



CARDNO LIMITED

ABN 70 108 112 303

AND ITS CONTROLLED ENTITIES

STATUTORY ACCOUNTS

FOR THE PERIOD

19 MARCH 2004 TO 30 JUNE 2004

Table of Contents

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

Director's Report.....	2
Statement of Financial Performance	7
Statement of Financial Position	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Director's Declaration	32
Independent Audit Report	33

Director's Report

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

The Directors present their report together with the financial report of Cardno Limited and the entities it controlled at the end of 30 June 2004 and for the period from 19 March 2004 to 30 June 2004.

Directors

The following persons were directors of Cardno Limited from the dates specified below and up to the date of this report:

John Massey (Chairman)(Non-executive) (appointed as a Director 19 March 2004, appointed Chairman 1 July 2004)

Graham Tamblyn (appointed 19 March 2004)

Andrew Buckley (appointed 24 February 2004)

Ronald Fisher (appointed 24 February 2004)

Trevor Johnson (appointed 24 February 2004)

Richard Kell (appointed 19 March 2004, resigned as Chairman 30 June 2004)

Douglas McMillan (appointed 19 March 2004)

James Verco (appointed 19 March 2004)

Edwin Vowles (appointed 19 March 2004)

Details of the qualifications, experience and responsibilities of the directors are set out in the Annual Report and on the Company's website.

Principal activities

During the period the principal activity of the consolidated entity during the financial period was operating as Consulting Engineers. There were no significant changes to the nature of the principal activities of the Cardno group during the financial year under review.

Dividends

There were no dividends paid during the financial period.

Since the end of the financial year, the directors have resolved to pay a fully franked ordinary dividend of \$1,590,525 (4.5 cents per fully paid share) to be paid on 15 November 2004 out of retained profits at 30 June 2004.

It is noted that, in accordance with the terms of the prospectus, a dividend was paid to pre-listing shareholders on 5 July 2004.

Director's Report

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

Review of Results and Operations

Cardno Limited commenced operations on 19 March 2004, when it acquired Cardno Holdings Pty Ltd. From 19 March 2004 to 30 June 2004, Cardno Limited earned revenue of \$20.8M and achieved a net profit after tax of \$1.8M.

For the full year, the Cardno Group achieved an unaudited pro forma net profit after tax of \$4.5M for June 2004. The result is 4.1% above the Prospectus forecast and 27.4% above the June 2003 financial year profit.

Revenue for the group for the full year totalled \$64.8M which was 6.4% above the Prospectus forecast and 43.8% above the group's June 2003 financial year revenue.

The increases in profit and revenue over the previous financial year reflect the strong market conditions for consulting engineering in the domestic market for both private and public sector infrastructure development and the three acquisitions completed by the Cardno group during the year. The acquisitions were:-

- Cardno Taylors formed by adding Taylors Engineers in Melbourne
- Cardno Young formed by adding Young Consulting in Canberra and Sydney
- Cardno Alexander Browne formed by adding Alexander Browne Cambridge in Brisbane.

As noted above, conditions in the domestic market remained buoyant for the full year, resulting in substantial growth in revenue. North American sales, dominated by XP Software, recorded good growth in US dollar terms, but this was largely offset by the increasing value of the Australian dollar. The group's international market, largely in Asia Pacific, recorded moderate growth restricted by the reduced competitiveness resulting from the increasing Australian dollar.

Likely developments

There has been no change to the market outlook since the preparation of the Prospectus. The Prospectus forecast for the June 2005 year was a Net profit after tax of \$5.007 million. The management team and all staff will continue to strive to out-perform the forecasts set by the Board in the Prospectus.

Directors' and Senior Executives' Emoluments

The Remuneration Committee, which advises and reports to the Board, is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the consolidated entity. The following table shows the part year remuneration of the specified directors and executives.

Director's Report

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

(i) Remuneration of Specified Directors

	Primary		Post Employment	Total
	Salary & Fees	Bonus	Superannuation	
Specified Directors				
<i>Non-executive</i>				
J C Massey	9,174	–	826	10,000
<i>Executive</i>				
G G Tamblyn	60,419	–	4,171	64,590
A D Buckley	83,776	20,000	5,203	108,979
R J Fisher	64,874	20,000	4,290	89,164
T C Johnson	67,100	10,000	7,043	84,143
R A Kell	40,826	–	14,198	55,024
D R McMillan	40,937	–	12,937	53,874
J G A Verco	43,637	–	13,165	56,802
E R Vowles	56,302	–	5,166	61,468
Total – all specified directors	467,045	50,000	66,999	584,044

(ii) Remuneration of Specified Executives

	Primary		Post Employment	Total
	Salary & Fees	Bonus	Superannuation	
Specified Executives				
R J K Collins–Woolcock	41,105	–	3,791	44,896
P W Gardiner	48,745	–	3,617	52,362
C G Thiering	36,990	–	17,880	54,870
G R Thompson	43,385	–	13,732	57,117
R A Young	68,916	–	6,164	75,080
Total – all specified executives	239,141	–	45,184	284,325

Directors' Interests

As at the date of this report, the interests of the directors in the shares of Cardno Limited were:

	Cardno Limited Ordinary shares	Shares held in escrow until 20 November 2005
J C Massey	20,000 *	–
G G Tamblyn	1,512,000	1,512,000
A D Buckley	1,845,810	1,845,810
R J Fisher	1,260,342	1,260,342
T C Johnson	1,527,990	1,527,990
R A Kell	619,458	619,458
D R McMillan	1,023,396	1,023,396
J G A Verco	1,075,402 ^	1,065,402
E R Vowles	1,079,322	1,079,322

* Mr Massey subscribed for shares in the Initial Public Offering.

