

DIRECTORS' REPORT

The directors of Skilled Engineering Limited (the "Company") present the financial report for the half year ended 31 December 2003. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Company during or since the end of the half year are:

K.V. Loughnan AO K.W. Hughes
F.J. Hargrave AO B.J. Kelly
T.B. Janes R.J. Gartside
G.M. Hargrave appointed 7 August 2003
R.N. Herbert appointed 18 November 2003

REVIEW OF OPERATIONS

A detailed review of the operations of the consolidated entity is contained in the Report to Shareholders.

SUBSEQUENT EVENTS

On 17 February 2004 Skilled Engineering Ltd acquired 100% of the equity in the Origin Health Care Group of companies. No financial effect of this transaction has been reflected in this financial report.

Consideration paid to the vendors for the acquisition comprises \$24.8M cash, 4 million ordinary shares valued at \$10.4M and 9 million performance shares.

The performance shares will convert to ordinary shares in September 2005 with the number of ordinary shares determined according to 2004 and 2005 aggregate EBITDA performance against targets.

In addition Skilled will be assuming responsibility for Origin debt of \$21.9M.

ROUNDING OF AMOUNTS

The Company is of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the Directors' Report and the financial report have been rounded off to the nearest thousand dollars unless otherwise stated.

Signed in accordance with a resolution of the directors.

On behalf of the directors


G.M. Hargrave
Director


T.B. Janes
Director

Melbourne, 17 February, 2004

DIRECTORS' DECLARATION
FOR THE HALF YEAR ENDED 31 DECEMBER 2003

The directors declare that:

- (a) the attached financial statements and notes thereto comply with Accounting Standards;
- (b) the attached financial statements and notes thereto give a true and fair view of the financial position and performance of the consolidated entity;
- (c) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001; and
- (d) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303(5) of the Corporations Act 2001.

On behalf of the directors



G.M. Hargrave
Director



T.B. Janes
Director

Melbourne, 17 February, 2004

**Results for Announcement to the Market
Half Year Ended ('current period') – 31 December 2003
('previous corresponding period' – 31 December 2002)**

	Percentage change	\$A'000
Revenues from ordinary activities	Up 6.6% to	346,571
Profit from ordinary activities after tax attributable to members	Up 15.1% to	9,811
Net profit for the period attributable to members	Up 15.1% to	9,811

Dividends (distributions)	Amount per security	Franked amount per security
Interim Dividend (payable 21 April 2004) (Previous Year)	6.0¢ 6.0¢	6.0¢ 6.0¢
Final Dividend (paid 21 October 2003) (Previous Year)	9.5¢ 6.0¢	9.5¢ 6.0¢
Record date for determining entitlements to the Dividend	5 April 2004	
Date for payment of Interim Dividend	21 April 2004	
The Dividend Reinvestment Plan is in operation. Applicable discount rate is 2.5%. Price is based on the weighted average market price for fully paid shares sold on ASX during the 5 trading days immediately following the Record Date for determining entitlements to the dividend. The last date for the receipt of election notices for the Dividend Reinvestment Plan is 5 April 2004.		

Earnings Per Ordinary Fully Paid Share (EPS)	Current Period	Previous Corresponding Period
Basic EPS	10.81¢	9.77¢
Diluted EPS	10.76¢	9.75¢

NTA Backing	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	47.8¢	37.7¢

Statement of Financial Performance For the Half Year Ended 31 st December 2003		
	December 2003 \$ '000	December 2002 \$ '000
Revenue from ordinary activities	346,571	325,213
Employee and sub-contractor related costs	(286,612)	(266,295)
Raw materials and consumables used	(16,732)	(19,569)
Motor vehicle expenses	(3,016)	(3,197)
Office occupancy related costs	(2,778)	(2,744)
Depreciation and amortisation expense	(3,581)	(2,582)
Borrowing costs	(381)	(604)
Other expenses from ordinary activities	(19,229)	(18,084)
Profit from ordinary activities before income tax expense	14,242	12,138
Income tax expense relating to ordinary activities	(4,431)	(3,616)
Profit from ordinary activities after related income tax expense	9,811	8,522
Decrease in foreign currency translation reserve arising on translation of self-sustaining foreign operations	(9)	(164)
Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity Recognised Directly in Equity	(9)	(164)
Total Changes in Equity other than those Resulting from Transactions with Owners as Owners	9,802	8,358

Notes to the financial statements are included on pages 7 to 12.

