

SALMAT LIMITED

HALF-YEAR FINANCIAL REPORT

For the six months ended 31 December 2005

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SALMAT LIMITED

(ABN 11 002 724 638)

Appendix 4D

HALF-YEAR REPORT

For the six months ended 31 December 2005

Results for announcement to the market

Revenues from ordinary activities	Up 44.7%	to	\$262.4m
Profit from ordinary activities after tax attributable to members	Down 21.0%	to	\$13.1m
Net profit for the period attributable to members	Down 21.0%	to	\$13.1m

Dividends (distributions)	Amount per security	Franked amount per security
Interim Dividend	7.0c	7.0c
Previous corresponding period – interim dividend	6.5c	6.5c
Record Date for determining entitlements to dividends		10 March 2006
Dividend payment date		28 March 2006

Explanation of results

Refer to the attached ASX announcement for commentary on the results.

The information contained in this report is to be read in conjunction with the 2005 Annual Report and any announcements to the market by Salmat Limited during the period.

ASX/media release

27 February 2006

**First half profit above guidance as Salmat invests for the future
Interim dividend up 7.7%**

Salmat Limited (ASX: SLM), Australia's leading customer communication group, today announced a net profit after tax of \$13.1 million for the six months to 31 December 2005 (FY05: \$16.6 million). This is ahead of the guidance provided at the AGM in November. Revenue increased by 44.9 per cent to \$262.0 million (H1 05: \$180.8 million), due to both organic growth and acquisitions.

The directors have declared an interim dividend of 7 cents per share fully franked, up by 7.7 per cent from 2004/5 (6.5 cents), payable on 28 March 2006.

Results summary for six months to	31 Dec 2005 \$million	31 Dec 2004* \$million	% change
Sales revenue	262.0	180.8	44.9
EBITA (Earnings before interest, tax and amortisation)	22.3	22.1	0.9
Profit after tax	13.1	16.6	(21.1)
Earnings per share (cents)	11.2	14.3	(21.7)
Interim dividend per share (cents) – fully franked	7.0	6.5	7.7

* For the purposes of comparison, reported 2004 figures have been adjusted according to the Australian equivalent of IFRS.

Salmat's joint managing directors Peter Mattick and Phil Salter said: 'This has been a period of building for the future. The significant increase in sales revenue demonstrates the strength of our three divisions; and we are now well equipped to improve productivity and take advantage of growth opportunities.

'Targeted Media and Contact Centres both performed well and we are very pleased with their progress. As flagged at the AGM, the results of our Business Process Outsourcing business were affected by pricing pressures and higher costs.

Commenting on the outlook they said: 'We expect further revenue growth from all divisions in the second half with profit after tax broadly in line with the first half.'

Operational review

Targeted Media

Results summary for six months to	31 Dec 2005 \$ million	31 Dec 2004 \$ million	% increase
Revenue	94.1	88.4	6.4
EBITA before significant items	21.4	19.8	8.1

Targeted Media performed well, increasing its EBITA margin to 22.7 per cent, compared with 22.4 per cent for the previous corresponding period.

Despite capacity constraints in the printing industry, which are now easing, the number of advertising catalogues delivered grew by 3.9 per cent to 2.3 billion. Freight cost increases, which affected margins in the second half of FY05, are being passed on to customers as contracts are renewed.

The division continues to attract new customers as companies and agencies shift advertising budgets from traditional media to new advertising platforms, including direct media. This change is being driven by increasing audience fragmentation among traditional media and greater accountability for marketing budgets. Salmat, as the Australian and New Zealand leader in targeted advertising catalogue distribution, is in a strong position to benefit from this. Our data analytics and targeting tools will continue to influence this process.

Business Process Outsourcing

Results summary for six months to	31 Dec 2005 \$ million	31 Dec 2004 \$ million	% change
Revenue	84.8	68.9	23.1
EBITA before significant items	4.0	8.0	(50.0)

As flagged at Salmat's AGM, the results of the BPO division were affected by pricing pressures, the costs of bedding down new contracts, and significant investment in sites, systems and equipment to increase productivity and provide for future growth.

The division uses smart technology to process essential mail such as bank and credit card statements and has long-term contracts with blue-chip customers.

The NSW digital print-on-demand business, acquired in April 2005, performed as expected, with revenue of \$14 million and earnings offsetting integration costs.

Revenue from the Asian operations increased by 15 per cent, driven by the new credit and charge card company contract and other new business in Hong Kong. The Hong Kong operation quadrupled its workforce and is expected to move towards profit during the second half.

BPO's markets are expected to remain challenging during the second half, with continued pricing pressure. The division is focused on cost management and improving productivity and efficiency.

Contact Centres

Results summary for six months to	31 Dec 2005 \$ million	31 Dec 2004 \$ million	% increase
Revenue	83.1	23.5	253.6
EBITA before significant items	3.8	0.4	NMF

Contact Centres continued to make good progress, increasing its EBITA margin to 4.6 per cent from 3.6 per cent in H2 05. The integration of SalesForce is now substantially complete, and results were in line with expectations.