^ Mr Verco purchased 10,000 ordinary shares on 31 May 2004.

Director's Report

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

Indemnification and Insurance of Officers

The company has agreements with each of the directors of the company in office at the date of this report indemnifying them against liabilities to any person, other than the company or a related body corporate, that may arise from their acting as directors of the company, notwithstanding that they may have ceased to hold office, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company.

The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability, as such disclosure is prohibited under the terms of the contract.

Tax Consolidation

Effective 1 July 2003, Cardno Limited and its 100% owned Australian subsidiaries have formed a tax consolidation group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

Directors' Meetings

Since the formation of Cardno Limited on 24 February 2004 to 30 June 2004 attendance at Board meetings and Board Committee meetings is set out below:

	Board of Directors	Listing Due Diligence Committee	Remuneration Committee	Risk Management Committee
No. of Meetings Held	7	6	2	5
A D Buckley	7	6	2	*
R J Fisher	7	6	*	*
T C Johnson	7	6	*	*
R A Kell	7	1*	1	*
J C Massey	7	2*	2	*
D R McMillan	7	*	*	5
G G Tamblyn	7	*	2	*
J G A Verco	7	*	*	5
E R Vowles	5	*	*	*

* not a member of this committee

Director's Report

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

- Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of directors.

On behalf of the Directors

A handwritten signature in black ink, appearing to read "John Massey". The signature is fluid and cursive, with a long horizontal stroke at the end.

JOHN C MASSEY
Chairman

Brisbane
24 August 2004

Statement of Financial Performance

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004*

	Notes	Consolidated	Cardno Limited
		2004 \$'000	2004 \$'000
Revenues from Ordinary Activities	2	20,879	2,591
Cost of Services & Employee Costs		14,467	-
Administration Expenses		260	-
Borrowing costs expense	3	164	-
Depreciation and amortisation expenses	3	604	-
Distribution expense		60	-
Marketing expense		100	-
Occupancy expense		885	-
Computer related expenses		233	-
Insurance expenses		257	-
Non recoverable travel expenses		244	-
Other expenses from ordinary activities		1,794	1
		19,068	1
Profit from ordinary activities before related income tax expense		1,811	2,590
Income tax expense	4	35	3
Profit from ordinary activities after related income tax expense		1,776	2,587
Net exchange differences on translation of financial report of foreign controlled entities		(24)	-
Total changes in equity other than those resulting from transactions with owners as owners attributable to members of Cardno Limited	20	1,752	2,587
Basic earnings per share (cents per share)	26	5.36	
Diluted earnings per share (cents per share)	26	5.36	

The Statement of Financial Performance should be read in conjunction with notes 1 to 32 which form part of the Financial Statements.

* Refer to Note 1(u) for details regarding comparatives.

Statement of Financial Position

Cardno Limited and its Controlled Entities as at 30 June 2004*

	Notes	Consolidated 2004 \$'000	Cardno Limited 2004 \$'000
CURRENT ASSETS			
Cash assets	6	12,165	8,183
Receivables	7	9,944	2,704
Inventories	8	5,425	-
Other	9	263	-
TOTAL CURRENT ASSETS		27,797	10,887
NON-CURRENT ASSETS			
Other financial assets	10	-	13,520
Property, plant and equipment	11	4,992	-
Deferred tax assets		2,566	2,440
Intangible assets	12	7,657	-
TOTAL NON-CURRENT ASSETS		15,215	15,960
TOTAL ASSETS		43,012	26,847
CURRENT LIABILITIES			
Payables	13	7,407	-
Interest-bearing liabilities	14	1,159	4,022
Current tax liabilities		966	829
Provisions	15	4,262	-
Other	16	3,154	-
TOTAL CURRENT LIABILITIES		16,948	4,851
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	17	2,747	-
Deferred tax liabilities		1,814	1,762
Provisions	18	2,104	-
TOTAL NON-CURRENT LIABILITIES		6,665	1,762
TOTAL LIABILITIES		23,613	6,613
NET ASSETS		19,399	20,234
EQUITY			
Parent entity interest			
Contributed equity	19	17,647	17,647
Retained profits	20	1,752	2,587
TOTAL EQUITY		19,399	20,234

The Statement of Financial Position should be read in conjunction with notes 1 to 32 which form part of the Financial Statements.

* Refer to Note 1(u) for details regarding comparatives.

