

FULL FINANCIAL 06 REPORT

Clough Limited
Annual financial report
for the year ended 30 June 2006

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This financial report covers both Clough Limited as an individual entity and the consolidated entity consisting of Clough Limited and its subsidiaries. The financial report is presented in the Australian currency.

Clough Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Clough Limited
6th Floor, 251 St George's Terrace
Perth WA 6000.

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report contained in the concise financial report, which is not part of this financial report.

The financial report was authorised for issue by the directors on 22 August 2006. The company has the power to amend and reissue the financial report.

Clough Limited
Income statements
For the year ended 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Revenue	5	641,140	464,466	4,855	8,165
Other income	6	12,659	12,503	-	14,542
Materials, plant and subcontractor costs		(476,435)	(358,404)	(9)	(4,040)
Labour costs		(141,746)	(130,248)	-	(835)
Impairment of investment in controlled entity	7	-	-	(20,000)	-
Other expenses		(61,496)	(40,377)	-	(1,140)
Depreciation and amortisation expense	7	(15,123)	(12,573)	(1)	(9)
Finance costs	7	(6,431)	(3,046)	(4,855)	(2,978)
Shares of net profits of associates and jointly controlled entities accounted for using the equity method		36,715	13,627	-	-
Profit (loss) before income tax		(10,717)	(54,052)	(20,010)	13,705
Income tax (expense) / benefit	8	(2,624)	(2,410)	-	<u>2</u>
Profit (loss) for the year		(13,341)	(56,462)	(20,010)	13,707
Profit attributable to minority interest		(1,736)	(1,176)	-	-
Profit (loss) attributable to members of Clough Limited		(15,077)	(57,638)	(20,010)	13,707
		Cents	Cents		
Earnings (loss) per share for profit (loss) attributable to the ordinary equity holders of the company:					
Basic earnings (loss) per share	46	(3.02)	(12.57)		
Diluted earnings (loss) per share	46	(3.02)	(12.57)		

The above income statements should be read in conjunction with the accompanying notes.

Clough Limited
Balance sheets
As at 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
ASSETS					
Current assets					
Cash and cash equivalents	9	53,636	64,908	11	2,709
Receivables	10	192,418	159,969	56,742	52,587
Work in progress	11	145,439	56,784	-	72
Derivative financial instruments	12	286	-	-	-
Total current assets		<u>391,779</u>	<u>281,661</u>	<u>56,753</u>	<u>55,368</u>
Non-current assets					
Receivables	13	11,455	11,178	139,212	143,816
Available-for-sale financial assets	15	11,279	-	2	-
Investments accounted for using the equity method	14	44,257	30,709	-	-
Other financial assets	16	-	15,607	40,000	60,002
Other non-current assets	20	7,617	2,617	-	-
Property, plant and equipment	17	84,335	62,242	-	23
Intangible assets - computer software	19	5,713	3,204	-	-
Deferred tax assets	18	16,429	12,680	2	2
Total non-current assets		<u>181,085</u>	<u>138,237</u>	<u>179,216</u>	<u>203,843</u>
Total assets		<u>572,864</u>	<u>419,898</u>	<u>235,969</u>	<u>259,211</u>
LIABILITIES					
Current liabilities					
Payables	21	219,285	146,652	-	382
Amounts due to customers for contract work	25	12,902	17,729	-	-
Interest bearing liabilities	22	73,719	52,632	56,742	51,271
Current tax liabilities	24	506	139	-	-
Provisions	23	15,342	11,376	-	-
Total current liabilities		<u>321,754</u>	<u>228,528</u>	<u>56,742</u>	<u>51,653</u>
Non-current liabilities					
Payables	26	15,515	-	-	-
Interest bearing liabilities	27	40,357	6,944	22,500	-
Non-interest bearing liabilities	28	-	-	2,537	48,189
Deferred tax liabilities	29	248	38	-	-
Provisions	30	7,308	8,949	-	-
Total non-current liabilities		<u>63,428</u>	<u>15,931</u>	<u>25,037</u>	<u>48,189</u>
Total liabilities		<u>385,182</u>	<u>244,459</u>	<u>81,779</u>	<u>99,842</u>
Net assets		<u>187,682</u>	<u>175,439</u>	<u>154,190</u>	<u>159,369</u>
EQUITY					
Contributed equity	31	130,232	115,512	130,232	115,512
Reserves	32(a)	(1,493)	(9,472)	602	491
Retained profits	32(b)	38,506	53,179	23,356	43,366
Parent entity interest		167,245	159,219	154,190	159,369
Minority interest	33	20,437	16,220	-	-
Total equity		<u>187,682</u>	<u>175,439</u>	<u>154,190</u>	<u>159,369</u>

The above balance sheets should be read in conjunction with the accompanying notes.

Clough Limited
Statements of changes in equity
For the year ended 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Total equity at the beginning of the financial year		<u>175,439</u>	<u>204,635</u>	<u>159,369</u>	<u>105,650</u>
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to:					
Reserves	32	<u>1,059</u>	-	-	-
Restated total equity at the beginning of the financial year		<u>176,498</u>	<u>204,635</u>	<u>159,369</u>	<u>105,650</u>
Changes in the fair value of available-for-sale financial assets, net of tax	32	<u>2,625</u>	-	-	-
Changes in the fair value of cash flow hedges, net of tax	32	<u>(965)</u>	-	-	-
Transferred to profit or loss on sale of available-for-sale investment	32	<u>106</u>	-	-	-
Exchange differences on translation of foreign entities	32	<u>5,500</u>	<u>(11,642)</u>	-	-
Net income/(loss) recognised directly in equity		<u>7,266</u>	<u>(11,642)</u>	-	-
Profit (loss) for the year		<u>(13,341)</u>	<u>(56,462)</u>	<u>(20,010)</u>	<u>13,707</u>
Total recognised income and expense for the year		<u>(6,075)</u>	<u>(68,104)</u>	<u>(20,010)</u>	<u>13,707</u>
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	31	<u>14,720</u>	40,004	<u>14,720</u>	40,004
Employee share options	32	<u>111</u>	8	<u>111</u>	8
Increase in retained profits arising from transactions with minority interests	32	<u>404</u>	-	-	-
Increase in the minority interests share of net assets arising from equity transactions		<u>2,992</u>	-	-	-
Dividends paid to minority interests in subsidiaries		<u>(968)</u>	<u>(1,104)</u>	-	-
		<u>17,259</u>	<u>38,908</u>	<u>14,831</u>	<u>40,012</u>
Total equity at the end of the financial year		<u>187,682</u>	<u>175,439</u>	<u>154,190</u>	<u>159,369</u>
Total recognised income and expense for the year is attributable to:					
Members of Clough Limited		<u>(8,268)</u>	(67,844)	<u>(20,010)</u>	13,707
Minority interest		<u>2,193</u>	<u>(260)</u>	-	-
		<u>(6,075)</u>	<u>(68,104)</u>	<u>(20,010)</u>	<u>13,707</u>

The above statements of changes in equity should be read in conjunction with the accompanying notes.

Clough Limited
Cash flow statements
For the year ended 30 June 2006

	Notes	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		651,586	473,251	4,921	8,029
Payments to suppliers and employees (inclusive of goods and services tax)		<u>(710,279)</u>	<u>(545,799)</u>	<u>(319)</u>	<u>(5,093)</u>
		(58,693)	(72,548)	4,602	2,936
Interest received		1,225	2,013	-	-
Dividends and distributions received from equity accounted entities		9,253	5,817	-	-
Dividends received from other persons		88	-	-	-
Interest paid		(6,431)	(3,046)	(4,855)	(2,978)
Income taxes paid		<u>(5,850)</u>	<u>(4,122)</u>	<u>-</u>	<u>4</u>
Net cash (outflow) from operating activities	44	<u>(60,408)</u>	<u>(71,886)</u>	<u>(253)</u>	<u>(38)</u>
Cash flows from investing activities					
Payment for purchase of subsidiary, net of cash acquired		280	(192)	-	-
Payments for property, plant and equipment		(22,631)	(15,245)	-	-
Payments for intangible assets - computer software		(3,614)	-	-	-
Payments for available-for-sale financial assets		(1,000)	-	-	-
Payments for investments in equity accounted entities		(6,672)	(659)	-	-
Payments for investments		-	(1,898)	-	-
Loans (to)/from equity accounted entities		(1,832)	(4,209)	1,250	-
Loans (to)/from other persons		(95)	994	23	-
Proceeds from sale of property, plant and equipment		8,575	2,841	-	11
Proceeds from sale of available-for-sale financial assets		8,998	-	-	-
Proceeds from sale of investments in equity accounted entities		14,354	29,117	-	-
Proceeds from sale of investments		-	2,860	-	-
Proceeds from partial sale of interest in listed subsidiary		467	-	-	-
Net cash inflow (outflow) from investing activities		<u>(3,170)</u>	<u>13,609</u>	<u>1,273</u>	<u>11</u>
Cash flows from financing activities					
Proceeds from issue of shares		15,000	40,800	15,000	40,800
Share issue costs		(280)	(796)	(280)	(796)
Payments to minorities for shares bought back by listed subsidiary		(918)	-	-	-
Proceeds from borrowings		58,348	96,208	36,955	96,208
Loans (to)/from controlled entities		-	-	(46,409)	(56,583)
Repayment of borrowings		(20,548)	(82,250)	(8,984)	(79,438)
Dividends paid to minority interests in subsidiaries		(968)	(1,056)	-	-
Net cash inflow (outflow) from financing activities		<u>50,634</u>	<u>52,906</u>	<u>(3,718)</u>	<u>191</u>
Net increase (decrease) in cash and cash equivalents					
		(12,944)	(5,371)	(2,698)	164
Cash and cash equivalents at the beginning of the financial year		64,908	76,306	2,709	2,545
Effects of exchange rate changes on cash and cash equivalents		1,672	(6,027)	-	-
Cash and cash equivalents at end of year	9	<u>53,636</u>	<u>64,908</u>	<u>11</u>	<u>2,709</u>
Financing arrangements	27				
Non-cash financing and investing activities	45				

The above cash flow statements should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Clough Limited as an individual entity and the consolidated entity consisting of Clough Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Statement of Compliance

Australian Accounting Standards include AIFRS. Compliance with AIFRS ensures that the consolidated financial statements and notes of Clough Limited comply with International Financial Reporting Standards.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Clough Limited financial statements to be prepared in accordance with AIFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Clough Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Clough Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in note 48.

Recently issued or amended Australian Accounting Standards not yet effective and not adopted for the year ended 30 June 2006, are not expected to result in significant accounting policy changes or have a material financial impact on the Group or parent entity.

