



**ATLAS GROUP HOLDING LIMITED**  
**A.C.N. 098 674 545**  
**Appendix 4E – Preliminary Final Report**  
**Financial year ended 30 June 2005**

**Results for announcement to the market.**

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				<b>\$'000</b>
Revenues from ordinary activities	up	30%	to	406,908
Profit from ordinary activities after tax attributable to members	up	32%	to	13,190
Net profit attributable to members	up	32%	to	13,190

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<b>Dividends</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
Final dividend	5.1 cents	5.1 cents (at 30%)
Previous corresponding period	3.9 cents	3.9 cents (at 30%)
Record date for determining entitlements to the dividend	7 November 2005	

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**Explanation of Results**

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

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## ATLAS GROUP HOLDING LIMITED (“Atlas”)

### HIGHLIGHTS FINANCIAL YEAR ENDED 30 JUNE 2005

	Year ended 30 June 2005 \$'m	Year ended 30 June 2004 \$'m
<b>Sales revenues</b>	<b>405.4</b>	<b>310.2</b>
<b>Earnings before interest, tax depreciation and amortisation (“EBITDA”)</b>	<b>31.4</b>	<b>22.1</b>
<b>Earnings before interest and tax (“EBIT”)</b>	<b>26.6</b>	<b>19.9</b>
<b>Earnings before interest and tax margin (%)</b>	<b>6.6%</b>	<b>6.4%</b>
<b>Net profit attributable to members</b>	<b>13.2</b>	<b>10.0</b>
<b>Earnings per share (cents)</b>	<b>14.5</b>	<b>12.2</b>
<b>Dividend (cents)</b>	<b>9.0</b>	<b>7.8</b>

- Sales revenue increased by 31%, net profit attributable to members increased by 32% and earnings per share increased by 19%.
- Strong resources sector demand underpinned performance. Bisalloy furnace extended increasing mill capacity by 25% to meet Q&T plate demand.
- The new SAP information system successfully implemented across all Atlas distribution businesses.
- Atlas acquired the remaining 50% of the coil processing service centre at Warragamba, NSW.
- Final dividend increased to 5.1c fully franked, bringing total dividends for the year to 9.0c fully franked, compared to 7.8c in the previous year.
- Double digit sales and earnings growth forecast for the next financial year.



### *Overview of 2005 Financial Year*

The 2005 financial year saw the full implementation of business strategies embarked upon prior to the company's listing in 2003. Atlas has revitalised its distribution network, developed a broader and more balanced product portfolio, sought higher margin value adding activities and invested in the people and processes necessary to support a growing company. Collectively these strategies, and an increased focus on reducing funds employed, have underpinned an improved financial performance for the company and increased returns to shareholders, whilst looking forward to growth.

Market conditions for Atlas were generally good, particularly in resource related segments of Atlas' markets, while non-resources sectors remained stable. The resources driven activity across Asia-Pacific delivered strong results for the Bisalloy quenched & tempered plate business and supported substantial growth of both our international infrastructure projects supply and engineering steels businesses. Metal prices remained relatively stable through the year at historically high levels.

The Directors are satisfied with Atlas' performance for the year and believe the company is well placed to benefit from the current economic trends in the Asia-Pacific region. The successful implementation of new SAP information systems and expansion of Bisalloy's plate processing capacity were notable achievements in the year and represent significant investments in Atlas' future.

### *Sales Revenue & Earnings Analysis*

	Year ended 30 Jun 2005	Year ended 30 Jun 2004
	\$'m	\$'m
<b>Sales Revenue (\$'m)</b>		
Stainless steel flat products	108.6	98.6
Stainless steel sections	39.1	33.5
Quenched and tempered steel plate	68.3	52.8
Aluminium flat products	30.3	22.7
Tubular products	96.8	58.0
Engineering steels	41.3	38.6
Other products	18.9	3.1
Other income	2.1	2.9
	405.4	310.2
<b>EBIT</b>	26.6	19.9
<b>EBIT Margin</b>	6.6%	6.4%



*Stainless steel flat products & stainless steel sections* – Atlas' move from price driven commodity products, was reflected in reduced volumes and market share in the low margin stainless steel business. The acquisition in December 2004 of the remaining 50% of the coil processing business (now renamed Atlas Metal Processors) was an important move to overcome a number of long outstanding operational and management inefficiencies, thereby improving the overall return from flat products.