Statement of Cash Flows

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004*

	Notes	Consolidated	Cardno
		2004 \$'000	Limited 2004 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		114	36
Interest paid		(48)	-
Dividends received		2	-
Sales / Fees		22,590	-
Sundry income received		-	-
Cash paid to suppliers and employees		(17,835)	(1)
Income tax refunded / (paid)		(1,584)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	21(a)	3,239	35
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for intangibles		-	-
Payments for investments		20	-
Proceeds from sale of property, plant & equipment		229	-
Payments for property, plant & equipment		(362)	-
NET CASH USED IN INVESTING ACTIVITIES		(113)	-
CASH FLOWS FROM FINANCING ACTIVITIES			
Share issue transaction costs		(374)	-
Proceeds from issue of shares		4,500	4,500
Proceeds from borrowings		40	-
Proceeds from Cardno Holdings Pty Ltd		-	3,648
Finance lease payments		(376)	-
Dividends paid		(840)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES		2,950	8,148
NET INCREASE/(DECREASE) IN CASH HELD		6,076	8,183
EFFECTS OF ACQUISITION OF SUBSIDIARIES AT BEGINNING OF PERIOD		6,089	-
CASH AT THE BEGINNING OF THE PERIOD		-	-
CASH AT THE END OF THE PERIOD	6	12,165	8,183

The Statement of Cash Flows should be read in conjunction with notes 1 to 32 which form part of the Financial Statements.

* Refer to Note 1(u) for details regarding comparatives.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standard, Urgent Issues Group Consensus Views and the Corporations Act 2001.

The financial report covers the economic entity of Cardno Limited and controlled entities, and Cardno Limited as an individual parent entity Cardno Limited is a listed public company, incorporated and domiciled in Australia.

It has been prepared in accordance with the historical convention and except where stated, does not take into account changing money values or current valuation of non-current assets.

These accounting policies have been consistently applied by each entity in the consolidated entity. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Principles of Consolidation

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates and joint ventures, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity's interest. Unrealised gains relating to associates and joint venture entities are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

(b) Revenue Recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Sale of goods

Revenue from the sale of goods is recognised (net of rebates, discounts and other allowances) when control of the goods passes to the customer.

Consulting revenue

Revenue is recognised when the service is provided. For long term contracts, revenue and expenses are recognised in accordance with the percentage of completion method. Where a loss is expected to arise from a contract, the loss is recognised immediately.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets

The gross proceeds of non-current asset sales are recognised as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

Dividends

Dividend revenue is recognised net of any franking credits.

Revenue from distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.

Revenue from dividends from associates and other investments is recognised when dividends are received.

(c) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

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

(d) Foreign Currency

Transactions

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 currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where:

- Hedging specific anticipated transactions or net investments in self-sustaining operations.
- Relating to amounts payable or receivable in foreign currency forming part of a net investment in a self-sustaining foreign operation. In this case, the exchange difference, together with any related income tax expense/revenue, is transferred to the foreign currency translation reserve on consolidation.
- Relating to acquisition of qualifying assets.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

Translation of controlled foreign operations

The assets and liabilities of foreign operations, including controlled entities, that are self-sustaining are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the operations.

The assets and liabilities of foreign operations, that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

Exchange rates used

The following exchange rates are the main exchange rates used in translating foreign currency transactions, balances and financial statements (expressed in Australian dollars).

	Average 2004	As at 30 June 2004
US Dollar	0.7327	0.6916
Canadian Dollar	0.9878	0.9357
PNG Kina	2.2802	2.1838

(e) 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, finance charges in respect of finance leases and foreign exchange differences net of the effect of hedges of borrowings.

Interest payments in respect of financial instruments classified as liabilities are included in borrowing costs.

Borrowing costs are expensed as incurred.

(f) Taxation

The consolidated 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 statement of financial position 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, or if relating to tax losses when realisation is virtually certain.

Capital gains tax, if applicable, is provided for in establishing period income tax expense when an asset is sold.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

Tax consolidation

Cardno Limited is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 31. The implementation date for the tax-consolidated group is 1 July 2003. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intra-group transactions).

The tax consolidated group has entered into a tax funding agreement that requires wholly-owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised by the head entity on implementation date, including the impact of any relevant reset tax cost bases; and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

Under the tax funding agreement, the contributions are calculated on a “stand-alone basis” so that the contributions are equivalent to the tax balances generated by external transactions entered into by wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity’s obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

(g) Earnings Per Share

Basic earnings per share (“EPS”) is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, by the weighted average number of ordinary shares and diluted potential ordinary shares adjusted for any bonus issue.

(h) Acquisition Of Assets

All assets acquired, including property, plant and equipment and intangibles other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

(i) Inventories

Work in progress represents the cost of unbilled labour and expenses. If a loss is anticipated on completion, the work in progress is reduced to the level of recoverability.

(j) Investments

Controlled entities

Investments in controlled entities are carried in the Company’s financial statements at the lower of cost and recoverable amount.

Other entities

Investments in other unlisted entities are carried at the lower of cost and recoverable amount.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

(k) Leased Assets

Leases under which the consolidated entity assumes substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease.

Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis over the period of the incentive.

(l) Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired.

(m) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis, are reviewed to determine whether they are in excess of their recoverable amount at reporting date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

(n) Revaluations of non-current assets

Classes of non-current assets measured at fair value are revalued with sufficient regularity to ensure the carrying amount of each asset in the class does not differ materially from fair value at reporting date. Independent valuations are obtained at least every three years. Revaluation increments, on a class of assets basis, are recognised in the asset revaluation reserve except that amounts reversing a decrement previously recognised as an expense are recognised as revenues. Revaluation decrements are only offset against revaluation increments relating to the same class of asset and any excess is recognised as an expense.

Potential capital gains tax is only taken into account if the asset is held for sale.

(o) Depreciation and amortisation

Useful lives

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method or on a diminishing value basis over their estimated useful lives, taking into account estimated residual values, with the exception of freehold land.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

Assets are depreciated or amortised from the date of acquisition.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation/amortisation rates or useful lives used for each class of asset are as follows:

<i>Property, plant and equipment</i>	2004
Buildings	2.5 – 27%
Laboratory equipment, instruments & amenities	13 – 24%
Equipment and motor vehicles	15 – 24%
Office furniture and equipment	9 – 33 %
<i>Intangibles</i>	
Goodwill	20 years

(p) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 60 days.

(q) Interest bearing liabilities

Bank loans are recognised at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate.

(r) Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision of employee benefits and is measured in accordance with wages and salaries above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using interest rates on national government guaranteed securities with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

(s) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

(t) Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

(u) Comparatives

The company was incorporated on 24 February 2004 and the company commenced trading on the 19 March 2004 and accordingly the results are for the period 19 March 2004 to 30 June 2004 and there are no comparatives.

	Consolidated 2004 \$'000	Cardno Limited 2004 \$'000
2. REVENUE FROM ORDINARY ACTIVITIES		
Revenue from operating activities		
Fees from services and sale of goods	18,299	-
Fees from recoverable expenses	2,466	-
Total revenues from operating activities	20,765	-
Revenue from non-operating activities		
Dividends received	-	2,548
Interest received	114	43
Revenue from ordinary activities	20,879	2,591
3. EXPENSES AND LOSSES/(GAINS)		
Cost of sales – project costs	14,467	-
Depreciation		
Motor Vehicles	42	-
Plant & equipment	158	-
Total Depreciation	200	-
Amortisation of non-current assets		
Goodwill	86	-
Motor Vehicles under lease	85	-
Plant & Equipment under lease	233	-
Total Amortisation	404	-
Total Depreciation & Amortisation	604	-

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

	Consolidated 2004 \$'000	Cardno Limited 2004 \$'000
3. EXPENSES AND LOSSES/(GAINS) CONT'D		
Bad and Doubtful Debts	(404)	-
Borrowing Costs		
Interest and finance charges paid	164	-
Rental expense relating to operating leases		
Minimum lease payments	918	-
4. INCOME TAX		
The prima facie income tax attributable on the operating profit (loss) as follows -		
Operating profit (loss)	1,811	2,590
Prima facie income tax attributable @ 30% (PNG 48%)	543	777
Tax effect of permanent differences:		
Capital losses	(10)	-
Exempt income	(166)	(764)
Rebateable dividends	(1)	-
Amortisation of goodwill	26	-
Non-allowable deductions	(307)	(32)
Adjustment for branch offices tax rate	(18)	-
Income tax adjusted for permanent differences	67	(19)
Net deferred tax liabilities of tax consolidated group		
Entities assumed on implementation of tax consolidation	-	22
Exchange gains / losses on foreign accounts	(32)	-
Income tax attributable to operating profit (loss)	35	3

Tax consolidation

Effective 1 July 2003, for the purposes of income taxation, Cardno Limited and its 100% owned Australian subsidiaries formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities in the event that the head entity defaults on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidated group is Cardno Limited.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

	Consolidated	Cardno Limited
	2004 \$'000	2004 \$'000
5. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES		
(a) Dividends proposed and not recognised as a liability		
100% franked dividend		4.5 cents
(b) Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
- franking account balance as at the end of the financial year at 30%		662
- franking credits that will arise from the payment of income tax payable as at the end of the financial year		664
		1,326
6. CASH ASSETS		
Cash at bank and on hand	4,890	2,160
Bank short term deposits	7,275	6,023
	12,165	8,183
The bank short term deposits mature within 30 days and pay interest at a weighted average interest rate of 4.63%		
7. RECEIVABLES (CURRENT)		
Trade debtors	10,293	-
Provision for doubtful debts	(565)	-
	9,728	-
Sundry debtors	186	7
Dividends receivable	-	2,548
Amounts other than trade debts receivable from other related parties:		
- associated companies	30	-
Notional Tax Asset	-	149
	9,944	2,704

Terms and conditions relating to the above financial instruments

- (i) Trade debtors are non-interest bearing and generally on 14 day terms.
- (ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.
- (iii) Details of the terms and conditions of related party receivables are set out in Note 29.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

