

# GARRATT'S LIMITED

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17 September 2004

Company Announcements Office  
Australian Stock Exchange  
Level 4  
20 Bridge Street  
Sydney NSW 2000

Via ASX Online

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## ANNOUNCEMENT

### **ANNUAL REPORT**

Attached is the Garratt's Limited Annual Report for the year ended 30 June 2004.

A copy of the Report and the Notice of Annual General Meeting will be sent to shareholders on 24 September 2004.

Ian Bloodworth  
Company Secretary

# **GARRATT'S LIMITED**

ABN 93 000 003 725

**ANNUAL REPORT  
2004**

## CHAIRMAN'S REPORT

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Dear Shareholder

You would have received my letter of 3 September 2004 as well as a copy of the Company's Prospectus dated 2 September about the renounceable rights issue to raise approximately \$1.78 million.

That Prospectus, issued after the Company announced its preliminary final results for the 2003/2004 year, incorporated the key financials of the unaudited results for that year. The audited results confirm that those financials are correct.

Regrettably, the impact of the write down of the debt owed by the late Thanga Thangathurai and the external factors that adversely affected our education business in the previous financial year, continued to bite in 2003/2004. The Company's financial position was compounded by the need to raise substantial funds to repay about \$4.1 million to holders of our Convertible Notes in February 2004, as well as the less than satisfactory performance in the financial year just past.

The \$1.78 million in new capital coming from the rights issue will enable the reduction of some debt, and therefore reduce debt-servicing costs, and also provide additional working capital. It will enable the Company to repay approximately \$450,000 of bank debt, and approximately \$852,000 of debt raised to meet settlement of the Convertible Note payments. The balance will go to the Company's working capital, and reduction of other borrowings (cash flow requirements permitting).

Your Directors have relevant interests in approximately 2.9 million shares representing about 24% of the Company's equity. They have confirmed that all the rights in respect to those shares will be taken up. Chiang Meng Heng, a non-executive member of the Board, has underwritten the take-up of the remaining 76% of new shares arising from the rights issue.

While our fastening business continues to operate profitably, revenue declined by 10%. As for the education business, while revenue for the second half improved over that for the first half, the overall revenue was about half that for the previous year. Further information about these operations is addressed within this report.

The consolidated loss from operations, before tax, was \$1,367,000. In addition, an exceptional item of income tax expense of \$1,368,000 was recognised as a result of the write back of the future income tax benefit.

Your Company has gone through a difficult and trying period, by and large because of factors beyond its control. Your Directors are of the opinion that the trading losses incurred by the education business during 2003/2004 were unduly and negatively influenced by external factors that may not recur in future years. Enrolments in the Company's colleges are currently running at improved levels.

Notwithstanding the less than satisfactory results, your Directors remain committed to the Company. The confirmation of the take-up of entitlements by shareholders in which the Directors have a relevant interest as well as the underwriting by Chiang Meng Heng, demonstrate this commitment. The Board continues to be positive about the future prospects of the Company, especially the potential in the education business.

I would like to convey my appreciation to the management team for their commitment and hard work during another very difficult year, and shareholders for their support.

Neville Thomas Cleary  
Chairman  
15 September 2004

## GROUP MANAGING DIRECTOR'S REVIEW

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The financial year ended 30 June 2004 was another difficult year. And again, management had to contend with external issues largely beyond their control.

Various factors impacted adversely upon the operations of the education business. The most serious of these was the inordinate delays on the part of the New South Wales Vocational Education & Training Accreditation Board in respect to lifting the embargo on Australian College of Technology recruiting new students following our acquisition of that business in August 2002. The last restrictions were lifted in the last quarter of calendar 2003. However, there was a long tail to the adverse impacts of the delays – which took another approximately six months to work through. We had consulted with VETAB before we finalised that acquisition and had no reason to expect such delays.

While we were waiting for VETAB clearance we had to maintain the infrastructure required to carry the students that we were not able to recruit, without that clearance. This is explained under 'Deferred Infrastructure Expenditure' in the financial statements.

Notwithstanding the setbacks that affected our education operations, we maintain our confidence in the long term success of our international student education business. Our six colleges have developed a good reputation under the 'Academies Australasia' brand name. Over the years we have had students from more than 50 countries. We now have articulation arrangements with more than ten universities and TAFE.

We continued to vigorously pursue the collection of the Thangathurai debt, with legal actions in Australia, Singapore and USA. These actions took up a substantial amount of management time and resources. While the results have been encouraging, success cannot be assured.

Two other matters which took up a substantial amount of time and resources were the raising of funds to enable the Company to repay the approximately \$4.1 million in Convertible Notes and the need to rebuild the Company's capital base. Had the Thangathurai debt been repaid, there would have been no difficulty in retiring the Convertible Notes without the need to extend the Company's borrowings. Had we not written off the Thangathurai debt, and had there not been the concomitant decline in the market price of the Company's shares, the recapitalisation exercise would probably have been easier.

The \$1.78 million in new capital coming from the rights issue represents a rebuilding of the Company's capital. It will reduce debt levels, reduce debt-servicing costs, and also provide additional working capital.

I would like to thank our students, customers and business associates for their support during what was a very trying year. I am particularly grateful to my colleagues and my fellow directors for remaining firm in their commitments, notwithstanding the various adverse impacts on our operations.

Christopher Elmore Campbell  
Group Managing Director  
15 September 2004

## 96<sup>th</sup> ANNUAL REPORT OF THE DIRECTORS

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Your directors present their report together with the financial report of Garratt's Limited ("the Company") and the consolidated financial report of the economic entity, being the Company and its controlled entities, for the financial year ended 30 June 2004 and the auditors' report thereon.

### **PRINCIPAL ACTIVITIES**

The principal activities of the economic entity during the course of the financial year were the provision of training and education services and the manufacture, import and sale of fasteners.

### **CONSOLIDATED RESULT**

The consolidated loss from operations after income tax was \$2,735,000 (2003: \$2,970,000), equal to 23.0 cents per share (2003: 25.1 cents per share).

The consolidated loss from operations before income tax was \$1,367,000 (2003: \$4,175,000).

The result is after payment of interest and other borrowing costs of \$572,000 (2003: \$646,000).

An exceptional item of income tax expense of \$1,368,000 was recognised as a result of the write back of the future income tax benefit.

### **REVIEW AND RESULTS OF OPERATIONS**

#### **Education**

The education business recorded a loss of \$727,000 compared to a profit of \$22,000 in the previous corresponding period.

The poor performance of the education business was the direct result of external factors, which adversely affected enrolments. These factors, all beyond the Company's control, were the strong Australian dollar, the situation in the Middle East and the threat of terrorism and especially the inordinate delays on the part of the New South Wales Vocational Education & Training Accreditation Board in respect to lifting the embargo on the recruitment of new students by Australian College of Technology (imposed as a result of operations prior to acquisition). The VETAB delays had an extensive and long lingering effect.

Our colleges have the capacity for substantially more students than the numbers studying during the period. The limitations to enrolment meant that the colleges had to operate below the critical mass required to cover the cost of overheads – therefore incurring a loss. The embargo imposed by VETAB on Australian College of Technology has been lifted.

#### **Fasteners**

The fasteners business contributed \$905,000 (2003: \$804,000).

Revenue declined by 10% because of a slowdown in business. Significant increases in the price of steel also impacted on contribution. Trading margins have, generally, been maintained. (Note: the 2003 contribution was after a provision of \$320,000 against trading stock).

## **Thangathurai US Dollar Debt**

In December 2003 the Company filed a claim in the Superior Court of California, County of Sonoma, USA, against Mary Lynn Thangathurai ('MLT') for US\$1,900,000 plus costs, interest, attorney's fees, and other amounts.

MLT is the surviving spouse of the late Thanga Thangathurai. The action is being brought against her pursuant to, among other laws, the California Probate Code which provides, inter alia, that upon the death of a married person, the surviving spouse is personally liable for the debts of the deceased spouse in relation to certain property.

The Company continues to pursue steps to recover the debt. Success, however, is not assured.

## **Dividend**

No dividend has been declared for the financial year ended 30 June 2004.

## **Convertible Notes**

Noteholders were paid the tenth interest payment of 6 cents in December 2003.

On 1 March 2004 the 4,143,281 outstanding Convertible Notes were redeemed and repaid to Noteholders at their face value of \$1.00 together with interest accrued for the period 1 January 2004 to 28 February 2004 (1.93 cents).

The Company entered into refinancing arrangements for the repayment of the Convertible Notes.

