



**ATLAS GROUP HOLDING LIMITED**  
**A.C.N. 098 674 545**  
**Appendix 4E – Preliminary Final Report**  
**Financial year ended 30 June 2006**

**Results for announcement to the market.**

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				<b>\$'000</b>
Revenue	up	2%	to	\$392,706
Profit after tax from continuing operations	down	75%	to	\$3,526
Loss attributable to members	down	135%	to	(\$4,386)

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<b>Dividends</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
Final dividend	3.9 cents	3.9 cents (at 30%)
Previous corresponding period	5.1 cents	5.1 cents (at 30%)
Record date for determining entitlements to the dividend	3 November 2006	

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**Explanation of Results**

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

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28 August 2006

**Atlas' businesses restructured and transformed to establish a sound operating base for future growth. Strong cash flow applied to debt reduction.**

- Strong operating cash flows of \$36.7million and net borrowings reduced by \$24.6million.
- A review of all Group activities identified the need to realign Atlas' operating model and strategic focus. The consequential transformation and restructuring of Atlas' distribution businesses was successfully completed in the year. The costs and write-downs associated with the necessary restructuring impacted earnings.
- Distribution inventory levels reduced by \$18.1million and brought towards balance.
- Strong operating performance and earnings result from Bisalloy supported by continuing robust resources sector demand.
- Development and growth of Project Services and Asian businesses on track.
- Southward automotive business closed.
- Final dividend 3.9c fully franked, bringing total dividends for the year to 7.8c fully franked, compared to 9.0c in the previous year.

Results Summary - Atlas Group Holdings Limited results for the year ended 30 June 2006 (FY06)			
\$'m	FY06	FY05	% Change
<b>Group Statutory Reporting Basis (Continuing Operations)</b>			
Revenues	392.7	386.3	2%
Earnings before interest and tax ("EBIT")	14.1	28.0	-50%
Operating cash flow ("OCF")	36.7	(8.4)	537%
Net profit after tax ("NPAT")	3.5	14.3	-75%
Earnings per share (EPS) (cents)	3.2c	15.2c	-79%
Dividend (cents)	7.8c	9.0c	-13%
<b>Normalised Reporting Basis (Continuing Operations)</b>			
Sales revenues	392.7	386.3	2%
EBIT	18.1	26.2	-31%
EBIT margin (%)	4.6%	6.8%	-32%
OCF	36.7	(8.4)	537%
NPAT	6.3	12.3	-49%
EPS (cents)	6.0c	13.8c	-57%

## *Overview*

The 2006 financial year was one of substantial change. Following the appointment of Dr Martin Foreman as Managing Director in July 2005, the Company undertook an extensive review of its financial performance, operations and strategic direction. That review acknowledged unsatisfactory performance in areas of the Group but also identified significant opportunities for operational improvements and growth. By mid-year a number of major initiatives had been actioned with the intent to transform Atlas into a business more capable of consistently meeting the reasonable expectations of shareholder. Progress on the initiatives can be summarised as follows:

1. Whilst Atlas enjoys the presence of modern warehouse facilities across Australia and New Zealand, these were not supported by an efficient supply chain function. The key element of restructuring Atlas' distribution businesses was therefore to establish a best-practice centralised supply chain function business model. Exploiting the company's SAP platform, Atlas has moved to a forecast based centralised and integrated procurement function, implemented systems based inventory optimisation tools for determining procurement quantities, and introduced logistics network planning around central distribution warehouses in Melbourne, Sydney and Auckland.

The introduction of Group Supply Chain eliminates fragmented and duplicated procurement functions in regional operations, drives more effective and efficient management of inventory, reduces total distribution costs and thereby improves returns on funds employed. It also provides Atlas with a standardised business model that is internationally scaleable.

2. Atlas' New Zealand distribution businesses were further restructured to eliminate duplicated functions and facilities inherited from the acquisition of Stainless Alloys in FY04. By year end this rationalisation had largely been completed. Since year end the Southward tube business has been renamed New Zealand Tube Mills and its management and administrative functions have been consolidated within the distribution business, again eliminating duplicated functions.
3. In February 2006 Atlas announced the closure of the loss making Southward automotive business in Wellington. By 30 June 2006 the business had fulfilled its obligations to its customers, the factory had ceased production and workforce had been made redundant. The realisation of the businesses assets has continued to progress smoothly into the current financial year. The total loss associated with the closure of Southward automotive, including the re-measurement of its assets to fair value, comprises the majority of the \$7.5 million loss shown as discontinued operations in the accounts.
4. Whilst pursuing the transformation of the distribution businesses we acknowledge that some focus on the marketplace was lost. Going forward we are confident of regaining market share as the benefits of the new organisation are fully realised.