	Consolidated	Cardno Limited
	2004 \$'000	2004 \$'000
8. INVENTORIES (CURRENT)		
Work-in-progress – at cost	5,425	-
9. OTHER CURRENT ASSETS		
Prepayments	263	-
10. OTHER FINANCIAL ASSETS (NON-CURRENT)		
Controlled entity – Cardno Holdings Pty Ltd	-	13,520
11. PROPERTY, PLANT & EQUIPMENT		
Laboratory equipment, instruments & amenities – at cost	25	-
Less accumulated depreciation	(8)	-
	17	-
Equipment & motor vehicles – at cost	211	-
Less accumulated depreciation	(65)	-
	146	-
Office furniture & equipment – at cost	1,783	-
Less accumulated depreciation	(936)	-
	847	-
Office furniture & equipment under lease	4,462	-
Less accumulated amortisation	(2,993)	-
	1,469	-
Motor vehicles – under hire purchase	429	-
Less accumulated amortisation	(239)	-
	190	-
Equipment & motor vehicles – under lease	1,635	-
Less accumulated amortisation	(675)	-
	960	-
Property – at cost	1,430	-
Less accumulated depreciation	(67)	-
	1,363	-
	4,992	-

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

	Consolidated	Cardno Limited
	2004	2004
	\$'000	\$'000
11. PROPERTY, PLANT & EQUIPMENT CONT'D		
(a) Movements in Carrying Amounts		
Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.		
<i>Laboratory Equipment, Instruments & Amenities – at cost</i>		
Carrying amount at the beginning of the year	–	–
Additions	18	–
Depreciation expense	(1)	–
Carrying amount at the end of the year	17	–
<i>Equipment & Motor Vehicles – at cost</i>		
Carrying amount at the beginning of the year	–	–
Additions	157	–
Depreciation expense	(11)	–
Carrying amount at the end of the year	146	–
<i>Office Furniture & Equipment – at cost</i>		
Carrying amount at the beginning of the year	–	–
Additions	1,015	–
Depreciation expense	(157)	–
Other adjustments	(11)	–
Carrying amount at the end of the year	847	–
<i>Office Furniture & Equipment – under lease</i>		
Carrying amount at the beginning of the year	–	–
Additions	1,702	–
Amortisation expense	(233)	–
Carrying amount at the end of the year	1,469	–
<i>Motor Vehicles – under hire purchase</i>		
Carrying amount at the beginning of the year	–	–
Additions	220	–
Depreciation expense	(30)	–
Carrying amount at the end of the year	190	–

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

	Consolidated	Cardno Limited
	2004	2004
	\$'000	\$'000
11. PROPERTY, PLANT & EQUIPMENT CONT'D		
(a) Movements in Carrying Amounts cont'd		
<i>Equipment & Motor Vehicle – under lease</i>		
Carrying amount at the beginning of the year	–	–
Additions	1,149	–
Disposals	(107)	–
Amortisation expense	(86)	–
Other adjustments	4	–
Carrying amount at the end of the year	960	–
<i>Property – at cost</i>		
Carrying amount at the beginning of the year	–	–
Additions	1,440	–
Other adjustments	(77)	–
Carrying amount at the end of the year	1,363	–
Total Property, Plant & Equipment		
Carrying amount at the beginning of the year	–	–
Additions	5,701	–
Disposals	(107)	–
Depreciation & Amortisation expense	(518)	–
Other adjustments	(84)	–
Carrying amount at the end of the year	4,992	–
12. INTANGIBLES		
Goodwill	6,323	–
Accumulated amortisation	(678)	–
	5,645	–
Patents and licenses – deemed cost	2,012	–
	7,657	–
13. PAYABLES (CURRENT)		
Trade creditors & accruals	7,407	–
Trade creditors and accruals are non-interest bearing and are normally settled within 45 days		
14. INTEREST-BEARING LIABILITIES (CURRENT)		
Lease liability	1,078	–
Loan – Cardno Holdings Pty Ltd	–	4,022
Hire Purchase	81	–
	1,159	4,022

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

	Consolidated 2004 \$'000	Cardno Limited 2004 \$'000
14. INTEREST-BEARING LIABILITIES (CURRENT) CONT'D		
Cardno Limited has an arranged overdraft limit of \$2,000,000 which is secured by a registered mortgage debenture over the assets and undertakings of the Company and by a Cross Deed of Covenant from all companies in the economic entity.		
15. PROVISIONS (CURRENT)		
Dividends payable	1,851	-
Employee benefits	2,402	-
Training benefits	9	-
	4,262	-
16. OTHER		
Unearned revenue	3,154	-
17. INTEREST-BEARING LIABILITIES (NON-CURRENT)		
Lease liability	1,596	-
Hire Purchase liability	151	-
Fully Drawn Advance	1,000	-
	2,747	-
18. PROVISIONS (NON-CURRENT)		
Employee entitlements	2,104	-
19. CONTRIBUTED EQUITY		
Share Capital		
35,344,992 Ordinary shares, fully paid	17,647	17,647
Movements during the year		
Shares issued		
- 4,500,000 for cash pursuant to a Prospectus		4,500
- Transaction costs arising from issue for cash pursuant to Prospectus		(374)
- 30,844,992 to former Cardno Holdings Pty Ltd shareholders		13,521
		17,647

