



ATLAS GROUP HOLDING LIMITED
A.C.N. 098 674 545
Appendix 4D – Half Yearly Financial Report
Half year ended 31 December 2005

Results for announcement to the market.

				\$'000
Revenues from continuing operations	up	10.5%	to	209,171
Net profit from continuing operations attributable to members	down	56.7%	to	3,151

Dividends	Amount per security	Franked amount per security
Interim dividend	3.9 cents	3.9 cents (at 30%)
Previous corresponding period	3.9 cents	3.9 cents (at 30%)
Record date for determining entitlements to the dividend	18 April 2006	

Explanation of Results

Please refer to the attached commentary for an explanation of the results.



28 February 2006

Business transformation well underway led by new Management team

- All Group activities were subject to review in the period, resulting in the realignment of Atlas' operating model and strategic focus, with consequential major restructuring of the distribution businesses.
- Strong operating performance and earnings result from Bisalloy supported by continuing robust resources sector demand, while Atlas' distribution businesses experienced tight trading conditions and weakening stainless steel prices.
- Underlying consolidated earnings weaker in the period, but strong turnaround in operating cash flows.
- FY06 underlying profit likely to remain at FY05 level as future growth base is formed.
- Atlas announces its exit from the Southward automotive business.
- Interim dividend of 3.9c fully franked.

Results Summary - Atlas Group Holdings Limited results for the half year ended 31 December 2005 (HY06)			
\$'m	HY06	HY05	% Change
Group Statutory Reporting Basis (Continuing Operations)			
Sales revenues	208.3	188.6	10%
Earnings before interest and tax ("EBIT")	9.2	14.7	-37%
Operating cash flow ("OCF")	18.4	(13.2)	239%
Net profit after tax ("NPAT")	3.4	7.5	-55%
Earnings per share (EPS) (cents)	3.2c	8.6c	-63%
Dividend (cents)	3.9c	3.9c	0%
Normalised Reporting Basis (Continuing Operations)			
Sales revenues	208.3	188.6	10%
EBIT	12.0	13.7	-12%
EBIT margin (%)	5.8%	7.3%	
OCF	18.7	(12.8)	246%
NPAT	5.4	6.1	-12%
EPS (cents)	5.1c	6.9c	-26%

Review of Atlas' Business

With the appointment of Dr Martin Foreman as the new Managing Director in July 2005, the Company undertook an extensive review of its financial performance, operations and strategic direction. That review acknowledged unacceptable returns from the distribution businesses but also identified significant opportunities for operational improvements and growth. The major actions arising were:

1. Accelerated development of the Bisalloy quenched & tempered plate business with further capacity upgrades at the Unanderra plant and development of new markets.
2. Restructuring of Atlas' distribution businesses to increase returns on funds employed via a best-practice centralised supply chain function business model. This eliminates fragmented and duplicated procurement functions in regional operations and drives more effective and efficient management of inventory. It also provides Atlas with a standardised business model that is internationally scaleable.
3. Consolidation and rationalisation of the Group's New Zealand distribution structure, eliminating duplicated functions and facilities inherited from the acquisition of Stainless Alloys in FY04.
4. Exit from the loss making Southward automotive business in Wellington before 30 June 2006. Provisions totalling \$6.5million (NZ\$7.0million) have been made against the carrying value of the business.
5. Development of the Project Services Group business model. Atlas has successfully established itself as a material supplier to major international resource sector and infrastructure projects and now extends its value proposition to include supply chain and logistics management services to a \$billion market.

Results Analysis

Results for the first half of the financial year were substantially impacted by costs associated with restructuring of the distribution businesses and write-downs together with provisions related to exiting from Southwards automotive. These actions were required to eliminate loss making parts of the business, reduce cost structures and reduce working capital (inventory) to become efficient and fit for growth across the operations.

This transformation of the business has been taking place against a trading environment of continuing strong demand from the resources sector but with declining stainless steel prices and weaker demand from the other sectors of Atlas' markets. The underlying consolidated earnings for the half year declined 12% when compared to the corresponding previous period. A reconciliation of the reported earnings and net profit result with the underlying trading performance is given below:

\$'m	HY06	HY05
Reported EBIT (continuing operations)	9.2	14.7
add back:		
Atlas distribution - restructuring expenses incurred	1.8	
Atlas distribution - inventory discontinuance provision	1.0	
Discount on acquisition of assets realised during period		(2.3)
Systems implementation costs		0.7
Closure of Australian automotive distribution		0.6
Normalised EBIT (continuing operations)	12.0	13.7
Reported NPAT (continuing operations)	3.4	7.5
add back: (after tax)		
Atlas distribution - restructuring expenses incurred	1.3	
Atlas distribution - inventory discontinuance provision	0.7	
Discount on acquisition of assets realised during period		(2.3)
Systems implementation costs		0.5
Closure of Australian automotive distribution		0.4
Normalised NPAT (continuing operations)	5.4	6.1
Normalised EPS (continuing operations)(cents per share)	5.1c	6.9c

Segment Analysis

Shown below is a breakdown of sales revenue and earnings before interest and tax by major business segment.