As part of the refinancing arrangements, parties related to two directors, Chiang Meng Heng and Christopher Elmore Campbell, extended loans to the Company on arm's length terms. (*See Note 30*)

## **Options**

In December 2002, the Company offered David John Wheeler (as part of his employment package) options to acquire 225,000 new fully paid ordinary shares in the Company at prices of 50 cents, 75 cents and \$1.00. The last tranche of options expired on 30 June 2004. None of the options had been exercised. The Directors are of the opinion that the options were of no value during the period under review.

## **STATE OF AFFAIRS**

There were no significant changes in the state of affairs of the consolidated entity during the reporting period.

## **LIKELY DEVELOPMENTS**

The Company will, wherever appropriate, continue to grow the operations of its subsidiary companies and to explore opportunities for other long-term investments.

## EVENTS SUBSEQUENT TO BALANCE DATE

The only matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years, are as follows:

a. On 28 July 2004, the Company announced a one-for-one renounceable rights issue at 15 cents per share. The Prospectus, dated 2 September 2004, was sent to shareholders on 14 September 2004. The issue will raise about \$1.78 million, which will be used to reduce bank loans and other borrowings and also to add to the Company's working capital. Following the issue, the Company's shares will double from 11,895,281 to 23,790,562.

The directors currently have the following relevant interests which amount to 24.34% of the 11,895,281 shares on issue:

	<u>No. of Shares</u>	<u>%</u>
Neville Thomas Cleary	80,000	0.67
Chiang Meng Heng	1,493,604	12.56
Christopher Elmore Campbell	<u>1,321,770</u>	<u>11.11</u>
	<u>2,895,374</u>	<u>24.34</u>

The entities through which the Directors hold their relevant interests in the Company will be taking up all their entitlements. The remaining 75.66% (\$1,349,986) will be underwritten by Chiang Meng Heng for a fee of \$33,750 (2.5%).

b. The repayment date for \$2,841,591 raised in connection with refinancing of the Convertible Note settlement in February 2004 was renegotiated from April 2005 to September 2004 (30%) and October 2005 (70%). The effect of this revised agreement has been reflected in the financial statements.

## DIRECTORS

The directors of the Company at any time during or since the end of the financial year are:

**Neville Thomas Cleary** - Chairman (Non-Executive). Fellow of the Finance and Treasury Association Limited and a Fellow of the Australian Institute of Banking and Finance. Retired as a senior banker in 1992 after 43 years with the Commonwealth Bank of Australia. Was, until July 2003, Non-Executive Director & Deputy Chairman of Ipoh Limited. Also sits on the boards of a number of other companies. Appointed a Non-Executive Director and then Chairman of Garratt's Limited in April 2001. Also Chairman of the Audit and Remuneration Committees.

**Christopher Elmore Campbell** - B.Soc.Sci. (Hons), FAIBF, FAICD, FCIS - Group Managing Director. Previous positions include senior appointments with the Monetary Authority of Singapore and an international bank in Australia. Appointed Group Managing Director and Chief Executive Officer of Garratt's Limited in July 1996. Chairman and Director of each of the subsidiary companies in the Garratt's Group. Member of Audit and Remuneration Committees. Member of the Board of Australian Council of Independent Vocational Colleges Limited since April 2003.

**Chiang Meng Heng** - Director (Non-Executive). Director of four companies listed on the Singapore Exchange. Appointed Director of Garratt's Limited and a member of the Audit and Remuneration Committees in February 2000.

**Petah Anne Fitzsimmons** - Alternate Director for Neville Thomas Cleary & Group Company Secretary. Joined Garratt's Limited in September 1996. Also an Executive Director of the Academies Australasia Group of Colleges and a Director of a number of other subsidiary companies in the Garratt's Group. Resigned from the Company and all Group positions, and ceased to be Alternate Director for Neville Thomas Cleary, on 27 August 2004.

## DIRECTORS' MEETINGS

The number of directors' meetings (including meetings of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

Director	Directors' Meetings		Audit Committee		Remuneration Committee	
	A	B	A	B	A	B
	Neville Thomas Cleary	6	6	2	2	1
Christopher Elmore Campbell	6	6	2	2	1	1
Chiang Meng Heng	6	6	2	2	1	1

A - Number of meetings held during the time the director held office during the period

B - Number of meetings attended

## DIRECTORS' INTERESTS

The relevant interest of each director in the share capital of the Company, as notified by the directors to the Australian Stock Exchange in accordance with listing rule 3.19A for the purposes of section 205G of the Corporations Act, at the date of this report, is as follows:

Director	Relevant Interest – Direct	Relevant Interest – Indirect
	No. Shares	No. Shares
Neville Thomas Cleary	30,000	50,000
Christopher Elmore Campbell	2,000	1,319,770
Chiang Meng Heng	1,162,760	330,844

## DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

	Base Emolument	Bonus/ Allowance/ Commission	Super Contribution	Non-Cash Benefit	Total
<b>Directors</b>					
Christopher Elmore Campbell	\$235,000	-	\$65,000	-	\$300,000
Petah Anne Fitzsimmons <sup>a</sup>	\$66,667	\$12,000	\$7,080	-	\$85,747
Neville Thomas Cleary	\$12,462	-	\$1,122	\$22,538	\$36,122
Chiang Meng Heng	\$20,000	-	\$1,800	-	\$21,800
<b>Highest Paid Officers (Economic Entity)</b>					
Ivan James Mikkelsen	\$183,486	\$14,114	\$16,514	-	\$214,114
Ian David Bloodworth	\$97,221	-	\$8,750	-	\$105,971
David John Wheeler	\$55,827	\$29,173	\$15,000	-	\$100,000

<sup>a</sup> Alternate director

## INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company's Articles of Association provides an indemnity to officers of the Company. The Company is required to pay all costs, losses and expenses that an officer may incur by reason of any contract entered into or act or thing done by them in the discharge of their duties except where they act dishonestly.

The Company has also paid an insurance premium in respect of a directors and officers liability insurance policy covering the directors and officers liabilities as officers of the Company and taken out "key man" insurance policies. The premium and nature of the liabilities covered by the policies are not to be disclosed under the terms of the policies.

## **CORPORATE GOVERNANCE**

The Board is committed to the highest standards of corporate governance and endorses the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations ('BPR'). However, given the small size and composition of the Board, the small size of the Company and its activities, and its cost structures, it is neither reasonable nor practicable to comply with certain BPR or to increase the size of the Board at this time.

A copy of the Company's Annual Report, which contains therein a 'Corporate Governance Statement', has been put on the Company's web site ([www.garratts.com.au](http://www.garratts.com.au)) since 1999. On 26 August 2004 a separate page on Corporate Governance, containing more detailed information, was put on the web site.

This disclosure is made in accordance with BPR and ASX Listing Rule 4.10.3.

### **The Board**

At the date of this report the Board comprised three directors, namely, Neville Thomas Cleary (Chairman, Non-Executive), Christopher Elmore Campbell (Group Managing Director, Executive) and Chiang Meng Heng (Non-Executive). *[Please refer to the "Directors" section of this report for details regarding skills, experience, expertise, and term of office.]*

Chiang Meng Heng and Christopher Elmore Campbell do not meet the BPR definition of independence because they are substantial shareholders, each with relevant interests in excess of 5%. Nevertheless, the Board believes that Chiang Meng Heng and Christopher Elmore Campbell can make, and do make, quality and independent judgments in the best interests of the Company. The Board cannot meet the BPR requirement that there be a majority of independent directors.

### **Independent Professional Advice**

Each director has the right to seek independent professional advice at the Company's expense. However, prior approval of the Chairman is required, which will not be unreasonably withheld. A copy of the advice received by the director is made available to all other members of the Board.

### **Nominations Committee**

Except where a director is elected by shareholders, the Board determines the appointment of new directors. There is no Nominations Committee as such.

### **Audit Committee**

*[Please refer to the "Directors" section of this report for details regarding qualifications and the number of Audit Committee meetings held.]*

During the year all the Directors were members of the Audit Committee. The Group Finance Manager and the external auditor also attend Audit Committee meetings.

The Audit Committee cannot meet the requirements that it be chaired by a director who is not the Chairman of the Company, that it consists only of non-executive directors, that it have a majority of independent directors and that it have at least three members.

### **Performance Evaluation**

During the reporting period the Board reviewed its performance by assessing the results of the Company's operations and performance in the context of the Company's operating environment and the issues the Company faced.

## Remuneration

The Remuneration Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, senior executives and directors themselves. This role also includes responsibility for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements, fringe benefit policies and professional indemnity and liability insurance policies. Remuneration levels are competitively set to attract the most qualified and experienced directors and senior executives. During the year all the Directors were members of the Remuneration Committee.

The directors and senior executives are all on fixed remuneration; no employee is remunerated on the basis of performance-based or equity-based remuneration. Non-executive directors are remunerated by way of fees (in the form of cash, non-cash benefits or statutory superannuation), do not receive options or bonus payments, and are provided with statutory superannuation.