All shares are ordinary shares and have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

	Consolidated 2004 \$'000	Cardno Limited 2004 \$'000
20. RESERVES AND RETAINED PROFITS		
Retained profits		
Balance at the beginning of year	-	-
Net profit attributable to members of Cardno Limited	1,752	2,587
Total available for appropriation	1,752	2,587
Balance at end of year	1,752	2,587
21. NOTES TO THE STATEMENT OF CASH FLOWS		
(a) Reconciliation of Net Cash from Operating Activities to Operating Profit after Income Tax		
Operating profit/(loss) after income tax	1,776	2,587
Adjust for non-cash items		
Amortisation of goodwill	86	-
Depreciation	199	-
Amortisation	318	-
Finance charges	100	-
Adjust for changes in assets and liabilities (increase)/decrease in:		
Inventories	595	-
Future income tax benefit	(724)	(2,440)
Trade debtors	2,502	-
Other debtors	271	(2,704)
Prepayments	138	-
Increase / (decrease) in:		
Trade creditors	121	-
Lease liability	(110)	-
Income tax payable	(695)	829
Employee provisions	252	-
Provision for doubtful debts	(741)	-
Unearned revenue	(557)	-
Deferred tax payable	(292)	1,763
	3,239	35

(b) Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and bank deposits at call net of bank overdrafts.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

	Consolidated 2004 \$'000	Cardno Limited 2004 \$'000
21. NOTES TO THE STATEMENT OF CASH FLOWS CONT'D		
(c) Non-cash Financing and Investing Activities		
During the financial period, the economic entity acquired property, plant and equipment with an aggregate fair value of \$210,246 by means of finance leases. These acquisitions are not reflected in the Statement of Cash Flows.		
(d) Stand-by Facilities		
Entities in the economic entity have access to a secured bank overdraft facility of \$2,000,000. As at 30 June 2004, \$2,000,000 is unused.		
(e) Acquisition of Entity		
On 19 March 2004, Cardno Limited acquired 100% of Cardno Holdings Pty Ltd. Details of the acquisition are as follows:		
Purchase Consideration	13,520	
Allotment of Shares	13,520	
Assets and Liabilities held at acquisition date:		
Cash	6,089	
Receivables	14,180	
Intangibles	5,528	
Property, plant and equipment	5,202	
Inventories	6,020	
Creditors and borrowings	(18,737)	
Provisions	(6,956)	
	11,326	
Goodwill on acquisition	2,194	
Consideration	13,520	
22. COMMITMENTS FOR EXPENDITURE		
Finance Leases		
Commitments in relation to finance leases are payable as follows:		
Within one year	1,275	-
Later than one year but not later than 5 years	1,615	-
Later than 5 years	188	-
Minimum lease payments	3,078	-
Less: Future finance charges	(404)	-
Recognised as a liability	2,674	-

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

	Consolidated 2004 \$'000	Cardno Limited 2004 \$'000
22. COMMITMENTS FOR EXPENDITURE CONT'D		
Representing lease liabilities:		
Current (note 14)	1,078	-
Non-current (note 17)	1,596	-
	2,674	-
Operating Leases		
Within one year	2,150	-
Later than one year but not later than 5 years	5,249	-
Later than 5 years	1,937	-
Commitments not recognised in the financial statements	9,336	-
23. EMPLOYEE BENEFITS		
The aggregate employee benefit liability is comprised of:		
Accrued wages, salaries and on-costs (included in payables)	2,527	-
Provisions (current)	2,411	-
Provisions (non-current)	2,104	-
	7,042	-
Number of employees		
Number of employees at 30 June 2004	510	-

24. CONTINGENT LIABILITIES

The group maintains professional indemnity insurance to cover liabilities in the event of a claim of negligence.

25. SUBSEQUENT EVENTS

On 24 August 2004, the directors of Cardno Limited declared a final dividend on ordinary shares in respect of the 2004 financial year. The total amount of the dividend is \$1,590,525 which represents a fully franked dividend of 4.5 cents per share. The dividend has not been provided for in the 30 June 2004 financial statements.