\$'m	HY06	HY05	Chg%
Sales Revenue			
Distribution	162.0	163.5	-1%
Manufacturing	57.3	39.4	45%
Eliminations / Unallocated	(11.0)	(14.3)	
	<u>208.3</u>	<u>188.6</u>	<u>10%</u>
EBIT (normalised)			
Distribution	3.7	10.5	-65%
Manufacturing	11.4	6.1	87%
Eliminations / Unallocated	(3.0)	(2.9)	
	<u>12.0</u>	<u>13.7</u>	<u>-12%</u>

Distribution

Underlying earnings of Atlas distribution decreased by 65% when compared to the previous corresponding period. Declining stainless steel prices and weaker general market demand contributed to reduced margins, and also highlighted the urgent need to reduce cost structures, improve operating efficiency and reduce funds employed.

With the January restructuring 80 positions were removed from across Australian and New Zealand distribution and Head Office with cost savings and benefits estimated at \$8.5million annually. One time restructuring pre-tax costs have amounted to \$3million of which \$1.8million was incurred in the period, with the balance to be expensed in the second half of the year.

The new Atlas distribution business model transforms the business from fragmented regionally based full function operations to become a sales-focussed branch network supported by a central best-practice Group Supply Chain function. The strategic investment by the Group in SAP last year enabled the company to make this change of its business model and support the associated business process automation and standardisation. In conjunction with the establishment of the Group Supply Chain function Atlas has undertaken an exercise to rationalise its inventory, identifying substantial holdings that are to be discontinued. A campaign is in place to actively quit these holdings and an additional provision of \$1.0million has been made against the net realisable value of discontinued inventories lines which are not covered by Atlas' normal provisioning policy.

Notwithstanding that in the period Atlas' Australian and New Zealand distribution businesses reduced inventory holdings by over \$4million to \$90million at 31 December 2005, the newly implemented supply chain and inventory strategies target reducing distribution inventories by a further \$10million before 30 June 2006 and an additional \$15million in FY07.

With this transformation the distribution businesses will earn an adequate return in FY07.

Manufacturing

Atlas' manufacturing, which comprises Bisalloy quenched and tempered plate manufacturing and Southward tube making, increased earnings by 87% when compared to the previous corresponding period. This increase was principally driven by the additional 25% production capacity at Bisalloy that was commissioned in the second half of FY05 and continuing strong resources demand for plate. A further 30% capacity upgrade at Bisalloy, announced in November 2005, is in progress, on-time and on-budget for commissioning in October 2006. The capital cost of this further upgrade will amount to \$4million which will largely be incurred in the second half of the current financial year.

Product Sales Analysis

Shown below is an analysis of Atlas' consolidated sales revenue by major product grouping.

\$'m	HY06	HY05	Chg%
Sales Revenue			
Stainless steel	72.8	73.6	-1%
Aluminium	14.7	14.5	1%
Engineering steel	19.5	20.2	-3%
Tubular products	47.3	43.0	10%
Quenched and tempered steel	49.0	32.1	53%
Other products & income	5.0	5.2	-4%
	<u>208.3</u>	<u>188.6</u>	<u>10%</u>

Cash Flow

Atlas delivered a strong turnaround in its operating cash flow performance with an inflow from continuing operations of \$18.7million compared to an outflow of \$12.8million in the previous corresponding period. Reductions in inventories will contribute to strong operating cash flow over the next 12 months.

Balance Sheet

Atlas improved its receivables performance during the period. The outstanding receivables balance decreased substantially since 30 June 2005 to total \$70.8million at 31 December 2005. Since 30 June 2005 inventory reductions achieved by Atlas distribution were offset by increases in manufacturing inventories (where Bisalloy re-established inventory levels following previous greenfeed shortages).

Atlas' net borrowings at 31 December 2005 reduced \$12.3million to \$96.7million from \$109.0million at 30 June 2005. The write-down to realisable value of the Southward Automotive operating assets reduced equity by \$6.5million to stand at \$62.9million at 31 December 2005. This write-down adjustment obscures a notable improvement in the gearing of Atlas' continuing operations during the period. The debt / equity ratio at 31 December 2005 was 154% compared to 157% at 30 June 2005.

