

**Results for Announcement to the Market  
Financial Year Ended ('current period') – 30 June 2004  
(‘previous corresponding period’ – 30 June 2003)**

		<b>\$A'000</b>
Revenues from ordinary activities	Up 12% to	736,428
Profit (loss) from ordinary activities after tax attributable to members	Up 2% to	16,387
Net profit (loss) for the period attributable to members	Up 2% to	16,387

<b>Dividends (distributions)</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
Final Dividend	10.0¢	10.0¢
(Previous Year)	9.5¢	9.5¢
Interim Dividend (paid 21 April 2004)	6.0¢	6.0¢
(Previous Year)	6.0¢	6.0¢
Record date for determining entitlements to the Dividend	27 September 2004	
Date for payment of Final Dividend	19 October 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.		

<b>Earnings Per Ordinary Fully Paid Share (EPS)</b>	<b>Current Period</b>	<b>Previous Corresponding Period</b>
Basic EPS	17.70¢	18.27¢
Diluted EPS	17.64¢	18.21¢

<b>NTA Backing</b>	<b>Current Period</b>	<b>Previous Corresponding Period</b>
Net tangible asset backing per ordinary security	27.7¢	44.1¢

<b>The Annual Report is in the process of being audited</b>	
<b>Annual General Meeting</b>	
Place:	Melbourne Town Hall
Date:	26 October 2004
Time:	11.30 am
<b>Annual Report available (approximate date):</b>	22 September 2004

Signed:

.....  
K.W. Bieg  
Company Secretary

Date:

25 August 2004

<b>Statement of Financial Performance</b>			
For the Financial Year Ended 30 <sup>th</sup> June 2004			
	<b>Notes</b>		
		<b>2004 \$'000</b>	<b>2003 \$'000</b>
Revenue from ordinary activities	2	736,428	656,549
Employee and sub-contractor related costs		(618,684)	(538,647)
Raw materials and consumables used		(33,128)	(36,709)
Motor vehicle expenses		(5,708)	(6,761)
Office occupancy related costs		(6,076)	(5,474)
Depreciation and amortisation expense	2	(10,554)	(6,403)
Borrowing costs	2	(2,117)	(1,220)
Other expenses from ordinary activities		(36,218)	(37,472)
Profit from ordinary activities before income tax expense	2	23,943	23,863
Income tax expense relating to ordinary activities	4	(7,556)	(7,741)
<b>Net Profit</b>	<b>23</b>	<b>16,387</b>	<b>16,122</b>
Adjustment to retained profits at 1 July 2002 as a result of the adoption of AASB 1028 "Employee Benefits"		-	(150)
Decrease in foreign currency translation reserve arising on translation of self-sustaining foreign operations	22	(111)	(51)
<b>Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity Recognised Directly in Equity</b>		<b>(111)</b>	<b>(201)</b>
<b>Total Changes in Equity other than those Resulting from Transactions with Owners as Owners</b>		<b>16,276</b>	<b>15,921</b>

Notes to the financial statements are included on pages 5 to 24.

<b>Statement of Financial Position</b>			
As at 30 <sup>th</sup> June 2004			
	<b>Note</b>	<b>2004</b>	
		<b>\$'000</b>	
		<b>2004</b>	<b>2003</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Current Assets</b>			
Cash assets		7,651	4,982
Receivables	6	97,509	93,692
Inventories	7	5,327	4,046
Other	8	3,802	2,415
<b>Total Current Assets</b>		<b>114,289</b>	<b>105,135</b>
<b>Non-Current Assets</b>			
Receivables	9	854	113
Property, plant and equipment	10	37,670	16,515
Intangibles	11	53,977	25,130
Deferred tax assets	12	9,276	5,840
<b>Total Non-Current Assets</b>		<b>101,777</b>	<b>47,598</b>
<b>Total Assets</b>		<b>216,066</b>	<b>152,733</b>
<b>Current Liabilities</b>			
Payables	13	43,186	44,273
Interest-bearing liabilities	14	16,564	2,862
Current tax liabilities	15	3,159	4,809
Provisions	16	21,472	22,130
<b>Total Current Liabilities</b>		<b>84,381</b>	<b>74,074</b>
<b>Non-Current Liabilities</b>			
Interest-bearing liabilities	17	46,064	10,771
Provisions	18	5,201	2,853
<b>Total Non-Current Liabilities</b>		<b>51,265</b>	<b>13,624</b>
<b>Total Liabilities</b>		<b>135,646</b>	<b>87,698</b>
<b>Net Assets</b>		<b>80,420</b>	<b>65,035</b>
<b>Equity</b>			
Contributed equity	20	61,959	48,525
Reserves	22	4,671	4,782
Retained profits	23	13,790	11,728
<b>Total Equity</b>		<b>80,420</b>	<b>65,035</b>

Notes to the financial statements are included on pages 5 to 24.