26. EARNINGS PER SHARE

Earnings used in calculating basic and diluted earnings per share

Number of shares

Weighted average number of ordinary shares used in calculating basic earnings per share

Weighted average number of ordinary shares used in calculating diluted earnings per share

Consolidated 2004
\$1,751,857
32,679,937
32,679,937

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

	Consolidated	Cardno Limited
	2004	2004
	\$	\$
27. AUDITORS REMUNERATION		
Amounts received or due and receivable by William Buck		
- an audit or review of the financial report of the entity and any other entity in the consolidated entity	34,700	4,500
- other services in relation to the entity and any other entity in the consolidated entity	11,200	11,200
	45,900	15,700

28. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Specified Directors and Specified Executives

(i) Specified directors

J C Massey	Non-executive Director Chairman (non-executive) effective 1 July 2004
G G Tamblyn	Deputy Chairman
A D Buckley	Managing Director
R J Fisher	Director, Chief Financial Officer & Company Secretary
T C Johnson	Director
R A Kell AM	Director (resigned as Chairman 30 June 2004)
D R McMillan	Director
J G A Verco	Director
E R Vowles	Director

(ii) Specified executives

R J K Collins-Woolcock	Division Manager – New South Wales Branches
P W Gardiner	Division Manager – Brisbane
C G Thiering	Division Manager – International Branches
G R Thompson	Division Manager – XP Software
R A Young	Division Manager – Cardno Young

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

28. DIRECTOR AND EXECUTIVE DISCLOSURES CONT'D

(a) Details of Specified Directors and Specified Executives cont'd

The following remuneration figures are for the period 19 March 2004 to 30 June 2004.

(i) Remuneration of Specified Directors

	Primary		Post Employment	Total
	Salary & Fees	Bonus	Superannuation	
Specified Directors				
<i>Non-executive</i>				
J C Massey	9,174	–	826	10,000
<i>Executive</i>				
G G Tamblyn	60,419	–	4,171	64,590
A D Buckley	83,776	20,000	5,203	108,979
R J Fisher	64,874	20,000	4,290	89,164
T C Johnson	67,100	10,000	7,043	84,143
R A Kell	40,826	–	14,198	55,024
D R McMillan	40,937	–	12,937	53,874
J G A Verco	43,637	–	13,165	56,802
E R Vowles	56,302	–	5,166	61,468
Total – all specified directors	467,045	50,000	66,999	584,044

(ii) Remuneration of Specified Executives

	Primary		Post Employment	Total
	Salary & Fees	Bonus	Superannuation	
Specified Executives				
R Collins-Woolcock	41,105	–	3,791	44,896
P W Gardiner	48,745	–	3,617	52,362
C G Thiering	36,990	–	17,880	54,870
G R Thompson	43,385	–	13,732	57,117
R A Young	68,916	–	6,164	75,080
Total – all specified executives	239,141	–	45,184	284,325

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Remuneration Committee of the Board of Directors of Cardno Limited makes recommendations to the Board for determining and reviewing compensation arrangements for the directors and the executives. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such directors and officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such directors & officers are given the opportunity to receive their base emoluments in a variety of forms including cash and fringe benefits such as motor vehicles.

It is the Remuneration Committee's policy that employment agreements are entered into with all directors and executives.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

29. RELATED PARTY DISCLOSURES

Ultimate Parent

Cardno Limited is the ultimate Australian parent company.

Interests held in controlled entities are set out in Note 31 to the financial statements.

Directors and Director-related Entities

During the period, there have been no transactions with Directors or Director-related entities, other than remuneration as disclosed herein.

Consolidated	Cardno Limited
2004	2004
\$'000	\$'000

Transactions with other Related Parties

(a) Amounts receivable from other related parties

Aggregate amounts receivable from:

Current

Controlled entities

-

-

(b) Amounts related to other related parties

Aggregate amounts payable to:

Current

Controlled entities

-

4,022

The amounts payable and receivable have arisen as a result of the following:

- (i) Loans advanced to Controlled Entities
- (ii) Provision of accounting, administrative and financial assistance (management fees)
- (iii) Loans for purchase of assets and working capital

The loans between Cardno Limited and the following companies are at call and interest free:

- Cardno Holdings Pty Ltd

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

30. SEGMENT INFORMATION

	Economic Entity	Less North America	Less Asia Pacific	Total Australia	Total Overseas	TOTAL	Eliminations	Grouped
Revenue								
External Sales	20,765	789	3,600	16,376	4,389	20,765	-	20,765
Inter-segment Revenue	291	-	-	291	-	291	(291)	-
Other Income	114	-	-	114	-	114	-	114
Total Segment Revenue	21,170	789	3,600	16,781	4,389	21,170	(291)	20,879
Result								
Segment Result	2,012	80	385	1,547	465	2,012	(201)	1,811
Profit from Ordinary Activities before income tax expense	2,012	80	385	1,547	465	2,012	(201)	1,811
Income Tax Expense	35	-	-	35	-	35	-	35
Profit from Ordinary Activities after Income Tax Expense	1,977	80	385	1,512	465	1,977	(201)	1,776
Assets								
Segment Assets	43,233	332	2,285	40,616	2,617	43,233	(221)	43,012
Liabilities								
Segment Liabilities	24,206	672	1,867	21,667	2,539	24,206	(593)	23,613
Other								
Acquisitions of non-current segment assets	5,701	47	210	5,444	257	5,701	-	5,701
Depreciation and amortisation of segment assets	604	10	12	582	22	604	-	604

The group operates principally as consulting engineers. The group provides engineering related software products which has not been reported separately as it represents less than 10% of sales to external customers.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