*[Please refer to the “Directors” section of this report for details regarding the number of meetings held for the Remuneration Committee; and to the “Directors and Senior Executives Emoluments” section for details regarding remuneration of the highest-paid executives.]*

Signed in accordance with a resolution of the Board of Directors.

Neville Thomas Cleary  
Director

Christopher Elmore Campbell  
Director

Sydney  
15 September 2004

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
STATEMENT OF FINANCIAL PERFORMANCE**

For the year ended 30 June 2004

	Note	ECONOMIC ENTITY		PARENT ENTITY	
		2004 \$	2003 \$	2004 \$	2003 \$
Revenues from ordinary activities	2	<b>8,623,306</b>	10,711,402	<b>1,946,931</b>	1,779,272
Borrowing costs	3	<b>(571,609)</b>	(645,553)	<b>(557,042)</b>	(627,041)
Depreciation and amortisation expense	3	<b>(477,838)</b>	(525,375)	<b>(9,949)</b>	(16,168)
Cost of sales	3	<b>(3,942,380)</b>	(4,874,808)	-	-
Cost of services		<b>(844,077)</b>	(741,847)	-	-
Employee benefit expense		<b>(2,311,361)</b>	(2,028,704)	<b>(570,984)</b>	(545,194)
Insurance		<b>(197,640)</b>	(199,036)	<b>(50,732)</b>	(42,679)
Lease rental expense – operating leases	3	<b>(847,693)</b>	(899,383)	<b>(30,510)</b>	(29,343)
Legal expenses		<b>(212,074)</b>	(7,174)	<b>(185,176)</b>	(2,233)
Non-executive directors fees		<b>(57,922)</b>	(56,936)	<b>(57,922)</b>	(56,936)
Payroll tax		<b>(144,304)</b>	(135,065)	<b>(29,096)</b>	(28,178)
Other expenses from ordinary activities		<b>(383,322)</b>	(855,396)	<b>(59,438)</b>	(58,187)
Profit/(loss) from ordinary activities before exceptional items and income tax expense		<b>(1,366,914)</b>	(257,875)	<b>396,082</b>	373,313
Loss from exceptional items before related income tax benefit	4	-	(3,916,723)	<b>(1,073,720)</b>	(2,274,316)
Profit/(loss) from ordinary activities before income tax expense		<b>(1,366,914)</b>	(4,174,598)	<b>(677,638)</b>	(1,901,003)
Income tax (expense)/benefit relating to ordinary activities	5	<b>(1,368,241)</b>	1,204,979	<b>(69,890)</b>	28,470
Profit/(loss) from ordinary activities after related income tax expense		<b>(2,735,155)</b>	(2,969,619)	<b>(747,528)</b>	(1,872,533)
Basic earnings per share (dollars)	9	<b>(0.230)</b>	(0.251)		

The accompanying notes form part of these financial statements.

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
STATEMENT OF FINANCIAL POSITION**

As at 30 June 2004

	Note	ECONOMIC ENTITY		PARENT ENTITY	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>Current Assets</b>					
Cash assets	11	<b>173,454</b>	440,709	<b>66,165</b>	121,905
Receivables	12	<b>1,362,024</b>	2,083,153	<b>305,937</b>	314,323
Inventories	13	<b>2,643,141</b>	3,127,233	-	-
Other	14	<b>213,711</b>	243,578	<b>89,390</b>	82,735
<b>Total Current Assets</b>		<b>4,392,330</b>	5,894,673	<b>461,492</b>	518,963
<b>Non-Current Assets</b>					
Receivables	12	-	-	<b>7,578,006</b>	9,079,315
Other financial assets	15	-	-	<b>3,000,006</b>	3,000,006
Plant and equipment	16	<b>1,266,905</b>	1,605,941	<b>3,568</b>	46,142
Deferred tax assets	17	-	1,368,241	-	69,890
Intangible assets	18	<b>3,082,023</b>	3,299,608	-	25,020
Other	14	<b>661,912</b>	-	-	-
<b>Total Non-Current Assets</b>		<b>5,010,840</b>	6,273,790	<b>10,581,580</b>	12,220,373
<b>Total Assets</b>		<b>9,403,170</b>	12,168,463	<b>11,043,072</b>	12,739,336
<b>Current Liabilities</b>					
Payables	19	<b>1,419,929</b>	1,849,217	<b>406,159</b>	420,692
Interest-bearing liabilities	20	<b>3,904,957</b>	5,442,306	<b>2,452,477</b>	5,393,281
Provisions	21	<b>161,309</b>	139,525	<b>119,850</b>	102,363
<b>Total Current Liabilities</b>		<b>5,486,195</b>	7,431,048	<b>2,978,486</b>	5,916,336
<b>Non-Current Liabilities</b>					
Interest-bearing liabilities	20	<b>2,096,033</b>	159,898	<b>1,989,114</b>	-
Deferred tax liabilities	22	-	-	-	-
Provisions	21	-	21,420	-	-
<b>Total Non-Current Liabilities</b>		<b>2,096,033</b>	181,318	<b>1,989,114</b>	-
<b>Total Liabilities</b>		<b>7,582,228</b>	7,612,366	<b>4,967,600</b>	5,916,336
<b>Net Assets</b>		<b>1,820,942</b>	4,556,097	<b>6,075,472</b>	6,823,000
<b>Equity</b>					
Contributed equity	23	<b>10,811,895</b>	10,811,895	<b>10,811,895</b>	10,811,895
Accumulated Losses	33	<b>(8,990,953)</b>	(6,255,798)	<b>(4,736,423)</b>	(3,988,895)
<b>Total Equity</b>		<b>1,820,942</b>	4,556,097	<b>6,075,472</b>	6,823,000

The accompanying notes form part of these financial statements.

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
STATEMENT OF CASH FLOWS**

For the year ended 30 June 2004

	Note	ECONOMIC ENTITY		PARENT ENTITY	
		2004 \$	2003 \$	2004 \$	2003 \$
<b>Cash Flows from Operating Activities</b>					
Cash receipts in the course of operations		<b>9,227,897</b>	10,193,499	<b>866,259</b>	807,344
Cash payments in the course of operations		<b>(9,315,791)</b>	(10,225,072)	<b>(871,890)</b>	(709,139)
Interest received		<b>8,981</b>	11,537	<b>3,330</b>	3,884
Borrowing costs		<b>(658,797)</b>	(788,804)	<b>(644,230)</b>	(770,292)
Net cash provided by/(used in) operating activities	32a	<b>(737,710)</b>	(808,840)	<b>(646,531)</b>	(668,203)
<b>Cash Flows from Investing Activities</b>					
Proceeds from sale of plant & equipment		<b>71,182</b>	7,273	<b>33,000</b>	-
Payment for plant & equipment		<b>(37,063)</b>	(84,013)	-	(2,831)
Loans to controlled entities – repaid/(advanced)		-	-	<b>1,471,931</b>	(288,061)
Payments for businesses, assets and goodwill		-	(184,272)	-	-
Net cash provided by/(used in) investing activities		<b>34,119</b>	(261,012)	<b>1,504,931</b>	(290,892)
<b>Cash Flows from Financing Activities</b>					
Proceeds from borrowings		<b>3,299,122</b>	754,086	<b>1,899,620</b>	750,000
Repayment of borrowings		<b>(2,862,786)</b>	(894,939)	<b>(2,813,760)</b>	(855,480)
Net cash provided by/(used in) financing activities		<b>436,336</b>	(140,853)	<b>(914,140)</b>	(105,480)
<b>Net increase/(decrease) in cash held</b>		<b>(267,255)</b>	(1,210,705)	<b>(55,740)</b>	(1,064,575)
<b>Cash at the beginning of the financial year</b>		<b>440,709</b>	1,651,414	<b>121,905</b>	1,186,480
<b>Cash at the end of the financial year</b>	11	<b>173,454</b>	440,709	<b>66,165</b>	121,905

The accompanying notes form part of these financial statements.

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report is a general purpose financial report that has been prepared in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act. The financial report has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or current valuations of non-current assets. These accounting policies have been consistently applied by each entity in the economic entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report.

**a. Principles of consolidation**

The consolidated financial statements of the economic entity include the financial statements of the Company, being the parent entity, and its controlled entities ("the economic entity"). The balances, and effects of transactions, between controlled entities have been eliminated. Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

**b. Revenue recognition – Note 2**

**Sales revenue:** Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products or services to entities outside the economic entity. Sales revenue is recognised when the goods are provided, or when the fee in respect of services provided is receivable.

**Interest income:** Interest income is recognised as it accrues.

**Government grants:** Monies receivable under various government grants are recognised on an accrual basis.

**Asset sales:** The gross proceeds of assets sales are included as revenue of the economic entity. The profit or loss on disposal of assets is brought to account at the date a contract of sale is signed.