*Quenched and tempered steel plate* – strong demand from a booming resources sector helped Atlas achieve record results from Q&T plate. With the Bisalloy mill operating at full capacity, Atlas commissioned an extension to the main furnace over the Christmas shutdown period, increasing overall plate capacity by 25-30%. The extended capacity was ramped up over the second half of the financial year and reached its full capability by year-end.

Atlas' distribution operations in Indonesia and Thailand, which currently focus their businesses on Q&T plate, delivered strong results as they also benefited from strong domestic resources driven demand.

The outlook for demand for Q&T plate remains strong and with the increased production capacity, Atlas is looking forward to another good year.

*Aluminium flat products* – Atlas achieved strong growth in aluminium products as the company continued to build its market share. Looking forward the company will seek to further extend its product range in order to support the continuing development and growth of its aluminium business.

*Tubular products* – Atlas increased its revenues from tubular products by 67% in the year. Success with stainless tubular products, recent introduction of carbon products, further development of international project supply capability and the inclusion of Southwards Engineering for a full year, have all contributed to this growth. These factors will continue to drive strong growth in the current year as tubular products will represent an increasing proportion of Atlas' revenue.

*Engineering steels* – in recent years Atlas has sought to re-establish its market position in value added engineering steels, particularly on the east coast of Australia. Despite contraction of certain commodity products (eg bright bar) Atlas achieved satisfactory growth in its target markets and expects continuing revenue growth with engineering steels as the company further capitalises on recent market development work.



### ***Information Systems***

Over the course of the year the Atlas distribution operations in Australia and New Zealand migrated their main business systems onto a new SAP platform. This was a significant undertaking for the company requiring the effort and involvement of staff across the business. The implementations were successful and achieved without disruption to the business.

This investment in information systems is highly significant for Atlas. The new SAP platform provides the company a resource from which to drive efficiencies throughout its operations and activities. Moreover, it also provides management with a mechanism to deliver standardisation and more effective control, which is fundamental for supporting future growth across a decentralised business.

### ***Working Capital & Cash Flow***

Since 31 December 2004 when inventory levels reached \$122.3million, substantial improvement has been achieved with working capital management, reducing inventories to \$109.5million by year-end. Atlas anticipates that it will make further progress in its inventory ratios and grow inventory at a slower rate than sales. This, together with the reductions achieved in the second half of FY05, will support a strong operating cash flow performance in the year to come.

### ***Placement***

In December 2004 Atlas made a private placement of 10,500,000 new ordinary shares at \$1.10 per share. The placement funded the purchase of the remaining 50% of the coil processing service centre at Warragamba from Arcelor and the future development of that business.

### ***Balance Sheet***

Atlas' balance sheet gearing ratio (net borrowings / shareholders' equity) reduced from 208% to 155% in the year, as shareholder's equity increased from \$47.9m to \$70.2m. This demonstrates progress in reaching Atlas' objective of substantially lower gearing. The initiatives underway to improve Atlas' working capital management will contribute towards further significant lowering of gearing through FY06.

In June 2005 Atlas refinanced its main Australian dollar denominated loan facilities, introducing the Commonwealth Bank as its principal lender. The new facilities were advanced at an improved borrowing margin, the benefit of which will become evident in FY06.



### ***Taxation***

The Group's tax rate was reduced in FY05, principally because of permanent differences arising from the new rules for the taxation of financial arrangements and from a non-taxable acquisition adjustment arising in relation to the acquisition of Southwards.

### ***Capital Expenditure***

Total net capital expenditure for the year amounted to \$7.2m, of which \$4.9m related to new or upgraded facilities, including the extension of the Bisalloy furnace and introduction of SAP. Replacement expenditure amounted to \$2.3m compared to depreciation for the year of \$4.8m.