New contracts led to additional seats in both Australia and New Zealand, bringing the total to 2,687, and seat utilisation increased to 75 per cent from 62 per cent at 30 June 2005.

ClientLogic Philippines, our 49% owned joint venture call centre business, had an excellent six months with strong revenue and profit growth, enabling us to equity account earlier than planned.

Balance sheet and cash flow

Operating cash flow of \$12.9 million was held at 2004 levels due to effective working capital management, despite the growth of the business.

Capital expenditure increased to \$16.8 million from \$9.0 million for H1 05, mainly due to the company's investment during the period in BPO technology and infrastructure, upgrading Contact Centres' systems, and new premises. H2 capital expenditure is expected to be \$6 - \$7 million, with the total for the full year expected to be within our target range of 4.0 - 4.5 per cent of sales.

At 31 December, net debt was \$65.5 million, up from \$52.6 million at 30 June 2005 mainly due to the timing of the first half capex spend. This represents a net debt: equity ratio of 65.4 per cent which is comfortable due to the company's strong cash flow and interest cover of almost 15 times.

Salmat is Australia's leading customer communication group. We facilitate our customers' contact with their customers – through targeted catalogue distribution, mail-outs or telephone communication.

We have three businesses, all of which are market leaders:

- **Targeted Media** delivers advertising catalogues to homes throughout Australia and New Zealand. Detailed demographic analysis enables us to target the consumers most likely to buy particular products, helping our customers to maximise their sales.
- **Business Process Outsourcing** processes and mails bank and credit card statements, accounts and other customised, bulk mailings in Australia, Hong Kong, Taiwan and the Philippines. We receive customers' electronic data, process it using smart technology, and print and mail statements, providing significant cost savings.
- **Contact Centres** handles inbound and outbound telephone, fax, email and online communications on behalf of our customers, from facilities in Australia and the Philippines. Inbound services include technical support and customer care; while outbound services include telemarketing, direct sales and customer retention. We also facilitate business-to-business and business-to-consumer conversations through a range of sales support services.

Over 26 years we have built a 3,600 strong team, experienced in contributing to our customers' growth through helping them to communicate effectively with their customers. This experience, together with our proprietary systems and technology and our strong customer relationships, secures Salmat's position as Australia's – and increasingly the region's – leader in customer communication services.

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For more information about the Salmat Group, please visit Salmat's website at www.salmat.com.au.

For further information, please contact:

*Peter Mattick
Joint Managing Director
+612 9928 6500*

*Philip Salter
Joint Managing Director
+612 9928 6500*

*Ashley Fenton
Chief Financial Officer
+612 9928 6500*

The Directors present their report for the half-year ended 31 December 2005.

DIRECTORS

The names of the Directors of Salmat Limited in office during the half-year and until the date of this report are as follows:

Richard Lee
Peter Mattick
Philip Salter
John Thorn
Ian Elliott

REVIEW OF OPERATIONS

The consolidated profit of the group for the half-year after providing for income tax amounted to \$13.1m (2004: \$16.6m), which represents a 21.0% decrease on the prior half-year result. Earnings per share for the period was 11.2 cents, down from 14.3 cents last year.

Revenue from operating activities increased by 44.9% to \$262.0m (2004: \$180.8m), due to both organic growth and acquisitions.

The contribution of each segment to group earnings before interest, tax and amortisation (EBITA) for the half-year period was as follows:

- Targeted Media segment operating revenues increased by 6.4% to \$94.1m (2004: \$88.4m). Segment EBITA improved by 8.1% to \$21.4m (2004: \$19.8m). The segment experienced 3.9% growth in distribution volumes. The segment continues to benefit from the acquisition of a number of small distribution businesses, which contributed incremental revenues of \$5.8m for the half-year.
- The Contact Centres segment achieved an increase in operating revenues of 253.6% to \$83.1m (2004: \$23.5m). This segment improved its EBITA result from \$0.4m to \$3.8m. These results were driven by the full contribution of Salesforce for the half-year period, a significant acquisition that occurred in January 2005.
- Following the acquisition of the Government Printing Services in April 2005, operating revenues in the BPO segment for this half-year period have increased by 23.1% to \$84.8m (2004: \$68.9m). After adjusting for significant items, the segment generated EBITA of \$4.0m (2004: \$8.0m), a decrease of 50.0%. The significant item of \$1.0m related to integration costs associated with the acquisition of businesses, restructuring including redundancies and the relocation of premises.

During the half-year period, following a substantial improvement in the performance of the Philippine call centre business joint venture (ClientLogic Philippines), the group reversed the remaining \$0.5m provisions relating to the collectability of Joint Venture loans. This half-year period was the first time Salmat was able to equity account its share of ClientLogic profits.

As described in note 2 of the accompanying half-year financial report, this is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly.

Balance sheet and cash flow

The impact of adopting AIFRS did not have a material impact on the net assets of the company at any of the previous reporting periods. Refer to note 2 of the accompanying half-year financial report.