**c. Taxation – Note 5**

The economic entity adopts the income statement liability method of tax effect accounting. Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income.

The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the balance sheet as a future income tax benefit or a provision for deferred income tax. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**d. Foreign currency**

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currency at balance date are translated at the rates of exchange ruling on that date. Exchange differences relating to amounts payable and receivable in foreign currency are brought to account as exchange gains or losses in the profit and loss statement in the financial year in which the exchange rates change.

**e. Receivables – Note 12**

The recoverability of debts is assessed at balance date and general provision is made for any doubtful accounts.

**f. Inventories – Note 13**

Inventories are carried at the lower of cost and net realisable value. Cost is based on the first-in, first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Fixed costs have been allocated on the basis of normal operating capacity.

Where the book value of stock items exceeds the net realisable value, a provision for diminution in value is raised.

**g. Financial assets – Note 15**

**Controlled entities:** Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount. Dividends are brought to account in the profit and loss statement when they are provided for by the controlled entities.

**h. Plant and equipment – Note 16**

Plant and equipment are brought to account at cost. They are then depreciated using the straight line or diminishing value method over their useful lives commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

- Plant & Equipment                      5 – 40%
- Leasehold improvements                12.5 – 22.5%

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**i. Intangible assets – Note 18**

Goodwill, representing the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired on the acquisition of a controlled entity or business, is amortised over the period of time during which benefits are expected to arise. Goodwill is amortised on a straight line basis over 20 years. The unamortised balance of goodwill is reviewed at least at each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the profit and loss statement.

Business names are amortised on a straight line basis over 20 years. The unamortised balance is reviewed at least at each reporting date. Where the balance exceeds the value of expected future benefits, the difference is charged to the profit and loss statement.

**j. Non current assets**

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amounts at the balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

**k. Payables – Note 19**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the Company or economic entity.

**l. Employee entitlements – Note 21**

Provision is made for the economic entity's liability for employee entitlements to wages, salaries, annual leave and long service leave. The provisions represent the amount which the economic entity has an obligation to pay resulting from employees' services provided up to the balance date and includes related on-costs. The liability for long service leave entitlements represents the present value of the estimated future cash outflows.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

**m. Convertible notes – Note 34**

Convertible notes are recognised when issued at the amount of net proceeds received, with the premium or discount on issuance amortised over the period to maturity. Interest on the notes is recognised in the statement of financial performance as an expense. Convertible notes are treated as compound financial instruments where there is an obligation to make scheduled payments of interest and principal as long as the instrument is not converted, and there is also an option, held by the holder, to convert the note into equity. The present value of the interest and principal payable discounted at the market rate is classified as debt. The difference, if any, between the net proceeds received and the value of the debt is assigned to the component of the option to convert the liability into equity and is classified as equity.

Convertible notes bought back on the market are cancelled and the difference, if any, between the total cost of acquisition and the value of the debt cancelled is recognised in the statement of financial performance.

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

**1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**n. Borrowing costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and finance lease charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets.

**o. Going concern**

These financial statements have been prepared adopting the going concern assumption, which contemplates the orderly realisation of assets and payment of liabilities in the ordinary course of business.

The appropriateness of this assumption is dependent upon:

- the continued support of the Company's shareholders who have extended loans to the Company;
- the continued support of the Company's bankers;
- the expected return to profitability of the education operations; and
- the ability of the Company to raise additional equity.

The Board is currently satisfied that these issues have been addressed and that there are reasonable grounds to assume that the Company will meet its future financial obligations as and when they fall due.

**p. Deferred Infrastructure Expenditure – Note 14**

An asset has been recognised which represents the deferral of infrastructure costs for which there was no revenue because of the embargo placed on one of the colleges prohibiting it from recruiting new students. The infrastructure was required to be maintained while the authorities assessed their position. As the benefit to be derived from these expenses will arise entirely in a future period, the costs have been deferred in the Statement of Financial Position as an asset and will be expensed as future revenues are derived from the infrastructure.

**q. Comparatives**

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

	ECONOMIC ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>2. REVENUE</b>				
<b>Operating activities</b>				
- Sales of goods	<b>7,342,624</b>	8,214,421	-	-
- Services revenue	2a <b>1,179,694</b>	2,322,197	<b>866,234</b>	807,343
- Dividends received	2b -	-	-	4,181
- Interest received	2c <b>8,981</b>	139,453	<b>1,047,672</b>	961,388
	<b>8,531,299</b>	10,676,071	<b>1,913,906</b>	1,772,912
<b>Non-operating activities</b>				
- Proceeds on disposal of plant and equipment	<b>71,182</b>	7,273	<b>33,000</b>	-
- Other	<b>20,825</b>	28,058	<b>25</b>	6,360
	<b>92,007</b>	35,331	<b>33,025</b>	6,360
<b>Total Revenue</b>	<b>8,623,306</b>	10,711,402	<b>1,946,931</b>	1,779,272
a. Services revenue				
- Wholly-owned controlled entities	-	-	<b>866,234</b>	807,343
- Other persons	<b>1,179,694</b>	2,322,197	-	-
	<b>1,179,694</b>	2,322,197	<b>866,234</b>	807,343
b. Dividends received				
- Wholly-owned controlled entities	-	-	-	4,181
c. Interest revenue				
- Wholly-owned controlled entities	-	-	<b>1,044,342</b>	957,504
- Other persons	<b>8,981</b>	139,453	<b>3,330</b>	3,884
	<b>8,981</b>	139,453	<b>1,047,672</b>	961,388
<b>3. PROFIT FROM ORDINARY ACTIVITIES</b>				
Profit from ordinary activities before tax has been determined after				
a. Expenses:				
Cost of sales	<b>3,942,380</b>	4,874,808	-	-
Borrowing costs	<b>571,609</b>	645,553	<b>557,042</b>	627,041
Depreciation of plant and equipment	<b>289,338</b>	341,338	<b>9,104</b>	14,900
Amortisation of leasehold improvements	<b>5,513</b>	5,936	<b>845</b>	1,268
Amortisation of goodwill	<b>181,483</b>	176,601	-	-
Amortisation of business names	<b>1,504</b>	1,500	-	-
Bad and doubtful debts	<b>20,533</b>	3,925,723	<b>1,073,720</b>	2,278,497
Lease rental expense – operating leases	<b>847,693</b>	899,383	<b>30,510</b>	29,343
Net loss on disposal of plant and equipment	<b>4,724</b>	37,392	-	-
b. Revenue and Net Gains:				
Gain on cancellation of convertible notes	34 <b>4,550</b>	22,895	<b>4,550</b>	22,895
Net gain on disposal of plant and equipment	-	-	<b>375</b>	-
Net foreign exchange gains	-	6,360	-	6,360

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

	ECONOMIC ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>4. EXCEPTIONAL ITEMS</b>				
Loss sustained as a result of writing off of a receivable and related costs. The receivable related to the sale of an investment.	-	(3,916,723)	-	-
Loan to subsidiary forgiven	-	-	<b>(1,073,720)</b>	(2,274,316)
	-	(3,916,723)	<b>(1,073,720)</b>	(2,274,316)
<b>5. INCOME TAX EXPENSE</b>				
a. The prima facie tax on profit/(loss) from ordinary activities before tax is reconciled to income tax as follows:				
Prima facie tax payable/(benefit) on profit/(loss) from ordinary activities before tax at 30%	<b>(410,074)</b>	(1,252,379)	<b>(203,291)</b>	(570,301)
Add:				
Goodwill written off/amortised	<b>57,770</b>	53,430	-	-
Provision for loss on loans to wholly owned controlled entities	-	-	-	4,181
Partial write off of loan to wholly owned controlled entity	-	-	<b>322,116</b>	682,295
Other items	<b>847</b>	839	<b>832</b>	-
Future income tax benefit written back due to tax losses	<b>1,721,063</b>	-	<b>70,165</b>	-
	<b>1,369,606</b>	(1,198,110)	<b>189,822</b>	116,175
Less:				
Rebatable dividend income	-	-	-	(4,181)
Tax benefit of losses transferred from controlled entities	-	-	<b>(118,567)</b>	(140,464)
Tax benefit due to recoupment of tax losses of previous years not previously brought to account	<b>(1,365)</b>	(6,869)	<b>(1,365)</b>	-
Income tax expense/(benefit) attributable to profit/(loss) from ordinary activities	<b>1,368,241</b>	(1,204,979)	<b>69,890</b>	(28,470)

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

**6. DIRECTORS' AND EXECUTIVES' REMUNERATION**

**a. Directors and Specified Executives**

The names of each person holding the position of director of Garratt's Limited at any time during the financial year were Christopher Elmore Campbell (Group Managing Director – Executive), Neville Thomas Cleary (Chairman – Non-Executive), Chiang Meng Heng (Director – Non-executive) and Petah Anne Fitzsimmons (Alternate) (Group Company Secretary – Executive).