### ***New Managing Director***

In July 2005, Dr Martin Foreman succeeded Kym Godson as Managing Director of Atlas. The company will retain Kym Godson's experience as he will remain on the Board as a non-executive director of the company.

### ***Outlook***

Atlas anticipates continuing positive market conditions over the next financial year, supported by strong resource sector demand in the region. Atlas expects to achieve double digit sales and earnings growth from its existing operations in the current year compared to the 2005 financial year.

### ***Dividend***

The directors have declared a 5.1c fully franked final dividend, bringing the total dividends declared for the year to 9.0c fully franked compared with 7.8c in 2004. The final dividend will be paid on 21 November 2005 to all shareholders recorded on the Company's share register at 7 November 2005.

Recipients of the final 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 final dividend is 7 November 2005.



***Annual Report and Annual General Meeting***

Atlas expects to mail its Annual Report and Notice of Annual General Meeting to shareholder during the week commencing 10 October 2005.

Atlas will hold its 2005 Annual General Meeting at 11.00am on 23 November 2005 at the Banking Chamber Auditorium, 147 Collins Street, Melbourne, VIC 3000. The Directors look forward to welcoming shareholders at the Meeting.

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

**Martin Foreman**  
**Managing Director**  
**23 August 2005.**



**Consolidated Statement of Financial Performance  
Year ended 30 June 2005.**

	Notes	Year Ending 30 June 2005 \$'000	Year Ending 30 June 2004 \$'000
<b>Revenues from ordinary activities</b>	2	406,908	312,274
Changes in inventories of finished goods and work in progress		(255,899)	(202,697)
Raw material and consumables used		(36,831)	(31,141)
Depreciation and amortisation expense	3(a)	(4,833)	(2,129)
Borrowing costs expense	3(b)	(10,355)	(6,581)
Salaries and employee benefits expense		(38,953)	(26,212)
Operating lease rental expense		(5,771)	(5,270)
Other expenses from ordinary activities		(38,165)	(24,968)
Share of net profits of associated entities accounted for using the equity method		147	237
<b>Profit/(loss) from ordinary activities before income tax</b>		<b>16,248</b>	<b>13,513</b>
Income tax (charge)/benefit attributable to profit/(loss) from ordinary activities		(2,571)	(3,420)
<b>Profit/(loss) from ordinary activities after income tax</b>		<b>13,677</b>	<b>10,093</b>
Net (profit)/loss attributable to outside equity interest		(487)	(102)
<b>Net profit/(loss) attributable to members of the Company</b>		<b>13,190</b>	<b>9,991</b>
Net exchange difference or translation of financial statements or foreign controlled entity		(600)	(333)
Share issue costs		(346)	-
<b>Total revenues, expenses and valuation adjustments attributable to members of the Company and recognised directly in equity</b>		<b>(946)</b>	<b>(333)</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>		<b>12,244</b>	<b>9,658</b>
Basic earnings per share (cents)	4	14.5	12.2
Diluted earnings per share (cents)	4	14.0	11.8



**Consolidated Statement of Financial Position  
30 June 2005**

	Notes	30 June 2005 \$'000	30 June 2004 \$'000
<b>Current assets</b>			
Cash	8	1,930	6,623
Receivables		91,263	74,570
Inventories		109,469	103,629
Other		2,154	2,437
<b>Total current assets</b>		<b>204,816</b>	<b>187,259</b>
<b>Non current assets</b>			
Investments accounted for using the equity method	7	-	3,083
Property, plant and equipment		36,924	26,581
Deferred tax assets		4,921	2,720
Intangibles		1,212	-
Other		8	17
<b>Total non current assets</b>		<b>43,065</b>	<b>32,401</b>
<b>Total assets</b>		<b>247,881</b>	<b>219,660</b>
<b>Current liabilities</b>			
Payables		57,010	57,753
Current tax liabilities		2,292	1,339
Interest bearing liabilities		3,865	3,717
Provisions		4,449	2,621
<b>Total current liabilities</b>		<b>67,616</b>	<b>65,430</b>
<b>Non current liabilities</b>			
Payables		328	116
Interest bearing liabilities		107,046	102,527
Provisions		2,684	3,690
<b>Total non current liabilities</b>		<b>110,058</b>	<b>106,333</b>
<b>Total liabilities</b>		<b>177,674</b>	<b>171,763</b>
<b>NET ASSETS</b>		<b>70,207</b>	<b>47,897</b>
<b>Parent entity interest</b>			
Contributed equity		34,996	18,513
Reserves		(375)	275
Retained profits	6	33,988	27,822
<b>Total parent entity interest in equity</b>		<b>68,609</b>	<b>46,610</b>
<b>Total outside equity interest</b>		<b>1,598</b>	<b>1,287</b>
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>70,207</b>	<b>47,897</b>