Capital Expenditure

Capital expenditure for the period was \$2.9million which largely comprised normal replacement expenditure. Depreciation for the period was \$2.9million.


Outlook

Underlying full year profit is projected to be in line with the previous financial year. We expect the distribution businesses to deliver an improved operating performance benefiting from the restructuring together with stable or increasing inventory replacement costs. The outlook for Bisalloy remains robust with strong demand but with the prospect of reduced margins as it competes with imported product.

Dividend

The Directors have declared a 3.9c fully-franked interim dividend for the half year ended 31 December 2005. The dividend will be paid on 4 May 2006 to all shareholders recorded on the Company's share register at 18 April 2006.

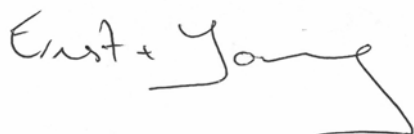
The interim dividend will be eligible to participate in the Company's Dividend Reinvestment Plan ("DRP"). The Directors have determined that shares issued under the DRP will be issued at a 5% discount. The last date for receipt of notices for participation in the DRP in respect of the interim dividend is 18 April 2006.



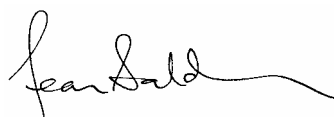
Martin Foreman
Managing Director
28 February 2006

Auditor's Independence Declaration to the Directors of Atlas Group Holdings Limited

In relation to our review of the financial report of Atlas Group Holdings Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Sean Balding
Partner
Melbourne
28 February 2006



**Consolidated Income Statement
Half Year ended 31 December 2005**

	Notes	Half Year Ending 31 Dec 2005 \$'000	Half Year Ending 31 Dec 2004 \$'000
Continuing operations			
Revenues	3	209,171	189,342
Changes in inventories of finished goods and work in progress		(123,565)	(117,332)
Raw material and consumables used		(29,559)	(17,117)
Depreciation and amortisation expense	4(a)	(2,900)	(1,625)
Finance costs	4(b)	(4,767)	(5,057)
Salaries and employee benefits expense		(19,380)	(17,372)
Operating lease rental expense		(3,266)	(2,860)
Other expenses from ordinary activities		(21,276)	(18,463)
Share of net profits of associated entities accounted for using the equity method	3	-	147
Profit/(loss) from continuing operations before income tax		4,458	9,663
Income tax (charge)/benefit attributable to profit/(loss)		(1,067)	(2,131)
Profit/(loss) after income tax from continuing operations		3,391	7,532
Discontinued operation			
Profit/(loss) after income tax from discontinued operation	5	(6,916)	(441)
Net profit/(loss) for the period		(3,525)	7,091
Net (profit)/loss attributable to minority interests		(240)	(249)
Net profit/(loss) attributable to members of the Company		(3,765)	6,842
Earnings per share (cents per share):			
- Basic for profit/(loss) for the year		(3.8)	8.1
- Basic for profit from continuing operations		3.2	8.6
- Diluted for profit/(loss) for the year		(3.7)	7.8
- Diluted for profit from continuing operations		3.1	8.3
Franked dividends per share (cents)	2	3.9	3.9

The above Income Statement should be read in conjunction with the accompanying Notes.



**Consolidated Balance Sheet
31 December 2005**

	Notes	31 Dec 2005 \$'000	30 June 2005 \$'000
Current assets			
Cash		632	1,930
Receivables		70,793	91,263
Inventories		107,374	109,469
Other		2,240	2,154
		181,039	204,816
Assets of discontinued operations	5	4,849	-
Total current assets		185,888	204,816
Non-current assets			
Property, plant and equipment		33,314	36,924
Deferred tax assets		4,449	4,149
Intangibles		1,243	1,243
Other		333	8
Total non-current assets		39,339	42,324
Total assets		225,227	247,140
Current liabilities			
Payables		55,727	57,010
Current tax liabilities		546	2,292
Interest bearing liabilities		25,261	3,865
Provisions		6,027	6,507
		87,561	69,674
Liabilities directly associated with assets of discontinued operations	5	1,493	-
Total current liabilities		89,054	69,674
Non-current liabilities			
Payables		470	328
Interest bearing liabilities		72,060	107,046
Provisions		703	759
Total non-current liabilities		73,233	108,133
Total liabilities		162,287	177,807
NET ASSETS		62,940	69,333
EQUITY			
Parent entity interest			
Issued capital	6	36,680	34,996
Employee equity benefits reserve		269	219
Net gains on cash flow hedges		75	-
Foreign currency translation reserve		40	(375)
Retained earnings		24,106	32,895
Total parent entity interest in equity		61,170	67,735
Total minority interest		1,770	1,598
TOTAL EQUITY		62,940	69,333

The above Balance Sheet should be read in conjunction with the accompanying Notes.