31. CONTROLLED ENTITIES

Name	Country of Incorporation	Class of Share	Equity Holding
Cardno Holdings Pty Ltd	Australia	Ordinary	100%
Cardno Consolidated Pty Ltd	Australia	Ordinary	100%
Cardno MBK (Qld) Pty Ltd	Australia	Ordinary	100%
CDG Pty Ltd	Australia	Ordinary	100%
Cardno Staff Pty Ltd	Australia	Ordinary	100%
Cardno Staff No. 2 Pty Ltd	Australia	Ordinary	100%
Cardno Operations Pty Ltd	Australia	Ordinary	100%
Cardno Investments Pty Ltd	Australia	Ordinary	100%
Cardno MBK International Pty Ltd	Australia	Ordinary	100%
Geotechnics Queensland Pty Ltd	Australia	Ordinary	100%
Advanced Water & Wastewater Technologies Pty Ltd	Australia	Ordinary	100%
Cardno CCS Pty Ltd	Australia	Ordinary	100%
Cardno MBK PNG Ltd	Papua New Guinea	Ordinary, A	100%
Cardno MBK (NSW) Pty Ltd and Subsidiaries*	Australia	Ordinary	100%
Cardno BLH Pty Limited	Australia	Ordinary	100%
Cardno Willing Pty Ltd and Subsidiaries **	Australia	Ordinary	100%
XP Services Pty Ltd	Australia	Ordinary	100%
Cardno Alexander Browne Pty Ltd	Australia	Ordinary	100%
Cardno Taylors Pty Ltd	Australia	Ordinary	100%
Cardno Young Pty Ltd	Australia	Ordinary	100%
R A Young Services Pty Limited	Australia	Ordinary	100%
R A Young Services Unit Trust	Australia	Ordinary	100%

* Includes Cardno MBK Philippines & PT HMA International

** Includes Cardno Willing NSW Pty Ltd, Cardno Willing NT Pty Ltd, Cardno Willing PNG Ltd, XP Software Pty Ltd and XP Software Inc.

32. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Cardno Limited has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The company has allocated internal resources and engaged expert consultants to perform an assessment of the key areas that will be impacted by the transition to IFRS. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of Cardno. At this stage the company has not been able to reliably quantify the impacts on the financial report.

Goodwill

Goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. This will result in a change in the group's current accounting policy which amortises goodwill over its useful life but not exceeding 20 years. Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired. The standard requires the value of the goodwill to be assessed each year and this may result in a future write down in this asset.

Notes to the Financial Statements

Cardno Limited and its Controlled Entities for the period 19 March 2004 to 30 June 2004

Impairment of Assets

The recoverable amount of an asset is to be determined as the higher of net selling price and value in use. This will result in a change in the group's current accounting policy which determines the recoverable amount of an asset on the basis of discounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater.

Intangible Assets

Intangible assets can only be revalued subsequent to acquisition where there is an active market or other circumstances apply to the asset. Cardno Holdings Pty Ltd acquired software source code for \$1 million which was subsequently revalued at \$2 million. Cardno Limited effectively acquired this asset for \$2 million on 19 March 2004. This standard requires the value of the source code to be assessed each year and this may result in a future write down in this asset.

Income taxes

The company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. The most significant impact will be the recognition of a deferred tax liability in relation to the asset revaluation reserve. Previously, the capital gains tax effects of asset revaluations were not recognised. It is not expected that there will be any further material impact as a result of adoption of this standard.

Directors' Declaration

Cardno Limited and its Controlled Entities
For the year ended 30 June 2004

In accordance with a resolution of the directors of Cardno Limited, we state that:

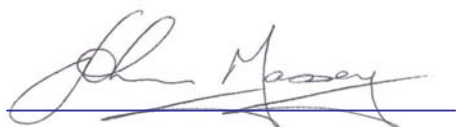
- (a) the Financial Statements and Notes set out on pages 7 to 31.
 - i. comply with Accounting Standards and other mandatory professional reporting requirements.
 - ii. Give a true and fair view of the company's and consolidated entities' financial position as at 30 June 2004 and its performance, as represented by the results of their operations and their cash flows, for the period from 19 March 2004 to 30 June 2004; and

- (b) In the directors' opinion:
 - i. There are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
 - ii. The Financial Statements and Notes are in accordance with the Corporations Act 2001.

Signed in accordance with a resolution of the directors

At Brisbane on 24 August, 2004

On behalf of the Board



JOHN CLARENCE MASSEY
Chairman

Independent Audit Report

To the Members of Cardno Limited,

Matters Relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial report of Cardno Limited for the period ended 30 June 2004 included on the Cardno Limited web site. The company's directors are responsible for the integrity of the Cardno Limited web site. We have not been engaged to report on the integrity of the Cardno Limited web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Scope

We have audited the financial report of Cardno Limited for the period ended 30 June 2004 as set out on pages 7 to 32. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Cardno Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2004 and of their performance for the period from 19 March 2004 to 30 June 2004; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Signed at Brisbane, 24 August 2004.



WILLIAM BUCK
Chartered Accountants



M C McDONALD
Partner