<b>Statement of Cash Flows</b>			
For the Financial Year Ended 30 <sup>th</sup> June 2004			
	Note		
		2004 \$'000	2003 \$'000
<b>Cash Flows From Operating Activities</b>			
Receipts from customers		810,824	708,297
Payments to suppliers and employees		(783,271)	(683,769)
Interest received		227	206
Interest and other costs of finance paid		(2,092)	(1,174)
Income tax paid		(11,356)	(8,796)
<b>Net Cash Provided by Operating Activities</b>	24(c)	<b>14,332</b>	<b>14,764</b>
<b>Cash Flows From Investing Activities</b>			
Payment for property, plant and equipment		(4,919)	(3,389)
Payment for purchases of businesses	24(d)	(33,709)	-
Payment for purchase of equity investment		-	(200)
Proceeds from sale of property, plant and equipment		559	1,617
<b>Net Cash Used in Investing Activities</b>		<b>(38,069)</b>	<b>(1,972)</b>
<b>Cash Flows From Financing Activities</b>			
Proceeds from borrowings		202,300	106,800
Repayment of borrowings		(164,549)	(113,792)
Proceeds from issues of equity		748	467
Dividends paid		(12,093)	(3,392)
<b>Net Cash Provided/(Used) in Financing Activities</b>		<b>26,406</b>	<b>(9,917)</b>
<b>Net Increase in Cash Held</b>		<b>2,669</b>	<b>2,875</b>
<b>Cash at the Beginning of the Financial Year</b>		<b>4,982</b>	<b>2,107</b>
<b>Cash at the end of the Financial Year</b>		<b>7,651</b>	<b>4,982</b>

Notes to the financial statements are included on pages 5 to 24.

**Notes to the Financial Statements**

**1. SUMMARY OF ACCOUNTING POLICIES**

***Financial Reporting Framework***

This preliminary financial report has been prepared in accordance with ASX listing rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This preliminary final report has been prepared on the basis of historical cost and except where stated, does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

***Significant Accounting Policies***

Accounting policies are selected and applied in a manner that ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions and other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of this preliminary final report:

**(a) *Principles of Consolidation***

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its controlled entities as defined in Accounting Standard AASB1024 "Consolidated Accounts". Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each controlled entity from the date on which the company obtains control and until such time as the company ceases to control the entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

**(b) *Acquisition of Assets***

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value at the date of acquisition.

**(c) *Revenue Recognition***

Sale of Goods and Disposal of Assets

Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

Rendering of Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract.

**Notes to the Financial Statements**

**1. Summary of Accounting Policies (continued)**

**(d) Income Tax**

Tax-effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax-effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in the deferred tax assets and deferred tax liabilities as applicable.

On 20 July 2004, the directors elected that the company and its wholly-owned Australian resident entities would join a tax consolidated group effective from 16 February 2004. As a result, all income tax expenses, revenues, assets and liabilities of the members of the tax consolidated group are recognised in the financial statements of the parent entity.

Due to the existence of a tax sharing agreement between the entities in the tax-consolidated group, the income tax expense/revenue of the parent entity includes the tax contribution amounts paid or payable between the parent entity and subsidiary entities made in accordance with the agreement.

The current and deferred tax assets and liabilities of the parent entity are not reduced by any amounts owing from or to subsidiary entities in accordance with the tax sharing agreement as these amounts are recognised as intercompany receivables and payables.

**(e) Receivables**

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

**(f) Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis.

Consumables are recorded at cost and written off over the life of the contract to which they relate. Work performed but not billed on contracts is valued at the contract rate and recorded as work in progress. Profits recognised are based on the percentage completion of each contract.

**(g) Investments**

Investments in controlled entities are recorded at cost. Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on an accrual basis.

**(h) Depreciation**

Depreciation is provided on property, plant and equipment, including buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life whichever is shorter, using the straight line method.

Costs associated with the development of computer systems and start up costs associated with major contracts are capitalised and then expensed over the future periods to which the economic benefits of the expenditure are expected to be recoverable.

The following estimated useful lives are used in the calculation of depreciation:

Buildings	4 – 20 years
Leasehold improvements	2 – 10 years
Plant and equipment	4 – 5 years
Equipment under finance lease	2 – 8 years
Computer equipment and systems	3 – 7 years

**1. Summary of Accounting Policies (continued)**

**(i) Leased Assets**

Leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the present value of minimum lease payments.

A finance lease is one that effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset. Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

Operating lease payments are recognised as an expense on a basis that reflects the pattern in which economic benefits from the leased asset are consumed.

**(j) Trademarks and Brand Names**

The directors consider trademarks and brand names to be separately identifiable assets whose value does not diminish over time.

The Company is committed to continue to actively use and promote the Skilled trademarks and brand names in its business. The directors believe the Skilled trademarks and brand names have an indefinite life and no amortisation is required.

**(k) Intangibles**

Goodwill

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is amortised on a straight line basis over a period of up to 20 years.