**Consolidated Statement of Cash Flows
Half Year ended 31 December 2005**

Notes	Half Year Ending 31 Dec 2005 \$'000	Half Year Ending 31 Dec 2004 \$'000
Cash flows from operating activities		
Receipts from customers	252,908	232,366
Payments to suppliers and employees	(227,105)	(237,636)
Interest received	115	21
Interest paid	(4,751)	(5,056)
Income tax paid	(2,723)	(2,901)
Net cash inflow/(outflow) from operating activities	18,444	(13,206)
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	253	380
Payment for controlled entities (net of cash acquired)	-	(2,831)
Payments for property, plant and equipment	(2,944)	(3,524)
Net cash inflow/(outflow) from investing activities	(2,691)	(5,975)
Cash flows from financing activities		
Proceeds from issue of shares	-	13,447
Payment of share issue costs	-	(346)
Proceeds from/(repayment of) borrowings	(12,760)	4,868
Payment of dividends on ordinary shares	(3,340)	(1,897)
Repayment of finance lease principal	(951)	(415)
Net cash inflow/(outflow) from financing activities	(17,051)	15,657
Net increase/(decrease) in cash held	(1,298)	(3,524)
Cash at the beginning of the financial period	1,930	6,623
Cash at the end of the financial period	632	3,099

The above Statement of Cash Flows should be read in conjunction with the accompanying Notes.



Appendix 4D – Financial Report for the
Half Year ended 31 December 2005

Consolidated Statement of Changes in Equity
Half Year ended 31 December 2005

	<i>Attributable to equity holders of the Company</i>				Total	Minority interest	Total equity
	Issued capital	Employee equity benefits reserve	Foreign currency translation reserve	Retained earnings			
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 July 2004	18,513	81	275	27,229	46,098	1,287	47,385
Profit for the period	-	-	-	6,842	6,842	249	7,091
Cost of share-based payments	-	68	-	-	68	-	68
Gain/(loss) on translation of overseas controlled entities	-	-	(166)	-	(166)	(132)	(298)
Dividend reinvestment plan	1,356	-	-	(1,356)	-	-	-
Underwriting of dividend	1,897	-	-	(1,897)	-	-	-
Private equity raising	11,550	-	-	-	11,550	-	11,550
Less transaction costs	(346)	-	-	-	(346)	-	(346)
Additions through investment of capital	-	-	-	-	-	7	7
At 31 December 2004	32,970	149	109	30,818	64,046	1,411	65,457

The above Statement of Changes in Equity should be read in conjunction with the accompanying Notes.



Appendix 4D – Financial Report for the
Half Year ended 31 December 2005

Consolidated Statement of Changes in Equity
Half Year ended 31 December 2005

	<i>Attributable to equity holders of the Company</i>					Total \$'000	Minority interest \$'000	Total equity \$'000
	Issued capital \$'000	Employee equity benefits reserve \$'000	Net gains on cash flow hedges \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000			
At 1 July 2005	34,996	219	-	(375)	32,895	67,735	1,598	69,333
Profit for the period	-	-	-	-	(3,765)	(3,765)	240	(3,525)
Cost of share-based payments	-	50	-	-	-	50	-	50
Gain/(loss) on translation of overseas controlled entities	-	-	-	415	-	415	(68)	347
Net gains on cash flow hedges	-	-	75	-	-	75	-	75
Dividend reinvestment plan	1,684	-	-	-	(1,684)	-	-	-
Payment of dividend	-	-	-	-	(3,340)	(3,340)	-	(3,340)
At 31 December 2005	36,680	269	75	40	24,106	61,170	1,770	62,940

The above Statement of Changes in Equity should be read in conjunction with the accompanying Notes



1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half year financial report should be read in conjunction with the annual Financial Report of Atlas Group Holdings Limited as at 30 June 2005, which was prepared based on Australian Accounting Standards applicable before 1 January 2005 ('AGAAP').

It is also recommended that the half year financial report be considered together with any public announcements made by Atlas Group Holdings Limited and its controlled entities during the half year ended 31 December 2005 in accordance with its continuous disclosure obligations arising under the Corporations Act 2001.

a. Basis of accounting

The half year financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, including applicable Accounting Standards and other mandatory professional reporting requirements.