**Consolidated Statement of Cash Flows**  
**Year ended 30 June 2005**

Notes	Year Ending 30 June 2005 \$'000	Year Ending 30 June 2004 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	468,719	334,671
Payments to suppliers and employees	(463,141)	(323,667)
Interest received	43	165
Interest paid	(10,178)	(6,479)
Income tax paid	(3,796)	(1,892)
	<b>(8,353)</b>	<b>2,798</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposal of property, plant and equipment	705	117
Payment for controlled entities (net of cash acquired)	(2,831)	(15,318)
Payments for property, plant and equipment	(4,968)	(4,852)
	<b>(7,094)</b>	<b>(20,053)</b>
<b>Cash flows from financing activities</b>		
Payment of dividends on ordinary shares	(3,628)	(1,874)
Proceeds from issue of shares	13,447	-
Proceeds from investment by outside equity interests	-	89
Payment of share issue costs	(346)	(43)
Proceeds from borrowings	76,000	37,149
Repayment of borrowings	(73,694)	(13,708)
Repayment of finance lease principal	(1,025)	(211)
	<b>10,754</b>	<b>21,402</b>
<b>Net increase/(decrease) in cash held</b>	<b>(4,693)</b>	<b>4,147</b>
Cash at the beginning of the financial period	6,623	2,476
<b>Cash at the end of the financial period</b>	<b>1,930</b>	<b>6,623</b>



	Year Ending 30 June 2005 \$'000	Year Ending 30 June 2004 \$'000
<b>1. Dividends:</b>		
Dividends paid (fully franked at the 30% tax rate)		
Interim 2005 dividend at 3.9 cents per share (2004: 3.9 cents)	3,771	3,194
Final 2004 dividend at 3.9 cents (2003:Nil)	3,253	-
Since the end of the year, the directors declared the following dividends:		
Dividends declared (fully franked at the 30% tax rate)		
Final dividend at 5.1 cents per share	5,023	3,253
The financial effect of the final dividends has not been brought to account in the consolidated entity's financial statements for the year ended 30 <sup>th</sup> June, 2005 and will be brought to account in subsequent financial reports.		
<b>2. Revenue from ordinary activities:</b>		
Revenues from operating activities		
Sales of goods and services	405,372	310,168
Other revenue	1,446	1,852
<b>Total revenues from operating activities</b>	<b>406,818</b>	<b>312,020</b>
Revenues from non-operating activities		
Interest – other parties	43	165
Rent Revenue	4	(25)
Proceeds from sales of fixed assets	43	114
Total revenues from non-operating activities	90	254
<b>Total revenues from ordinary activities</b>	<b>406,908</b>	<b>312,274</b>
Share of net profits of associates accounted for using the equity method.	147	237
<b>3. Expenses and losses/(gains):</b>		
<b>(a) Expenses</b>		
Depreciation of non current assets		
Buildings	200	113
Plant and equipment	4,602	2,016
	4,802	2,129
Amortisation of goodwill	31	-
<b>Total depreciation and amortisation</b>	<b>4,833</b>	<b>2,129</b>
Rental – operating leases	5,771	5,228
Decrement in the value of inventories	1,079	1,084
Bad and doubtful debts – trade debtors	654	630