Databases

Databases are recorded at a value consistent with a valuation report that was prepared by Ernst & Young Transaction Advisory Services Limited specifically as part of Skilled Engineering Ltd's acquisition of the Origin Healthcare Group on 17 February 2004. The valuation methodology used is based on the capitalisation of an imputed royalty stream. The databases are amortised over a period of 20 years on a straight-line basis.

**(l) Recoverable Amount of Non-Current Assets**

Non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds the recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

**(m) Accounts Payable**

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

**(n) Interest-Bearing Liabilities**

Bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis.

Bills of exchange are recorded at an amount equal to the net proceeds received, with the discount amortised over the period until maturity. Interest expense is recognised on an effective yield basis.

**Notes to the Financial Statements**

**1. Summary of Accounting Policies (continued)**

**(o) Financial Instruments Issued by the Company**

Debt and Equity Instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Transaction Costs on the Issue of Equity Instruments

Transaction costs arising on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had those instruments not been issued.

Interest and Dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the Statement of Financial Position classification of the related debt or equity instruments or component parts of compound instruments.

**(p) Derivative Financial Instruments**

The consolidated entity uses derivative financial instruments to manage its exposure to interest rate risk. Gains and losses on interest rate swaps and the net cost of interest rate caps are included in the determination of interest expense.

**(q) Employee Benefits**

Provision is made for benefits accruing to employees in respect of wages and salaries, rostered days off, annual leave, and long service leave, when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made with respect to wages and salaries, annual leave, rostered days off and long service leave expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Provisions made with respect to other employee benefits, such as long service leave, which is not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity with respect to services provided by employees up to the reporting date.

Contributions made to defined benefit superannuation plans are expensed when incurred. The difference between the accrued benefits and net market value of plan assets has not been recognised in the financial statements as the plan is currently in a surplus position.

**Notes to the Financial Statements**

**1. Summary of Accounting Policies (continued)**

**(r) Foreign Currency**

All foreign currency transactions during the financial year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date.

Exchange differences are brought to account in the statement of financial performance in the period in which they arise except that:

- i. exchange differences which relate to assets under construction for future productive use are included in the cost of those assets; and
- ii. exchange differences on transactions entered into in order to hedge the purchase or sale of specific goods and services are deferred and included in the measurement of the purchase or sale.

Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation are transferred on consolidation to the foreign currency translation reserve.

Financial statements of self-sustaining foreign controlled entities are translated at reporting date using the current rate method and exchange differences are taken directly to the foreign currency translation reserve.

**(s) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- (ii) for receivables and payables which are recognised inclusive of GST.

The amount of GST recoverable from the taxation authority is included as part of receivables and the amount of GST payable to the taxation authority is included as part of payables.

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

**Notes to the Financial Statements**

**1. Summary of Accounting Policies (continued)**

**(t) Provisions**

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is probable that recovery will be received and the amount of the receivable can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

Dividends

A provision is recognised for dividends when they have been declared, determined or publicly recommended by the directors.

**(u) Comparative Figures**

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with changes in presentation in the current year.

**(v) Worker Compensation – Self Insurance**

Outstanding Claims

The liability for outstanding claims for self insurance in relation to workers compensation 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 are recorded on claims paid under self insurance in relation to workers compensation. The recoveries are recognised as revenue and are based on actuarial assessment (which includes claims paid and claims reported but not yet paid) in a manner similar to the measurement of the outstanding claims liability and discounted to a present value at balance date.

**Notes to the Financial Statements**

	<b>2004 \$'000</b>	<b>2003 \$'000</b>
<b>2. Profit from Ordinary Activities</b>		
The profit from ordinary activities, before income tax, includes the following items of revenue and expense:		
<b>(a) Operating Revenue</b>		
Sales revenue:		
Sales of goods	17,392	19,542
Rendering of services	718,525	634,939
	<b>735,917</b>	<b>654,481</b>
Interest revenue from other entities	227	176
	<b>736,144</b>	<b>654,657</b>
<b>(b) Non-Operating Revenue</b>		
Proceeds from sales of non-current assets :		
Plant and equipment	284	1,892
	<b>736,428</b>	<b>656,549</b>
<b>(c) Expenses</b>		
Borrowing costs:		
Interest paid to other entities	1,732	771
Finance lease charges	385	449
	<b>2,117</b>	<b>1,220</b>
Cost of goods sold	13,410	17,085
Net bad and doubtful debts arising from:		
Other entities	951	(72)
Write-down in land and buildings (10(i))	813	-
Write-down in plant and equipment	165	-
Depreciation and amortisation:		
Buildings	501	521
Plant and equipment	2,820	1,364
Computer equipment and systems	2,367	1,140
Leasehold improvements	738	640
Equipment under finance lease	1,616	1,670
Goodwill	1,262	1,065
Patents	-	3
Databases	272	-
Total write-down, depreciation and amortisation expense	<b>10,554</b>	<b>6,403</b>
Operating lease rental expenses:		
Minimum lease payments	7,771	7,326
Contributions made to defined benefits superannuation plans during the financial year	156	292
<b>(d) Significant Items</b>		
Writeback/(expensing) of provision for superannuation on overtime worked by casual employees	2,022	(1,661)
Net Cost of becoming self insured for Workers Compensation in South Australia	(504)	-
Non Recurring net profit effect arising from the sale of surplus Marine Assets	-	1,317

