO, MB, BS, BMedSc, PhD, FRACP, FTSE  
E.R. de Alwis, CPA, MAICD  
L.C. Butler, BPharm, MPS, AFAIPM, MACPP, MSHP, FAICD, CDA Dip  
W.J. Scott, JP, Bpharm, MPS, FAIPM, F.Dip Mgt, FAICD, CDA Dip  
W.N. Charman, BPharm, PhD, MAICD  
L.B. Nicholls, BA (Econ), MBA, FAICD  
H.K. Windle, BPharm, MPS, FAIM  
B. Jamieson, FCA  
E.F. Murdoch, BComm

### Company Secretary

James Orr, LLB, BComm

### Investor Relations

Gary Woodford, B.Bus (Acc), CPA, FTIA

### Auditors

PricewaterhouseCoopers

### Share Registry

Computershare Investor Services Pty Ltd

## Management

### Corporate

Elmo de Alwis	Managing Director
Mark Hooper	Chief Financial Officer
Gary Harbor	Head of Human Resources
Jackie Toh	General Manager Group IT & Management Systems

### Pharmaceutical Division

Richard Treagus	General Manager Sales & Marketing and New Business
Dusko Pejnovic	General Manager Contracts/Exports
Philip Marshall	General Manager Scientific Affairs

### Healthcare Division

Grant McKirdy	General Manager Healthcare Services
Chris Wettasinghe	General Manager Merchandise & Inventory
Brendan Redmond	General Manager Retail
Steven Thacker	General Manager Logistics

### Offices

#### Sigma Company Limited

Registered Office  
1408 Centre Road, Clayton VIC 3168  
[www.sigmaco.com.au](http://www.sigmaco.com.au)

#### Corporate Head Office

96 Merrindale Drive, Croydon South VIC 3136  
Tel 03 9839 2800 Fax 03 9839 2752

## Pharmaceutical Division

96 Merrindale Drive, Croydon South VIC 3136  
Tel 03 9839 2800 Fax 03 9839 2752

428–444 Mt Dandenong Road, Croydon VIC 3136  
Tel 03 9724 2700 Fax 03 9725 1614

1408 Centre Road, Clayton VIC 3168  
Tel 03 9839 2800 Fax 03 8542 1432

286–302 Frankston Dandenong Road, Dandenong VIC 3175  
Tel 03 8792 1000 Fax 03 9768 3978

7 Maitland Place, Northwest Business Park,  
Baulkham Hills NSW 2153  
Tel 02 9894 3500 Fax 02 9899 1600

17 Curzon Street, Tennyson, QLD 4106  
Tel 07 3212 1111 Fax 07 3215 5230

## Healthcare Division

1408 Centre Road, Clayton VIC 3168  
Tel 03 9542 9511 Fax 03 9542 9769

158 Fitzgerald Road, Laverton VIC 3028  
Tel 03 9360 6000 Fax 03 9369 7094

24–26 Watson Street, Shepparton VIC 3630  
Tel 03 5821 4255 Fax 03 5831 3006

59–63 Garema Circuit, Kingsgrove NSW 2208  
Tel 02 9740 1000 Fax 02 9740 1047

50–52 Redfern Street, Wetherill Park NSW 2164  
Tel 02 9757 1166 Fax 02 9725 3276

31 Glenwood Drive, Thornton NSW 2322  
Tel 02 4966 5444 Fax 02 4966 5600

160 Wecker Road, Mt Gravatt QLD 4122  
Tel 07 3212 1621 Fax 07 3849 4622

271 Bolsover Road, Rockhampton QLD 4701  
Tel 07 4922 1374 Fax 07 4922 7328

31 Vanity Street, Toowoomba QLD 4350  
Tel 07 4634 5155 Fax 07 4634 5465

16–20 Bell Street, Townsville QLD 4810  
Tel 07 4771 2022 Fax 07 4772 3454

227 South Road, Ridleyton SA 5008  
Tel 08 8346 9561 Fax 08 8340 1448

3/2205 Coonawara Road, Winnellie NT 0820  
Tel 08 8984 4025 Fax 08 8984 3875

26 Wheeler Street, Belmont WA 6104  
Tel 08 9478 9700 Fax 08 9478 9788

McKay Avenue, Grove Estate, Glenorchy TAS 7010  
Tel 03 6272 3211 Fax 03 6272 3232

17–19 Invermay Street, Invermay TAS 7248  
Tel 03 6331 2011 Fax 03 6331 6470