Following the acquisition of SalesForce in January 2005 and further borrowings during the period, Salmat has drawn down from bank facilities, leaving the company with a net debt to equity ratio at 31 December of 65.4%. Significant goodwill was also recorded following this acquisition, an increase of \$58.6m.

The business generated operating cashflows of \$12.9m during the half-year, with net capital expenditure of \$16.8m.

EVENTS OCCURRING AFTER BALANCE DATE

On 27 February 2006, the Directors declared an interim dividend for 2006 of 7.0 cents per ordinary share (amounting to \$8.2m) franked to 100% at 30% corporate tax rate. A record date of 7 March 2006 has been set, with the dividend due to be paid on 28 March 2006.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

ROUNDING OF AMOUNTS

The company is an entity to which ASIC Class order 98/0100 applies. Accordingly, amounts in the financial statements have been rounded to the nearest thousand dollars.

Signed this 27th day of February 2006 in accordance with a resolution of the Board of Directors.

Peter Mattick
Director

Philip Salter
Director

Richard Lee
Chairman

Auditor's Independence Declaration to the Directors of Salmat Limited

In relation to our review of the financial report of Salmat Limited for the half-year ended 31 December 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Craig M Jackson
Partner
27 February 2006

Consolidated

		Six months to 31 Dec 2005 \$000	Six months to 31 Dec 2004 \$000
Continuing Operations			
Revenues from operating activities		262,006	180,847
Revenues from other activities		409	494
Revenue		262,415	181,341
Employee-related expenses		(117,828)	(63,679)
Finance costs		(2,390)	(75)
Depreciation and amortisation expenses		(8,086)	(8,359)
Freight and distribution		(50,821)	(36,781)
Materials usage		(18,639)	(12,243)
Property related expenses		(10,304)	(6,098)
Equipment related expenses		(15,784)	(12,680)
Loan provision write-back		543	2,042
Share of profit of associated company		400	-
Other expenses		(19,966)	(20,998)
Profit before income tax	3	19,540	22,470
Income tax (expense)		(6,456)	(5,901)
Profit attributable to members of Salmat Limited		13,084	16,569
Basic earnings per share (cents per share)	7	11.2c	14.3c
Diluted earnings per share (cents per share)	7	10.8 c	13.8c

	As at 31 Dec 2005 \$000	Consolidated As at 30 Jun 2005 \$000	As at 31 Dec 2004 \$000
Current Assets			
Cash and cash equivalents	17,864	13,953	7,239
Trade and other receivables	74,881	63,030	41,343
Inventories	5,080	5,759	2,839
Other current assets	4,641	3,694	4,144
Total Current Assets	102,466	86,436	55,565
Non-Current Assets			
Trade and other receivables	7,400	9,470	8,681
Investment in associates accounted for using the equity method	399	-	-
Other non-current assets	-	8	9
Property, plant and equipment	52,647	40,860	37,597
Deferred tax assets	8,665	9,346	6,378
Intangible assets	84,269	83,946	25,655
Total Non-Current Assets	153,380	143,630	78,320
Total Assets	255,846	230,066	133,885
Current Liabilities			
Trade and other payables	46,392	40,848	26,963
Current tax liabilities	1,950	3,835	2,550
Short-term provisions	9,493	8,427	5,586
Total Current Liabilities	57,835	53,110	35,099
Non-Current Liabilities			
Trade and other payables	4,601	4,808	1,128
Long-term borrowings	83,416	66,177	1,744
Deferred tax liabilities	264	573	307
Long-term provisions	9,589	8,195	6,265
Total Non-Current Liabilities	97,870	79,753	9,444
Total Liabilities	155,705	132,863	44,543
Net Assets	100,141	97,203	89,342
Equity			
Contributed equity	31,832	31,459	30,845
Reserves	728	749	620
Retained profits	67,581	64,995	57,877
Total Equity	100,141	97,203	89,342

SALMAT LIMITED
Consolidated Statement of Changes in Equity
For the half-year ended 31 December 2005

SALMAT

	\$000 Contributed Equity	\$000 Retained Profits	Consolidated \$000 Reserves	\$000 Total
Balance at 1 July 2004	30,478	49,439	251	80,168
Shares issued during the year	367	-	-	367
Profit attributable to members of parent entity	-	16,569	-	16,569
Cost of share-based payments	-	-	163	163
Currency Translation differences	-	-	206	206
Sub-total	30,845	66,008	620	97,473
Dividends paid	-	(8,131)	-	(8,131)
Balance at 31 December 2004	30,845	57,877	620	89,342
Balance at 1 July 2005	31,459	64,995	749	97,203
Shares issued during the year	373	-	-	373
Profit attributable to members of parent entity	-	13,084	-	13,084
Cost of share-based payments	-	-	312	312
Currency Translation differences	-	-	(333)	(333)
Sub-total	31,832	78,079	728	110,639
Dividends paid	-	(10,498)	-	(10,498)
Balance at 31 December 2005	31,832	67,581	728	100,141

SALMAT LIMITED
Consolidated Statement of Cash Flows
For the half-year ended 31 December 2005