**Appendix 4E**  
**Preliminary Final Report**  
**Skilled Engineering Limited**  
**Notes to the Financial Statements**

**ASX Listing Rule 4.3A**

**3. Segment Reporting**

<b>Segment Revenues and Results</b>	<b>Managed Labour Services</b>	<b>Infrastructure Services</b>	<b>Eliminations</b>	<b>Unallocated</b>	<b>Total</b>
	<b>2004 \$'000</b>	<b>2004 \$'000</b>	<b>2004 \$'000</b>	<b>2004 \$'000</b>	<b>2004 \$'000</b>
Revenue	611,944	126,077	(2,105)	512	736,428
EBITDA	26,435	9,952	-	-	36,387
Depreciation and amortisation	<u>6,714</u>	<u>3,840</u>	-	-	<u>10,554</u>
Earnings before interest and tax	19,721	6,112	-	-	25,833
Net interest expense					<u>1,890</u>
Profit from ordinary activities before income tax					23,943
Income tax expense					7,556
Net profit after tax					<u>16,387</u>
<b>Segment Assets And Liabilities</b>					
Assets	142,192	37,440	-	36,434	216,066
Liabilities	50,324	19,011	-	66,311	135,646
<b>Other Segment Information</b>					
Acquisition of segment assets	44,294	3,710	-	-	48,004
Other non-cash expenses	771	180	-	-	951
<b>Significant Items</b>					
Writeback/(expensing) of provision for superannuation on overtime worked by casual employees	2,005	17	-	-	2,022
Cost of becoming self insured for Workers Compensation in South Australia	504	-	-	-	504

**Notes to the Financial Statements**

**3. Segment Reporting (continued)**

<b>Segment Revenues and Results</b>	<b>Managed Labour Services</b>	<b>Infrastructure Services</b>	<b>Eliminations</b>	<b>Unallocated</b>	<b>Total</b>
	<b>2003 \$'000</b>	<b>2003 \$'000</b>	<b>2003 \$'000</b>	<b>2003 \$'000</b>	<b>2003 \$'000</b>
Revenue	515,361	140,800	(1,680)	2,068	656,549
EBITDA	20,941	10,369	-	-	31,310
Depreciation and amortisation	<u>3,553</u>	<u>2,850</u>	-	-	<u>6,403</u>
Earnings before interest and tax	17,388	7,519	-	-	24,907
Net interest expense					<u>1,044</u>
Profit from ordinary activities before income tax					23,863
Income tax expense					7,741
Net profit after tax					<u>16,122</u>
<b>Segment Assets And Liabilities</b>					
Assets	76,443	46,022	-	30,268	152,733
Liabilities	46,017	23,239	-	18,442	87,698
<b>Other Segment Information</b>					
Acquisition of segment assets	4,147	2,729	-	-	6,876
Other non-cash expenses	(76)	1,115	-	-	1,039
<b>Significant Items</b>					
Non-Recurring net profit effect arising from the sale of surplus Marine Assets	1,317	-	-	-	1,317
Writeback/(expensing) of provision for superannuation on overtime worked by casual employees	(1,643)	(18)	-	-	(1,661)

**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 the Workforce Service business, Origin Healthcare, the Customer Contact Services business and Skilled Maritime Services.

Infrastructure Services

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

**Appendix 4E  
Preliminary Final Report  
Skilled Engineering Limited  
Notes to the Financial Statements**

**ASX Listing Rule 4.3A**

<b>4. Income Tax</b>	<b>2004 \$'000</b>	<b>2003 \$'000</b>
The prima facie income tax expense on pre-tax accounting profit reconciles to the income tax expense in the financial statements as follows:		
Profit from ordinary activities	23,943	23,863
Income tax expense calculated at 30%	7,183	7,159
Permanent differences:		
Non-deductible items including capital expenses, depreciation, entertainment, and goodwill amortisation	625	636
Non-assessable items	(125)	(226)
Other	17	(53)
Under/(Over) provision of income tax in previous year	(144)	225
Income tax expense attributable to operating profit	7,556	7,741

**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.

The company and its wholly-owned Australian resident entities are eligible to consolidate for tax purposes under this legislation and have elected to be taxed as a single entity from 16 February 2004. The implementation of the tax consolidation system has not yet been formally notified to the Australian Tax Office. The head entity within the tax-consolidated group for the purposes of the tax consolidation system is Skilled Engineering Limited.