The names of each person holding the position of specified executive at any time during the financial year were Ivan James Mikkelsen (General Manager – Fasteners), Ian David Bloodworth (Group Finance Manager) and David John Wheeler (Group Academic Principal).

**b. Parent Entity Directors' Remuneration**

	<b>Salary and Fees</b>	<b>Superan- uation Contrib- utions</b>	<b>Bonus/ Allowance</b>	<b>Non- cash Benefits</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2004</b>					
Christopher Elmore Campbell	235,000	65,000	-	-	300,000
Petah Anne Fitzsimmons (Alternate)	66,667	7,080	12,000	-	85,747
Neville Thomas Cleary	12,462	1,122	-	22,538	36,122
Chiang Meng Heng	20,000	1,800	-	-	21,800
	<u>334,129</u>	<u>75,002</u>	<u>12,000</u>	<u>22,538</u>	<u>443,669</u>
<b>2003</b>					
Christopher Elmore Campbell	235,000	65,000	-	-	300,000
Petah Anne Fitzsimmons (Alternate)	66,667	7,080	12,000	-	85,747
Neville Thomas Cleary	1,508	136	-	33,492	35,136
Chiang Meng Heng	20,000	1,800	-	-	21,800
	<u>323,175</u>	<u>74,016</u>	<u>12,000</u>	<u>33,492</u>	<u>442,683</u>

**c. Specified Executives' Remuneration**

	<b>Salary and Fees</b>	<b>Superan- uation Contrib- utions</b>	<b>Bonus/ Allowance</b>	<b>Non- cash Benefits</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2004</b>					
Ivan James Mikkelsen	183,486	16,514	14,114	-	214,114
Ian David Bloodworth	97,221	8,750	-	-	105,971
David John Wheeler	55,827	15,000	29,173	-	100,000
	<u>336,534</u>	<u>40,264</u>	<u>43,287</u>	<u>-</u>	<u>420,085</u>
<b>2003</b>					
Ivan James Mikkelsen	135,871	4,128	17,760	-	157,759
Ian David Bloodworth	97,221	8,750	-	-	105,971
David John Wheeler (Part year only)	10,235	3,415	5,347	-	18,997
	<u>243,327</u>	<u>16,293</u>	<u>23,107</u>	<u>-</u>	<u>282,727</u>

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

	<b>ECONOMIC ENTITY</b>		<b>PARENT ENTITY</b>	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>7. AUDITORS' REMUNERATION</b>				
Remuneration of the auditor of the parent entity for:				
- Auditing or reviewing the financial report	<b>48,000</b>	46,000	<b>15,000</b>	14,000
- Other services	<b>30,245</b>	84,878	<b>5,000</b>	5,500
<b>8. DIVIDENDS</b>				
Dividends paid	-	-	-	-
Franking credits available at year end	<b>173,473</b>	173,473	<b>10,662</b>	10,662
<b>9. EARNINGS PER SHARE</b>				
Basic earnings per share (dollars per share)	<b>(0.230)</b>	(0.251)		
Weighted average number of ordinary shares used in calculation of basic earnings per share	<b>11,895,281</b>	11,832,267		
Diluted earnings per share are not materially different from basic earnings per share.				

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

	FASTENERS		EDUCATION		MULTIMEDIA		ELIMINATIONS		CONSOLIDATED	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>10. SEGMENT REPORTING</b>										
<b>Primary reporting – Business segments</b>										
Sales to outside customers	<b>7,342,624</b>	8,214,421	<b>1,179,694</b>	2,322,197	-	-	-	-	<b>8,522,318</b>	10,536,618
Other revenue	<b>48,091</b>	20,443	<b>16,542</b>	16,182	-	127,915	-	-	<b>64,633</b>	164,540
	<b>7,390,715</b>	8,234,864	<b>1,196,236</b>	2,338,379	-	127,915	-	-	<b>8,586,951</b>	10,701,158
Unallocated revenue									<b>36,355</b>	10,244
<b>Total revenue from ordinary activities</b>									<b>8,623,306</b>	10,711,402
Segment operating profit/(loss)	<b>904,578</b>	804,580	<b>(726,590)</b>	22,082	-	(3,792,458)	<b>(30,408)</b>	<b>(30,412)</b>	<b>147,580</b>	(2,996,208)
Unallocated expenses net of unallocated revenue									<b>(1,514,494)</b>	(1,178,390)
<b>Profit/(loss) from ordinary operations before income tax</b>									<b>(1,366,914)</b>	(4,174,598)
<b>Segment assets</b>	<b>6,373,943</b>	7,902,803	<b>2,863,237</b>	2,606,364	<b>930</b>	930	-	-	<b>9,238,110</b>	10,510,097
Unallocated									<b>165,060</b>	1,658,366
Total assets									<b>9,403,170</b>	12,168,463
<b>Segment liabilities</b>	<b>744,172</b>	1,193,074	<b>470,954</b>	499,806	-	3,150	-	-	<b>1,215,126</b>	1,696,030
Unallocated									<b>6,367,102</b>	5,916,336
Total liabilities									<b>7,582,228</b>	7,612,366
<b>Acquisition of non-current segment assets</b>	<b>14,936</b>	171,635	<b>22,127</b>	1,012,705	-	-	-	-	<b>37,063</b>	1,184,340
<b>Depreciation and amortisation of segment assets</b>	<b>296,617</b>	328,032	<b>140,864</b>	150,763	-	-	-	-	<b>437,481</b>	478,795
<b>Other non-cash segment expenses</b>	-	-	-	-	-	3,254,078	-	-	-	3,254,078

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

ECONOMIC ENTITY		PARENT ENTITY	
2004	2003	2004	2003
\$	\$	\$	\$

**10. SEGMENT REPORTING (continued)**

**Primary reporting – Business segments**

Major products/services of business segments:

Fasteners	Manufacture and importation of fasteners
Education	Training and education services
Multimedia	Point of purchase technology (Investment sold in 2001. Receivable written off in 2003)

**Secondary reporting – Geographical segments**

The economic entity's business segments operate predominantly in Australia.

**Accounting Policies**

Segment revenues and expenses are those directly attributable to the segments.

Segment assets and liabilities include all assets used in and all liabilities generated by the segments. Deferred tax assets and liabilities are not allocated to segments.

The receivable resulting from the sale of the multimedia investment was written off during the prior period.  
(See Note 4)

**11. CASH**

Cash at bank	<b>146,954</b>	440,709	<b>39,665</b>	121,905
Cash at call	<b>26,500</b>	-	<b>26,500</b>	-
	<b>173,454</b>	440,709	<b>66,165</b>	121,905

**12. RECEIVABLES**

**CURRENT**

Trade debtors	<b>1,305,133</b>	1,997,112	-	-
Less: Provision for doubtful debts	<b>(25,000)</b>	(11,944)	-	-
	<b>1,280,133</b>	1,985,168	-	-

Other Debtors	<b>65,991</b>	78,085	<b>5,937</b>	14,323
Government grants receivable	<b>15,900</b>	19,900	-	-
Amounts receivable from wholly owned subsidiaries	-	-	<b>300,000</b>	300,000
	<b>1,362,024</b>	2,083,153	<b>305,937</b>	314,323

**NON-CURRENT**

Amounts receivable from wholly owned subsidiaries	-	-	<b>7,578,006</b>	9,079,315
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**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

	<b>ECONOMIC ENTITY</b>		<b>PARENT ENTITY</b>	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>13. INVENTORIES</b>				
CURRENT				
Raw materials and stores at cost	<b>549,260</b>	752,340	-	-
Work in progress at cost	<b>33,158</b>	27,413	-	-
Finished goods at cost	<b>2,060,723</b>	2,347,480	-	-
	<b>2,643,141</b>	3,127,233	-	-
<b>14. OTHER ASSETS</b>				
CURRENT				
Deferred Expenses	<b>64,374</b>	55,468	<b>52,090</b>	38,500
Prepayments	<b>148,557</b>	185,530	<b>37,300</b>	44,235
Security Deposits	<b>780</b>	2,580	-	-
	<b>213,711</b>	243,578	<b>89,390</b>	82,735
NON-CURRENT				
Deferred infrastructure expenditure	1p <b>661,912</b>	-	-	-
<b>15. OTHER FINANCIAL ASSETS</b>				
NON-CURRENT				
Unlisted investments at cost				
- Shares in controlled entities	-	-	<b>3,000,006</b>	3,200,006
Less: Provision for write-down to recoverable amount	-	-	-	(200,000)
	-	-	<b>3,000,006</b>	3,000,006
<b>16. PLANT AND EQUIPMENT</b>				
Plant and equipment at cost	<b>2,607,027</b>	2,729,082	<b>16,011</b>	76,921
Accumulated depreciation	<b>(1,356,012)</b>	(1,144,545)	<b>(14,134)</b>	(33,315)
	<b>1,251,015</b>	1,584,537	<b>1,877</b>	43,606
Leasehold improvements at cost	<b>63,007</b>	63,007	<b>8,465</b>	8,465
Accumulated amortisation	<b>(47,117)</b>	(41,603)	<b>(6,774)</b>	(5,929)
	<b>15,890</b>	21,404	<b>1,691</b>	2,536
Total plant & equipment	<b>1,266,905</b>	1,605,941	<b>3,568</b>	46,142