SALMAT

	Consolidated	
	Six months to 31 Dec 2005 \$'000	Six months to 31 Dec 2004 \$'000
Cash Flows from Operating Activities		
Receipts from customers *	332,252	247,937
Payments to suppliers and employees *	(307,525)	(226,635)
Interest received	193	176
Interest paid	(3,632)	(13)
Income tax paid	(8,407)	(8,577)
Net cash provided by operating activities	12,881	12,888
Cash Flows from Investing Activities		
Proceeds from sale of plant and equipment	124	259
Loans repaid by/(provided to) related entity	2,090	(4,374)
Acquisition of business	(843)	(533)
Purchase of plant and equipment	(16,969)	(9,254)
Net cash (used in) investing activities	(15,598)	(13,902)
Cash Flows from Financing Activities		
Proceeds from exercise of options	373	367
Proceeds from borrowings	16,719	175
Dividends paid	(10,498)	(8,131)
Net cash provided by / (used in) financing activities	6,594	(7,589)
Net increase / (decrease) in cash held	3,877	(8,603)
Opening cash	13,953	16,229
Effects of exchange rate changes on cash	34	(387)
Closing cash	17,864	7,239

* Includes amounts relating to postage disbursements and is inclusive of goods and services tax.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Report Preparation

The half-year consolidated financial statements are a general purpose financial report prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standard AASB 134: Interim Financial Reporting, and other mandatory professional reporting requirements.

For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report has been prepared on a historical cost basis, except for investments, properties, land and buildings, and derivative financial instruments that have been measured at fair value. The carrying values of recognised assets and liabilities that are hedged with fair value hedges are adjusted to record changes in the fair values attributable to the risks that are being hedged.

The half-year financial report should be read in conjunction with the annual financial report of Salmat Limited as at 30 June 2005. It is also recommended that the half-year financial report be considered together with any public announcements made by Salmat Limited during the half-year ended 31 December 2005 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

(a) Statement of Compliance

The half-year financial report complies with Australian Accounting Standards, which include equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the half-year financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first half-year financial report prepared based on AIFRS and comparatives for the half-year ended 31 December 2004 and full-year ended 30 June 2005 have been restated accordingly. A summary of the significant accounting policies under AIFRS is disclosed below.

Reconciliations of:

- AIFRS equity as at 1 July 2004, 31 December 2004 and 30 June 2005; and
- AIFRS profit for the half-year 31 December 2004 and full-year 30 June 2005,

to the balances reported in the 31 December 2004 half-year report and 30 June 2005 full-year financial report prepared under AGAAP are detailed below.

(b) Basis of Consolidation

The consolidated financial statements comprise the financial statements of Salmat Limited and its subsidiaries.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

A controlled entity is any entity controlled by Salmat Limited. Control exists where Salmat Limited has the capacity to dominate the decision making in relation to the financial and operating policies of another entity so that the other entity operates with Salmat Limited to achieve the objectives of Salmat Limited.

All intercompany balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

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.

(c) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability settled. Deferred tax is recognised in the income statement except where it relates to items that may be recognised directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which deductible temporary differences can be utilised:

- Except where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- Except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Salmat Limited formed a consolidated group for income tax purposes effective on and from 1 July 2003, with each of its wholly owned Australian controlled entities. The entities within the group have entered a tax sharing agreement whereby Salmat Limited has agreed to compensate each of the wholly owned Australian controlled entities for the carrying value of their deferred tax balances, and each controlled entity will compensate Salmat Limited for the amount of tax payable that would be calculated as if the controlled entity was a tax paying entity.

(d) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate proportion of fixed and variable overhead expenses.

(e) Trade and other receivables

Trade receivables which generally have 7-45 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(f) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost less, where applicable, any accumulated depreciation and impairment losses.

Independent valuations of land and buildings are performed with sufficient regularity to ensure that the carrying amount does not differ materially from the assets cost at balance date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Depreciation

The depreciable amount of all fixed assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated 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 depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Buildings	2.5%
Plant and Equipment	5.0% to 33.0%
Leasehold Improvements	Over term of lease

Impairment

The carrying value of plant and equipment is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount of plant and equipment is the greater of fair value less costs to sell, and value in use.

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(h) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are recognised on a straight-line basis over the lease term.

(i) Investment in Associate

The Group's investment in its associate is accounted for in the financial statements by applying the equity method of accounting. Whilst Salmat Limited has significant influence over this entity; it is neither a subsidiary nor a joint venture. The reporting dates of the associate and Salmat Limited are different, although both use consistent accounting policies.

The investment in the associate is carried in the consolidated balance sheet at cost plus post-acquisition changes in Salmat's share of net assets of the associate, less any impairment in value. The consolidated income statement reflects Salmat's share of the results of the operations of the associate.

(j) Intangibles

Following the acquisition of Salesforce in January 2005, an intangible asset has been recognised representing the future value of specific customers under contract at the time of acquisition. This is amortised to the income statement over a period of 3 years, being the estimate of discounted cashflows contracted from these customers.