The half year financial report has been prepared in accordance with the historical cost convention, except for assets and liabilities classified as held for sale which are measured at fair value less costs to sell.

For the purposes of preparing the half year financial report, the half year has been treated as a discrete reporting period.

b. Statement of compliance

The half year financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the half year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

This is the first half year financial report prepared based on AIFRS and comparatives for the half year ended 31 December 2004 and the full year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies of the Group under AIFRS are disclosed in Note 1(c) below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half year ended 31 December 2004 and full year 30 June 2005,

to the balances reported in the 31 December 2004 half year report and the 30 June 2005 full year financial report prepared under prior AGAAP are detailed in Note 1(e).

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the half year ending 31 December 2005.



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies

(i) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company, being Atlas Group Holdings Limited, and its controlled entities (“the consolidated entity” or “the Group”) as at the balance date. The financial statements of controlled entities are prepared for the same reporting period as the parent company, using consistent accounting policies.

Controlled entities are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

All intra-group balances, transactions, income, expenses, profits and losses resulting from intra-group transactions are eliminated in full.

Minority interests represent the portion of profit or loss and net assets in controlled entities, not held by the Group and are presented separately in the consolidated Income Statement and within equity in the consolidated Balance Sheet, separately from parent shareholders’ equity.

(ii) Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred income tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(ii) Taxation (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Income Statement.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(iii) Cash and cash equivalents

Cash in the balance sheet is comprised of cash on hand and in banks and short-term deposits with an original maturity of three months or less. Cash is stated at nominal value.

For the purpose of the Statement of Cash Flows, cash is as defined above, net of outstanding bank overdrafts.

(iv) Receivables

Trade debtors

Trade debtors are carried at amounts due less an allowance for any uncollectible amounts. The collectibility of debts is assessed at balance date and provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off as incurred. Trade debtors are normally settled within 45 to 65 days. These are non-interest bearing.

Other debtors

Other debtors are carried at amounts due less an allowance for any uncollectible amounts. The collectibility of debts is assessed at balance date and provision is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off as incurred. These are non-interest bearing.



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(v) Inventories

Raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	purchase cost on a specific identification basis;
Work in progress and finished goods	cost of direct materials, labour and an appropriate proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(vi) Property, plant and equipment

Acquisition

Property, plant and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value.

Subsequent additional costs

Costs incurred on property, plant and equipment subsequent to initial acquisition are capitalised when it is probable that future economic benefits, in excess of the originally assessed performance of the asset will flow to the Group in future years. Where these costs represent separate components they are accounted for as separate assets and are separately depreciated over their useful lives. When each major inspection is performed, its cost is recognised in the carrying amount of property, plant and equipment as a replacement if the recognition criteria are satisfied.

Depreciation and amortisation

Items of property, plant and equipment are depreciated/amortised using the straight-line method over their estimated useful lives.

The major depreciation periods used for each class of asset are as follows:

- Buildings	50 years
- Plant and equipment	5 – 10 years
- Leasehold improvements	5 – 10 years
- Finance leased plant and equipment	5 – 10 years



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(vi) Property, plant and equipment (continued)

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is available for use.

The residual values, useful lives and depreciation methods applied to property, plant and equipment are reviewed, and adjusted if appropriate, at each financial year end.

Impairment

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating-unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement in the period the item is derecognised.

(vii) Intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the combination's synergies, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(vii) Intangibles (continued)

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(viii) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Any impairment losses of continuing operations are recognised in the Income Statement as a separate line item.

An assessment is made at each reporting date as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed, except for those related to goodwill, only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Income Statement and the related depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(ix) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or consolidated entity. Trade accounts payable are normally settled within 60 to 180 days.

(x) Issued capital

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(xi) Employee benefits

Liabilities arising in respect of short-term employee benefits such as wages, salaries, annual leave and sick leave represent the amount which the entity has a present obligation to pay resulting from employees' services provided up to the balance date. Liabilities in respect of short-term employee benefits are measured at their nominal amounts.

Long-term employee benefit liabilities such as long service leave represent the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date. Long-term employee benefit liabilities are measured at their present values using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the employee benefit liabilities, consideration has been given to future increases in wage and salary rates, and the consolidated entity's experience with staff departures. Related on-costs have also been included in the liability.

The Group contributes to several defined contribution superannuation plans. Contributions are charged against income as they are made.