Entities within the tax-consolidated group have entered into a tax-sharing agreement with the head entity. Under the terms of this agreement, Skilled Engineering Limited and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the effective taxable income or loss of the entity and the current tax rate. Such amounts are reflected in the amounts receivable from or payable to other entities within the tax consolidated group.

**Notes to the Financial Statements**

	2004		2003	
	Cents per share	Total \$'000	Cents per share	Total \$'000
<b>5. Dividends</b>				
<u>Recognised Amounts</u>				
Interim dividend franked to 100% (2004: paid 21 April 2004)	6.0	5,711	6.0	5,320
Final dividend franked to 100% (2004: paid 13 October 2003)	9.5	8,614	-	-
		14,325		5,320
<u>Unrecognised Amounts</u>				
Final dividend of 10.0 cents per share for year ended 30 June 2004 franked to 100%	10.0	9,559	9.5	8,590

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

	2004 \$'000	2003 \$'000
Franking account balance (tax paid basis)	23,495	20,855

	2004 \$'000	2003 \$'000
<b>6. Current Receivables</b>		
Trade receivables	95,528	90,471
Allowance for doubtful debts	(1,286)	(887)
	94,242	89,584
Goods and services tax receivable	1,859	1,276
Other receivables	1,408	2,832
	97,509	93,692
<b>7. Current Inventories</b>		
Raw materials and stores at cost	3,156	2,913
Raw materials and stores at net realisable value	13	33
	3,169	2,946
Work in progress at cost	2,158	1,100
	5,327	4,046

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	<b>2004 \$'000</b>	<b>2003 \$'000</b>
<b>8. Other Current Assets</b>		
Prepayments at cost	3,802	2,415
<b>9. Non-Current Receivables</b>		
Claims Recoveries	626	-
Other receivables	228	113
	<b>854</b>	<b>113</b>

**10. Property, Plant and Equipment**

	<b>Land &amp; Buildings(i) \$'000</b>	<b>Leasehold Improvements \$'000</b>	<b>Plant &amp; Equipment \$'000</b>	<b>Equipment Under Finance Lease \$'000</b>	<b>Computer Equipment and Systems \$'000</b>	<b>Total \$'000</b>
<b>Net Book Value</b>						
As at 30 <sup>th</sup> June 2003	1,580	1,217	5,188	5,420	3,110	16,515
As at 30 <sup>th</sup> June 2004	59	1,848	9,073	5,509	21,181	37,670

- (i) The directors determined that the current value of land and buildings owned by the consolidated entity as at 30 June 2004 was \$0.059 million. This valuation was determined on the basis of fair market value based on existing use, and accordingly Land & Buildings were written down by an additional \$0.813 million in the current year.

	<b>2004 \$'000</b>	<b>2003 \$'000</b>
<b>11. Intangibles</b>		
Goodwill at cost	24,764	9,217
Accumulated amortisation	(4,465)	(3,203)
	<b>20,299</b>	<b>6,014</b>
Patents at cost	19	54
Accumulated amortisation	(19)	(38)
	<b>-</b>	<b>16</b>
Databases at cost	14,850	-
Accumulated amortisation	(272)	-
	<b>14,578</b>	<b>-</b>
Trademarks and brand names at cost	19,100	19,100
	<b>53,977</b>	<b>25,130</b>

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	<b>2004 \$'000</b>	<b>2003 \$'000</b>
<b>12. Deferred Tax Assets</b>		
Future income tax benefit:		
Tax Losses	660	-
Timing differences	8,616	5,840
	<b>9,276</b>	<b>5,840</b>
Future income tax benefit has been reduced by the provision for deferred income tax attributable to timing differences by the amount of:	864	1,280
<b>13. Current Payables</b>		
Unsecured:		
Trade payables and accruals	34,353	38,648
Goods and services tax payable	8,833	5,625
	<b>43,186</b>	<b>44,273</b>
<b>14. Current Interest-Bearing Liabilities</b>		
Secured: Bank Debt Facilities (i)	15,000	-
Secured: Finance Lease Liabilities (ii)	1,564	2,862
	<b>16,564</b>	<b>2,862</b>
(i) Secured by registered mortgage debenture over all of the assets of the consolidated entity.		
(ii) Effectively secured over the assets leased, the current market value of which exceeds the value of the finance lease liability.		
<b>15. Current Tax Liabilities</b>		
Income tax payable	3,159	4,809
<b>16. Current Provisions</b>		
Employee Benefits (Note 19)	19,057	20,166
Litigation (i)	959	1,410
Claims(ii)	485	-
Other	971	554
	<b>21,472</b>	<b>22,130</b>
(i) The provision for litigation represents the directors' best estimate of the future sacrifice of economic benefits that will be required for the consolidated entity to meet all obligations under litigation proceedings. The estimate has been made on the basis of known legal actions, the probability of success and the likelihood of eventual future economic sacrifice.		
(ii) Provision for Claims incurred under self insurance in relation to Workers Compensation		

**Notes to the Financial Statements**

		<b>2004</b>	<b>2003</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>17.</b>	<b>Non-Current Interest-Bearing Liabilities</b>		
Secured:			
	Bank Debt facilities (i)	42,000	8,000
	Finance lease liabilities (ii)	4,064	2,771
		<b>46,064</b>	<b>10,771</b>

- (i) Secured by registered mortgage debenture over all of the assets of the consolidated entity.
- (ii) Effectively secured over the assets leased, the current market value of which exceeds the value of the finance lease liability.