Goodwill

Goodwill on acquisition is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition.

Goodwill is tested at least annually for impairment and carried at cost less accumulated impairment losses. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination synergies.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(k) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange difference arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

As at the reporting date the assets and liabilities of the overseas subsidiaries are translated into the presentation currency of Salmat Limited at the rate of exchange ruling at the balance sheet date and the income statements are translated at the weighted average exchange rates for the period.

(l) Provisions

Provisions are recognised when Salmat Limited has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

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

Other provisions

Salmat Limited has recognised a make-good provision on leased premises when it can be reliably estimated and measured.

(m) Share-based payment transactions

Salmat Limited provides benefits to employees (including Directors) in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binominal model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Salmat Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of Directors, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met, as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon market conditions.

Where the terms of an equity settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new grant is substituted for the cancelled awards, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(n) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(o) Cash

For the purpose of the statement of cash flows, cash includes:

- Cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- Investments in money market instruments with less than 14 days to maturity.

(p) Revenue

Revenue from the rendering of a service is recognised upon the delivery of the service to the customer.

When rendering services under contract and both the contract outcome can be reliably measured and control of the right to be compensated for the services and the stage of completion can be reliably measured, revenue is recognised on a progressive basis as the costs to complete the service contract are performed.

Salmat Limited incurs postage on behalf of its customers, which is on-charged to its customers. Salmat Limited has offset all postage costs incurred against postage revenue in the income statement. This method of disclosure does not result in any effect on profit. For cashflow purposes, the amounts are shown as gross receipts and gross payments.

Interest revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

Dividend revenue is recognised when the right to receive a dividend has been established.

Government grant revenue is recognised when the relevant criteria have been met and there is reasonable assurance that the income will be received.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal instalments.

(q) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from or payable to the taxation authority is included as part of receivables or payables in the balance sheet.

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

(r) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/0100 and accordingly, amounts in the financial report have been rounded off to the nearest \$1,000.

(s) Earnings per Share (EPS)

Basic EPS is calculated as net profit attributable to members, divided by the weighted average number of ordinary shares.

Diluted EPS is calculated as net profit attributable to members divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(t) Derivative financial instruments

Salmat Limited used derivative financial instruments such as foreign currency contracts and interest rate swaps to hedge its risks associated with interest rates and foreign currency fluctuations. Such derivative instruments are stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as either fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges (interest rate swaps) which meet the conditions for special hedge accounting, any gain or loss from remeasuring the hedging instrument at fair value is recognised immediately in the income statement.

Any gain or loss attributable to the hedged risk on re-measurement of the hedged item is adjusted against the carrying amount of the hedged item and recognised in the income statement. Where the adjustment is to the carrying amount of a hedged interest-bearing instrument, the adjustment is amortised to the income statement such that it is fully amortised by maturity.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting.

At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs.

If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

(u) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process

(v) Pensions and other post employment benefits

The Group operates three defined benefit pension schemes, which require contributions to be made to separately administered funds.

The cost of providing benefits under the plans is determined separately for each plan by independent actuarial valuations.

Actuarial gains and losses are recognised immediately in retained earnings.

(w) AASB 1 Transitional exemptions

Salmat Limited has made its election in relation to the transitional exemptions allowed by AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards as follows:

Financial Instruments

Management have decided to apply the exemption provided in AASB 1, which permits the entities not to apply the requirements of AASB 132 'Financial Instruments: Presentation and Disclosures' and AASB 139 'Financial Instruments: Recognition and Measurement'.

Share-based payment transactions

AASB 2 'Share –Based Payments' is applied to share based payments that had not vested before 1 January 2005.

Business Combinations

AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (i.e. business combinations that occurred before the date of transition to AIFRS)

Property, plant and equipment

The company will use AASB 116 'Property, plant and equipment' first time exemption to measure land and buildings at the date of transition at fair value (based on previous revaluations) and use that fair value as the deemed cost as stated in the accounts at 30 June 2004.

The effects of Changes in Foreign Exchange Rates

The foreign currency translation reserve has been reset to zero.

Consolidated

	Note	Previous AGAAP at 1 Jul 04 \$000	Adjustments on introduction of Australian equivalents to AIFRS \$000	Australian equivalents to AIFRS at 1 Jul 04 \$000
2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS				
Reconciliation of Balance Sheet at 1 July 2004				
Current Assets				
Cash and cash equivalents		16,229	(1)	16,228
Trade and other receivables		38,558	1	38,559
Inventories		3,260	-	3,260
Other current assets		2,612	-	2,612
Total Current Assets		60,659	-	60,659
Non Current Assets				
Trade and other receivables		2,386	-	2,386
Other non current assets		10	1	11
Property, plant and equipment	2b	36,420	547	36,967
Deferred tax assets	2g	5,949	169	6,118
Intangible assets	2c	26,521	(1,254)	25,267
Total Non Current Assets		71,286	(537)	70,749
Total Assets		131,945	(537)	131,408
Current Liabilities				
Trade and other payables		32,164	-	32,164
Current tax liabilities		4,263	-	4,263
Short-term provisions		5,162	-	5,162
Total Current Liabilities		41,589	-	41,589
Non Current Liabilities				
Trade and other payables		1,605	-	1,605
Long-term borrowings	2d	2,072	(163)	1,909
Deferred tax liabilities		385	-	385
Long-term provisions	2b	4,907	845	5,752
Total Non Current Liabilities		8,969	682	9,651
Total Liabilities		50,558	682	51,240
Net Assets		81,387	(1,219)	80,168
Equity				
Contributed equity		30,478	-	30,478
Reserves	2e	2,456	(2,205)	251
Retained profits	2f	48,453	986	49,439
Total Equity		81,387	(1,219)	80,168