5. The development of the Bisalloy quenched & tempered plate business was accelerated in November with commitment to a further 30% capacity increase at the Unanderra plant. Since that announcement the original capital expenditure proposal has been reengineered to allow the capacity upgrade to be achieved for a reduced expenditure of \$2.1million. The expanded plant capacity, to be commissioned in October, will support recovery of domestic market share, the re-entry of markets exited while Bisalloy was capacity constrained, plus allow for new market development.
6. The Project Services Group was identified by the strategic review as a business that had successfully established itself as a material supplier to major international resource sector and infrastructure projects and for which there were attractive growth opportunities in what is a multi-\$billion market. Resourcing of the business has been increased with the value proposition being offered to customers extended to include supply chain and logistics management services. To date the Project Services Group has made good progress under its new identity and focus, having established a strong pipeline of work and receiving encouraging support from customers for the extended service offering.
7. The strategic review of Atlas' Asian distribution businesses confirmed substantial scope for development in a region that has growing economies with increasing demand for specialty metals. The businesses in Indonesia and Thailand, originally set up as agents for Bisalloy's quenched & tempered plate, provide established platforms to now link into Atlas' group supply chain functions and supply a much broader portfolio of products. Today Atlas is moving to grow in Asia and has introduced engineering steels to its Asian portfolio of products.

### ***Results Analysis***

Results for the financial year were substantially impacted by the direct costs and write-downs associated with restructuring of the distribution businesses, together with losses related to the discontinuance and closure of the Southwards automotive business. These one-off expenses were necessary in order to eliminate loss making parts of the business, reduce cost structures and reduce working capital to become efficient and fit for growth across the operations.

The transformation of the business has been taking place against a trading environment of continuing strong demand from the resources sector, weaker demand from the other sectors of Atlas' markets and volatile stainless steel prices. In addition to the direct expenses of the restructuring, the process of change undoubtedly had a negative impact of Atlas distribution's general trading performance in the year. The underlying consolidated earnings for the year declined 31% when compared to the previous year. This is in line with the guidance to investors, given in early June 2006. A reconciliation of the reported earnings and net profit result with the underlying trading performance is given below.

<b>\$'m</b>	<b>FY06</b>	<b>FY05</b>
Reported EBIT (continuing operations)	<b>14.1</b>	28.0
add back:		
Restructuring expenses incurred	<b>3.0</b>	
Inventory discontinuance provision	<b>1.0</b>	
Discount on acquisition of assets realised during period		(2.5)
Systems implementation costs		0.7
Normalised EBIT (continuing operations)	<b>18.1</b>	26.2
Reported NPAT (continuing operations)	<b>3.5</b>	<b>14.3</b>
add back: (after tax)		
Restructuring expenses incurred	<b>2.1</b>	
Inventory discontinuance provision	<b>0.7</b>	
Discount on acquisition of assets realised during period		(2.5)
Systems implementation costs		0.5
Normalised NPAT (continuing operations)	<b>6.3</b>	12.3
Normalised EPS (continuing operations)(cents per share)	<b>6.0c</b>	13.8c

### *Segment Analysis*

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

<b>\$'m (Continuing Operations)</b>	<b>FY06</b>	<b>FY05</b>	<b>Chg%</b>
<b>Sales Revenue</b>			
Distribution	313.6	333.2	-6%
Manufacturing	104.1	80.7	29%
Eliminations	(25.0)	(27.6)	
	<b>392.7</b>	<b>386.3</b>	<b>2%</b>
<b>Underlying EBIT</b>			
Distribution	5.5	18.4	-70%
Manufacturing	18.6	13.0	43%
Unallocated	(6.0)	(5.3)	
	<b>18.1</b>	<b>26.2</b>	<b>-31%</b>

## ***Distribution***

Underlying earnings of Atlas distribution decreased by 70% when compared to the previous year. Volatile stainless steel prices and weaker general market demand contributed to reduced margins. The process of transforming the business did undoubtedly have a short-term negative impact on sales. The need to reduce cost structures, improve operating efficiency and reduce funds employed within the business was absolute and have been addressed by the transformation to the new centralised business model.

Today Atlas distribution comprises a customer and sales-driven organisation 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.

As announced in January, the restructuring resulted in 80 positions being made redundant 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 incurred in the year amounted to \$3million. In conjunction with the establishment of the Group Supply Chain function, Atlas has rationalised and balanced its inventory. A substantial number of low-margin and non-core inventory lines have been discontinued. An additional provision of \$1million was taken over and above Atlas' normal inventory provisioning, to support the campaign to quit these holdings.

Australian and New Zealand distribution businesses inventories were reduced from \$93.2million at 30 June 2005 to \$75.1million by year end, as the benefits of the new supply chain systems and disciplines took effect. These results are well ahead of the targets announced in Atlas' half year release. Management is confident that there is scope for further improvement in the distribution inventory during the current financial year.

Having taken the major actions to transform the distribution businesses, management expect to see substantial improvements in the businesses financial performance flow through in FY07.

## ***Manufacturing***

Atlas' manufacturing, which comprises Bisalloy quenched and tempered plate manufacturing and Southward tube making, increased earnings by 43% in the year. This increase was principally driven by the expanded production capacity at Bisalloy that was commissioned in FY05 and continuing strong resources demand for plate. A further 30% capacity upgrade at Bisalloy, announced in November 2005, is due to be commissioned on-time in October 2006. The capital cost of this further upgrade, originally estimated to be \$4million has been re-engineered down to \$2.1million. This expenditure will largely be incurred in the current financial year.

### ***Cash Flow***

Atlas delivered a strong turnaround in its operating cash flow performance with an inflow from operations of \$36.7 million compared to an outflow of \$8.4million in FY05. This resulted from a focus on the management of working capital during the year. By 30 June 2006 receivables had reduced by \$21.0million and inventories had reduced by \$15.2million.