	Year Ending 30 June 2005 \$'000	Year Ending 30 June 2004 \$'000
<b>(b) Borrowing costs</b>		
Interest expense	10,178	6,447
Other borrowing costs	177	134
<b>Total borrowing costs</b>	<b>10,355</b>	<b>6,581</b>
<b>(c) Losses/(gains)</b>		
Loss/(gain) on disposal of plant and equipment	58	44
Foreign exchange losses/(gains)	(27)	(1,468)
<b>(d) Specific items</b>		
Profit from ordinary activities before income tax expense includes the following specific revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:		
Discount on acquisition of assets realised during the year	(2,536)	-
System implementation costs	757	-
	<b>(1,779)</b>	<b>-</b>
<b>(e) Other items</b>		
The following items do not meet the technical definition of specific items of revenue or expense but are relevant in explaining the financial performance of the entity.		
Net loss arising from change in automotive distribution arrangements	1,446	-
	<b>1,446</b>	<b>-</b>



	Year Ending 30 June 2005 \$'000	Year Ending 30 June 2004 \$'000
<b>4. Earnings per security (EPS):</b>		
Calculation of the following in accordance with AASB 1027:		
Earnings per share.		
Basic EPS (cents)	14.5	12.2
Adjusted weighted average number of ordinary shares	91,050,737	82,192,469
Diluted EPS (cents)	14.0	11.8
Adjusted weighted average number of ordinary shares	94,230,052	85,197,469
Earnings reconciliation		
Net profit	13,677	10,093
Net profit attributable to outside equity interests	(487)	(102)
Basic Earnings	13,190	9,991
Diluted Earnings	13,190	9,991
<b>5. NTA backing:</b>		
Net tangible asset backing per ordinary security.	\$0.69	\$0.56
<b>6. Retained profits:</b>		
Retained profits at the beginning of the financial year	27,822	21,025
Net profit attributable to members	13,190	9,991
Total available for appropriation	41,012	31,016
Dividends paid	(7,024)	(3,194)
Retained profits at the end of the financial year	<b>33,988</b>	<b>27,822</b>
<b>7. Details of aggregate share of profits/(losses) of associates</b>		
<b>Group's share of associates</b>		
Profit/(loss) from ordinary activities before income tax	147	237
Income tax on ordinary activities	-	-
<b>Net profit/(loss)</b>	147	237
Outside equity interests	-	-
<b>Net profit/(loss) attributable to members</b>	147	237



	Investments carrying amount consolidated		Dividends received	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>7. Details of aggregate share of profits/(losses) of associates continued</b>				
Atlas Metal Processors Pty Ltd (Processing of stainless steel sheet & coil products) (Interest consolidated 2005: 100%; 2004:50%)	-	3,083	-	-
		<b>3,083</b>	-	-
<p>On 17<sup>th</sup> December 2004, the consolidated entity acquired the remaining 50% of the share capital of Atlas Metal Processors Pty Ltd (formerly called Pacific Stainless Processors Pty Ltd). Since that date the results of Atlas Metal Processors Pty Ltd have been included within the financial statements of the consolidated entity.</p>				
<b>8. Notes to the statement of cash flows</b>				
<b>a. Reconciliation of cash</b>				
For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the balance sheets as follows:				
Cash at bank			1,894	6,623
Cash at hand			36	-
			<b>1,930</b>	<b>6,623</b>
<b>b. Reconciliation of operating profit/(loss) after income tax to net cash provided by operating activities</b>				
Net profit/(loss) from ordinary activities after income tax			13,677	10,093
<b>Non cash items</b>				
Depreciation			4,802	2,129
Share of associate's net (profits)/losses			(147)	(237)
(Profit)/loss on disposal of plant and equipment			58	44
Discount on acquisition of assets realised during the period			(2,926)	(874)
<b>Change in operating assets and liabilities</b>				
(Increase)/decrease in receivables & other assets			(16,317)	(4,686)
(Increase)/decrease in inventories			(5,840)	(11,055)
(Increase)/decrease in tax assets & liabilities			(1,445)	674
Increase/(decrease) in trade creditors			(1,114)	6,489
Increase/(decrease) in provisions			899	221
<b>Net cash used in operating activities</b>			<b>(8,353)</b>	<b>2,798</b>