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Clough Limited ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Clough Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

1 Summary of significant accounting policies (continued)

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Clough Limited's functional and presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) *Group entities*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) *Land development and resale*

Land is not sold until the development work is completed, and revenue is recognised where there is a signed unconditional contract of sale.

1 Summary of significant accounting policies (continued)

(ii) Construction contracting

Contract revenue and expenses are recognised in accordance with the percentage of completion method unless the outcome of the contract cannot be reliably estimated. Where it is probable that a loss will arise from a construction contract, the excess of total costs over revenue is recognised as an expense immediately.

Where the outcome of a contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that the costs will be recovered, revenue is recognised to the extent of costs incurred.

The Directors do not consider it appropriate to recognise profits earned on contracts during the establishment and initial stages and accordingly recognition of profit is deferred during that period. For such contracts the difference between the progress claims rendered (less contract retentions held by the client in cash or bonds) and direct costs (including an appropriate proportion of fixed and variable overheads) is carried forward as either construction work in progress (amounts due from customers for contract work) or amounts due to customers for contract work. Where a contract has progressed beyond the early stages contract revenue and expenses are recognised on a percentage completion basis as noted above.

For fixed price contracts the stage of completion is measured by reference to contract costs for work performed to date as a percentage of estimated total contract costs for each contract. Revenue from cost plus contracts is recognised by reference to the recoverable costs incurred during the reporting period plus the percentage of fees earned. Percentage of fees earned is measured by the proportion of total costs incurred compared to the estimated total costs of the contract.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

Clough Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The Head entity, Clough Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation.

In addition to its own current and deferred tax amounts, Clough Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits (in the event that such deferred tax assets were recognised) assumed from controlled entities in the tax consolidated group.

1 Summary of significant accounting policies (continued)

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable or payable to other entities within the group. Details about the tax funding agreement are disclosed in note 8.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(g) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases (note 17). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 38). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(h) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of impairment at each reporting date.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

1 Summary of significant accounting policies (continued)

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are generally settled within 30 days.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Work in progress and spare parts

(i) Spare parts

Spare parts are stated at the lower of cost and net realisable value.

(ii) Work in progress

Construction work in progress is stated at the aggregate of contract costs incurred to date plus recognised profits less recognised losses and progress billings, and the net amounts are presented in assets as amounts due from customers for contract work. If there are contracts where progress billings exceed the aggregate costs incurred plus profits less losses, the net amounts are presented in liabilities as amounts due to customers for contract work.

Contract costs include all costs directly related to specific contracts, costs that are specifically chargeable to the customer under the terms of the contract and an allocation of overhead expenses incurred in connection with the Group's construction activities in general.

(iii) Property developments

Property developments are stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development. When development is completed borrowing costs and other holding charges are expensed as incurred.

(m) Investments in associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 41).

The Group's share of its associates' post acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(n) Joint ventures

(i) Jointly controlled entities

Interests in jointly controlled entities are accounted for using the equity method in the consolidated financial statements and, if applicable, the cost method in the parent entity. Under the equity method, the share of the profits or losses of jointly controlled entities is recognised in the income statement, and the share of movements in reserves is recognised in reserves in the balance sheet. Details of the jointly controlled entities are set out in note 42.

1 Summary of significant accounting policies (continued)

Profits or losses on transactions establishing the jointly controlled entity and transactions with the jointly controlled entity are eliminated to the extent of the Group's ownership interest until such time as they are realised by the jointly controlled entity on consumption or sale, unless they relate to an unrealised loss that provides evidence of the impairment of an asset transferred.

(o) Investments and other financial assets

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under previous AGAAP, interests in listed and unlisted securities, other than subsidiaries and associates, are brought to account at cost and dividend income is recognised in the income statement when receivable.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

For further information concerning the adjustments on transition date reference should be made to the following notes:

- Available-for-sale financial assets - note 15
- Other financial assets - note 16
- Reserves and retained profits - note 32
- Explanation of transition to AIFRS - note 48: section 4 of this note discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) *Loans and receivables*

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (notes 10 and 13).

(iii) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) *Available-for-sale financial assets*

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

1 Summary of significant accounting policies (continued)

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale investments revaluation reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(p) Derivatives

From 1 July 2004 to 30 June 2005

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives are accounted for under previous AGAAP.

Forward foreign exchange contracts

Gains or costs arising from entering into a contract intended to hedge the purchase or sale of goods or services, together with the subsequent exchange gains or losses resulting from remeasurement of those contracts by reference to movements in spot exchange rates are deferred in the balance sheet from the inception of the hedging transaction up to the date of the purchase or sale and included in the measurement of the purchase or sale.

Adjustments on transition date: 1 July 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes in the carrying amounts of derivatives are taken to retained earnings or reserves, depending on whether the criteria for hedge accounting are satisfied at the transition date.

For further information concerning the adjustments on transition date reference should be made to:

- Derivative financial instruments - note 12
- Reserves and retained profits - note 32
- Explanation of transition to AIFRS - note 48: section 4 of this note discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either; (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

1 Summary of significant accounting policies (continued)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 12. Movements in the hedging reserve in shareholders' equity are shown in note 32.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(q) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(r) Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

1 Summary of significant accounting policies (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

All property, plant and equipment, other than freehold land, is depreciated or amortised at rates appropriate to the estimated useful life of the assets. The expected useful lives are as follows:

- Buildings	40 years
- Plant and equipment	5-15 years

Plant and equipment is depreciated using the reducing balance method except for certain overseas items that are depreciated using the straight line method. Contract mining equipment located overseas is depreciated on an hours utilisation basis. Buildings are depreciated using the straight line method.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(s) Intangible assets

Intangible assets comprise capitalised computer software. Computer software has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of the computer software over their estimated useful lives, which vary from 4 to 5 years.

(t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

(v) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(w) Employee benefits

(i) *Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables 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.

(ii) *Long service leave*

The liability for long service leave 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 using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

1 Summary of significant accounting policies (continued)

(iii) Share-based payments

Share-based compensation benefits are provided to employees via the Clough Limited Executive Option Plan. Information relating to this plan is set out in note 47.

Shares options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Clough Limited Executive Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

(x) Contributed equity

Ordinary shares are classified as equity (note 31).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(y) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(z) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(aa) 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 financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

1 Summary of significant accounting policies (continued)

(ab) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

2 Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board of Directors. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to various currencies. Generally, forward exchange contracts are used to manage foreign exchange risk. Alternatively, this risk is managed by naturally hedging the project by matching the currencies in which revenues are received against the currencies in which costs are incurred.

(ii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining at all times sufficient cash and committed credit facilities to meet the Group's commitments as they arise. Due to the dynamic nature of the underlying businesses, Group Treasury aims at maintaining flexibility in funding by keeping committed credit lines available.

(d) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are not materially exposed to changes in market interest rates.

The Group's interest-rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Accounting for construction contracts

The Group accounts for construction contracts in accordance with AASB 111 Construction Contracts. The detailed accounting policy can be found in Note 1(e)(ii).

Accounting for construction contracts involves the continuous use of prudently assessed estimates based on a number of detailed assumptions consistent with the project scope and schedule, contract and risk management processes. These contracts may span several accounting periods requiring estimates and assumptions to be updated on a regular basis.

Details of the estimation procedures followed in accounting for the Group's construction contracts are detailed below.

- **Forecast costs at completion**

The estimates of the forecast costs at completion of all construction contracts are regularly updated in accordance with the agreed work scope and schedule under the respective contracts. Forecast costs are based on rates expected to apply when the related activity is expected to be undertaken. Appropriate contingencies are included in the forecast costs to completion in order to cover risks inherent in those forecasts. Any additional contractual obligations, including liquidated damages, are also assessed to the extent that these are due and payable under the contract recognising the contractual status from both the Group's and the client's viewpoints.

- **Revenues**

Revenues reflect the contract price agreed in the contract and variations where it is probable that the client will approve those variations or are due under the contract (schedule of rates type contracts would fall under this latter category for example). Claims are included in contract revenue only where negotiations have reached an advanced stage such that it is probable that the client will accept the claim and recovery of the amount involved is probable.

- **Contracts materially impacted by a client's actions**

In limited circumstances, contracts may be materially impacted by a client's actions such that the Group is unable to complete the contracted works at all or in the manner originally forecast. This may invoke dispute resolution procedures under the relevant contract and/or litigation. In these circumstances the assessment of the project outcome, whilst following the basic principles noted above, becomes more judgemental.

Forecast costs at completion are based on a similar approach to that noted above. Revenues include a prudent assessment of the likely outcome of reaching agreement with the client which is generally arrived at by assessing the probabilities of a number of different commercial outcomes including an estimate of the costs, (which would include legal costs for example) to reach that agreement. Profits would not be recognised on a contract in these circumstances. Similarly, where the project outcome cannot be reliably measured because of the particular features of the dispute, revenues are recognised to the extent of costs incurred that are probable of recovery from the client. Costs that are not probable of recovery are expensed.

The Group has recognised certain contract loss provisions in the financial statements at 30 June 2006 on the above basis.

(ii) Contract claims and disputes

Certain claims arising out of engineering and construction contracts have been made against certain controlled entities in the ordinary course of business, some of which involve litigation or arbitration.

Estimates and assumptions regarding the likely outcome of these claims have been made and these have been recognised in the carrying value of assets and liabilities recorded in the financial report. In making these estimates and assumptions, legal opinion has been obtained as appropriate.

Although the Directors do not consider the outcome of these claims will have a material adverse affect on the financial position of the Group, there remains uncertainty until the final outcome of the litigation or arbitration is determined.

3 Critical accounting estimates and judgements (continued)

(b) Critical judgements in applying the entity's accounting policies

Profit recognition on construction contracts

Accounting for construction contracts involves making regular judgements due to the nature of construction contracts themselves. These judgements include the determination of the point at which a contract has progressed beyond its establishment and initial stages, and that it is appropriate to start recognising profits earned on the contract.

Refer to the Group's accounting policy note on construction contracts in Note 1(e)(ii) for further details.

4 Segment information

(a) Description of segments

Business segments

The consolidated entity comprises the following main business segments:

Oil & Gas

Provides both onshore and offshore turnkey services including complex design, procurement, construction, commissioning, operations and maintenance. Onshore capabilities incorporate processing facilities, pipelines, refineries and petrochemical plants. Offshore activities include installations in deep or shallow water and marginal fields ranging from moorings, flowlines, subsea systems and offshore platforms.