		<b>2004</b>	<b>2003</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>18.</b>	<b>Non-Current Provisions</b>		
	Employee benefits (Note 19)	3,584	2,853
	Claims Provisions	1,617	-
		<b>5,201</b>	<b>2,853</b>
<b>19.</b>	<b>Employee Benefits</b>		
The aggregate employee entitlement liability recognised and included in the financial statements is as follows:			
Provision for employee benefits:			
	Current (Note 16)	19,057	20,166
	Non-Current (Note 18)	3,584	2,853
	Accrued wages and salaries (i)	10,023	12,011
		<b>32,664</b>	<b>35,030</b>
(i) Accrued wages and salaries are included in current trade payables and accruals as disclosed in note 13 to the financial statements.			
		<b>2004</b>	<b>2003</b>
		<b>No.</b>	<b>No.</b>
Number of employees at the end of the financial year.		11,657	10,521

**Notes to the Financial Statements**

<b>20. Contributed Equity</b>	<b>2004 \$'000</b>	<b>2003 \$'000</b>
95,592,178 fully paid ordinary shares (2003: 90,418,858)	61,959	48,525

	<b>2004 No. '000</b>	<b>2004 \$'000</b>	<b>2003 No. '000</b>	<b>2003 \$'000</b>
<b>Fully Paid Ordinary Shares</b>				
Balance at beginning of financial year	90,419	48,525	86,135	41,042
Issue of shares under Employee Share Acquisition Scheme	179	509	225	292
Issue of shares under the Dividend Reinvestment Plan	819	2,231	4,009	7,109
Issue of shares as part of the cost of acquisition of the Origin Healthcare business	4,000	10,360	-	-
Issue of shares under executive share option plan (note 21)	175	334	50	82
Balance at end of financial year	95,592	61,959	90,419	48,525
Fully paid ordinary shares carry one vote per share and carry the right to dividends.				
<b>Skilled Performance Shares</b>				
Balance at beginning of the financial year	-	-	-	-
Issue of Skilled Performance Shares during the financial year	9,000	-	-	-
Balance at end of the financial year	9,000	-	-	-

On the 17 February 2004, as part of the consideration of the business acquisition of Origin Healthcare, Skilled Engineering Limited issued 9,000,000 "Skilled Performance Shares" to the vendor.

These shares have the same rights as ordinary shares with the following exceptions;

- Skilled Performance Shares have no voting rights at general meetings, except where such voting rights would be in accordance with the Australian Stock Exchange listing rules,
- Skilled Performance Shares have no rights to dividends,
- Skilled Performance Shares are not redeemable,
- Skilled Performance Shares are not transferable without the written approval of Skilled Engineering Limited and the Australian Stock Exchange.

On the 30 September 2005 the Skilled Performance Shares will convert to ordinary shares based on a formula dependant on the future performance of the purchased business. The quantity of shares to be issued is contingent on future events which currently are not capable of reliable measurement. Therefore no consideration is reflected in the financial statements for these shares.

**Shares held by Subsidiaries**

Allskills Pty Ltd, a fully owned subsidiary, held 359,750 shares in Skilled Engineering Limited at 30<sup>th</sup> June 2004. These shares were held for the benefit of the Skilled Engineering Limited Share Plan Trust.

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**21. 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.

<b>Executive Share Option Plan</b>	<b>2004 No.</b>	<b>2003 No.</b>
Balance at beginning of the financial year	864,969	904,398
Granted during the financial year	-	50,000
Exercised during the financial year	175,000	50,000
Lapsed during the financial year	57,534	39,429
<b>Balance at end of the financial year</b>	<b>632,435</b>	<b>864,969</b>

<b>22. Reserves</b>	<b>2004 \$'000</b>	<b>2003 \$'000</b>
General (i)	5,100	5,100
Foreign currency translation (ii)	(429)	(318)
	<b>4,671</b>	<b>4,782</b>
(i) The general reserve relates to revaluations of intangibles prior to the adoption of AASB 1041 <i>Revaluation of Non-current Assets</i> .		
(ii) Exchange differences relating to foreign currency monetary items forming part of the net investment in self-sustaining foreign operations and the translation of self-sustaining foreign controlled entities are brought to account by entries made directly to the foreign currency translation reserve, as described in Note 1 of the financial statements.		
<b>Foreign currency translation reserve</b>		
Balance at beginning of financial year	(318)	(267)
(Deficit)/surplus from translation of financial statements of foreign operations	(111)	(51)
<b>Balance at end of financial year</b>	<b>(429)</b>	<b>(318)</b>
<b>23. Retained Profits</b>		
Balance at beginning of financial year	11,728	1,076
Adjustments to opening retained profits on initial adoption of AASB 1028 'Employee Benefits'	-	(150)
Adjustment 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	16,387	16,122
Dividends provided for or paid	(14,325)	(10,502)
<b>Balance at end of financial year</b>	<b>13,790</b>	<b>11,728</b>

**Notes to the Financial Statements**

**24. Notes to the Statement of Cash Flows**

(a) Non-cash Financing and Investing Activities.