Statement of Financial Position			
As at 31 st December 2003			
	Note	December 2003	
		June 2003	
		\$'000	\$'000
Current Assets			
Cash assets		3,486	4,982
Receivables		85,631	93,692
Inventories		4,447	4,046
Other		2,385	2,415
Total Current Assets		95,949	105,135
Non-Current Assets			
Receivables		1,117	113
Property, plant and equipment		15,764	16,515
Intangibles		24,646	25,130
Deferred tax assets		3,800	5,840
Total Non-Current Assets		45,327	47,598
Total Assets		141,276	152,733
Current Liabilities			
Payables		31,127	44,273
Interest-bearing liabilities		2,031	2,862
Current tax liabilities		2,780	4,809
Provisions		19,760	22,130
Total Current Liabilities		55,698	74,074
Non-Current Liabilities			
Interest-bearing liabilities		11,670	10,771
Provisions		5,686	2,853
Total Non-Current Liabilities		17,356	13,624
Total Liabilities		73,054	87,698
Net Assets		68,222	65,035
Equity			
Contributed equity	4	50,523	48,525
Reserves		4,773	4,782
Retained profits	6	12,926	11,728
Total Equity		68,222	65,035

Notes to the financial statements are included on pages 7 to 12.

Statement of Cash Flows For the Half Year Ended 31 st December 2003		
	December 2003 Inflows/(Outflows) \$'000	December 2002 Inflows/(Outflows) \$'000
Cash Flows From Operating Activities		
Receipts from customers	388,725	314,963
Payments to suppliers and employees	(377,092)	(310,790)
Interest received	128	148
Interest and other costs of finance paid	(385)	(669)
Income tax paid	(4,418)	(5,429)
Net Cash Provided by/(Used in) Operating Activities	6,958	(1,777)
Cash Flows From Investing Activities		
Payment for property, plant and equipment	(1,149)	(1,456)
Payment for purchase of equity investment	-	(200)
Proceeds from sale of property, plant and equipment	216	684
Net Cash Used in Investing Activities	(933)	(972)
Cash Flows From Financing Activities		
Proceeds from borrowings	58,000	37,800
Repayment of borrowings	(58,649)	(33,020)
Proceeds from issues of equity	529	-
Dividends paid	(7,401)	(1,733)
Net Cash (Used in)/Provided by Financing Activities	(7,521)	3,047
Net (Decrease)/Increase in Cash Held	(1,496)	298
Cash at the Beginning of the Period	4,982	2,107
Cash at the end of the Period	3,486	2,405

Notes to the financial statements are included on pages 7 to 12.

Notes to the Financial Statements for the half year ended 31 December 2003

1. Basis of Preparation

The half year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 1029 'Interim Financial Reporting'. The half year financial report does not include notes of the type normally included in an annual financial report and should be read in conjunction with the 2003 annual financial report.

The accounting policies adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the 2003 annual report with the exception of new accounting policies that relate to becoming self insured for Workers Compensation in South Australia from 1 August 2003:

Outstanding Claims

The liability for outstanding claims is in respect of claims incurred but not yet paid, claims incurred but not yet reported and the anticipated direct and indirect costs associated with those claims. The liability for outstanding claims has been measured on the basis of actuarially estimated cost of claims including the anticipated effects of inflation and are discounted to a present value at balance date.