### ***Capital Expenditure***

Capital expenditure for the period was \$6.4million. The major individual area of expenditure was \$2.2million in plant and equipment arising from the relocation to new warehouses in Sydney and Newcastle. The balance of the capital expenditure in the year largely comprised normal replacement expenditure. Net depreciation for the period was \$5.7million.

### ***Balance Sheet***

Net consolidated operating assets at 30 June 2006 were \$137.7million compared to \$178.3million at the end of FY05. Atlas repaid \$24.6million of net borrowings in the year, leaving \$84.4million outstanding at 30 June 2006.

Closure costs of the Southward Automotive businesses impacted total equity which had reduced to \$60.0million by 30 June 2006. These costs obscure a more significant improvement in the gearing of Atlas' continuing operations during the period. The debt / debt + equity ratio at 30 June 2006 was 58% compared to 61% at 30 June 2005.

<b>\$'m</b>	<b>Jun-06</b>	<b>Jun-05</b>	<b>Chg%</b>
Receivables	65.8	91.4	-28%
Inventories	89.9	109.5	-18%
Property, plant, equipment & IT	33.3	36.9	-10%
Other assets	8.5	7.4	15%
Payables & provisions	(59.9)	(66.9)	-10%
Net assets - discontinued	6.8	0.0	
<b>Funds employed</b>	<b>144.5</b>	<b>178.3</b>	<b>-19%</b>
<b>Net borrowings</b>	<b>84.4</b>	<b>109.0</b>	<b>-23%</b>
<b>Equity</b>	<b>60.0</b>	<b>69.3</b>	<b>-13%</b>
Net debt / debt + equity gearing	58%	61%	-4%

### ***Borrowings***

In June 2006 Atlas refinanced its borrowings with GE Commercial at overall reduced margins. Estimated annual borrowing cost savings will exceed \$600k. Refinancing resulted in a charge of \$406k that was expensed in the FY06 year, being the write-off of accrued costs related to the previous facilities. In addition to the cost savings, the new facility also provides Atlas with additional flexibility and capacity to fund future growth.

### ***Dividend***

The directors have declared a 3.9c fully franked final dividend, bringing the total dividends declared for the year to 7.8c fully franked compared with 9.0c in 2005. The final dividend will be paid on 17 November 2006 to all shareholders recorded on the Company's share register at 3 November 2006.

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 3 November 2006.

### ***Outlook***

With the business transformation substantially complete and an improving sales performance, underlying profit for FY07 is expected to exceed that achieved by the Group in FY05. Continuing the dividend payment at 3.9cps reflects this view.

### ***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 9 October 2006.

Atlas will hold its 2006 Annual General Meeting at 10.30am on 20 November 2006 at the Banking Chamber Theatre, Ground Floor, 147 Collins Street, Melbourne, VIC 3000. The Directors look forward to welcoming shareholders at the Meeting.



**Martin Foreman**  
**Managing Director**  
**28 August 2006.**



**Consolidated Income Statement  
Year ended 30 June 2006.**

	Notes	Year ended 30 June 2006 \$'000	Year ended 30 June 2005 \$'000
<b>Continuing operations</b>			
<b>Revenue</b>			
Sales of goods		389,337	384,264
Rendering of services		3,069	1,957
Rental revenue		-	4
Finance revenue		300	42
		392,706	386,267
Cost of sales		(307,522)	(292,760)
<b>Gross profit</b>		<b>85,184</b>	<b>93,507</b>
Other income		853	784
Distribution expenses		(24,376)	(21,255)
Marketing expenses		(16,901)	(17,317)
Occupancy expenses		(10,460)	(9,752)
Administrative expenses		(19,920)	(17,937)
Other expenses		-	(176)
		14,380	27,854
<b>Profit from continuing operations before tax, finance costs and share of profit of associate</b>		<b>14,380</b>	<b>27,854</b>
Finance costs		(9,795)	(10,248)
Share of profit of associate		-	147
		4,585	17,753
<b>Profit before income tax</b>		<b>4,585</b>	<b>17,753</b>
Income tax expense		(1,059)	(3,442)
		3,526	14,311
<b>Profit after tax from continuing operations</b>		<b>3,526</b>	<b>14,311</b>
<b>Discontinued operations</b>			
Loss after tax from discontinued operations	4	(7,528)	(1,134)
		(4,002)	13,177
<b>Net (loss)/profit for the period</b>		<b>(4,002)</b>	<b>13,177</b>
Net (profit) attributable to minority interest		(384)	(487)
		(4,386)	12,690
<b>Net (loss)/profit attributable to members of the Company</b>		<b>(4,386)</b>	<b>12,690</b>
<b>Earnings per share (cents per share)</b>			
	6		
- basic for profit/(loss) for the year		(4.4)	13.9
- basic for profit/(loss) from continuing operations		3.2	15.2
- diluted for profit/(loss) for the year		(4.2)	13.5
- diluted for profit/(loss) from continuing operations		3.0	14.7
- dividends per share (fully franked at 30% tax rate)		7.8	9.0