Minerals and Infrastructure

Provides engineering, construction, procurement, operations and maintenance services. Includes infrastructure capabilities in water, power, pipelines, transport, harbour works, buildings, waste management facilities and mine infrastructure. Other services and capabilities provided include contract mining, ore preparation, materials handling systems, process plant and equipment hire capabilities.

Property

Includes property development from residential land subdivision to commercial buildings.

Other

Includes costs for continuing businesses, net of other income and unallocated costs, assets and liabilities.

Geographical segments

The group operates in the main geographical areas of Australia and Asia.

4 Segment information (continued)

(b) Primary reporting format - business segments

2006	Oil & Gas \$'000	Minerals & Infrastructure \$'000	Property \$'000	Other \$'000	Consolidated \$'000
Sales to external customers	416,344	203,515	12,266	-	632,125
Shares of net profits of associates and jointly controlled entities	9,225	13,244	13,855	391	36,715
Other revenue/income	<u>8,361</u>	<u>3,036</u>	<u>7,500</u>	<u>2,777</u>	<u>21,674</u>
Total segment revenue/income	<u>433,930</u>	<u>219,795</u>	<u>33,621</u>	<u>3,168</u>	<u>690,514</u>
Segment result	<u>(48,603)</u>	<u>25,656</u>	<u>15,425</u>	<u>(3,195)</u>	<u>(10,717)</u>
Segment assets	<u>261,672</u>	<u>163,739</u>	<u>93,571</u>	<u>53,882</u>	<u>572,864</u>
Segment liabilities	<u>189,636</u>	<u>57,345</u>	<u>37,453</u>	<u>100,748</u>	<u>385,182</u>
Investments in associates and jointly controlled entities	<u>14,191</u>	<u>12,996</u>	<u>17,070</u>	<u>-</u>	<u>44,257</u>
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	<u>6,192</u>	<u>30,973</u>	<u>36</u>	<u>4,917</u>	<u>42,118</u>
Depreciation and amortisation expense	<u>2,980</u>	<u>9,975</u>	<u>10</u>	<u>2,158</u>	<u>15,123</u>
Other non-cash expenses	<u>12,230</u>	<u>74</u>	<u>-</u>	<u>711</u>	<u>13,015</u>
2005	Oil & Gas \$'000	Minerals & Infrastructure \$'000	Property \$'000	Other \$'000	Consolidated \$'000
Sales to external customers	288,113	154,555	17,501	-	460,169
Shares of net profits of associates and jointly controlled entities	5,248	1,805	6,040	534	13,627
Other revenue/income	<u>865</u>	<u>2,123</u>	<u>965</u>	<u>12,847</u>	<u>16,800</u>
Total segment revenue/income	<u>294,226</u>	<u>158,483</u>	<u>24,506</u>	<u>13,381</u>	<u>490,596</u>
Segment result	<u>(82,088)</u>	<u>7,137</u>	<u>9,143</u>	<u>11,756</u>	<u>(54,052)</u>
Segment assets	<u>204,271</u>	<u>122,415</u>	<u>38,111</u>	<u>55,101</u>	<u>419,898</u>
Segment liabilities	<u>134,879</u>	<u>40,987</u>	<u>3,227</u>	<u>65,366</u>	<u>244,459</u>
Investments in associates and jointly controlled entities	<u>13,271</u>	<u>2,021</u>	<u>14,906</u>	<u>511</u>	<u>30,709</u>
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	<u>1,027</u>	<u>21,232</u>	<u>28</u>	<u>1,359</u>	<u>23,646</u>
Depreciation and amortisation expense	<u>2,020</u>	<u>8,500</u>	<u>11</u>	<u>2,042</u>	<u>12,573</u>
Other non-cash expenses	<u>8,616</u>	<u>(748)</u>	<u>-</u>	<u>196</u>	<u>8,064</u>

(c) Secondary reporting format - geographical segments

	Segment revenues from sales to external customers		Segment assets		Acquisitions of property, plant and equipment, intangibles and other non- current segment assets	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Australia	102,096	118,409	227,712	184,868	7,701	1,674
Asia	500,888	332,187	341,340	230,561	34,395	21,954
Other countries	<u>29,141</u>	<u>9,573</u>	<u>3,812</u>	<u>4,469</u>	<u>22</u>	<u>18</u>
	<u>632,125</u>	<u>460,169</u>	<u>572,864</u>	<u>419,898</u>	<u>42,118</u>	<u>23,646</u>

5 Revenue

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
From continuing operations				
<i>Sales revenue</i>				
Construction projects	619,859	442,668	-	4,490
Property development	<u>12,266</u>	<u>17,501</u>	-	-
	<u>632,125</u>	<u>460,169</u>	-	<u>4,490</u>
<i>Other revenue</i>				
Rents	5	28	-	-
Interest income	1,225	2,013	-	132
Dividends	88	-	-	-
Fees from controlled entities	-	-	4,855	3,436
Other revenue	<u>7,697</u>	<u>2,256</u>	-	<u>107</u>
	<u>9,015</u>	<u>4,297</u>	<u>4,855</u>	<u>3,675</u>
	<u>641,140</u>	<u>464,466</u>	<u>4,855</u>	<u>8,165</u>

6 Other income

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Net gain on disposal of property, plant and equipment	2,655	575	-	-
Net gain on disposal of other non-current assets	8,685	11,928	-	14,542
Foreign exchange gains (net)	771	-	-	-
Other income	<u>548</u>	-	-	-
	<u>12,659</u>	<u>12,503</u>	-	<u>14,542</u>

7 Expenses

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Profit (loss) before income tax includes the following specific expenses:				
<i>Depreciation</i>				
Plant and equipment	10,729	11,497	1	9
Freehold and leasehold land and buildings	<u>135</u>	<u>92</u>	-	-
Total depreciation	<u>10,864</u>	<u>11,589</u>	<u>1</u>	<u>9</u>
<i>Amortisation</i>				
Plant and equipment under finance leases	3,154	99	-	-
Computer software	<u>1,105</u>	<u>885</u>	-	-
Total amortisation	<u>4,259</u>	<u>984</u>	-	-
<i>Write down of investments to recoverable amount</i>				
Write down of investment to recoverable amount	-	284	-	-
Impairment of investment in controlled entity *	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>-</u>
	<u>-</u>	<u>284</u>	<u>20,000</u>	<u>-</u>
<i>Finance costs</i>				
Interest and finance charges paid/payable	<u>6,431</u>	<u>3,046</u>	<u>4,855</u>	<u>2,978</u>
<i>Rental expense relating to operating leases</i>				
Minimum lease payments	<u>16,456</u>	<u>3,355</u>	-	-
<i>Foreign exchange gains and losses (net gain in 2006 - see note 6)</i>				
Net foreign exchange losses	<u>-</u>	<u>1,594</u>	-	-

* The impairment of an investment in a controlled entity has arisen as a result of a contract loss made by a subsidiary company.

8 Income tax expense

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Income tax expense				
Current tax	6,294	3,319	-	-
Deferred tax	(3,655)	(1,092)	-	(2)
Under (over) provided in prior years	(15)	183	-	-
	<u>2,624</u>	<u>2,410</u>	<u>-</u>	<u>(2)</u>
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (note 18)	(3,749)	91	-	(2)
(Decrease) increase in deferred tax liabilities (note 29)	94	(1,183)	-	-
	<u>(3,655)</u>	<u>(1,092)</u>	<u>-</u>	<u>(2)</u>
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit (loss) before income tax expense	<u>(10,717)</u>	<u>(54,052)</u>	<u>(20,010)</u>	<u>13,705</u>
	(10,717)	(54,052)	(20,010)	13,705
Tax at the Australian tax rate of 30% (2005 - 30%)	(3,215)	(16,216)	(6,003)	4,112
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Accounting profit on sale	(2,770)	(2,202)	-	(4,392)
Capital gain on sale	640	2,901	-	-
Dividends from share buy back	4,912	-	-	-
Exempt dividends received from overseas	-	(1,608)	-	-
Profits from incorporated equity accounted investments	(7,429)	(597)	-	-
Exchange loss translation adjustment	1,468	(733)	-	-
Rebateable dividends	-	(931)	-	-
Other sundry items	(248)	(1,293)	-	-
Impairment of investment in controlled entity	-	-	6,000	-
	<u>(6,642)</u>	<u>(20,679)</u>	<u>(3)</u>	<u>(281)</u>
Difference in overseas tax rates including withholding tax on foreign revenue	405	2,506	-	-
Under (over) provision in prior years	(15)	183	-	-
Deferred tax asset not recognised arising from tax losses	7,118	20,400	3	279
Deferred tax asset not recognised arising from temporary differences	1,200	-	-	-
Deferred tax assets/liabilities previously not recognised now brought into account	558	-	-	-
Income tax expense (benefit) attributable to profit (loss) from ordinary activities	<u>2,624</u>	<u>2,410</u>	<u>-</u>	<u>(2)</u>

8 Income tax expense (continued)

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax - debited (credited) directly to equity (note 32)	<u>116</u>	-	-	-
	<u>116</u>	-	-	-

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(d) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	<u>174,450</u>	156,284	<u>147,340</u>	142,809
Potential tax benefit at appropriate tax rates	<u>53,521</u>	46,885	<u>44,202</u>	42,843

	Consolidated		Parent	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(e) Unrecognised temporary differences				
Temporary differences relating to investments in subsidiaries for which deferred tax liabilities have not been recognised				
Foreign subsidiaries	<u>2,030</u>	-	-	-
Unrecognised deferred tax liabilities relating to the above temporary differences	<u>609</u>	-	-	-

(f) Tax consolidation legislation

Clough Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1 (f).

On adoption of the tax consolidation legislation the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Clough Limited.

For 30 June 2006, the entities have also entered into a draft tax funding agreement under which the wholly owned entities fully compensate Clough Limited for any current tax payable assumed and are compensated by Clough Limited for any current tax receivable and deferred tax assets (that are recognised) relating to unused tax losses or unused tax credits that are transferred to Clough Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current inter-company receivables.

9 Current assets - Cash and cash equivalents

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Cash at bank and on hand	34,860	44,821	11	2,709
Deposits at call	<u>18,776</u>	<u>20,087</u>	<u>-</u>	<u>-</u>
	<u>53,636</u>	<u>64,908</u>	<u>11</u>	<u>2,709</u>

(a) Cash at bank and on hand

Cash at bank includes an amount of \$29,562,000 (2005: \$28,617,000) bearing floating interest rates with a weighted average rate of 3.51% (2005: 3.01%).

(b) Deposits at call

The deposits are bearing floating interest rates with a weighted average rate of 3.94% (2005 - 2.28%).

(c) Fair value

The carrying amount for cash and cash equivalents equals the fair value.