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

ECONOMIC ENTITY		PARENT ENTITY	
2004	2003	2004	2003
\$	\$	\$	\$

**16. PLANT AND EQUIPMENT (continued)**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Plant and equipment \$	Leasehold improve- ments \$	Total \$
Economic entity:			
Balance at the beginning of the year	<b>1,584,537</b>	<b>21,404</b>	<b>1,605,941</b>
Additions	<b>37,063</b>	-	<b>37,063</b>
Disposals	<b>(75,905)</b>	-	<b>(75,905)</b>
Depreciation expense	<b>(294,680)</b>	<b>(5,514)</b>	<b>(300,194)</b>
Carrying amount at the end of the year	<b>1,251,015</b>	<b>15,890</b>	<b>1,266,905</b>
Parent entity:			
Balance at the beginning of the year	43,606	2,536	46,142
Additions	-	-	-
Disposals	(32,625)	-	(32,625)
Depreciation expense	(9,104)	(845)	(9,949)
Carrying amount at the end of the year	1,877	1,691	3,568

**17. DEFERRED TAX ASSETS**

Future income tax benefit	-	1,368,241	-	69,890
a. The future income tax benefit is made up of the following estimated tax benefits:				
Timing differences	-	959,269	-	69,890
Revenue losses	-	408,972	-	-
	-	1,368,241	-	69,890
b. Future income tax benefit not brought to account:				
Timing differences	<b>157,237</b>	-	<b>70,165</b>	-
Revenue losses	<b>1,563,826</b>	-	-	-
Capital losses	<b>4,991</b>	6,356	-	-
	<b>1,726,054</b>	6,356	<b>70,165</b>	-
c. The potential future income tax benefit will only be obtained if:				
(i) the economic entity earns sufficient future assessable income to utilise the value of the benefit;				
(ii) the economic entity complies with the conditions for deductibility imposed by the law; and				
(iii) no changes in taxation legislation adversely affect the economic entity in realising the benefit.				

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

	ECONOMIC ENTITY		PARENT ENTITY	
	2004	2003	2004	2003
	\$	\$	\$	\$
<b>18. INTANGIBLE ASSETS</b>				
Goodwill at cost	3,821,967	3,821,967	-	-
Accumulated amortisation	<b>(770,926)</b>	(579,865)	-	-
	<b>3,051,041</b>	3,242,102	-	-
Business names at cost	<b>31,000</b>	30,000	-	-
Accumulated amortisation	<b>(7,508)</b>	(6,004)	-	-
	<b>23,492</b>	23,996	-	-
Deferred borrowing costs	-	25,020	-	25,020
Other	<b>7,490</b>	8,490	-	-
	<b>3,082,023</b>	3,299,608	-	25,020
<b>19. PAYABLES</b>				
CURRENT				
Trade creditors	19a	<b>800,495</b>	1,049,427	-
Sundry creditors and accrued expenses		<b>541,709</b>	799,790	<b>328,434</b>
Loans - other		<b>77,725</b>	-	<b>77,725</b>
		<b>1,419,929</b>	1,849,217	<b>406,159</b>
a. Includes \$310,949 (2003: \$314,697) tuition fees paid in advance by college students.				
<b>20. INTEREST BEARING LIABILITIES</b>				
CURRENT				
<u>Unsecured</u>				
Convertible notes	20c	-	4,193,281	-
<u>Secured</u>				
Bank bills	20a	<b>1,600,000</b>	1,200,000	<b>1,600,000</b>
Bank loans	20a	<b>1,399,502</b>	-	-
Lease purchase agreements	20a	<b>52,978</b>	49,025	-
Loans - other	20a	<b>852,477</b>	-	<b>852,477</b>
		<b>3,904,957</b>	1,249,025	<b>2,452,477</b>
		<b>3,904,957</b>	5,442,306	<b>2,452,477</b>
NON-CURRENT				
<u>Secured</u>				
Lease purchase agreements	20a	<b>106,919</b>	159,898	-
Loans - other	20a	<b>1,989,114</b>	-	<b>1,989,114</b>
		<b>2,096,033</b>	159,898	<b>1,989,114</b>

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

	ECONOMIC ENTITY		PARENT ENTITY	
	2004 \$	2003	2004 \$	2003 \$
<b>20. INTEREST BEARING LIABILITIES (continued)</b>				
a. Total current and non current secured liabilities:				
Bank bills	24	1,600,000	1,200,000	1,200,000
Bank loans	24	1,399,502	-	-
Lease purchase agreements	24	159,897	208,923	-
Loans - other	24	2,841,591	-	-
		<b>6,000,990</b>	1,408,923	<b>4,441,591</b>
				1,200,000
b. Carrying amount of non current assets pledged as security:				
Floating charge over assets		5,871,784	12,127,343	10,581,580
Plant and equipment		210,806	226,299	-
		<b>6,082,590</b>	12,353,642	<b>10,581,580</b>
				12,739,336
c. The convertible notes nil (2003: 4,193,281) at \$1.00 each, 12% interest	34			
<b>21. PROVISIONS</b>				
CURRENT				
Employee entitlements	21a	161,309	139,525	119,850
				102,363
NON CURRENT				
Employee entitlements	21a	-	21,420	-
				-
a. Aggregate employee entitlements		<b>161,309</b>	160,945	<b>119,850</b>
				102,363
b. Number of employees at year end		<b>48</b>	47	<b>4</b>
				4
<b>22. TAX LIABILITIES</b>				
NON CURRENT				
Provision for deferred income tax		350,038	565,133	-
Future income tax benefits attributable to:				-
Timing differences		(157,949)	(533,764)	-
Tax losses		(192,089)	(31,369)	-
		-	-	-
<b>23. CONTRIBUTED EQUITY</b>				
<b>Issued and Paid-up Capital</b>				
11,895,281 ordinary shares fully paid (2003: 11,895,281)		<b>10,811,895</b>	10,811,895	<b>10,811,895</b>
				10,811,895

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

ECONOMIC ENTITY		PARENT ENTITY	
2004	2003	2004	2003
\$	\$	\$	\$

**23. CONTRIBUTED EQUITY (continued)**

**Movements in ordinary share capital**

Balance at the beginning of the financial year	<b>10,811,895</b>	10,561,895	<b>10,811,895</b>	10,561,895
500,000 shares issued	-	250,000	-	250,000
	<b>10,811,895</b>	10,811,895	<b>10,811,895</b>	10,811,895

On 16 August 2002, 500,000 ordinary shares (being an increase of 4.4%) were issued, at 50cents per share, as part consideration for the acquisition of the business and assets of Excelsior College Pty Limited. The shares were held in voluntary escrow for 12 months.

**24. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE**

**Interest rate risk**

**Cash at bank**

The economic entity deposits cash into premium business accounts at variable rates and at call and has funds held in trust by its solicitors.