**Consolidated Balance Sheet  
30 June 2006**

	Notes	30 June 2006 \$'000	30 June 2005 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	1,041	1,930
Trade and other receivables		65,830	91,423
Inventories		89,929	109,469
Prepayments		1,449	2,002
		<u>158,249</u>	<u>204,824</u>
Non-current assets classified as held for sale	4	10,160	-
<b>Total current assets</b>		<b>168,409</b>	<b>204,824</b>
<b>Non current assets</b>			
Deferred income tax asset		5,776	4,149
Property, plant and equipment		28,920	31,700
Intangible assets		5,671	6,467
<b>Total non current assets</b>		<b>40,367</b>	<b>42,316</b>
<b>Total assets</b>		<b>208,776</b>	<b>247,140</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		54,068	57,010
Interest bearing loans and borrowings		1,413	3,865
Income tax payable		37	2,292
Provisions		4,989	4,582
		<u>60,507</u>	<u>67,749</u>
Liabilities directly associated with non-current assets classified as held for sale	4	3,333	-
<b>Total current liabilities</b>		<b>63,840</b>	<b>67,749</b>
<b>Non current liabilities</b>			
Interest bearing loans and borrowings		84,046	107,046
Provisions		855	3,012
<b>Total non current liabilities</b>		<b>84,901</b>	<b>110,058</b>
<b>Total liabilities</b>		<b>148,741</b>	<b>177,807</b>
<b>NET ASSETS</b>		<b>60,035</b>	<b>69,333</b>
<b>EQUITY</b>			
<b>Equity attributable to equity holders of the parent</b>			
Contributed equity	5	38,168	34,996
Retained earnings		19,373	32,895
Other reserves		354	(156)
<b>Parent interests</b>		<b>57,895</b>	<b>67,735</b>
<b>Minority interests</b>		<b>2,140</b>	<b>1,598</b>
<b>TOTAL EQUITY</b>		<b>60,035</b>	<b>69,333</b>



**Consolidated Cash Flow Statement  
Year ended 30 June 2006**

	Notes	Year ended 30 June 2006 \$'000	Year ended 30 June 2005 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		454,678	468,719
Payments to suppliers and employees		(405,253)	(463,141)
Borrowing costs		(9,504)	(10,135)
Income tax paid		(3,260)	(3,796)
<b>Net cash inflow/(outflow) from operating activities</b>	8	<b>36,661</b>	<b>(8,353)</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of property, plant and equipment		6	705
Payments for property, plant and equipment		(6,362)	(4,968)
Acquisition of subsidiary, net of cash acquired		-	(2,831)
<b>Net cash (outflow) from investing activities</b>		<b>(6,356)</b>	<b>(7,094)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	13,447
Payment of finance lease liabilities		(1,377)	(1,025)
Proceeds from borrowings		80,174	76,000
Repayment of borrowings		(104,027)	(73,694)
Equity dividend paid		(5,964)	(3,628)
Payment of share issue costs		-	(346)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(31,194)</b>	<b>10,754</b>
<b>Net (decrease) in cash and cash equivalents</b>		<b>(889)</b>	<b>(4,693)</b>
Net foreign exchange differences			
Cash and cash equivalents at the beginning of year		1,930	6,623
<b>Cash and cash equivalents the end of year</b>		<b>1,041</b>	<b>1,930</b>



**Consolidated Statement of Changes in Equity  
Year ended 30 June 2006**

	Attributable to equity holders of the company				Total \$'000	Minority interest \$'000	Total equity \$'000
	Issued Capital \$'000	Employee equity benefits reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000			
<b>At 1 July 2004</b>	<b>18,513</b>	<b>81</b>	<b>275</b>	<b>27,229</b>	<b>46,098</b>	<b>1,287</b>	<b>47,385</b>
Equity raising costs	(360)	-	-	-	(360)	-	(360)
Gain/(loss) on translation of overseas subsidiaries	-	-	(650)	-	(650)	(183)	(833)
<b>Net income/(loss) recognised in equity</b>	<b>(360)</b>	<b>-</b>	<b>(650)</b>	<b>-</b>	<b>(1,010)</b>	<b>(183)</b>	<b>(1,193)</b>
Profit for the period	-	-	-	12,690	12,690	487	13,177
<b>Total recognised income and expense for the year</b>	<b>(360)</b>	<b>-</b>	<b>(650)</b>	<b>12,690</b>	<b>11,680</b>	<b>304</b>	<b>11,984</b>
Share-based payment grants	-	138	-	-	138	-	138
Dividend reinvestment plan	3,396	-	-	(3,396)	-	-	-
Underwriting of dividend	1,897	-	-	(1,897)	-	-	-
Payment of dividend	-	-	-	(1,731)	(1,731)	-	(1,731)
Private equity raising	11,550	-	-	-	11,550	-	11,550
Additions through investment of capital	-	-	-	-	-	7	7
<b>At 30 June 2005</b>	<b>34,996</b>	<b>219</b>	<b>(375)</b>	<b>32,895</b>	<b>67,735</b>	<b>1,598</b>	<b>69,333</b>
Gain/(loss) on translation of overseas subsidiaries	-	-	370	-	370	158	528
<b>Net income recognised in equity</b>	<b>-</b>	<b>-</b>	<b>370</b>	<b>-</b>	<b>370</b>	<b>158</b>	<b>528</b>
Loss for the period	-	-	-	(4,386)	(4,386)	384	(4,002)
<b>Total recognised income and expense for the year</b>	<b>-</b>	<b>-</b>	<b>370</b>	<b>(4,386)</b>	<b>(4,016)</b>	<b>542</b>	<b>(3,474)</b>
Share-based payment grants	-	140	-	-	140	-	140
Dividend reinvestment plan	3,172	-	-	(3,172)	-	-	-
Payment of dividend	-	-	-	(5,964)	(5,964)	-	(5,964)
<b>At 30 June 2006</b>	<b>38,168</b>	<b>359</b>	<b>(5)</b>	<b>19,373</b>	<b>57,895</b>	<b>2,140</b>	<b>60,035</b>