Consolidated

	Note	Previous AGAAP at 31 Dec 04 \$000	Adjustments on introduction of Australian equivalents to AIFRS \$000	Australian equivalents to AIFRS at 31 Dec 04 \$000
2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING				
Reconciliation of Balance Sheet at 31 December 2004				
Current Assets				
Cash and cash equivalents		7,240	(1)	7,239
Trade and other receivables		41,342	1	41,343
Inventories		2,839	-	2,839
Other current assets		4,144	-	4,144
Total Current Assets		55,565	-	55,565
Non Current Assets				
Trade and other receivables		8,681	-	8,681
Other non current assets		9	-	9
Property, plant and equipment	2b	37,102	495	37,597
Deferred tax assets	2g	6,262	116	6,378
Intangible assets	2c	24,891	764	25,655
Total Non Current Assets		76,945	1,375	78,320
Total Assets		132,510	1,375	133,885
Current Liabilities				
Trade and other payables		26,963	-	26,963
Current tax liabilities		2,550	-	2,550
Short-term provisions		5,586	-	5,586
Total Current Liabilities		35,099	-	35,099
Non Current Liabilities				
Trade and other payables		1,128	-	1,128
Long-term borrowings	2d	2,004	(260)	1,744
Deferred tax liabilities		307	-	307
Long-term provisions	2b	5,292	973	6,265
Total Non Current Liabilities		8,731	713	9,444
Total Liabilities		43,830	713	44,543
Net Assets		88,680	662	89,342
Equity				
Contributed equity		30,845	-	30,845
Reserves	2e	2,662	(2,042)	620
Retained profits	2f	55,173	2,704	57,877
Total Equity		88,680	662	89,342

Consolidated

	Note	Previous AGAAP at 30 Jun 05 \$000	Adjustments on introduction of Australian equivalents to AIFRS \$000	Australian equivalents to AIFRS at 30 Jun 05 \$000
2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING				
Reconciliation of Balance Sheet at 30 June 2005				
Current Assets				
Cash and cash equivalents		13,952	1	13,953
Trade and other receivables		63,029	1	63,030
Inventories		5,759	-	5,759
Other current assets		3,694	-	3,694
Total Current Assets		86,434	2	86,436
Non Current Assets				
Trade and other receivables		9,470	-	9,470
Other non current assets		9	(1)	8
Property, plant and equipment	2b	39,938	922	40,860
Deferred tax assets	2g	9,282	64	9,346
Intangible assets	2c	80,215	3,731	83,946
Total Non Current Assets		138,914	4,716	143,630
Total Assets		225,348	4,718	230,066
Current Liabilities				
Trade and other payables	2a	40,847	1	40,848
Current tax liabilities		3,835	-	3,835
Short-term provisions		8,427	-	8,427
Total Current Liabilities		53,109	1	53,110
Non Current Liabilities				
Trade and other payables		4,808	-	4,808
Long-term borrowings	2d	66,533	(356)	66,177
Deferred tax liabilities		573	-	573
Long-term provisions	2b	6,382	1,813	8,195
Total Non Current Liabilities		78,296	1,457	79,753
Total Liabilities		131,405	1,458	132,863
Net Assets		93,943	3,260	97,203
Equity				
Contributed equity		31,459	-	31,459
Reserves	2e	2,628	(1,879)	749
Retained profits	2f	59,856	5,139	64,995
Total Equity		93,943	3,260	97,203

Consolidated

	Note	Previous AGAAP \$000	Effect of transition to Australian equivalents to AIFRS \$000	Australian equivalents to AIFRS \$000
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**2. FIRST TIME ADOPTION OF AUSTRALIAN
EQUIVALENTS TO INTERNATIONAL FINANCIAL
REPORTING**

Reconciliation of Profit for the half year to 31 December 2004

Revenue		181,601	(260)	181,341
Employee related expenses	2a	(63,516)	(163)	(63,679)
Finance costs	2d	(172)	97	(75)
Depreciation and amortisation expenses	2c	(10,376)	2,017	(8,359)
Freight and distribution		(36,781)	-	(36,781)
Materials usage		(12,243)	-	(12,243)
Property related expenses	2b	(5,917)	(181)	(6,098)
Equipment related expenses		(12,680)	-	(12,680)
Loan provision write-back		2,042	-	2,042
Other expenses from ordinary activities		(21,258)	260	(20,998)
Profit before income tax		20,700	1,770	22,470
Income tax expense		(5,849)	(52)	(5,901)
Profit attributable to members of Salmat Limited		14,851	1,718	16,569