**30 June  
2005  
\$'000**

**c. Acquisition of controlled entities:**

On 17 December, 2004 the consolidated entity acquired the remaining 50% of the share capital of Atlas Metal Processors Pty Ltd. Atlas Metal Processors Pty Ltd is engaged in the processing of stainless steel sheet & coil products within Australia. The components of the acquisition cost were:

**Total Consideration:**

Consideration paid for share capital	3,000
Other consideration payable	20
<b>Total consideration</b>	<b>3,020</b>

**Fair value of net operating assets of the entities acquired:**

Property, plant and equipment	7,947
Cash	189
Debtors	1,401
Inventories	228
Net tax liabilities	(39)
Other assets	97
Accounts payable	(1,110)
Provisions	(211)
Loans	(3,495)
	<u>5,007</u>

**Total consideration**

	3,020
Carrying value of investment prior to acquisition of remaining 50%	3,230
	<u>6,250</u>

**Goodwill arising on acquisition**

**1,243**

**Net cash effect**

Cash consideration paid	3,020
Cash included in net assets acquired	(189)
Cash paid for purchase of controlled entity as reflected in the consolidated financial report	<u>2,831</u>

**d. Non-cash financing activities**

*Finance lease transactions*

During the financial year the consolidated entity acquired plant and equipment with an aggregate fair value of \$3,038,148 (2004: \$4,375,424) by means of finance leases.

*Dividend reinvestment plan*

Under the terms and conditions of the dividend reinvestment plan \$3,395,806 (2004: \$1,321,575) of dividends were paid via the issue of 2,960,665 shares (2004: 1,480,794).

*Underwriting of dividend*

During the financial year dividends of \$1,896,892.40 (2004: 0) were underwritten via the placement of 1,630,894 shares (2004: 0) to the underwriter.



## 9. Segment Information – primary segment

	Distribution		Manufacturing		Eliminations		Consolidated	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Business Segments</b>								
<b>Revenue:</b>								
Sales to customers outside the consolidated entity	323,142	269,366	82,230	40,802	-	-	405,372	310,168
Other revenue from customers outside the economic entity	1,499	2,076	37	72	-	-	1,536	2,148
Inter-segment revenues	13,098	6,913	14,512	10,410	(27,610)	(17,323)	-	-
Revenue from ordinary activities	337,739	278,355	96,779	51,284	(27,610)	(17,323)	406,908	312,316
Share of net profit of equity accounted investments	147	237	-	-	-	-	147	237
Total revenue	337,886	278,592	96,779	51,284	(27,610)	(17,323)	407,055	312,553
<b>Results:</b>								
Segment Result	6,909	6,759	9,339	6,754	-	-		
Consolidated entity profit from ordinary activities before income tax expense							16,248	13,513
Income tax expense							(2,571)	(3,420)
Consolidated entity profit from ordinary activities after income tax expense							13,677	10,093

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

### Segments

Distribution

Manufacturing

### Products and Services

Distribution of stainless steel flat products, stainless steel sections, quenched and tempered steel plate, aluminium flat products, tubular products and engineering steels

Manufacture of quenched and tempered steel plate, stainless and mild steel tubular products and automotive exhaust components



## 10. Impact of Adopting AASB Equivalents to IASB Standards

The Company is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (AGAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. The financial report for the year ended 30 June 2005 has been prepared in accordance with AGAAP.

In 2004, the Company allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas that would be impacted by the transition to AIFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS at 1 July 2004, the Company's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future and is required when the Company prepares its first fully AIFRS compliant financial report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change upon the adoption of AIFRS and our best estimate of the quantitative impact of the changes as at the date of transition.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to (a) ongoing work being undertaken; (b) potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC; and (c) emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

### (a) *Income Taxes*

The Company currently adopts the liability method of tax effect accounting. Under AASB 112 *Income Taxes*, the Company will be required to use a balance sheet liability method which focuses on the tax effects of transactions that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. Upon transition there will be an increase in deferred tax assets of \$527,000 and a corresponding credit to retained profits. The application of AIFRS to the year ended 30 June 2005 will result in an increase of deferred tax assets of \$300,000 at year end compared those recorded under the current liability method of tax effect accounting.