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



## **1. Summary of significant accounting policies**

### **a. Basis of preparation**

This Appendix 4E has been prepared in accordance with the requirements of the Australian Stock Exchange Listing Rules. The financial information contained in the Appendix 4E 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.

The Appendix 4E is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

### **b. Statement of compliance**

The financial report upon which the financial information in the Appendix 4E is based complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS').

This is the first Appendix 4E prepared based on AIFRS and comparatives for the year ended 30 June 2005 have been restated accordingly. Reconciliations of AIFRS equity and profit for the 30 June 2005 to the balances reported in the 30 June 2005 Appendix 4E are detailed in Note 1(z) below.

### **c. Basis of consolidation**

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

Adjustments are made to bring into line any dissimilar accounting policies that may exist. All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Minority interests represent the portion of profit or loss and net assets in subsidiaries, 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.



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

**d. Significant accounting judgements, estimates and assumption**

*(i) Significant accounting judgements*

In applying the Group's accounting policies, management have not made any significant accounting judgements which effect the amounts recognised in the financial statements.

*(ii) Significant accounting estimates and assumptions*

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**Impairment of Goodwill**

The Group review goodwill for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired. This requires an assessment of the recoverable amount of the cash-generating unit to which the goodwill relates. The assumptions used in this assessment of the carrying amount of goodwill are discussed in more detail in note 1(j).

**Impairment of Assets:**

The group review at each reporting date whether there is any indication that an asset may be impaired. This requires an estimate of the assets recoverable amount and an estimate of it's fair value. The assumptions used in the determining of whether an asset is impaired and the treatment of impairment losses is discussed in more detail in note 1(k).

**Share-based payment transactions:**

The Group measures the cost of equity-settled transactions with employees (including directors and other senior executives) 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 using assumptions dealt with in note 1(m).

**e. 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.



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

**e. Taxation (continued)**

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
- 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.



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

**f. 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.

**g. Receivables**

*Trade debtors*

Trade debtors are carried at amounts due less an allowance for any uncollectible amounts. The collectability 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 collectability 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.

**h. 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.



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

**i. 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

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.



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

**j. 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
- 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.

**k. 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.



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

**k. Impairment of assets (continued)**

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.

**l. 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.

**m. 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.

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

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

**p. 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.

**q. 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.

**r. 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.

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

**s. 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.

**t. Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

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

**v. 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.

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

**x. 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 income statement.

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

**y. 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:

*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.



1. **Summary of significant accounting policies (continued)**
- y. **Derivative financial instruments and hedging (continued)**

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

**z. Impact of adoption of AIFRS**

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Generally Accepted Accounting Principals applicable ('AGAAP') are illustrated below.

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

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

- (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 previous AGAAP to that under AIFRS**

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



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

**z. Impact of adoption of AIFRS (continued)**

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

- (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 (D) 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.



1. Summary of significant accounting policies (continued)

aa. Changes in accounting policies

Except for the revised AASB 119 *Employee Benefits* (issued in December 2004) and the consequential amendments contained in AASB 2004-3, the adoption of which had no impact on the Group's financial report, Australian Accounting Standards and UIG Interpretations that have recently been amended but are not yet effective have not been adopted by the Group. These are outlined in the table below.

Reference	Title	Summary	Application date of standard	Impact on group financial report	Application date for group
AASB 2005-1	Amendments to Australian Accounting Standard AASB 139	Amendment to allow the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in certain circumstances.	For annual reporting periods beginning on or after 1 January 2006	As the Group does not apply intra-group hedge accounting, these amendments are not expected to have any impact on the Group's financial report.	1 July 2006
AASB 2005-4	Amendments to Australian Accounting Standards [AASB 139, AASB 132, AASB 1, AASB 1023 & AASB 1038]	Amendments relate to the restriction on designating financial instruments at fair value through profit and loss.	For annual reporting periods beginning on or after 1 January 2006	As the Group has not elected to designate any financial instruments as at fair value through the profit and loss, these amendments are not expected to have any impact on the Group's financial report.	1 July 2006
AASB 2005-5	Amendments to Australian Accounting Standards [AASB 1 & AASB 139]	Consequential amendments made to AASB 1 due to the issue of UIG Interpretation 4 <i>Determining whether an Arrangement contains a Lease</i> . Consequential amendments made to AASB 139 due to the issue of UIG Interpretation 5 <i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i> .	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore these amendments are not expected to have any impact on the Group's financial report.	1 July 2006



1. Summary of significant accounting policies (continued)

aa. Changes in accounting policies (continued)