Reconciliation of Profit for the full year to 30 June 2005

Revenue		408,885	(307)	408,578
Employee related expenses	2a	(168,222)	(324)	(168,546)
Finance costs	2d	(1,747)	193	(1,554)
Depreciation and amortisation expenses	2c	(20,929)	4,753	(16,176)
Freight and distribution		(95,368)	-	(95,368)
Materials usage		(24,192)	-	(24,192)
Property related expenses	2b	(14,133)	(364)	(14,497)
Equipment related expenses		(31,063)	-	(31,063)
Loan provision write-back		5,402	-	5,402
Other expenses from ordinary activities		(20,196)	307	(19,889)
Profit before income tax		38,437	4,258	42,695
Income tax expense		(11,330)	(105)	(11,435)
Profit attributable to members of Salmat Limited		27,107	4,153	31,260

2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING

- a) Share-based payment costs are charged to the income statement under AASB 2 'Share-Based Payments', but not under AGAAP.
- b) Make-good expenses on leased premises have been provided for under AASB 137 'Provisions, contingent liabilities and contingent assets', that were not recognised under AGAAP. The assets recognised in the balance sheet will be amortised over the estimated life of the lease.
- c) Under AASB 138 'Intangible Assets', Intangible assets with an indeterminate useful life are no longer amortised but are subject to impairment testing. Goodwill amortised under AGAAP has been reversed.
- d) Under AASB 137 'Provisions, contingent liabilities and contingent assets', deferred acquisition costs recognised in the balance sheet as a non-current creditor at face value, are required to be discounted.
- e) Reserves comprise share-based payments. The Foreign Currency Translation Reserve and Asset Revaluation Reserve have been reset to zero.
- f) Retained profits adjustments comprise, share-based payments (2a), make-good provision (2b), intangibles (2c), deferred acquisition costs (2d), and reserves (2e).
- g) The tax effect of the adjustments above (note (a) to (f)) led to an increase in the Deferred Tax Asset.
- h) There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

**Six months to
31 Dec 2005
\$000**

Six months to
31 Dec 2004
\$000

3. PROFIT BEFORE INCOME TAX

Profit from ordinary activities before related income tax expense includes the following items of expense which, together with other disclosures in this report, are relevant in explaining the financial performance for the half-year:

Significant items included in total expenses

• Reversal of ClientLogic loan provision ^[1]	(543)	(2,042)
• Integration and restructure costs ^[2]	1,036	-
• Write-off software assets ^[3]	-	2,228

^[1] During the half-year period, following a substantial improvement in the performance of the 49% owned Philippine call centre joint venture (ClientLogic Philippines), the group reversed provisions against its loans due from the joint venture. This reversal (net of the foreign exchange impact) favourably impacted the net profit by \$0.5 million. As the original provision was treated as non-deductible for tax purposes, no tax expense has been brought to account in the half-year result relating to this item.

^[2] Integration costs associated with the acquisition of businesses, restructuring including redundancies and the relocation of premises. Income tax expense of \$0.3 million has been brought to account in the half-year result relating to this item.

^[3] Following a re-assessment of the expected future benefits to be generated, certain software assets were written down in the previous period by \$2.2 million. A tax benefit of \$0.7 million was brought to account in the previous half-year result relating to this item.

4. DIVIDENDS

(a) Dividends paid during the half-year ^[1]

Final fully franked ordinary dividend of 9.0 cents (2004: 7.0 cents) per share	10,498	8,131
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Dividends paid as per Statement of Cash Flows

	10,498	8,131
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(b) Dividends proposed but not recognised as a liability at the end of the half year

Since the end of the half-year, the Directors' have recommended the payment of an interim dividend of 7.0 cents per share (2005: 6.5 cents per share). A record date of 10 March 2006 has been set. The aggregate amount of proposed interim dividend which is expected to be paid on 28 March 2006 is: ^[1]

	8,178	7,563
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^[1] All dividends franked to 100% at 30% corporate tax rate.

5. NET TANGIBLE ASSET BACKING

Net tangible asset backing per ordinary share	13.6c	54.7c
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6. LEGAL PROCEEDINGS

Salmat Document Management Solutions Pty Ltd (SDMS) was charged in March 2004 in the Western Australia court of Petty Sessions with fraud under section 83(1) of the Proceeds of Crime Act (Cth) 1987 against the Australian Postal Commission with respect to lodgements of mail of an SDMS customer in Western Australia between January 1995 and September 1998. Three of its employees have also been charged in being knowingly concerned with the commission of an offence. It is alleged that the financial loss to the Australian Postal Commission was \$281,107. On August 4, 2004, SDMS and the three employees entered not guilty pleas to the charges. SDMS denies any wrongdoing and will defend the charges vigorously.

An application for a permanent stay of the proceedings was held on 24 October 2005. If this matter proceeds to trial, it will not be set down to take place until late 2006 at the earliest.