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(xii) Share-based payment transactions

Employees (including directors and other senior executives) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ('equity-settled transactions'). There is currently an Employee Performance Rights Plan (PRP) in place to provide these benefits.

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined by an external valuer using a binomial model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the issuer ('market conditions'), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. This opinion is formed based on the best available information at balance date. The Income Statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other vesting conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(xiii) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense related to any provision is presented in the Income Statement net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(xiv) Interest bearing liabilities

In comparative periods all loans and borrowings are measured at the principal amount. Interest is charged as an expense as it accrues.

From 1 July 2005, all loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(xv) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), or GST equivalents, such as Value Added Tax, except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO), or equivalent foreign organisations. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expenses.

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 part of receivables or payables in the Balance Sheet.

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

(xvi) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

Sale of goods

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products to entities outside the consolidated entity. Sales revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the customer. Risks and rewards of ownership are considered passed to the customer at the time of delivery of the goods to the customer.



1. **BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. **Summary of significant accounting policies (continued)**

(xvi) Revenue recognition (continued)

Rendering of services

Revenue from rendering services is recognised in the period in which the service is provided, having regard to the stage of completion of the contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Interest income

Interest income is recognised when control of the right to receive the interest payment passes in the comparative periods. From 1 July 2005 interest income is recognised as it accrues using the effective interest method (that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset).

Dividends

Revenue is recognised when the right to receive the payment is established.

Rental income

Rental income arising from property sub-leases is accounted for on a straight-line basis over the lease terms of the ongoing leases.

(xvii) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(xviii) Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and whether the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and a reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the Income Statement on a straight-line basis over the lease term.



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(xix) Foreign currency translation

The financial statements are presented in Australian dollars (A\$), which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

The functional currency of the foreign operations is the currency in circulation in the country they each reside in. As at the reporting date, the assets and liabilities of these subsidiaries are translated into the Company's presentation currency (A\$) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to the foreign currency translation reserve within equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the Income Statement.

(xx) Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(xxi) Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' agreement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

(xxii) Derivative financial instruments and hedging

This policy is effective 1 July 2005.

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(xxi) Derivative financial instruments and hedging (continued)

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction; or
- hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term to maturity. When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes the designation. Any adjustment to the carrying



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

c. Summary of significant accounting policies (continued)

(xxi) Derivative financial instruments and hedging (continued)

amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash Flow Hedges

Cash flow hedges are a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.



**1. BASIS OF PREPARATION OF THE HALF YEAR FINANCIAL REPORT
(continued)**

(d) AASB 1 Transitional exemptions

The Group has made its election in relation to the transitional exemptions allowed by AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* as follows:

Business combinations

AASB 3 *Business Combinations* was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS).

Share-based payment transactions

AASB 2 *Share-Based Payments* is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Group has not elected to adopt this exemption and has applied AASB 132 *Financial Instruments: Presentation and Disclosure* and AASB 139 *Financial Instruments: Recognition and Measurement* to its comparative information.

(e) Impact of adoption of AIFRS

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 ('AGAAP') are illustrated below.

(i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Consolidated		
	30 June 2005 \$'000	31 Dec 2004 \$'000	01 July 2004 \$'000
Total equity under AGAAP	70,207	66,115	47,897
<i>Adjustments to equity:</i>			
Adjustment to deferred tax assets and liabilities (A)	(816)	(560)	(449)
Write-back of goodwill amortisation (B)	31	-	-
Adjustment to employee provisions (C)	(133)	(145)	(93)
Tax effect of (C) above (D)	44	47	30
Total equity under AIFRS	69,333	65,457	47,385

- (A) Adoption of the balance sheet method of accounting for deferred income tax assets and liabilities.
- (B) Goodwill is not amortised under AASB 3 *Business Combinations*, but was amortised under prior AGAAP.
- (C) Employee provisions not previously recognised under prior AGAAP.
- (D) Tax effect of (C) above.



(ii) Reconciliation of profit after tax as presented under AGAAP to that under AIFRS

	Year Ending 30 Jun 2005 \$'000	Half Year Ending 31 Dec 2004 \$'000
Profit after tax as previously reported	13,190	7,056
<i>Adjustments to equity:</i>		
Adjustment to deferred tax assets and liabilities (A)	(367)	(109)
Write-back of goodwill amortisation (B)	31	-
Recognition of share-based payments expense (C)	(137)	(68)
Adjustment to employee provisions (D)	(40)	(54)
Tax effect of (D) above (E)	13	17
Profit after tax under AIFRS	12,690	6,842

- (A) Adoption of the balance sheet method of accounting for deferred income tax assets and liabilities.
- (B) Goodwill is not amortised under AASB 3 *Business Combinations*, but was amortised under prior AGAAP.
- (C) Share-based payment costs are charged to the Income Statement under AASB 2 *Share-Based Payments*, but not under prior AGAAP.
- (D) Employee provisions not previously recognised under prior AGAAP.
- (E) Tax effect of (C) above.