Reference	Title	Summary	Application date of standard	Impact on group financial report	Application date for group
AASB 2005-6	Amendments to Australian Accounting Standards [AASB 3]	The definition of 'contribution by owners' is removed and the AASB 3 scope exclusion for business combinations involving entities or businesses under common control is adopted.	For annual reporting periods beginning on or after 1 January 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore these amendments are not expected to have any impact on the Group's financial report.	1 July 2006
AASB 2005-9	Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]	The amendments provide guidance as to which standard applies to financial guarantee contracts under certain circumstances.	For annual reporting periods beginning on or after 1 January 2006	The impacts of these amendments on the Group's financial report have not yet been determined.	1 July 2006
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	These amendments arise from the release in August 2005 of AASB 7 <i>Financial Instruments: Disclosures</i>	For annual reporting periods beginning on or after 1 January 2007	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the disclosures included in the Group's financial report in relation to financial instruments.	1 July 2007
AASB 2006-1	Amendments to Australian Accounting Standards [AASB 121]	These amendments clarify the requirements relating to an entity's investment in foreign operations and assist the financial reporting of entities with investments in operations that have a different functional currency.	For annual reporting periods ending on or after 31 December 2006	These requirements are consistent with the Group's existing accounting policies or relate to transactions that the Group has not entered into and therefore these amendments are not expected to have any impact on the Group's financial report.	1 July 2006



1. Summary of significant accounting policies (continued)

aa. Changes in accounting policies (continued)

Reference	Title	Summary	Application date of standard	Impact on group financial report	Application date for group
UIG 4	Determining whether an Arrangement contains a Lease	This Interpretation specifies criteria for determining whether an arrangement is, or contains, a lease.	For annual reporting periods beginning on or after 1 January 2006	The impacts of these amendments on the Group's financial report have not yet been determined.	1 July 2006
UIG 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	This Interpretation addresses the accounting for rights to interests arising from decommissioning, restoration and rehabilitation funds and for additional contributions to such a fund.	For annual reporting periods beginning on or after 1 January 2006	As the Group has no interests in such funds, these amendments are not expected to have any impact on the Group's financial report.	1 July 2006
UIG 7	Applying the Restatement Approach under AASB 129 <i>Financial Reporting in Hyperinflationary Economies</i>	This Interpretation addresses the requirement in AASB 129 for financial statements to be stated in terms of the measuring unit current at the reporting date when they are reported in the currency of a hyperinflationary economy.	For annual reporting periods beginning on or after 1 March 2006	As the Group has no investments in foreign operations operating in hyperinflationary economies, these amendments are not expected to have any impact on the Group's financial report.	1 July 2006
UIG 8	Scope of AASB 2 <i>Share-based Payment</i>	This Interpretation clarifies that the scope of AASB 2 includes transactions in which the entity cannot identify specifically some or all of the goods or services received as consideration for the equity instruments of the entity or other share-based payment.	For annual reporting periods beginning on or after 1 May 2006	Unless the Group enters into share-based payment arrangements unrelated to employee services in future reporting periods, these amendments are not expected to have any impact on the Group's financial report.	1 July 2006



1. Summary of significant accounting policies (continued)

aa. Changes in accounting policies (continued)

Reference	Title	Summary	Application date of standard	Impact on group financial report	Application date for group
UIG 9	Reassessment of Embedded Derivatives	This Interpretation clarifies that an entity reassesses whether an embedded derivative contained in a host contract is required to be separated from the host contract and accounted for as a derivative under AASB 139 only when there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required.	For annual reporting periods beginning on or after 1 June 2006	Unless the Group enters into arrangements containing embedded derivatives in future reporting periods, these amendments are not expected to have any impact on the Group's financial report.	1 July 2006



	Year Ending 30 June 2006 \$'000	Year Ending 30 June 2005 \$'000
<b>2. Dividends:</b>		
Dividends paid (fully franked at the 30% tax rate)		
Interim 2006 dividend at 3.9 cents per share (2005: 3.9 cents)	3,900	3,771
Final 2005 dividend at 5.1 cents per share (2004: 3.9 cents)	5,023	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 3.9 cents per share (2005: 5.1 cents)	3,953	5,023
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 June, 2006 and will be brought to account in subsequent financial reports.		
<b>3. Revenues and expenses:</b>		
<b>(a) Other expenses</b>		
Loss on disposal of plant and equipment	43	15
System implementation costs	-	757
	43	772
<b>(b) Finance costs/(revenue)</b>		
Bank loans and overdrafts	8,570	9,606
Finance charges payable under finance leases and hire purchase contracts	488	465
Interest rate swap	34	-
Other borrowing costs	703	177
Total finance costs	<b>9,795</b>	<b>10,248</b>
Bank interest receivable	(300)	(42)
<b>(c) Depreciation, amortisation, foreign exchange differences and costs of inventories included in income statement</b>		
Depreciation and amortisation	5,652	4,802
Foreign exchange (gain)/loss	(736)	(27)
Costs of inventories recognised as an expense	290,166	284,925



	Year Ending 30 June 2006 \$'000	Year Ending 30 June 2005 \$'000
<b>(d) Lease payment and other expenses included in income statement</b>		
Rental – operating leases	6,946	5,771
<b>(e) Employee benefits expense</b>		
Wages and salaries	40,446	40,344
Workers' compensation costs	1,119	1,004
Superannuation costs	2,434	2,131
Expense of share-based payments	140	138
	<u>44,139</u>	<u>43,617</u>



#### 4. Discontinued operations:

During the year Atlas Group Holdings Limited resolved to close the automotive operations of Southward Engineering Co Limited (“Southward”), a company that manufactures automotive and tubular products in New Zealand. In the previous year Southward's Australian automotive distribution business was closed.