As a consequence of normal business operations, on occasions Salmat Limited receives communications in relation to potential future claims from third parties. Salmat Limited maintains insurance cover to minimise the potential financial effects of such items.

7. EARNINGS PER SHARE

	Six Months to 31 Dec 2005 \$000	Six Months to 31 Dec 2004 \$000
(a) Reconciliation of Earnings to Net Profit		
Net profit after tax attributable to members of Salmat Limited	13,084	16,569
Earnings used in the calculation of diluted EPS	13,084	16,569
(b) Weighted average number of ordinary shares used in the calculation of basic EPS	Quantity '000	Quantity '000
Weighted average number of shares on issue used to calculate basic EPS	116,622	116,189
Effect of dilutive securities - weighted average number of options outstanding	4,460	3,448
Weighted average number of ordinary shares outstanding during the year used in the calculation of dilutive EPS	121,082	119,637

8. EQUITY SECURITIES ISSUED

Issue of ordinary shares during the half-year

	Quantity '000		\$000	
	31 Dec 2005	31 Dec 2004	31 Dec 2005	31 Dec 2004
Opening balance	116,635	116,158	31,459	30,478
Exercise of options issued under the Salmat Executive Performance Option Plan	168	175	373	367
Issued to Directors in accordance with a resolution passed at the Annual General Meeting	19	25	-	-
Closing Balance	116,822	116,358	31,832	30,845

9. SEGMENT INFORMATION

(a) Business Segments

The economic entity delivers communications solutions to its customers through the following three businesses:

Targeted Media delivers advertising catalogues to homes throughout Australia and New Zealand. Detailed demographic analysis enables us to target the consumers most likely to buy particular products, helping our customers to maximise their sales.

Business Process Outsourcing processes and mails bank and credit card statements, accounts and other customised, bulk mailings in Australia, Hong Kong, Taiwan and the Philippines. We receive customers' electronic data, process it using smart technology, and print and mail statements, providing significant cost savings.

Contact Centre handles inbound and outbound telephone, fax, email and online communications on behalf of our customers, from facilities in Australia, New Zealand and the Philippines. Inbound services include technical support and customer care; while outbound services include telemarketing, direct sales and customer retention. We also facilitate business-to-business and business-to-consumer conversations through a range of sales support services.

(b) Financial Performance by Business Segment

Six months to 31 Dec 2005	Business Process Outsourcing	Targeted Media	Contact Centres	Corporate	Economic Entity Total
	\$000	\$000	\$000	\$000	\$000
Total Revenue	84,834	94,057	83,115	-	262,006
EBIT before significant items	3,999	21,426	2,729	(6,066)	22,088
Significant items:					
Write-off of software assets					-
Reversal of loan provision				543	543
Integration and restructure costs	(1,036)				(1,036)
EBIT	2,963	21,426	2,729	(5,523)	21,595
Net interest expense					(2,055)
Tax					(6,456)
Net Profit after tax					13,084

Six months to 31 Dec 2004	Business Process Outsourcing	Targeted Media	Contact Centres	Corporate	Economic Entity Total
	\$000	\$000	\$000	\$000	\$000
Total Revenue	68,933	88,385	23,529	-	180,847
EBIT before significant items	7,941	19,815	383	(5,909)	22,230
Significant items:					
Write-off of software assets				(2,228)	(2,228)
Reversal of loan provision				2,042	2,042
Integration and restructure costs					-
EBIT	7,941	19,815	383	(6,095)	22,044
Net interest expense					426
Tax					(5,901)
Net Profit after tax					16,569

The Directors of the company declare that:

1. The financial statements and notes, as set out on pages 10 to 28:
 - (a) Comply with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Regulations 2001; and
 - (b) Give a true and fair view of the economic entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date.
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.

This declaration is made in accordance with a resolution of the Board of Directors.

Signed this 27th day of February 2006 of behalf of the Board.

Peter Mattick
Director

Philip Salter
Director

Richard Lee
Chairman

Independent review report to members of Salmat Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity and accompanying notes to the financial statements for the consolidated entity comprising both Salmat Limited (the company) and the entities it controlled during the half-year, and the directors' declaration, for the company, for the half-year ended 31 December 2005.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review of the financial report in order to make a statement about it to the members of the company, and in order for the company to lodge the financial report with the Australian Stock Exchange and the Australian Securities and Investments Commission.

Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements, in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with the Corporations Act 2001, Accounting Standard AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements in Australia, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows.

A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. In addition to our review of the financial report, we were engaged to undertake other non-audit services. The provision of these services has not impaired our independence.

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report, as defined in the scope section, of the consolidated entity Salmat Limited and the entities it controlled during the half-year ended 31 December 2005 is not in accordance with:

- (a) The Corporations Act 2001, including:
 - (i) Giving a true and fair view of the financial position of the consolidated entity at 31 December 2005 and of its performance for the half-year ended on that date; and
 - (ii) Complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) Other mandatory financial reporting requirements in Australia.

Ernst & Young

Craig M Jackson
Partner
27 February 2006