### (b) *Share Based Payments*

Under AASB 2 *Share Based Payments*, the Company will be required to determine the fair value of performance rights issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard also extends to options and other forms of equity based remuneration. It applies to all share based payments issued after 7 November 2002 which have not vested as at 1 January 2005. The Company has undertaken a valuation of performance rights granted using the Black-Scholes Model. The result upon transition to AIFRS is a credit to the employee equity benefits reserve of \$132,000 which will be charged to retained profits. For the year ended 30 June 2005 there will be a charge to the profit and loss of \$137,000 and a corresponding credit to the employee equity benefits reserve.



(c) *Employee Benefits*

AASB 119 *Employee Benefits* requires the discounting of long term employee benefits by reference to market yields at the reporting date using the appropriate bond rate. Application of this standard upon transition to our overseas subsidiaries has resulted in an increase of employee provisions of \$133,000. Upon transition to AIFRS there will be a charge to retained profits of this amount.

Effects of AIFRS that have not had an impact upon transition but may affect future reporting periods include:

(d) *Goodwill*

Under AASB 3 *Business Combinations*, goodwill cannot be amortised but instead will be subject to annual impairment testing. This will result in a change to the Company's current accounting policy which amortised goodwill over 20 years. Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired. Impairment testing has not impacted upon the carrying amount of goodwill at the date of transition. Under the new policy, goodwill amortisation of \$31,000 for the year ended 30 June 2005 would not have charged to the profit and loss.

AASB 3 *Business Combinations* also requires any discount on acquisition to be recorded in the current year result. This represents a change from the current accounting policy where any discounts on acquisition have been accounted for by reducing proportionately the fair value of non-monetary assets acquired until the discount has been eliminated. This does not result in any changes to the accounting of past acquisitions resulting in a discount on acquisition as they were all finalised before 1 July 2004.

(e) *Hedge Accounting*

Under AASB 139 *Financial Instruments: Recognition and Measurement*, in order to achieve a qualifying hedge certain criteria must be satisfied. The Company currently applies hedge accounting to its foreign currency forward exchange contracts. Where these are general hedges and are not referable to specific underlying transactions, and unable to be documented accordingly, all gains and losses will have to be brought to account in the Statement of Financial Performance.

The application of this standard is not effective until 1 July 2005 and therefore has no impact at the date of transition to AIFRS. Upon application of the standard, it is anticipated that the Company's forward exchange contracts will continue to qualify for hedge accounting as hedges taken out are referable to specific underlying transactions. However, the precise impact of AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005 and onwards is still being determined by the Company.



(f) *Classification of Financial Instruments*

Under AASB 139 *Financial Instruments: Recognition and Measurement*, financial instruments will be required to be classified into one of five categories which will determine the accounting treatment of the item. The classifications are loans and receivables – measured at amortised cost, held to maturity – measured at amortised cost, held for trading – measured at fair value with changes charged to net profit or loss, available for sale – measured at fair value with changes taken to equity and non-trading liabilities – measured at amortised cost. This will result in a change to the current accounting policy that does not classify financial instruments.

(g) *Foreign Currency Translation*

*Translation of Financial Reports of Overseas Subsidiaries*

Under AASB 121 *The Effects of Changes in Foreign Exchange Rates*, overseas entities will be required to determine their functional currency and measure their financial performance and position in this nominated currency. We have considered the impact across our overseas subsidiaries and determined that there is no change to the currency in which they currently measure their financial performance and position. However, this will be reviewed on a regular basis and may impact some of the Company's foreign operations in future periods should the environment in which those subsidiaries operate change.

(h) *Impairment of Assets*

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of the net selling price and value in use. This will result in a change to the Company's current accounting policy which determines the recoverable amount of an asset on the basis of discounted cash flows. Under the new policy the Company's assets were tested for impairment at the date of transition as part of the cash generating unit to which they belong. This did not have an impact on the Company's financial performance and position at the date of transition but may impact future periods as testing will be carried out at each subsequent reporting date.

**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.