The automotive business of Southward is viewed as a non-core operation following a strategic review of the Group's activities. Manufacturing at the Wellington plant ceased in June 2006 and the closure process is anticipated to be completed by 31 December 2006.

	Year Ended 30 June 2006 \$'000	Year Ended 30 June 2005 \$'000
The results of the automotive operations of Southward for the period have been presented below:		
Revenue	12,412	19,152
Expenses	(18,232)	(20,696)
Gross loss	(5,820)	(1,544)
Finance income/(expense)	42	(107)
Pre-tax loss	(5,778)	(1,651)
Loss recognised on the remeasurement to fair value	(1,837)	-
Loss before tax from discontinued operation	(7,615)	(1,651)
Income tax (charge)/benefit:		
- related to pre-tax loss	87	517
- related to remeasurement to fair value	-	-
Net loss attributable to discontinued operation	(7,528)	(1,134)

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 30 June 2006 are as follows:

	30 June 2006 \$'000
<i>Assets</i>	
Plant & equipment	699
Trade and other receivables	5,151
Inventories	4,310
Non-current assets classified as held for sale	10,160
<i>Liabilities</i>	
Trade creditors and payables	2,457
Provisions	876
Liabilities directly associated with non-current assets classified as held for sale	3,333
Net assets attributable to discontinued operations	6,827



	Year Ended 30 June 2006 \$'000	Year Ended 30 June 2005 \$'000
The net cash flows incurred by the automotive operations of Southward are as follows:		
Operating	(3,954)	(2,464)
Investing	(219)	(912)
Financing	4,173	3,376
Net cash inflow/(outflow)	-	-
	<b>30 June 2006 \$'000</b>	<b>30 June 2005 \$'000</b>
<b>5. Issued capital:</b>		
<i>Ordinary shares Issued and fully paid</i>	38,168	34,996
	<b>Thousands</b>	<b>\$'000</b>
<i>Movement in ordinary shares on issue</i>		
At 1 July 2004	83,408	18,513
Dividend reinvestment plan	2,961	3,396
Underwriting of dividend	1,631	1,897
Private equity raising	10,500	11,550
Transaction costs	-	(360)
At 1 July 2005	98,500	34,996
Dividend reinvestment plan	2,868	3,172
At end of the financial period	101,368	38,168
<b>6. Earnings per share:</b>		
Calculation of the following in accordance with AASB 133:		
Net profit attributable to equity holder from continuing operations	3,526	14,311
Net loss attributable to equity holders from discontinued operations	(7,528)	(1,134)
Net (loss)/profit attributable to equity holders of the parent	(4,002)	13,177
Net (loss)/profit attributable to ordinary shareholders for diluted earnings per share	(4,002)	13,177
Net loss attributable to ordinary shareholders from discontinued operations:		
- for basic earnings per share	(7,528)	(1,134)
- for diluted earnings per share	(7,528)	(1,134)
	<b>Thousands</b>	<b>Thousands</b>
Weighted average number of ordinary shares for basic earnings per share	99,631	91,063
Effects of dilution:		
Performance rights	3,690	3,235
Adjusted weighted average number of ordinary shares for diluted earnings per share	103,321	94,298
Weighted average number of lapsed or cancelled potential ordinary shares included in diluted earnings per share	165	-



	Year Ended 30 June 2006 \$'000	Year Ended 30 June 2005 \$'000
<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
Income tax on ordinary activities	-	-
<b>Net profit/(loss)</b>	-	147
Outside equity interests	-	-
<b>Net profit/(loss) attributable to members</b>	-	147
<b>8. Cash and cash equivalents</b>		
Cash at bank and in hand	1,041	1,930
<b>a. Reconciliation of cash</b>		
For the purposes of the statements of cash flows, cash and cash equivalents comprise the following at 30 June:		
Cash at bank and in hand	1,041	1,930
Overdrafts	-	-
	1,041	1,930
<b>b. Reconciliation of net profit/(loss) after income tax to net cash flows from operations</b>		
Net (loss)/profit	(4,002)	13,177
<b>Non cash items</b>		
Depreciation and amortisation	5,652	4,802
Share of associate's net (profits)/losses	-	(147)
Loss on disposal of plant and equipment	43	58
Discount on acquisition of assets realised during the period	-	(2,926)
Share-based payments expense	140	137
<b>Change in operating assets and liabilities</b>		
(Increase)/decrease in receivables & other assets	25,994	(16,317)
(Increase)/decrease in inventories	19,400	(5,840)
(Increase)/decrease in tax assets & liabilities	(4,948)	(1,091)
Increase/(decrease) in trade creditors	(4,196)	(1,114)
Increase/(decrease) in provisions	(1,422)	908
<b>Net cash from operating activities</b>	<b>36,661</b>	<b>(8,353)</b>



**30 June  
2005  
\$'000**

**c. Acquisition of subsidiaries:**

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**

**2,831**

**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 \$Nil (2005: \$3,038,148) by means of finance leases.

*Dividend reinvestment plan*

Under the terms and conditions of the dividend reinvestment plan \$3,171,559 (2005: \$3,395,806) of dividends were paid via the issue of 2,868,725 shares (2005: 2,960,665).