(iii) Explanation of material adjustments to the Statements of Cash Flows

There are no material differences between the Statements of Cash Flows presented under AIFRS and those presented under AGAAP.



	Half Year Ending 31 Dec 2005 \$'000	Half Year Ending 31 Dec 2004 \$'000
2. DIVIDENDS PAID AND PROPOSED:		
Equity dividends on ordinary shares:		
Dividends paid (fully franked at the 30% tax rate) Final 2005 dividend at 5.1 cents per share (2004: 3.9 cents)	5,024	3,253
Since the end of the year, the directors declared the following dividends:		
Dividends proposed and not recognised as a liability (fully franked at the 30% tax rate) Interim dividend at 3.9 cents per share	3,900	3,771
The financial effect of the interim dividends has not been brought to account in the consolidated entity's financial statements for the half year ended 31 December 2005 and will be brought to account in subsequent financial reports.		
3. REVENUE FROM CONTINUING OPERATIONS:		
Sales of goods and services	208,307	188,591
Other revenue	746	729
	209,053	189,320
Other income		
Interest – other parties	115	21
Rent revenue	3	1
Total other income	118	22
Total revenues from continuing operations	209,171	189,342
Share of net profits of associates accounted for using the equity method	-	147



	Half Year Ending 31 Dec 2005 \$'000	Half Year Ending 31 Dec 2004 \$'000
4. EXPENSES AND LOSSES/(GAINS):		
(a) Expenses		
Depreciation of non-current assets		
Buildings	133	74
Plant and equipment	2,767	1,551
Total depreciation expenses	2,900	1,625
Rental – operating leases	3,266	2,860
Decrement in the value of inventories	1,080	867
Expense of share-based payments	50	68
Bad and doubtful debts – trade debtors	(310)	513
(b) Finance costs		
Interest expense	4,627	4,976
Other borrowing costs	140	81
Total finance costs	4,767	5,057
(c) Losses/(gains)		
Loss/(gain) on disposal of plant and equipment	8	50
Foreign exchange losses/(gains)	299	(143)



5. DISCONTINUED OPERATION:

In December 2005, Atlas Group Holdings Limited resolved to exit the automotive operations of Southward Engineering Co Limited (“Southward”), a company that manufactures automotive and tubular products in New Zealand.

The automotive business of Southward is viewed as a non-core operation following a strategic review of the Group’s activities. The discontinuation of the automotive operations is anticipated to be complete within 12 months from the end of the half year ended 31 December 2005.

As a consequence of the discontinuance of the Southward automotive business there was a breach of a covenant of the New Zealand borrowing facility. Subsequent to period end the breach was waived by the lender. As a result of the breach the drawn facility amount of \$22,476,000 outstanding at 31 December 2005 is shown as a current liability.

The results of the automotive operations of Southward for the period have been presented below:

	Half Year Ending 31 Dec 2005 \$'000	Half Year Ending 31 Dec 2004 \$'000
Revenue	7,101	6,932
Expenses	(7,667)	(7,589)
Gross profit/(loss)	(566)	(657)
Finance income/(expense)	-	-
Pre-tax profit/(loss)	(566)	(657)
Profit/(loss) recognised on the remeasurement to fair value	(6,538)	-
Profit/(loss) before tax from discontinued operation	(7,104)	(657)
Income tax (charge)/benefit:		
- related to pre-tax profit/(loss)	188	216
- related to remeasurement to fair value	-	-
Net profit/(loss) attributable to discontinued operation	(6,916)	(441)



**5. DISCONTINUED OPERATION:
(continued)**

**31 Dec
2005
\$'000**

The major classes of assets and liabilities of the automotive operations of Southward measured at the lower of carrying amount and fair value less costs to sell as at 31 December 2005 are as follows:

Assets

Trade and other receivables	3,786
Inventories	1,063
Non-current assets classified as held for sale	<u>4,849</u>

Liabilities

Trade creditors and payables	1,140
Provisions	<u>353</u>
Liabilities directly associated with non-current assets classified as held for sale	1,493
Net assets attributable to discontinued operations	<u>3,356</u>