Claims Recoveries

Claims recoveries on claims paid and reported claims not yet paid are recognised as revenue and are based on actuarial assessment in a manner similar to the measurement of outstanding claims liability and discounted to a present value at balance date.

	December 2003 \$'000	December 2002 \$'000
2. Significant Items		
Non Recurring net profit effect arising from the sale of surplus Marine Assets	-	1,317
Writeback/(expensing) of provision for superannuation on overtime worked by casual employees	2,307	(818)
Cost of becoming self insured for Workers Compensation in South Australia	(1,325)	-
	982	499

3. Segment Reporting

Segment Revenues and Results Half year ending December 2003	Managed Labour Services	Infrastructure Services	Eliminations	Unallocated	Total
	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000	2003 \$'000
Revenue	278,967	67,921	(442)	125	346,571
EBITDA	12,479	5,600	-	-	18,079
Depreciation and amortisation	<u>2,163</u>	<u>1,418</u>	-	-	3,581
Earnings before interest and tax	10,316	4,182	-	-	14,498
Net interest expense					256
Profit from ordinary activities before income tax					14,242
Income tax expense					4,431
Net profit after tax					<u>9,811</u>
Segment Assets And Liabilities					
Assets	74,931	39,367	-	26,978	141,276
Liabilities	37,479	19,094	-	16,481	73,054
Other Segment Information					
Acquisition of segment assets	1,058	808	-	-	1,866
Significant Expenses					
- Writeback/(expensing) of provision for superannuation on overtime worked by casual employees	2,307	-	-	-	2,307
- Cost of becoming self insured for Workers Compensation in South Australia	(1,325)	-	-	-	(1,325)

Notes to the Financial Statements for the half year ended 31 December 2003

3. Segment Reporting (continued)

Segment Revenues and Results Half year ending December 2002	Managed Labour Services	Infrastructure Services	Eliminations	Unallocated	Total
	2002 \$'000	2002 \$'000	2002 \$'000	2002 \$'000	2002 \$'000
Revenue	250,200	75,058	(1,049)	1,004	325,213
EBITDA	10,472	4,744	-	-	15,216
Depreciation and amortisation	<u>1,381</u>	<u>1,201</u>	-	-	<u>2,582</u>
Earnings before interest and tax	9,091	3,543	-	-	12,634
Net interest expense					496
Profit from ordinary activities before income tax					12,138
Income tax expense					3,616
Net profit after tax					<u>8,522</u>
Segment Assets And Liabilities					
Assets	75,293	48,252	-	24,704	148,249
Liabilities	38,692	25,088	-	25,419	89,199
<u>Other Segment Information</u>					
Acquisition of segment assets	2,022	1,876	-	-	3,898
Significant expenses					
- Non recurring profit on sale of marine assets	1,317	-	-	-	1,317
- Writeback/(expensing) of provision for superannuation on overtime worked by casual employees	(818)	-	-	-	(818)

Other Disclosures

The consolidated entity predominantly operates in one geographical segment, being Australia.

Segment Descriptions

Inter-segment pricing is on a normal commercial basis.

Managed Labour Services

Provision of supplementary labour hire and contract maintenance services. Revenue is based predominantly on hours worked. This segment includes Skilled Maritime Services and our Customer Contact businesses.

Infrastructure Services

Provision of design, construction, installation and maintenance services to Australia's telecommunications and utilities industries. This segment includes the businesses of Skilled Mechanical Workshops and Skilled Equipment Manufacturing.