*Underwriting of dividend*

During the financial year dividends of \$Nil (2005: \$1,896,892.40) were underwritten via the placement of nil shares (2005: 1,630,894) to the underwriter.



9. Segment information	Continuing Operations			Discontinued Operations	Total Operations
	Distribution	Manufacturing	Total	Automotive	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2006</b>					
<b>Revenue:</b>					
Sales to external customers	306,367	84,894	391,261	12,412	403,673
Other revenue from external customers	1,300	145	1,445	-	1,445
Inter-segment sales	5,855	19,128	24,983	-	24,983
Total segment revenue	313,522	104,167	417,689	12,412	430,101
Inter-segment elimination			(24,983)	-	(24,983)
Total consolidated revenue			392,706	12,412	405,118
<b>Results:</b>					
Segment result	2,129	18,619	20,748	(7,565)	13,183
Unallocated expenses			(6,368)		(6,368)
Profit before tax and finance costs			14,380	(7,565)	6,815
Finance costs			(9,795)	(50)	(9,845)
Share of associate's profit	-	-	-	-	-
Profit before income tax and minority interest			4,585	(7,615)	(3,030)
Income tax expense			1,059	(87)	972
Net profit/(loss) for the year			3,526	(7,528)	(4,002)
<b>Assets and liabilities:</b>					
Segment assets	132,466	61,386	193,852	10,160	204,012
Unallocated assets			4,764	-	4,764
Total assets			198,616	10,160	208,776
Segment liabilities	120,728	20,632	141,360	3,333	144,693
Unallocated liabilities			4,048	-	4,048
Total liabilities			145,408	3,333	148,741
<b>Other segment information:</b>					
Capital expenditure	4,780	1,581	6,361	1	6,362
Depreciation	3,364	2,288	5,652	-	5,652



9. Segment information (continued)	Continuing Operations			Discontinued Operations	Total Operations
	Distribution	Manufacturing	Total	Automotive	
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Year ended 30 June 2005</b>					
<b>Revenue:</b>					
Sales to external customers	320,082	66,138	386,220	19,152	405,372
Other revenue from external customers	47		47	-	47
Inter-segment sales	13,098	14,512	27,610	-	27,610
Total segment revenue	333,227	80,650	413,877	19,152	433,029
Inter-segment elimination			(27,610)	-	(27,610)
Total consolidated revenue			386,267	19,152	405,419
<b>Results:</b>					
Segment result	17,549	13,022	30,571	(1,544)	29,027
Unallocated expenses			(2,717)		(2,717)
Profit before tax and finance costs			27,854	(1,544)	26,310
Finance costs			(10,248)	(107)	(10,355)
Share of associate's profit	147	-	147	-	147
Profit before income tax and minority interest			17,753	(1,651)	16,102
Income tax expense			(3,442)	517	(2,925)
Net profit/(loss) for the year			14,311	(1,134)	13,177
<b>Assets and liabilities:</b>					
Segment assets	193,802	37,292	231,094	11,897	242,991
Unallocated assets			4,149		4,149
Total assets			235,243	11,897	247,140
Segment liabilities	162,523	11,109	173,632	1,883	175,515
Unallocated liabilities			2,292		2,292
Total liabilities			175,924	1,883	177,807
<b>Other segment information:</b>					
Capital expenditure	4,450	2,382	6,832	1,174	8,006
Depreciation	2,524	1,684	4,208	594	4,802



<b>9. Segment information (continued)</b>	<b>Australia</b>	<b>New Zealand</b>	<b>Asia</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Year ended 30 June 2006</b>				
<b>Revenue:</b>				
Sales to external customers	338,923	67,578	13,144	419,645
Other revenue from external customers	1,015	336	94	1,445
Less revenue attributable to discontinued operations	-	(12,412)	-	(12,412)
Revenue from continuing operations	339,938	55,502	13,238	408,678
Inter-segment sales	(13,967)	(2,005)	-	(15,972)
<b>Total segment revenue</b>	<b>325,971</b>	<b>53,497</b>	<b>13,238</b>	<b>392,706</b>
<b>Other segment information:</b>				
Segment assets	152,734	43,666	12,376	208,776
Unallocated assets				-
<b>Total assets</b>				<b>208,776</b>
Capital expenditure	5,795	555	12	6,362
<b>Year ended 30 June 2005</b>				
<b>Revenue:</b>				
Sales to external customers	316,730	86,092	12,701	415,523
Other revenue from external customers	47	-	-	47
Less revenue attributable to discontinued operations	(3,060)	(16,092)	-	(19,152)
Revenue from continuing operations	313,717	70,000	12,701	396,418
Inter-segment sales	(6,740)	(3,411)	-	(10,151)
<b>Total segment revenue</b>	<b>306,977</b>	<b>66,589</b>	<b>12,701</b>	<b>388,267</b>
<b>Other segment information:</b>				
Segment assets	181,679	56,206	9,255	247,140
Unallocated assets				-
<b>Total assets</b>				<b>247,140</b>
Capital expenditure	6,504	1,472	30	8,006



## 10. Commitments and contingencies

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

### 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.