10 Current assets - Receivables

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Net trade receivables				
Trade receivables	119,746	126,220	-	66
Provision for doubtful receivables	<u>(2,798)</u>	<u>(2,530)</u>	<u>-</u>	<u>-</u>
	<u>116,948</u>	<u>123,690</u>	<u>-</u>	<u>66</u>
Loans to controlled entities	-	-	56,742	51,271
Loans to associates and jointly controlled entities	1,817	4,599	-	1,250
Other debtors	39,571	14,838	-	-
Prepayments and deposits	<u>34,082</u>	<u>16,842</u>	<u>-</u>	<u>-</u>
	<u>192,418</u>	<u>159,969</u>	<u>56,742</u>	<u>52,587</u>

(a) Effective interest rates and credit risk

Information concerning the effective interest rate and credit risk of both current and non-current receivables is set out in the non-current receivables note (note 13).

11 Current assets - Work in progress

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Construction work in progress</i>				
Amounts due from customers for contract work	100,950	30,875	-	72
<i>Other inventories - Property developments</i>				
- at cost	38,609	21,314	-	-
<i>Spare parts</i>				
- at cost	5,880	4,595	-	-
	<u>145,439</u>	<u>56,784</u>	<u>-</u>	<u>72</u>

(a) Construction contracts

Retentions on construction contracts in progress included in trade debtors total \$5,210,000 (2005 - \$14,013,000). Total advances received in relation to construction contracts in progress amount to \$nil (2005 - \$7,924,000).

Amounts due to customers for contract work is detailed in note 25.

12 Derivative financial instruments

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current assets				
Forward foreign exchange contracts - cash flow hedges				
(b)	<u>286</u>	<u>-</u>	<u>-</u>	<u>-</u>

(a) Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards at 1 July 2005:

For the Group

A pre-tax net adjustment of a \$1,664,000 increase in net assets was recognised representing:

- the reclassification of foreign currency cash flow hedges under AASB 139 from deferred exchange gains and costs to equity and re-measurement to fair value of a net asset of \$1,664,000.

For the parent entity

There was no impact on the parent entity.

For further information refer to note 1(p) and section 4 of note 48.

(b) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates in accordance with the Group's financial risk management policies (refer to note 2).

(i) *Forward exchange contracts - cash flow hedges*

These contracts are hedging highly probable forecast purchases and receipts for the ensuing financial year. The contracts are timed to mature when payments are due under purchase agreements.

The cash flows are expected to occur at various dates within one year from the balance date. At balance date, the details of outstanding contracts are:

12 Derivative financial instruments (continued)

Sell US dollars	Buy Australian dollars		Average exchange rate	
	Total Value (AUD\$'000's)			
	2006	2005	2006	2005
Maturity				
0 - 12 months	-	47,104	-	0.7515
12 - 24 months	-	7,684	-	0.7483
Sell GBP sterling	Buy US dollars		Average exchange rate	
	Total Value (US\$'000's)			
Maturity				
0 - 12 months	-	10,386	-	1.8913
Sell Norwegian kroner	Buy US dollars		Average exchange rate	
	Total Value (US\$'000's)			
Maturity				
0 - 12 months	-	12,026	-	6.4311
Sell Danish kroner	Buy Australian dollars		Average exchange rate	
	Total Value (AUD\$'000's)			
Maturity				
0 - 12 months	-	12,887	-	4.3560
Sell Danish kroner	Buy Euro's		Average exchange rate	
	Total Value (Euro's'000's)			
Maturity				
0 - 12 months	-	4,554	-	7.4662
Sell Australian dollars	Buy Euro's		Average exchange rate	
	Total Value (Euro's'000's)			
Maturity				
0 - 12 months	-	3,692	-	0.5822
Sell US dollars	Buy Indian Rupees		Average exchange rate	
	Total Value (Ind Rup'000's)			
Maturity				
0 - 12 months	-	218,776	-	43.7551
Sell US dollars	Buy Euro's		Average exchange rate	
	Total Value (Euro's'000's)			
Maturity				
0 - 12 months	-	1,756	-	1.3039
Sell PNG kina	Buy Australian dollars		Average exchange rate	
	Total Value (AUD\$'000's)			
Maturity				
0 - 12 months	-	1,404	-	0.4078
Sell US dollars	Buy GBP Sterling		Average exchange rate	
	Total Value (GBP'000's)			
Maturity				
0 -12 months	2,285	-	1.7590	-

Amounts disclosed above represent currency bought measured at the contracted rate.

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.

12 Derivative financial instruments (continued)

Group

At balance date these contracts were assets of \$286,000 (2005 - \$2,013,000 classified in other receivables). In the year ended 30 June 2006:

- on the date of transition to AASB 132 and AASB 139 on 1 July 2005 assets were reclassified from other receivables and remeasured to \$1,664,000. An equivalent amount was reclassified to equity, net of tax; and
- a gain from the increase in fair value of the asset of \$286,000 arose.

During the year ended 30 June 2006 \$1,664,000 (2005 - nil) was removed from equity and included in work in progress.

Parent entity

There was no impact on the parent entity.

(c) Credit risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises with amounts receivable from unrealised gains on derivative financial instruments. At balance date \$286,000 is receivable (Australian dollar equivalents) for the Group from forward foreign exchange contracts (2005 - \$2,013,000).

13 Non-current assets - Receivables

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade receivable	10,516	10,334	-	-
Loans to controlled entities	-	-	139,179	143,760
Loans to associates and jointly controlled entities	906	750	-	-
Other loans	33	94	33	56
	<u>11,455</u>	<u>11,178</u>	<u>139,212</u>	<u>143,816</u>

(a) Fair values

The fair values and carrying values of non-current receivables of the Group are as follows:

	2006		2005	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
Trade receivables	10,516	10,516	10,334	10,334
Loans to associates and jointly controlled entities	906	906	750	750
Other receivables	33	33	94	94
	<u>11,455</u>	<u>11,455</u>	<u>11,178</u>	<u>11,178</u>

The Group's current and non-current receivables are non-interest bearing.

There is no significant concentration of credit risk with respect to current and non-current receivables.

14 Non-current assets - Investments accounted for using the equity method

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Shares in associates (note 41)	516	8,850	-	-
Interests in jointly controlled entities (note 42)	<u>43,741</u>	<u>21,859</u>	<u>-</u>	<u>-</u>
	<u>44,257</u>	<u>30,709</u>	<u>-</u>	<u>-</u>

15 Non-current assets - Available-for-sale financial assets

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
At beginning of year	-	-	-	-
Adjustment on adoption of AASB 132 and AASB 139	15,456	-	2	-
Additions	2,027	-	-	-
Disposals	(8,699)	-	-	-
Revaluation surplus taken to equity	<u>2,495</u>	<u>-</u>	<u>-</u>	<u>-</u>
At end of year	<u>11,279</u>	<u>-</u>	<u>2</u>	<u>-</u>

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Listed securities				
Equity securities	4,638	-	2	-
Unlisted securities				
Equity securities	<u>6,641</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>11,279</u>	<u>-</u>	<u>2</u>	<u>-</u>

(a) Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards of 1 July 2005:

- equity securities with a carrying amount of \$15,607,000 that were classified in the balance sheet under previous AGAAP as other financial assets were designated and re-classified as available-for-sale financial assets; and
- an adjustment of \$151,000 (pre-tax) was recognised. This represented an initial loss on remeasurement to fair value of assets that under previous AGAAP had been measured at cost.

For further information refer to note 1(o) and section 4 of note 48.

(b) Listed securities

Listed securities include listed convertible notes with a face value of \$1,027,207 and a fair value of \$2,495,000. The convertible notes have a fixed interest rate of 10% on the face amount and have a maturity date of 31 March 2007.

(c) Unlisted securities

Unlisted securities are traded in inactive markets. The unlisted securities have been carried at cost as the fair value cannot be reliably determined.

15 Non-current assets - Available-for-sale financial assets (continued)

(d) Non-current assets pledged as security

Refer to note 27 for information on non-current assets pledged as security by the parent entity or its controlled entities.

16 Non-current assets - Other financial assets

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Other listed securities				
Equity securities - at cost	-	3,613	-	2
Equity securities - at recoverable amount	-	5,353	-	-
	<u>-</u>	<u>8,966</u>	<u>-</u>	<u>2</u>
Other unlisted securities				
Equity securities	-	6,641	-	-
Shares in subsidiaries (note 40)	-	-	40,000	60,000
	<u>-</u>	<u>15,607</u>	<u>40,000</u>	<u>60,002</u>

Transition to AASB 132 and AASB 139

The Group has taken the exemption available under AASB 1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. At the date of transition to these standards on 1 July 2005, for the Group:

- equity securities with a carrying value of \$15,607,000 under previous AGAAP, were designated and re-classified as available-for-sale financial assets and measured at fair value of \$15,456,000 (refer to note 15).

17 Non-current assets - Property, plant and equipment

Consolidated	Freehold land and buildings \$'000	Plant and equipment \$'000	Leased plant & equipment \$'000	Total \$'000
At 1 July 2004				
Cost	1,536	170,887	-	172,423
Accumulated depreciation	(1,133)	(114,890)	-	(116,023)
Net book amount	<u>403</u>	<u>55,997</u>	<u>-</u>	<u>56,400</u>
Year ended 30 June 2005				
Opening net book amount	403	55,997	-	56,400
Additions	126	15,170	8,350	23,646
Acquisition of subsidiary	500	-	-	500
Disposals	-	(2,266)	-	(2,266)
Depreciation charge	(92)	(11,497)	(99)	(11,688)
Exchange differences	(396)	(3,954)	-	(4,350)
Closing net book amount	<u>541</u>	<u>53,450</u>	<u>8,251</u>	<u>62,242</u>
At 30 June 2005				
Cost	1,469	166,915	8,350	176,734
Accumulated depreciation	(928)	(113,465)	(99)	(114,492)
Net book amount	<u>541</u>	<u>53,450</u>	<u>8,251</u>	<u>62,242</u>

17 Non-current assets - Property, plant and equipment (continued)

Consolidated	Freehold land and buildings \$'000	Plant and equipment \$'000	Leased plant & equipment \$'000	Total \$'000
Year ended 30 June 2006				
Opening net book amount	541	53,450	8,251	62,242
Additions	3,405	19,225	15,874	38,504
Acquisition of subsidiary	113	711	-	824
Disposals	(7)	(5,913)	-	(5,920)
Depreciation charge	(135)	(10,729)	(3,154)	(14,018)
Exchange differences	25	2,439	239	2,703
Closing net book amount	<u>3,942</u>	<u>59,183</u>	<u>21,210</u>	<u>84,335</u>
At 30 June 2006				
Cost	8,576	163,726	24,383	196,685
Accumulated depreciation	<u>(4,634)</u>	<u>(104,543)</u>	<u>(3,173)</u>	<u>(112,350)</u>
Net book amount	<u>3,942</u>	<u>59,183</u>	<u>21,210</u>	<u>84,335</u>
Parent				
	Plant and equipment \$'000			
At 1 July 2004				
Cost	95			
Accumulated depreciation	<u>(52)</u>			
Net book amount	<u>43</u>			
Year ended 30 June 2005				
Opening net book amount	43			
Disposals	(11)			
Depreciation charge	<u>(9)</u>			
Closing net book amount	<u>23</u>			
At 30 June 2005				
Cost	38			
Accumulated depreciation	<u>(15)</u>			
Net book amount	<u>23</u>			
Year ended 30 June 2006				
Opening net book amount	23			
Disposals	(22)			
Depreciation charge	<u>(1)</u>			
Closing net book amount	<u>-</u>			
At 30 June 2006				
Cost	-			
Accumulated depreciation	<u>-</u>			
Net book amount	<u>-</u>			

(a) Non-current assets pledged as security

Refer to note 27 for information on non-current assets pledged as security by the parent entity and its controlled entities.