Half Year Ending 31 Dec 2005 \$'000	Half Year Ending 31 Dec 2004 \$'000
--	--

The net cash flows incurred by the automotive operations of Southward are as follows:

Operating	(242)	(365)
Investing	(21)	(57)
Financing	263	422
Net cash inflow/(outflow)	<u>-</u>	<u>-</u>

Earnings per share (cents per share):

- Basic from discontinued operation	(7.0)	(0.5)
- Diluted from discontinued operation	(6.8)	(0.5)

31 Dec 2005 \$'000	30 June 2005 \$'000
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6. ISSUED CAPITAL:

Ordinary shares

Issued and fully paid

36,680	34,996
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Thousands	\$'000
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Movement in ordinary shares on issue

At 1 July 2005	98,500	34,996
Dividend reinvestment plan	1,505	1,684
At end of the financial period	<u>100,005</u>	<u>36,680</u>



7. SEGMENT INFORMATION – PRIMARY SEGMENT

	<i>Continuing Operations</i>				<i>Discontinued Operation Southward (note 5)</i>	
	<i>Distribution \$'000</i>	<i>Manufacturing \$'000</i>	<i>Eliminations / Unallocated \$'000</i>	<i>Total \$'000</i>	<i>\$'000</i>	<i>Total \$'000</i>
31 December 2005						
Segment revenue	162,894	57,258	(10,981)	209,171	7,101	216,272
Segment result	(2,425)	9,829	(2,946)	4,458	(7,104)	(2,646)
31 December 2004						
Segment revenue	164,174	39,424	(14,256)	189,342	6,932	196,274
Segment result	5,456	4,213	(6)	9,663	(657)	9,006

The major products and services from which segments derive revenue are:

Segments	Products and Services
Distribution	Distribution of stainless steel flat products, stainless steel sections, quenched and tempered steel plate, aluminium flat products, tubular products and engineering steels
Manufacturing	Manufacture of quenched and tempered steel plate, stainless and mild steel tubular products and automotive exhaust components



8. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

9. EVENTS AFTER THE BALANCE SHEET DATE

On 18 January 2006 the Group announced a restructure of its distribution businesses in Australia and New Zealand. It is estimated that one-off restructuring pre-tax costs of \$3million will be incurred in the current financial year, of which \$1.8million was incurred in the half year ended 31 December 2005.

10. ADDITIONAL INFORMATION

	31 Dec 2005 \$'000	31 Dec 2004 \$'000
Cash at bank and in hand	632	3,099
Cash at bank from discontinued operation (note 5)	-	-
	632	3,099

COMPLIANCE STATEMENT:

1. This report is based on the financial statements to which one of the following applies:

<input type="checkbox"/>	The financial statements have been audited.	<input type="checkbox"/>	The financial statements have been supplied to review.
<input checked="" type="checkbox"/>	The financial statements are in the process of being audited or subject to review.	<input type="checkbox"/>	The financial statements have not yet been audited or reviewed.

2. The entity has a formally constituted audit committee.



Directors' Declaration

In accordance with a resolution of the directors of Atlas Group Holdings Limited, I state that:

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity:
 - (i) give a true and fair view of the financial position as at 31 December 2005 and the performance for the half year ended on that date of the consolidated entity; and
 - (ii) comply with Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Regulations 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.

On behalf of the Board

A handwritten signature in black ink, appearing to read 'M Foreman'.

Martin Foreman
Managing Director
28 February 2006

Independent review report to members of Atlas Group Holdings Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows and accompanying notes to the financial statements and the other information set out in Appendix 4D to the Australian Stock Exchange (ASX) Listing Rules for the consolidated entity comprising both Atlas Group Holdings Limited and the entities it controlled during the half-year and the directors' declaration, for the company, for the half-year ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the *Corporations Act 2001*, and the ASX Listing Rules as they relate to Appendix 4D. 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.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the ASX and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, and the ASX Listing Rules as they relate to Appendix 4D, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

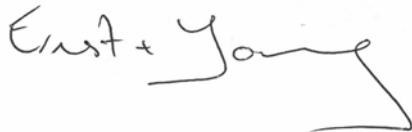
Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Director's Report.

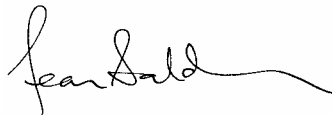
Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report, as defined in the scope section, of the consolidated entity Atlas Group Holdings Limited and the entities it controlled during the half-year ended 31 December 2005 is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia and the ASX Listing Rules as they relate to Appendix 4D.



Ernst & Young



Sean Balding
Partner
Melbourne
28 February 2006