Notes to the Financial Statements for the half year ended 31 December 2003

	December 2003 \$'000	June 2003 \$'000
4. Contributed Equity		
91,189,851 fully paid ordinary shares (June 2003: 90,418,858)	50,523	48,525

	6 months ended December 2003 No. '000	6 months ended December 2003 \$'000	12 months ended June 2003 No. '000	12 months ended June 2003 \$'000
Fully Paid Ordinary Shares				
Balance at beginning of reporting period	90,419	48,525	86,135	41,042
Issue of shares under Employee Share Acquisition Scheme	180	509	225	292
Issue of shares under the Dividend Reinvestment Plan	466	1,213	4,009	7,109
Issue of shares under Executive Share Option Plan	125	276	50	82
Balance at end of reporting period	91,190	50,523	90,419	48,525

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

5. Executive Share Option Plan

The consolidated entity has an ownership based remuneration scheme for directors and executives under which share options are issued to directors and executives at the discretion of the Board and are recognised in the financial statements if and when exercised.

Executive Share Option Plan	6 months ended December 2003 No.	12 months ended June 2003 No.
Balance at beginning of the reporting period	864,969	904,398
Granted during the reporting period	-	50,000
Exercised during the reporting period	(125,000)	(50,000)
Lapsed during the reporting period	(50,000)	(39,429)
Balance at end of the reporting period	689,969	864,969

Notes to the Financial Statements for the half year ended 31 December 2003

	6 months ended December 2003 \$'000	12 months ended June 2003 \$'000
6. Retained Profits		
Balance at beginning of reporting period	11,728	1,076
Adjustments to opening retained profits on initial adoption of AASB 1028 'Employee Benefits'	-	(150)
Adjustments to opening retained profits on initial adoption of AASB 1044 'Provisions, Contingent Liabilities and Contingent Assets' Write-back of prior year dividend	-	5,182
Net profit attributable to members of parent entity	9,811	16,122
Dividends provided for or paid	(8,613)	(10,502)
Balance at end of reporting period	12,926	11,728

	December 2003		June 2003	
	Cents per share	Total \$'000	Cents per share	Total \$'000
7. Dividends				
<u>(a) Recognised Amounts</u>				
Interim dividend relating to year ended June 2003, 100% franked			6.0	5,320
Final dividend relating to year ended June 2003, 100% franked	9.5	8,613		
		8,613		5,320
<u>(b) Unrecognised Amounts</u>				
Interim dividend for year ended June 2004, 100% franked	6.0	5,711		

The interim dividend for the year ended 30 June 2004 has not been recognised in this financial report because it was declared subsequent to 31 December 2003.

8. Tax Consolidation System

Legislation to allow groups, comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes, was substantively enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements of the tax consolidation system, is applicable to the consolidated group.

The impact of the mandatory elements of the tax consolidation system on existing deferred tax balances of the consolidated entity and the Company has been estimated on a reasonable basis.

At the date of this report the directors have not made a decision to elect to be taxed as a single entity.

The financial effect of the implementation of the tax consolidation system on the consolidated entity has therefore not been recognised in the financial statements.

Notes to the Financial Statements for the half year ended 31 December 2003

9. Contingent Liabilities	December 2003	June 2003
	\$'000	\$'000
Bank guarantees for various contracts.	6,434	6,619

10. Subsequent Event

On 17 February 2004 Skilled Engineering Ltd acquired 100% of the equity in the Origin Health Care Group of companies. No financial effect of this transaction has been reflected in this financial report.

Consideration paid to the vendors for the acquisition comprises \$24.8M cash, 4 million ordinary shares valued at \$10.4M and 9 million performance shares.

The performance shares will convert to ordinary shares in September 2005 with the number of ordinary shares determined according to 2004 and 2005 aggregate EBITDA performance against targets.

In addition Skilled will be assuming responsibility for Origin debt of \$21.9M.

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF SKILLED ENGINEERING LIMITED

Scope

We have reviewed the financial report of Skilled Engineering Limited for the half-year ended 31 December 2003 as set out on pages 2 to 12. The financial report includes the consolidated financial statements of the consolidated entity comprising the disclosing entity and the entities it controlled at the end of the half-year or from time to time during the half-year. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities and Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of the entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Skilled Engineering Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2003 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU

J. A. Watson
D A WATSON

Partner
Chartered Accountants

Melbourne, 17 February 2004