(b) Construction in progress

Included in consolidated plant and equipment are assets under construction totalling \$8,388,000 (2005: \$3,959,000).

18 Non-current assets - Deferred tax assets

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit or loss</i>				
Doubtful debts	221	273	-	-
Employee benefits	6,085	4,112	-	-
Provision for warranties and legal costs	1,641	1,646	-	-
Deferred revenue	77	133	-	-
Depreciable assets	326	1,626	2	2
Provision for audit fees	43	39	-	-
Unrealised foreign exchange gains/losses	2,168	4,503	-	-
Borrowing costs	123	71	-	-
Project accruals/provisions	5,734	2,087	-	-
Other accrued expenses	1,521	-	-	-
Provision for stock and raw materials	757	711	-	-
Tax losses *	<u>1,944</u>	<u>2,016</u>	<u>-</u>	<u>-</u>
	20,640	17,217	2	2
Set-off of deferred tax liabilities pursuant to set-off provisions (note 29)	<u>(4,211)</u>	<u>(4,537)</u>	<u>-</u>	<u>-</u>
Net deferred tax assets	<u>16,429</u>	<u>12,680</u>	<u>2</u>	<u>2</u>
Movements:				
Opening balance at 1 July	12,680	12,771	2	-
Credited (charged) to the income statement (note 8)	<u>3,749</u>	<u>(91)</u>	<u>-</u>	<u>2</u>
Closing balance at 30 June	<u>16,429</u>	<u>12,680</u>	<u>2</u>	<u>2</u>

* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

19 Non-current assets - Intangible assets

Consolidated	Computer software \$'000
At 1 July 2004	
Cost	4,523
Accumulated amortisation	<u>(578)</u>
Net book amount	<u>3,945</u>
Year ended 30 June 2005	
Opening net book amount	3,945
Additions	144
Amortisation charge	<u>(885)</u>
Closing net book amount	<u>3,204</u>
At 30 June 2005	
Cost	4,666
Accumulated amortisation	<u>(1,462)</u>
Net book amount	<u>3,204</u>
Year ended 30 June 2006	
Opening net book amount	3,204
Additions	3,614
Amortisation charge	<u>(1,105)</u>
Closing net book amount	<u>5,713</u>
At 30 June 2006	
Cost	8,280
Accumulated amortisation	<u>(2,567)</u>
Net book amount	<u>5,713</u>

20 Non-current assets - Other non-current assets

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Other assets	<u>7,617</u>	<u>2,617</u>	<u>-</u>	<u>-</u>

21 Current liabilities - Payables

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Trade creditors, advances and accruals	218,735	146,652	-	382
Other payables	<u>550</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>219,285</u>	<u>146,652</u>	<u>-</u>	<u>382</u>

22 Current liabilities - Interest bearing liabilities

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Secured				
Bank loans	62,741	46,000	50,924	46,000
Lease liabilities (note 38)	4,960	1,361	-	-
Other loans - related party *	1,286	-	1,286	-
Other loans	<u>200</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total secured current interest bearing liabilities	<u>69,187</u>	<u>47,361</u>	<u>52,210</u>	<u>46,000</u>
Unsecured				
Other interest bearing loans	<u>4,532</u>	<u>5,271</u>	<u>4,532</u>	<u>5,271</u>
Total unsecured current interest bearing liabilities	<u>4,532</u>	<u>5,271</u>	<u>4,532</u>	<u>5,271</u>
Total current interest bearing liabilities	<u>73,719</u>	<u>52,632</u>	<u>56,742</u>	<u>51,271</u>

* Further information relating to loans from related parties is set out in note 39.

(a) Interest rate risk exposures

Details of the Group's exposure to interest rate changes on interest bearing liabilities are set out in note 27.

(b) Fair value disclosures

Details of the fair value of interest bearing liabilities for the Group are set out in note 27.

(c) Security

Details of the security relating to each of the secured liabilities and further information on the bank loans are set out in note 27.

23 Current liabilities - Provisions

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Employee benefits	<u>15,342</u>	<u>11,376</u>	<u>-</u>	<u>-</u>

24 Current liabilities - Current tax liabilities

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Income tax	506	139	-	-

25 Current liabilities - Amounts due to customers for contract work

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amounts due to customers for contract work	12,902	17,729	-	-

26 Non-current liabilities - Payables

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Other payables	15,515	-	-	-

The fair value of other payables is equal to their carrying value.

Other payables relate to deferred contracted payments which are payable between July 2007 and September 2008. These payables have been discounted using a discount rate of 7.5%, being the incremental cost of borrowing.

27 Non-current liabilities - Interest bearing liabilities

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Secured				
Bank loans	1,100	-	-	-
Lease liabilities (note 38)	16,333	6,944	-	-
Other loans - related party *	7,500	-	7,500	-
Other loans	424	-	-	-
Total secured non-current interest bearing liabilities	<u>25,357</u>	<u>6,944</u>	<u>7,500</u>	<u>-</u>
Unsecured				
Other loans - related party *	15,000	-	15,000	-
Total unsecured non-current interest bearing liabilities	<u>15,000</u>	<u>-</u>	<u>15,000</u>	<u>-</u>
Total non-current interest bearing liabilities	<u>40,357</u>	<u>6,944</u>	<u>22,500</u>	<u>-</u>

* Further information relating to loans from related parties is set out in note 39.

(a) Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Bank loans	63,841	46,000	50,924	46,000
Lease liabilities	21,293	8,305	-	-
Other loans - related parties	8,786	-	8,786	-
Other loans	624	-	-	-
Total secured liabilities	<u>94,544</u>	<u>54,305</u>	<u>59,710</u>	<u>46,000</u>

(b) Assets pledged as security

Bank loans are provided by a syndicate of banks. Bank overdrafts and bank loans are secured by fixed, floating and mortgage charges over some of the consolidated entity's assets as well as legal assignment of certain revenues. Secured borrowings are repayable immediately if the consolidated entity defaults on payments of interest or principal, or is in breach of a financial undertaking for which no rectification period is granted. Financial undertakings differ between financial institutions and facilities.

Details on the security provided on loans from related parties is set out in note 39.

Lease liabilities are effectively secured as the rights to the leased assets recognised in the financial statements revert to the lessor in the event of default.

The carrying amounts of assets pledged as security for current and non-current interest bearing liabilities are:

27 Non-current liabilities - Interest bearing liabilities (continued)

	Notes	Consolidated		Parent	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Current					
<i>First mortgage, fixed and floating charge</i>					
Cash and cash equivalents	9	46,672	35,341	11	2,709
Receivables	10	156,954	68,572	56,742	52,587
Work in progress	11	121,730	26,900	-	72
Derivative financial instruments	12	286	-	-	-
Total current assets pledged as security		<u>325,642</u>	<u>130,813</u>	<u>56,753</u>	<u>55,368</u>
Non-current					
<i>Finance lease</i>					
Plant and equipment	17	21,210	8,251	-	-
<i>First mortgage, fixed and floating charge</i>					
Receivables - non-current	13	11,455	11,178	139,212	143,816
Available-for-sale financial assets	15	103	-	2	-
Other financial assets	16	-	8,966	40,000	60,002
Investments accounted for using the equity method	14	31,482	23,606	-	-
Other non-current assets	20	2,914	-	-	-
Property, plant and equipment	17	59,399	35,642	-	23
Intangible assets - computer software	19	5,713	3,204	-	-
		<u>111,066</u>	<u>82,596</u>	<u>179,214</u>	<u>203,841</u>
Total non-current assets pledged as security		<u>132,276</u>	<u>90,847</u>	<u>179,214</u>	<u>203,841</u>
Total assets pledged as security		<u>457,918</u>	<u>221,660</u>	<u>235,967</u>	<u>259,209</u>

(c) Financing arrangements

Unrestricted access was available at balance date to the following lines of credit:

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Credit standby arrangements				
Total facilities				
Borrowings	139,457	91,929	83,363	61,271
Bonds and guarantees	183,339	168,019	141,000	119,000
	<u>322,796</u>	<u>259,948</u>	<u>224,363</u>	<u>180,271</u>
Used at balance date				
Borrowings	114,076	59,576	79,242	51,271
Bonds and guarantees	93,081	112,931	93,081	99,636
	<u>207,157</u>	<u>172,507</u>	<u>172,323</u>	<u>150,907</u>
Unused at balance date				
Borrowings	25,381	32,353	4,121	10,000
Bonds and guarantees	90,258	55,088	47,919	19,364
	<u>115,639</u>	<u>87,441</u>	<u>52,040</u>	<u>29,364</u>

27 Non-current liabilities - Interest bearing liabilities (continued)

The credit standby arrangements above include the following bank loan facilities:

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Bank loan facilities				
Total facilities	80,050	56,000	54,000	56,000
Used at balance date	<u>63,841</u>	<u>46,000</u>	<u>50,924</u>	<u>46,000</u>
Unused at balance date	<u>16,209</u>	<u>10,000</u>	<u>3,076</u>	<u>10,000</u>

The weighted average interest rate on the bank loans is 7.54% (2005: 6.74%).

The banking facilities provided to Clough Limited by the Banking Syndicate are revolving debt facilities with no specific end date and are interest-only.

Each party to the Banking Syndicate reviews the facilities provided to Clough Limited at least annually in accordance with their own internal policies and procedures.