During the financial year, the consolidated entity:

- i. Acquired plant and equipment under finance lease with an aggregate value of \$3,063,259 (2003: \$3,487,005).
- ii. Operated a dividend reinvestment plan for the dividends paid in the year to 30<sup>th</sup> June 2004 of \$2,231,107 (2003: \$7,109,236).

	<b>2004 \$'000</b>	<b>2003 \$'000</b>
(b) Financing Facilities		
Bank overdraft facility, payable at call:		
Amount used	-	-
Amount unused	3,500	3,000
	<b>3,500</b>	<b>3,000</b>
Cash advance and bill acceptance facilities and market rate advance facilities subject to periodic roll-over:		
Amount used	57,000	8,000
Amount unused	30,000	27,000
	<b>87,000</b>	<b>35,000</b>

The bank overdraft, cash advance facility and market rate advance facilities are all subject to a registered mortgage debenture. The mortgage is secured over all assets of the consolidated entity. The overdraft facilities are reviewable in October 2004 and December 2004 and the market rate advance facility in October 2004. The cash advance facilities are in three tranches, reviewable in February 2005, February 2006 and February 2007.

	<b>2004 \$'000</b>	<b>2003 \$'000</b>
(c) Reconciliation of Net Cash provided by Operating Activities to Profit from Ordinary Activities after Income Tax.		
Profit from ordinary activities, after taxation	16,387	16,122
Net loss/(profit) on disposal of property, plant and equipment	135	(902)
Loss on disposal of investment	-	99
Write-down of fixed assets	978	
Depreciation and amortisation of non-current assets	9,575	6,403
Increase/(decrease) in income tax payable	(1,945)	968
Changes in net assets and liabilities net of effects from acquisition of businesses:		
(i) Decrease/(increase) in assets		
Current receivables	2,237	(11,469)
Current inventories	(1,281)	483
Other current assets	1,148	729
Deferred Tax	(2,259)	(2,172)
Non current Receivables	(741)	90
Other non-current assets	-	278
(ii) Increase/(decrease) in liabilities		
Current payables	(6,224)	(365)
Current provisions	(6,026)	4,173
Non-current provisions	2,348	327
Net cash provided by operating activities	<b>14,332</b>	<b>14,764</b>

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(d) Business Acquired During the financial year, the company acquired the Origin Group. Details of the acquisition are as follows;	<b>2004 \$'000</b>	<b>2003 \$'000</b>
<b>Consideration</b>		
Cash and related acquisition costs	22,089	-
4,000,000 ordinary shares issued at \$2.59(i)	10,360	-
9,000,000 Skilled Performance Shares(ii)	-	-
	<b>32,449</b>	<b>-</b>
<b>Fair value of net assets of entity acquired</b>		
<b>Current Assets</b>		
Cash	3	-
Trade debtors	5,960	-
Other receivables	1,733	-
GST Receivable	1,133	-
<b>Non-current assets</b>		
Plant and equipment	3,955	-
Computer Systems	20,150	-
Intangibles - Databases	14,850	-
Deferred Tax Asset	1,177	-
<b>Current Liabilities</b>		
Bank overdraft	(7,844)	-
Invoice Finance Facility	(3,779)	-
Trade creditors	(508)	-
GST Payable	(4,549)	-
Provision and Accruals	(2,653)	-
Commercial Bills	(7,510)	-
Other	(3,605)	-
<b>Non-current Liabilities</b>		
Other	(1,566)	-
<b>Net Assets Acquired</b>	<b>16,947</b>	<b>-</b>
<b>Goodwill on acquisition</b>	<b>15,502</b>	<b>-</b>
	<b>32,449</b>	<b>-</b>
<b>Net Cash Outflow to acquire Origin</b>		
Cash and related acquisition costs	22,089	-
Less balances acquired:		
Cash	3	-
Bank overdraft & Invoice Finance Facility	(11,623)	-
<b>Net Outflow of cash</b>	<b>33,709</b>	<b>-</b>

(i) Based on Skilled Engineering Limited's closing share price of \$2.59 as at 16 February 2004. Under the agreement the vendor may not dispose of these shares within 2 years from the date of acquisition.

(ii) The quantity of shares to be issued is contingent on future events which currently are not capable of reliable measurement. Therefore no consideration is reflected in the financial statements for these shares (refer note 25).