Premium business accounts	<b>146,954</b>	440,709	<b>39,665</b>	121,905
Held in trust	<b>26,500</b>	-	<b>26,500</b>	-
	<b>173,454</b>	440,709	<b>66,165</b>	506,874

The economic entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Note	Weighted average interest rate	Floating interest rate	Fixed interest maturing in:			Non- Interest bearing	Total
			\$	1 year or less	1 to 5 years	More than 5 years	\$	\$
				\$	\$	\$		
<b>2004</b>								
<i>Financial assets</i>								
Cash at bank	11	3.82%	146,954	-	-	-	-	146,954
Cash at call	11	-	-	-	-	-	26,500	26,500
Receivables	12	-	-	-	-	-	1,362,024	1,362,024
			146,954	-	-	-	1,388,524	1,535,478
<i>Financial liabilities</i>								
Lease purchase agreements	27	7.77%	-	52,978	106,919	-	-	159,897
Bank bills	20	5.51%	-	1,600,000	-	-	-	1,600,000
Bank loans	20	8.81%	1,399,502	-	-	-	-	1,399,502
Loans - other	20	8.40%	2,841,591	-	-	-	-	2,841,591
Payables	19	-	-	-	-	-	1,419,929	1,419,929
Employee entitlements	21	-	-	-	-	-	161,309	161,309
			4,241,093	1,652,978	106,919	-	1,581,238	7,582,228

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

**24. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)**

	Note	Weighted average interest rate	Floating interest rate	Fixed interest maturing in:			Non- Interest bearing	Total
			\$	1 year or less	1 to 5 years	More than 5 years	\$	\$
				\$	\$	\$	\$	\$
<b>2003</b>								
<i>Financial assets</i>								
Cash at bank	11	3.65%	440,709	-	-	-	-	440,709
Receivables	12	-	-	-	-	-	2,083,153	2,083,153
			440,709	-	-	-	2,083,153	2,523,862
<i>Financial liabilities</i>								
Convertible notes	20	12.00%	-	4,193,281	-	-	-	4,193,281
Lease purchase agreements	27	7.47%	-	49,025	159,898	-	-	208,923
Bank bills	20	5.26%	-	1,200,000	-	-	-	1,200,000
Payables	19	-	-	-	-	-	1,849,217	1,849,217
Employee entitlements	21	-	-	-	-	-	160,945	160,945
			-	5,442,306	159,898	-	2,010,162	7,612,366

**Credit risk exposures**

The credit risk on financial assets of the economic entity, which have been recognised on the balance sheet, is the carrying amount, net of any provision for doubtful debts.

The economic entity minimises concentration of risk by holding cash with major banks and undertaking transactions with either high profile or a large number of customers.

**Foreign exchange risk**

The economic entity is exposed to foreign currency risk on its purchase of products. The economic entity has not hedged foreign currency transactions as at 30 June 2004. The Directors continue to evaluate this risk on an ongoing basis.

**Net fair values of financial assets and liabilities**

The carrying amounts of financial assets and liabilities approximate their net fair value.

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

<b>ECONOMIC ENTITY</b>		<b>PARENT ENTITY</b>	
2004	2003	2004	2003
\$	\$	\$	\$

**25. PARTICULARS IN RELATION TO CONTROLLED ENTITIES**

<b>Controlled entities</b>	<b>Interest held</b>	
	2004	2003
	%	%
Academies Australasia (Management) Pty Limited	100	100
Academies Australasia Pty Limited	100	100
Academy of English Pty Limited	100	100
Academy of Social Sciences Pty Limited	100	100
Australian Institute of Professional Studies Pty Limited	100	100
Australian International High School Pty Limited	100	100
Australian College of Technology Pty Limited	100	100
Clarendon Business College Pty Limited	100	100
Multimedia Investments Pty Limited	100	100
Premier Fasteners Pty Limited	100	100
Supreme Business College Pty Limited	100	100

Notes:

- (i) All companies are small proprietary companies as defined by the Corporations Act and are not required to prepare and lodge audited statutory financial statements.
- (ii) All controlled entities are incorporated in Australia.
- (iii) The following wholly owned subsidiaries were placed into members voluntary liquidation on 11 June 2004.

Electrodata (Sales) Pty Limited (In Liquidation)  
 Hanstock Voice Systems Pty Limited (In Liquidation)  
 Overland Sydney Pty Limited (In Liquidation)  
 Sandomir Pty Limited (In Liquidation)

**26. AMOUNTS PAYABLE/RECEIVABLE IN FOREIGN CURRENCIES**

The Australian dollar equivalents of unhedged amounts payable or receivable in foreign currencies calculated at year end exchange rates, are as follows:

**United States Dollars**

Amounts payable	<b>58,781</b>	106,997	<b>38,705</b>	-
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**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

<b>ECONOMIC ENTITY</b>		<b>PARENT ENTITY</b>	
2004	2003	2004	2003
\$	\$	\$	\$

**27. LEASING COMMITMENTS**

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Not later than one year	<b>892,007</b>	836,714	<b>3,911</b>	3,911
Later than one year but not later than five years	<b>2,083,617</b>	2,645,325	<b>652</b>	4,563
	<b>2,975,624</b>	3,482,039	<b>4,563</b>	8,474

The economic entity leases property under operating leases expiring from 2 years 5½ months to 4 years. Lease payments comprise a base amount plus an incremental rental, based on either movements in the Consumer Price Index or minimum percentage increase criteria.

Non-cancellable lease purchase agreements for plant and equipment:

Not later than one year	<b>52,978</b>	49,025	-	-
Later than one year but not later than five years	<b>106,919</b>	159,898	-	-
	<b>159,897</b>	208,923	-	-

At the end of the lease periods the lessor's charges over the plant and equipment cease, leaving the assets the unencumbered property of the economic entity.

**28. CONTINGENT ASSETS**

The contingent assets stated below have not been recognised in the financial statements for the year ended 30 June 2004. The realisation of these assets is contingent upon the events noted below.

**Future Income Tax Benefit**

The economic entity has a future income tax benefit of \$1,726,054 in respect of revenue losses, capital losses and timing differences that have not been recognised in these financial statements, as the recovery of the benefit is not virtually certain. The benefit of this asset will only be recouped if:

- the economic entity earns sufficient assessable income to utilize the value of the losses in the future;
- the economic entity complies with the conditions for deductibility imposed by law; and
- no changes in taxation legislation occur which would adversely affect the ability of the economic entity to enjoy the benefit.

**Thanga Thangathurai Debt**

In December 2003, the Company filed a claim in the Superior Court of California, County of Sonoma, USA, against Mary Lynn Thangathurai ('MLT') for US\$1,900,000 plus costs, interest, attorney's fees, and other amounts. MLT is the surviving spouse of the late Thanga Thangathurai. The action is being brought against her pursuant to, among other laws, the California Probate Code that provides, inter alia, that upon the death of a married person, the surviving spouse is personally liable for the debts of the deceased person in relation to certain property.

The realisation of this benefit is dependent upon a successful outcome of the litigation exercise or, alternatively, a suitable settlement being agreed between the parties.

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

<b>ECONOMIC ENTITY</b>		<b>PARENT ENTITY</b>	
2004	2003	2004	2003
\$	\$	\$	\$

**29. CONTINGENT LIABILITIES**

**Employment Contracts**

Payable to Executive Directors under service agreements on termination in certain circumstances:

<b>596,330</b>	779,817	<b>275,229</b>	275,229
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**Guarantees**

The following group companies have issued guarantees in respect of the parent entity as security for its bank facilities.

Academies Australasia Pty Limited  
Academies Australasia Management Pty Limited  
Clarendon Business College Pty Limited  
Multimedia Investments Pty Limited  
Premier Fasteners Pty Limited  
Supreme Business College Pty Limited

The following group companies have issued guarantees in respect of Premier Fasteners Pty Limited as security for its bank facilities.

Garratt's Limited  
Academies Australasia Pty Limited  
Academies Australasia Management Pty Limited  
Clarendon Business College Pty Limited  
Multimedia Investments Pty Limited  
Supreme Business College Pty Limited

**30. RELATED PARTIES**

**Directors' and specified executive's relevant interests in shares**

	<u>1 July</u> <u>2003</u>	<u>Acquisitions</u>	<u>Disposals</u>	<u>30 June</u> <u>2004</u>
<u>Directors</u>				
Christopher Elmore Campbell	1,126,000	195,770	-	1,321,770
Neville Thomas Cleary	80,000	-	-	80,000
Chiang Meng Heng	1,372,124	121,480	-	1,493,604
Petah Anne Fitzsimmons (Alternate)	3,000	-	-	3,000
<u>Executive</u>				
David John Wheeler	15,000	-	-	15,000

All acquisitions were on market

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

**30. RELATED PARTIES (continued)**

**Directors' transactions with the Company and the economic entity**

In February 2004, as part of the refinancing arrangements for the Company's repayment of Convertible Notes, parties related to the following Directors extended loans to the Company on arm's length terms: Chiang Meng Heng - \$2,000,000; Christopher Elmore Campbell - \$400,000.

The loans are secured against the assets of the economic entity, such security ranking after that held by the Company's bankers. Thirty percent of the loans will be repaid from the proceeds of the rights issue (*See Note 35*). The remaining 70% is due to be repaid in October 2005. Interest paid on these loans is equal to the lowest rate paid to the Company's bankers in respect of the funds provided by them for repayment of the Convertible Notes in February 2004. The current applicable rate is 8.4% per annum, monthly in arrears.

In addition to the \$400,000 borrowed from parties related to Christopher Elmore Campbell referred to above, the Company received interest-free borrowings (unsecured) from such parties totalling \$77,725 during the year and a further \$92,275 since the end of the year.

Details of directors' remuneration are set out in Note 6(b). Directors are also reimbursed for expenses incurred by them on behalf of the economic entity.