Bank Covenants

Clough Limited has breached a number of its banking covenants as a direct consequence of the financial implications of the BassGas dispute and the provision made in respect of the projects currently underway in India. Clough Limited's Banking Syndicate has been kept continuously informed of the status of the Company's non compliance and has acknowledged the breaches at the quarterly reporting dates through out the year. The Banking Syndicate has remained supportive of the Company throughout this time.

(d) Interest rate risk exposures

The following table sets out the Group's exposure to interest rate risk, including the contractual repricing dates and the effective weighted average interest rate by maturity periods.

2006	Floating interest rate \$'000	Fixed interest rate			Total \$'000
		1 year or less \$'000	Over 1 to 5 years \$'000	Over 5 years \$'000	
Bank loans (notes 22 and 27)	60,653	3,188	-	-	63,841
Other loans (notes 22 and 27)	9,410	4,532	15,000	-	28,942
Lease liabilities (notes 22, 27 and 38)	-	4,960	16,333	-	21,293
	<u>70,063</u>	<u>12,680</u>	<u>31,333</u>	<u>-</u>	<u>114,076</u>
Weighted average interest rate	7.49 %	9.53 %	9.45 %	-	%
2005	Floating interest rate \$'000	Fixed interest rate			Total \$'000
		1 year or less \$'000	Over 1 to 5 years \$'000	Over 5 years \$'000	
Bank loans (notes 22 and 27)	46,000	-	-	-	46,000
Other loans (notes 22 and 27)	-	5,271	-	-	5,271
Lease liabilities (notes 22, 27 and 38)	-	1,361	6,944	-	8,305
	<u>46,000</u>	<u>6,632</u>	<u>6,944</u>	<u>-</u>	<u>59,576</u>
Weighted average interest rate	6.74 %	7.67 %	8.00 %	-	%

27 Non-current liabilities - Interest bearing liabilities (continued)

(e) Fair value

The carrying amounts and fair values of interest bearing liabilities at balance date are:

	2006		2005	
	Carrying amount \$'000	Fair value \$'000	Carrying amount \$'000	Fair value \$'000
On-balance sheet				
<i>Non-traded financial liabilities</i>				
Bank loans	63,841	63,841	46,000	46,000
Other loans	28,942	28,942	5,271	5,271
Lease liabilities	21,293	21,293	8,305	8,305
	<u>114,076</u>	<u>114,076</u>	<u>59,576</u>	<u>59,576</u>

28 Non current liabilities - Non interest bearing liabilities

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Amounts due to controlled entities	-	-	2,537	48,189

Loans from related parties

Further information relating to loans to the parent entity is set out in note 39.

29 Non-current liabilities - Deferred tax liabilities

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
The balance comprises temporary differences attributable to:				
<i>Amounts recognised in profit or loss</i>				
Accrued revenue	2,148	2,521	-	-
Equity accounted investments	1,944	2,016	-	-
Interest receivable	1	-	-	-
Depreciable assets	38	-	-	-
Other	212	38	-	-
	<u>4,343</u>	<u>4,575</u>	<u>-</u>	<u>-</u>
<i>Amounts recognised directly in equity</i>				
Available-for-sale financial assets (note 32)	30	-	-	-
Cash flow hedges (note32)	86	-	-	-
	<u>116</u>	<u>-</u>	<u>-</u>	<u>-</u>
Set-off of deferred tax assets pursuant to set-off provisions (note 18)	(4,211)	(4,537)	-	-
Net deferred tax liabilities	<u>248</u>	<u>38</u>	<u>-</u>	<u>-</u>

29 Non-current liabilities - Deferred tax liabilities (continued)

Movements:

Opening balance at 1 July	38	1,221	-	-
Change on adoption of AASB 132 and AASB 139 (note 1)	454	-	-	-
Charged/(credited) to the income statement (note 8)	94	(1,183)	-	-
Charged/(credited) to equity (note 32)	<u>(338)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Closing balance at 30 June	<u>248</u>	<u>38</u>	<u>-</u>	<u>-</u>

30 Non-current liabilities - Provisions

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Employee benefits	4,694	6,721	-	-
Insurance claims	<u>2,614</u>	<u>2,228</u>	<u>-</u>	<u>-</u>
	<u>7,308</u>	<u>8,949</u>	<u>-</u>	<u>-</u>

**Insurance
claims
\$'000**

Consolidated - 2006

Non-current

Carrying amount at start of year	2,228
Additional provisions recognised	600
Payments from provisions	<u>(214)</u>
Carrying amount at end of year	<u>2,614</u>

31 Contributed equity

		Parent			Parent
		2006 Shares	2005 Shares	2006 \$'000	2005 \$'000
(a) Share capital					
Ordinary shares					
Fully paid					
		<u>510,232,225</u>	<u>480,232,225</u>	<u>130,232</u>	<u>115,512</u>
Date	Details	Number of shares	Issue price	\$'000	
1 July 2004	Opening balance	420,232,225		75,508	
11 November 2004	Shares issued to Murray & Roberts, net of issue costs	<u>60,000,000</u>	\$0.68	<u>40,004</u>	
30 June 2005	Balance	<u>480,232,225</u>		<u>115,512</u>	
1 July 2005	Opening balance	480,232,225		115,512	
11 November 2005	Shares issued to Murray & Roberts	30,000,000	\$0.50	<u>15,000</u>	
				130,512	
30 June 2006	Less: Transaction costs arising on share issue			<u>(280)</u>	
		<u>510,232,225</u>		<u>130,232</u>	

(b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(c) Dividend reinvestment plan

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Shares are issued under the plan at a 5% discount to the market price.

(d) Options

Information relating to Clough Limited's options, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 47.

(e) Domicile

The Company, incorporated in Australia, is a publicly listed company limited by shares. The Company is domiciled in Perth, Western Australia. The registered office of the Company is 6th Floor, 251 St George's Terrace, Perth WA 6000.

32 Reserves and retained profits

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
(a) Reserves				
Available-for-sale investments revaluation reserve	2,625	-	-	-
Hedging reserve - cash flow hedges	200	-	-	-
Share-based payments reserve	125	14	125	14
Foreign currency translation reserve	(5,163)	(10,206)	-	-
Capital reserve	720	720	477	477
	<u>(1,493)</u>	<u>(9,472)</u>	<u>602</u>	<u>491</u>

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Movements:				
<i>Available-for-sale investments revaluation reserve</i>				
Balance 1 July	-	-	-	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax (note 15)	(106)	-	-	-
Revaluation - gross (note 15)	2,655	-	-	-
Deferred tax (note 29)	(30)	-	-	-
Transfer to net profit - gross	151	-	-	-
Deferred tax (note 29)	(45)	-	-	-
Balance 30 June	<u>2,625</u>	-	-	-

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Movements:				
<i>Hedging reserve - cash flow hedges</i>				
Balance 1 July	-	-	-	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax (note 12)	1,165	-	-	-
Revaluation - gross (note 12)	286	-	-	-
Deferred tax (note 29)	(86)	-	-	-
Transfer to asset - gross	(1,664)	-	-	-
Deferred tax (note 29)	499	-	-	-
Balance 30 June	<u>200</u>	-	-	-

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Movements:				
<i>Share-based payments reserve</i>				
Balance 1 July	14	6	14	6
Option expense	111	8	111	8
Balance 30 June	<u>125</u>	<u>14</u>	<u>125</u>	<u>14</u>

32 Reserves and retained profits (continued)

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Movements:				
<i>Foreign currency translation reserve</i>				
Balance 1 July	(10,206)	-	-	-
Currency translation differences arising during the year	5,043	(10,206)	-	-
Balance 30 June	<u>(5,163)</u>	<u>(10,206)</u>	<u>-</u>	<u>-</u>

(b) Retained profits

Movements in retained profits were as follows:

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Balance 1 July	53,179	110,817	43,366	29,659
Net profit (loss) for the year	(15,077)	(57,638)	(20,010)	13,707
Increase in retained profits arising from transactions with minority interests	404	-	-	-
Balance 30 June	<u>38,506</u>	<u>53,179</u>	<u>23,356</u>	<u>43,366</u>

(i) Available-for-sale investments revaluation reserve

Changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale investments revaluation reserve, as described in note 1(o). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

(ii) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(p). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(iii) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(iv) Foreign currency translation reserve

Exchange differences arising on translation of foreign entities are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment in a foreign entity is disposed of.

33 Minority interest

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Interest in:				
Share capital	6,313	7,232	-	-
Reserves	(4,565)	(5,050)	-	-
Retained profits	<u>18,689</u>	<u>14,038</u>	<u>-</u>	<u>-</u>
	<u>20,437</u>	<u>16,220</u>	<u>-</u>	<u>-</u>

34 Dividends

No dividends were paid or declared during the year or subsequent to the year end (2005: Nil).

35 Key management personnel disclosures

(a) Directors

The following persons were directors of Clough Limited during the financial year:

(i) *Chairman - non-executive*

JM Clough

(ii) *Executive directors*

DPA Singleton, Managing Director & Chief Executive Officer

AJ Walsh, Chief Financial Officer

(iii) *Non-executive directors*

CM Anderson

BC Bruce

WH Clough

RM Harding

N Jorek

RW Kelly

RW Rees

MB Robinson

All of these persons were also directors during the year ended 30 June 2005, except for RW Rees who was appointed on 9 November 2005, RM Harding who was appointed on 30 May 2006 and BC Bruce and N Jorek who were appointed on 11 November 2004.

(b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the financial year:

<i>Name</i>	<i>Position</i>
ME Anderson	Group Manager - Project Execution
SR High	Chief Executive Officer - Services
DJ Kucan	Group Manager - HR & QHSE
PC Loots	Group General Counsel
IG Meares	Group Manager - Business Development
GL Miller	Chief Executive Officer - Infrastructure & Construction
S Rogers	Chief Executive Officer - Oil & Gas
JFB Sheridan	President Director - PT Petrosea Tbk
JE Tucker	General Manager - Property

All of the above persons were also key management personnel during the year ended 30 June 2005, except for S Rogers who commenced employment with the Clough Group on 23 May 2005, DJ Kucan who commenced employment with the Clough Group on 30 August 2004, PC Loots who commenced employment with the Clough Group on 8 September 2005 and IG Meares who commenced employment with the Clough Group on 22 February 2006. JFB Sheridan was appointed as President Director - PT Petrosea Tbk on 23 March 2005.