## **25. Acquisition of Business**

On the 17 February 2004 Skilled Engineering Limited purchased the Origin Group for a total consideration of \$32.5 million (refer note 24(d) for details of consideration). Origin's principal activity is to provide human resources, personnel placement services, software solutions and business services to the healthcare industry.

The final acquisition cost is contingent on the performance of the Origin Group for the 2004 and 2005 financial years. To this end 9,000,000 "Skilled Performance Shares" have been issued to the vendor that will convert to Skilled Engineering Limited ordinary shares on 30 September 2005 using a formula dependant on the performance of the Origin Group.

## **26. Discontinuing Operations and Subsequent Events**

On 27 July 2004 Skilled Engineering Ltd announced that it had sold its investment in Skilled Communications Services Pty Ltd and Skilled Communications Resources Pty Ltd, which involves its communication business, to Service Stream Ltd. The sale is subject to Service Stream Ltd financing the purchase through a public capital raising. The financial effect of this sale has not been reflected in the current financial statements. Completion is not due until early November 2004.

On 25 August 2004 Skilled Engineering Ltd announced that it had entered negotiations to sell its Power Services business. Skilled Engineering Ltd has received an offer for the purchase of the Power Services business from Abigroup Ltd. Negotiations between the parties are continuing.

## **27. Adoption of International Accounting Standards from 1 July 2005**

From 1 July 2005 Skilled will be adopting Australian accounting standards equivalent to International Accounting Standards. This will affect the consolidated group for the reporting year ended 30 June 2006 (with comparatives restated under Australian equivalents of International Financial Reporting Standards) and future reporting periods.

The company is currently monitoring accounting standard developments as and when they arise in respect of Australia's adoption of International Accounting Standards.

Key differences in accounting policies that will effect the consolidated group in relation to current Australian Accounting Standards in effect and proposed Australian equivalents of International Accounting Standards are as follows:

### **(i) Trademarks and Brand Names**

Under current Australian Accounting standards non-current assets are able to be revalued with the revalued amount being recorded direct to equity (revaluation reserve). Under the new Australian equivalents of International Financial Reporting Standards, Trademarks and Brand names acquired are not able to be revalued and any such past revaluation must be removed. The consolidated group has revalued brand names and trademarks which will need to be written off to the applicable revaluation reserve (now termed general reserve) when the Australian equivalents of International Financial Reporting Standards come into effect. The effect of this will be to write down Trademarks and Brand Names by \$5.1m against a revaluation reserve that was a result of the initial revaluation.

### **(ii) Goodwill**

The consolidated group currently amortises goodwill over periods of up to 20 years. Under Australian equivalents of International Financial Reporting Standards goodwill will no longer be amortised, but instead an impairment test will be performed annually to ensure the value of goodwill recorded is appropriate. The effect of this is that there will no longer be a goodwill amortisation expense recorded each reporting period. If this was applicable in the financial year ending 2004 the statement of financial position would improve by \$1.262m (on the basis that the impairment test had been satisfied).

### **(iii) Employee Benefits:**

a. Defined Benefit Superannuation Plan – The consolidated group currently sponsors a defined benefit superannuation plan for approximately 29 of its employees. Current treatment is to record an actuarial loss when the plan is in deficit, as there is a financial obligation for the consolidated group to ensure the plan has adequate resources to meet expected future commitments, when such a deficit exists. Under Australian equivalents of International Financial Reporting Standards the consolidated group will need to recognise an actuarial loss when the plan is in deficit and also an actuarial gain when the plan is in surplus. The plan is currently in a surplus position.

b. Executive Share Option Plan – The consolidated group operates an option plan for its executives. Current treatment is to not record the financial effect of this in the financial statement until the options are exercised, but instead make disclosure of these options in the notes to the financial statements. Under Australian equivalents of International Financial Reporting Standards the consolidated group will be required to expense the value of the options at "grant date" over the vesting period of the options. A reversal of the expense will be required to the extent non market based vesting conditions (e.g. service conditions) are not met. The consolidated group will not retrospectively recognise share based payments vested before 1 January 2005. Quantification of the impact on equity and in the income statement of the existing share options granted as remuneration has not been completed at the reporting date.

(iv) **Tax**

The consolidated group currently uses the income method of accounting for tax where tax effect accounting is based on timing and permanent differences between taxable income and accounting profit. Under Australian equivalents of International Financial Reporting Standards a balance sheet approach is used, under which temporary differences are identified for each asset and liability.

(v) **Impairment of Assets**

Non-current assets are written down to recoverable amount when the asset's carrying amount exceeds recoverable amount. Under Australian equivalents of International Financial Reporting Standards, the consolidated group is required to discount the net cash flows in determining the recoverable amount of its non-current assets.

It is not practicable to determine the impact of the change in accounting policy for future financial reports, as any impairment or reversal thereof will be affected by future conditions.