**Directors' holdings of convertible notes**

	2004 Number held	2003 Number held
The aggregate interests of directors of the reporting entity and director-related entities in convertible notes of entities within the economic entity at year end are as set out below:		
Garratt's Limited	-	949,130

**Directors' transactions in convertible notes**

During the year there were no directors' transactions in convertible notes other than as a result of redemption at maturity.

**Options**

In December 2002, the Company offered David John Wheeler (as part of his employment package) options to acquire 225,000 new fully paid ordinary shares in the Company at prices of 50 cents, 75 cents and \$1.00. The last tranche of options expired on 30 June 2004. None of the options had been exercised. The Directors are of the opinion that the options were of no value during the period under review.

**Other related party transactions**

Transactions between the Company and controlled entities include loans, dividends, management fees and interest. Details of these transactions and the amounts owing at balance date are included in Notes 2, 3, 4 and 12.

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

ECONOMIC ENTITY		PARENT ENTITY	
2004	2003	2004	2003
\$	\$	\$	\$

**31. SUPERANNUATION**

The Company and certain controlled entities contribute to defined contribution employee superannuation funds. The funds are managed by independent fund managers.

**32. NOTES TO THE STATEMENT OF CASH FLOWS**

**a. Reconciliation of profit from ordinary operations after income tax to net cash provided by/(used in) operating activities**

Profit/(loss) from ordinary activities after income tax	<b>(2,735,155)</b>	(2,969,619)	<b>(747,528)</b>	(1,872,533)
Non-cash items:				
Amortisation	<b>188,500</b>	184,037	<b>845</b>	1,268
Depreciation	<b>289,337</b>	341,341	<b>9,104</b>	14,900
Investment in other entity written off	-	1,712	-	-
Loan to controlled entity forgiven	-	-	<b>1,073,720</b>	2,274,316
Loan to other entity written off	-	3,254,078	-	-
Provision for loan to controlled entity	-	-	-	4,181
Provision against trading stock	-	320,000	-	-
Unrealised foreign exchange movement	-	(6,360)	-	(6,360)
Net gain on convertible notes cancelled	<b>(4,550)</b>	(22,895)	<b>(4,550)</b>	(22,895)
Net loss on disposal of plant and equipment	<b>4,724</b>	37,392	<b>(375)</b>	-
Changes in assets and liabilities:				
(Increase)/decrease in receivables	<b>721,129</b>	51,198	<b>(1,042,611)</b>	(976,007)
(Increase)/decrease in inventories	<b>484,092</b>	(397,180)	-	-
(Increase)/decrease in other assets	<b>(617,124)</b>	59,730	-	(41,813)
(Increase)/decrease in deferred tax assets	<b>1,368,241</b>	(946,780)	<b>69,890</b>	(4,608)
(Increase)/decrease in intangibles	<b>25,020</b>	50,040	<b>25,020</b>	50,040
Increase/(decrease) in payables	<b>(462,288)</b>	(523,904)	<b>(47,533)</b>	(77,738)
Increase/(decrease) in deferred tax liabilities	-	(258,199)	-	(23,862)
Increase/(decrease) in provisions	<b>364</b>	16,569	<b>17,487</b>	12,908
Net cash provided by/(used in) operating activities	<b>(737,710)</b>	(808,840)	<b>(646,531)</b>	(668,203)

**b. Reconciliation of cash**

For the purpose of the Statement of Cash Flows, cash includes cash at bank and at call. (See Note 11.)

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

<b>ECONOMIC ENTITY</b>		<b>PARENT ENTITY</b>	
2004	2003	2004	2003
\$	\$	\$	\$

**32. NOTES TO THE STATEMENT OF CASH FLOWS (continued)**

**c. Acquisition of controlled entities**

During the previous financial year the economic entity purchased 100% of the ordinary shares in the following, newly incorporated (shelf), companies:

	Purchase consideration	Consideration paid in cash	Cash held at acquisition	Other assets: Formation expenses	Other liabilities: Creditors
Australian College of Technology Pty Limited	2	2	2	995	995
Academy of Social Sciences Pty Limited	2	2	2	995	995
Australian International High School Pty Limited	2	2	2	995	995
Academy of English Pty Limited	2	2	2	995	995

100% of the ordinary shares in the following company were also acquired during the previous financial year. Although not newly incorporated this company has not traded either prior to or since acquisition.

	Purchase consideration	Consideration paid in cash	Cash held at acquisition	Other assets: Formation expenses	Other liabilities: Creditors
Australian Institute of Professional Studies Pty Limited	1,000	1,000	-	1,000	-

**d. Non-cash investing activities**

During the previous financial year the economic entity acquired plant and equipment with an aggregate value of \$34,696 (2002: \$205,744) by means of lease purchase agreements. These acquisitions are not reflected in the statement of cash flows.

In August 2002 the businesses and assets of two colleges were acquired. The consideration given comprised of net cash of \$90,000, the issue of 500,000 Garratt's Limited shares and taking on of the liabilities to teach students where fees were paid in advance. Of these only the cash component is included in the statement of cash flows above.

**33. ACCUMULATED LOSSES**

Accumulated losses at the beginning of the financial year	<b>(6,255,798)</b>	(3,286,179)	<b>(3,988,895)</b>	(2,116,362)
Net profit/(loss) attributable to the members of the parent entity	<b>(2,735,155)</b>	(2,969,619)	<b>(747,528)</b>	(1,872,533)
Accumulated losses at the end of the financial year	<b>(8,990,953)</b>	(6,255,798)	<b>(4,736,423)</b>	(3,988,895)

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

**34. CONVERTIBLE NOTES**

On 29 January 1999, the Company issued 5,230,934 convertible notes at a principal value of \$1.00 each, with interest payable every six months in arrears at 12% per annum. The notes were convertible at the option of the holder, on 30 June and 31 December each year from 1999 to 2003, into ordinary shares of the Company on the basis of 1 share for each note of \$1.00 principal value, and have been accounted for as compound instruments in accordance with AASB 1033 *Presentation and Disclosure of Financial Instruments*. (See Note 1m)

On 26 October 2001 the Company announced that it was commencing an on market buy-back of its Convertible Notes. By February 2004, a total of 1,087,653 Notes were bought back and cancelled, representing 20.8% of the total Notes issued in 1999.

On 1 March 2004 the outstanding 4,143,281 Notes were redeemed and repaid to Noteholders at their face value of \$1.00 together with interest accrued for the period 1 January 2004 to 28 February 2004 (1.93 cents).

The Company entered into refinancing arrangements for the repayment of the Convertible Notes.

As part of the refinancing arrangements, parties related to two directors, Chiang Meng Heng and Christopher Elmore Campbell, extended loans to the Company on arm's length terms. (See Note 30)

**35. EVENTS SUBSEQUENT TO BALANCE DATE**

The only matters or circumstances that have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years, are as follows:

- a. On 28 July 2004, the Company announced a one-for-one renounceable rights issue at 15 cents per share. The issue will raise about \$1.78 million, which will be used to reduce bank loans and other borrowings and also to add to the Company's working capital. Following the issue, the Company's shares will double from 11,895,281 to 23,790,562.
- b. The repayment date for \$2,841,591 raised in connection with refinancing of the Convertible Note settlement in February 2004 was renegotiated from April 2005 to September 2004 (30%) and October 2005 (70%). The effect of this revised agreement has been reflected in the financial statements.

**GARRATT'S LIMITED  
AND CONTROLLED ENTITIES  
NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 30 June 2004

**35. EVENTS SUBSEQUENT TO BALANCE DATE (continued)**

The directors currently have the following relevant interests which amount to 24.34% of the 11,895,281 shares on issue:

	<u>No. of Shares</u>	<u>%</u>
Neville Thomas Cleary	80,000	0.67
Chiang Meng Heng	1,493,604	12.56
Christopher Elmore Campbell	<u>1,321,770</u>	<u>11.11</u>
	<u>2,895,374</u>	<u>24.34</u>

The entities through which the Directors hold their relevant interests in the Company will be taking up all their entitlements. The remaining 75.66% (\$1,349,986) is underwritten by Chiang Meng Heng for a fee of \$33,750 (2.5%)

The Prospectus for the rights issue, dated 2 September 2004, was sent to shareholders on 14 September 2004. The closing date for acceptances is 28 September 2004.

\* \* \*

## **DIRECTORS' DECLARATION**

The directors of the Company declare that:

1. the financial statements and notes, set out on pages 9 to 35:
  - (i) comply with Accounting Standards and the Corporations Act; and
  - (ii) give a true and fair view of the financial position as at 30 June 2004 and performance for the year ended on that date of the Company and economic entity.
2. 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 Board of Directors.

Neville Cleary  
Director

Christopher Campbell  
Director

Sydney  
15 September 2004