35 Key management personnel disclosures (continued)

(c) Key management personnel compensation

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short-term employee benefits	6,037,657	5,850,806	2,373,691	2,361,387
Post-employment benefits	555,899	356,079	133,596	115,808
Share-based payments	78,116	17,707	3,225	17,707
	<u>6,671,672</u>	<u>6,224,592</u>	<u>2,510,512</u>	<u>2,494,902</u>

(i) *Remuneration Policy*

The remuneration committee, consisting of three non-executive Directors, advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non-executive Directors.

Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance related bonuses, share-based payments and fringe benefits. Executive Directors and senior executives have the opportunity to qualify for participation in the Clough Incentive Scheme. The objective of the scheme is to align the interests of executives with those of shareholders through the payment of bonuses linked to pre-agreed targets and performance standards. The performance standards include earnings before interest and tax, order intake and operating cash flow. The potential bonus consists of a number of elements:

- Business Unit performance - A bonus percentage will be calculated on the basis of the Clough Group and Business Unit achieving all or some of its key performance indicators.
- Individual performance - A performance multiplier is calculated on the basis of individual performance.
- Stretch targets - A bonus percentage will be calculated if performance exceeds plan. These pre-agreed stretch targets are determined by the Bonus Review Committee whose members include the Chief Executive Officer, the Chief Financial Officer and the Group Human Resources Manager.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's diverse operations. Remuneration of non-executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

(ii) *Service Agreements*

Remuneration and other terms of employment for the Chief Executive Officer and the Chief Financial Officer are formalised in service agreements. Major provisions of the agreements relating to remuneration are set out below.

DPA Singleton, Chief Executive Officer

- Base package inclusive of superannuation, for the year ended 30 June 2006 of \$900,000, to be reviewed annually by the remuneration committee.
- An annual cash bonus of up to 100% of the salary package based on the achievement of agreed targets and objectives established by the Board in the first month of each financial year.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, if terminated within the first 12 months, twice the prevailing package. If terminated between 1 and 2 years, one and a half times the prevailing package. If terminated between 2 to 5 years, one times the prevailing package. If terminated after 5 years, one half times the prevailing package.

AJ Walsh, Chief Financial Officer

- Base package inclusive of superannuation, for the year ended 30 June 2006 of \$600,000, to be reviewed annually by the remuneration committee.

35 Key management personnel disclosures (continued)

- An annual cash bonus of up to 60% of the salary package based on the achievement of agreed targets and objectives established by the Board in the first month of each financial year.
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, if terminated within the first 12 months, twice the prevailing package. If terminated between 1 and 2 years, one and a half times the prevailing package. If terminated between 2 to 5 years, one times the prevailing package. If terminated after 5 years, one half times the prevailing package.

(d) Details of remuneration

Details of the remuneration of each director of Clough Limited and each of the other key management personnel of the Group, including their personally related entities, are set out in the following tables.

(i) Directors of Clough Limited

2006	Short-term benefits				Post-employment benefits	Share-based payments	Total
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Other \$	Super-annuation \$	Options \$	
CM Anderson	84,659	-	-	235	7,619	-	92,513
BC Bruce +	53,124	-	-	-	-	-	53,124
JM Clough	271,114	-	4,730	2,509	24,300	-	302,653
WH Clough	52,182	-	4,730	2,540	-	-	59,452
RM Harding *	14,167	-	-	20	1,275	-	15,462
N Jorek +	53,124	-	-	-	-	-	53,124
RW Kelly	69,318	-	-	-	6,239	-	75,557
RW Rees # +	53,124	-	-	-	-	-	53,124
MB Robinson	77,159	-	-	-	15,119	-	92,278
DPA Singleton	754,478	150,000	5,160	100,840	39,522	82	1,050,082
AJ Walsh	538,478	60,000	5,160	16,840	39,522	3,143	663,143
Total	2,020,927	210,000	19,780	122,984	133,596	3,225	2,510,512

2005	Short-term benefits				Post-employment benefits	Share-based payments	Total
	Cash salary and fees \$	Cash bonus \$	Non monet-ary benefits \$	Other \$	Super-annuation \$	Options \$	
CM Anderson	75,000	-	-	607	6,750	-	82,357
BC Bruce ^	-	-	-	-	-	-	-
JM Clough	270,000	-	4,920	3,134	24,300	-	302,354
WH Clough	29,000	-	4,920	2,614	-	-	36,534
N Jorek ^	-	-	-	-	-	-	-
RW Kelly	50,000	-	-	-	4,500	-	54,500
MB Robinson	75,000	-	-	-	6,750	-	81,750
DPA Singleton	759,066	299,700	4,920	99,260	36,754	744	1,200,444
AJ Walsh	530,413	120,000	4,920	27,913	36,754	16,963	736,963
Total	1,788,479	419,700	19,680	133,528	115,808	17,707	2,494,902

* RM Harding was appointed a director on 30 May 2006.

RW Rees was appointed a director on 9 November 2005.

+ The directors' fees for BC Bruce, N Jorek and RW Rees are paid to Murray & Roberts Limited.

^ BC Bruce and N Jorek were appointed as directors on 11 November 2004. No remuneration was paid to these directors during the year ended 30 June 2005.

35 Key management personnel disclosures (continued)

(ii) Other Key Management Personnel of the Group

2006	Short-term benefits				Post-employment benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non monetary benefits	Other	Super-annuation	Options	
Name	\$	\$	\$	\$	\$	\$	\$
ME Anderson	340,174	93,182	5,160	1,108	100,365	10,511	550,500
SR High	385,540	188,370	5,160	3,060	84,745	21,022	687,897
DJ Kucan	296,953	58,894	5,160	1,757	37,582	10,511	410,857
PC Loots *	197,566	37,500	4,300	939	17,776	1,314	259,395
IG Meares #	131,218	23,333	1,720	1,010	11,810	-	169,091
GL Miller	361,359	91,507	5,160	847	32,287	5,255	496,415
S Rogers	355,873	90,000	5,160	2,285	112,855	13,139	579,312
JFB Sheridan	402,330	60,000	-	177,297	-	13,139	652,766
JE Tucker	277,894	45,373	5,160	1,917	24,883	-	355,227
Total	2,748,907	688,159	36,980	190,220	422,303	74,891	4,161,460

2005	Short-term benefits				Post-employment benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non monetary benefits	Other	Super-annuation	Options	
Name	\$	\$	\$	\$	\$	\$	\$
PD Archer ~	284,419	-	4,715	3,367	26,595	-	319,096
ME Anderson	355,041	68,168	1,230	64,939	8,955	-	498,333
NV Hall >	701,832	17,400	4,305	3,952	34,691	-	762,180
SR High	366,500	230,600	4,920	4,530	91,845	-	698,395
DJ Kucan `	224,758	50,000	4,100	1,429	20,228	-	300,515
GL Miller	365,194	21,000	4,920	3,707	31,950	-	426,771
S Rogers ^	45,594	-	410	359	4,103	-	50,466
JFB Sheridan +	192,328	14,635	-	84,923	-	-	291,886
JE Tucker	221,598	131,366	4,920	2,260	21,904	-	382,048
Total	2,757,264	533,169	29,520	169,466	240,271	-	3,729,690

* PC Loots commenced employment with the Clough Group on 8 September 2005.

IG Meares commenced employment with the Clough Group on 22 February 2006.

^ S Rogers commenced employment with the Clough Group on 23 May 2005.

` DJ Kucan commenced employment with the Clough Group on 30 August 2004.

~ PD Archer resigned from the Clough Group leaving on 17 June 2005.

> NV Hall's employment with the Clough Group was terminated on 19 May 2005. NV Hall received a termination payment of \$315,375 which included unused annual leave and long service leave and is included in cash salary and fees.

+ JFB Sheridan was appointed as President Director - PT Petrosea Tbk on 23 March 2005.

(iii) Share-based compensation - options

Options are granted under the Clough Limited Executive Option Plan which was approved by special resolution at the annual general meeting of the Company held on 16 November 1998. The Board of Directors of the Company determines the eligibility of executives and their entitlement having regard to, amongst other things, the performance and future potential contribution of each executive. Participation by Executive Directors is subject to prior approval of a general meeting of the Company.

The maximum number of shares that can be issued or acquired under the Plan is 0.5% of the number of issued shares in the Company in each year from the commencement of the Plan. If less than 0.5% is issued or acquired in one year, the remainder can be added to issues in subsequent years.

35 Key management personnel disclosures (continued)

The Company believes it is appropriate that the options be subject to suitable performance criteria. This may involve setting the exercise price of options above the current market price of the shares in the Company, or it may involve imposing performance conditions that must be satisfied before the options can be exercised. The Board will review and set the performance criteria attaching to options, as it considers appropriate. The exercise price of options as a minimum must not be less than the market price of shares in the Company at the time the options were granted.

The rules of the Plan permit the Directors, in their discretion, to provide loans to executives to assist them in meeting the exercise price payable on the exercise of options. Options will only be exercisable between 3 and 6 years after they are granted. Any options not exercised during that time will lapse.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Vesting date	Exercise price	Value per option at grant date	Date exercisable
11 June 2003	01/07/05	\$1.00	\$0.001	11/06/07 - 11/06/08
11 June 2003	01/07/06	\$1.25	\$-	11/06/07 - 11/06/08
11 June 2003	01/07/07	\$1.50	\$-	01/07/07 - 11/06/08
14 November 2003	26/09/05	\$1.17	\$0.019	14/11/07 - 14/11/08
14 November 2003	26/09/06	\$1.42	\$0.006	14/11/07 - 14/11/08
14 November 2003	26/09/07	\$1.67	\$0.002	14/11/07 - 14/11/08
17 November 2005	17/11/08	\$0.39	\$0.128	17/11/08 - 17/11/11

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share in Clough Limited.

(e) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration

Details of options over ordinary shares in the company provided as remuneration to each director of Clough Limited and other key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Clough Limited. Further information on the options is set out in note 47.

Name	Number of options granted during the year	Number of options vested during the year
Directors of Clough Limited		
No options were issued to Directors of Clough Limited during the year.		
Other key management personnel of the Group		
ME Anderson	400,000	-
SR High	800,000	-
DJ Kucan	400,000	-
PC Loots	50,000	-
GL Miller	200,000	-
S Rogers	500,000	-
JFB Sheridan	500,000	-

No options were issued under the Clough Limited Executive Option Plan during the year ended 30 June 2005.

The assessed fair value at grant date of options granted to directors and other key management personnel is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and expected life, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

35 Key management personnel disclosures (continued)

- (a) options are granted for no consideration, have a six year life and are exercisable at any time between the vesting date and the expiry date
- (b) exercise price: \$0.39
- (c) grant date: 17 November 2005
- (d) vesting date: 17 November 2008
- (e) expiry date: 17 November 2011
- (f) expected exercise date: 17 May 2009
- (g) share price at grant date: \$0.38
- (h) expected price volatility of the company's shares: 38%
- (i) expected dividend yield: 0%
- (j) risk-free interest rate: 5.25%

(ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Clough Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2006						
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested at the end of the year
Directors of Clough Limited						
DPA Singleton	5,000,000	-	-	-	5,000,000	3,000,000
AJ Walsh	3,000,000	-	-	-	3,000,000	1,800,000
Other key management personnel of the Group						
ME Anderson	-	400,000	-	-	400,000	-
SR High	-	800,000	-	-	800,000	-
DJ Kucan	-	400,000	-	-	400,000	-
PC Loots	-	50,000	-	-	50,000	-
GL Miller	-	200,000	-	-	200,000	-
S Rogers	-	500,000	-	-	500,000	-
JFB Sheridan	50,000	500,000	-	(50,000)	500,000	-

2005						
Name	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested at the end of the year
Directors of Clough Limited						
DPA Singleton	5,000,000	-	-	-	5,000,000	2,000,000
AJ Walsh	3,000,000	-	-	-	3,000,000	1,200,000
Other key management personnel of the Group						
ME Anderson	50,000	-	-	(50,000)	-	-
JFB Sheridan	50,000	-	-	-	50,000	50,000

(iii) Share holdings

The numbers of shares in the company held during the financial year by each director of Clough Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

35 Key management personnel disclosures (continued)

2006				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Clough Limited				
Ordinary shares				
JM Clough, WH Clough & families through McRae Investments Pty Ltd	166,280,208	-	(60,000,000)	106,280,208
CM Anderson	75,000	-	-	75,000
RW Kelly	100,000	-	-	100,000
MB Robinson	53,363	-	-	53,363
BC Bruce, N Jorek and RW Rees through Zero Nominees Pty Ltd ^	144,781,445	-	90,568,555	235,350,000
Other key management personnel of the Group				
Ordinary shares				
ME Anderson	30,788	-	-	30,788
SR High	-	-	300,000	300,000
JE Tucker	7,308	-	-	7,308
2005				
Name	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
Directors of Clough Limited				
Ordinary shares				
JM Clough, WH Clough & families through McRae Investments Pty Ltd	226,280,208	-	(60,000,000)	166,280,208
CM Anderson	75,000	-	-	75,000
RW Kelly	100,000	-	-	100,000
MB Robinson	53,363	-	-	53,363
BC Bruce and N Jorek through Zero Nominees Pty Ltd ^	-	-	144,781,445	144,781,445
Other key management personnel of the Group				
Ordinary shares				
ME Anderson	30,788	-	-	30,788
NV Hall	2,027	-	(2,027)	-
MJ Goddard	53,009	-	(53,009)	-
JFB Sheridan	128,579	-	(128,579)	-
JE Tucker	7,308	-	-	7,308

^ BC Bruce, N Jorek and RW Rees are directors of Murray & Roberts Holdings Limited which holds shares in Clough Limited through Zero Nominees Pty Ltd.

(f) Other transactions with key management personnel

(i) Directors of Clough Limited

A director, Mr MB Robinson, is a consultant and a former partner in the firm of Allens Arthur Robinson, Lawyers. Allens Arthur Robinson has provided legal services to Clough Engineering Limited for fees totalling \$1,019 (2005: \$378,932) These services were provided on normal commercial terms and conditions.

(ii) Transactions with director related entities

Refer to note 39 for details of loans with director related entities.

36 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
<i>Audit services</i>				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i> *	655,706	367,000	-	-
Related practices of PricewaterhouseCoopers Australian firm	171,151	146,951	-	-
Non-PricewaterhouseCoopers audit firms for the audit or review of financial reports of any entity in the Group	<u>27,509</u>	<u>46,624</u>	-	-
Total remuneration for audit services	<u>854,366</u>	<u>560,575</u>	-	-
<i>Other services</i>				
PricewaterhouseCoopers Australian firm				
Provision of financial reporting package including on-going support	20,896	50,780	-	-
Taxation services	4,550	-	-	-
Review of internal audit function	-	20,000	-	-
AIFRS training session	-	3,000	-	-
Related practices of PricewaterhouseCoopers Australian firm				
Taxation services	58,183	128,415	-	-
Other auditors of subsidiaries				
Taxation services	<u>13,347</u>	<u>21,741</u>	-	-
Total remuneration for other services	<u>96,976</u>	<u>223,936</u>	-	-

* Included in audit fees paid to PricewaterhouseCoopers Australian firm is an amount of \$75,000 (2005: \$nil) for the consolidated entity for the transition to Australian equivalents of International Financial Reporting Standards.

37 Contingencies

(a) Contingent liabilities

Claims

Certain claims arising out of engineering and construction contracts have been made by or against certain controlled entities in the ordinary course of business, some of which involved litigation or arbitration. At this stage it is not possible to reliably estimate the maximum exposures under these claims.

The Directors do not consider the outcome of these claims will have any material adverse affect on the financial position of the consolidated entity.

Origin and its Joint Venture partners have raised a claim of \$90 million against the Group. The Group has a counter claim against Origin and its Joint Venture partners for an amount of \$96 million. The Directors believe that they have adequately provided for any potential losses arising as a result of this dispute, which is expected to be determined through arbitration. The arbitration is scheduled to commence in the second half of calendar year 2006 and is expected to be concluded in 2007.

38 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Property, plant and equipment</i>				
Payable:				
Within one year	<u>5,360</u>	-	-	-

(b) Lease commitments : Group company as lessee

(i) Operating leases

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	23,563	1,417	-	-
Later than one year but not later than five years	44,660	4,213	-	-
Later than five years	<u>3,574</u>	<u>4,212</u>	-	-
Commitments not recognised in the financial statements	<u>71,797</u>	<u>9,842</u>	-	-

The above relates to operating lease commitments in respect of land and buildings and plant and equipment used for trading purposes.

In the opinion of the Directors, the above commitments could all be relieved by suitable sub-lease arrangements if required.

(ii) Finance leases

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Commitments in relation to finance leases are payable as follows:				
Within one year	6,676	1,951	-	-
Later than one year but not later than five years	18,919	2,270	-	-
Later than five years	-	<u>5,799</u>	-	-
Minimum lease payments	<u>25,595</u>	10,020	-	-
Future finance charges	<u>(4,302)</u>	<u>(1,715)</u>	-	-
Recognised as a liability	<u>21,293</u>	<u>8,305</u>	-	-
Representing lease liabilities:				
Current (note 22)	4,960	1,361	-	-
Non-current (note 27)	<u>16,333</u>	<u>6,944</u>	-	-
	<u>21,293</u>	<u>8,305</u>	-	-

The weighted average interest rate implicit in the leases is 8.94% (2005 - 8%).

39 Related party transactions

(a) Parent entity

The ultimate parent entity within the Group is Clough Limited.

(b) Subsidiaries

Interest in subsidiaries are set out in note 40.

(c) Key management personnel compensation

Disclosures relating to key management personnel compensation are set out in note 35.

(d) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

(i) Loan transactions and balances

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
Loans from entities related to key management personnel disclosed in notes 22 and 27 comprise:				
Secured loan - Thorncliffe Investments Pty Ltd	8,785,714	-	8,785,714	-
Unsecured loan - Murray & Roberts International Limited	<u>15,000,000</u>	-	<u>15,000,000</u>	-
	<u>23,785,714</u>	-	<u>23,785,714</u>	-
Loans received				
Secured loan - Thorncliffe Investments Pty Ltd	9,000,000	-	9,000,000	-
Unsecured loan - Murray & Roberts International Limited	<u>15,000,000</u>	-	<u>15,000,000</u>	-
	<u>24,000,000</u>	-	<u>24,000,000</u>	-
Loan repayments made				
Secured loan - Thorncliffe Investments Pty Ltd	<u>214,286</u>	-	<u>214,286</u>	-
Interest expense on loans				
Secured loan - Thorncliffe Investments Pty Ltd	583,092	-	583,092	-
Unsecured loan - Murray & Roberts International Limited	<u>871,233</u>	-	<u>871,233</u>	-
	<u>1,454,325</u>	-	<u>1,454,325</u>	-

Secured loan - Thorncliffe Investments Pty Ltd

The directors, Mr WH Clough and Mr JM Clough, are directors and shareholders of Thorncliffe Investments Pty Ltd. A loan agreement was entered into between Thorncliffe Investments Pty Ltd, Clough Projects Pty Ltd and Clough Limited dated 28 October 2005 whereby Thorncliffe Investments Pty Ltd agreed to provide a short-term loan to Clough Projects Pty Ltd of \$9 million for general working capital purposes. The loan was drawn down on 28 October 2005. Under the agreement, interest on the loan was payable at the rate of 9.87% per annum. Clough Limited provided a guarantee for the repayment of the loan.

39 Related party transactions (continued)

A new loan agreement, replacing the original loan agreement entered into on 28 October 2005, was entered into on 6 April 2006 between Thorncliffe Investments Pty Ltd, Clough Projects Pty Ltd and Clough Limited. Thorncliffe Investments Pty Ltd agreed to provide a loan to Clough Projects Pty Ltd of \$9 million for general working capital purposes. Under the agreement, interest on the loan was payable at the rate of the aggregate of the AUD 1 Year Bank Bill Swap Reference rate quoted on the first day of the relevant interest period plus 4% per annum. The loan is repayable over a period of 84 months commencing on the first day of the month immediately following the date the loan is first drawn. Clough Limited provided a guarantee for the repayment of the loan. In addition, Thorncliffe Investments Pty Ltd has taken out a mortgage over the shares held by Clough Java Offshore Pte Ltd in Clough Singapore Constructor Pte Ltd, a fixed and floating charge over the assets of Clough Java Offshore Pte Ltd and a first mortgage over the Java Constructor vessel.

Unsecured loan - Murray & Roberts International Limited

Murray & Roberts International Limited is a subsidiary of Murray & Roberts Holdings Limited. Mr BC Bruce, Mr N Jorek and Mr RW Rees are directors of Murray & Roberts Holdings Limited, and Murray & Roberts Holdings Limited is a substantial shareholder in Clough Limited through Zero Nominees Pty Ltd.

A loan agreement was entered into between Murray & Roberts International Limited and Clough Limited on 7 October 2005 for an unsecured loan of \$15 million with a minimum drawdown of \$3 million. The loan was fully drawn down on 18 November 2005.

Interest on the loan is payable monthly in arrears and the interest rate is 10% per annum. Clough Limited must repay the loan before the Second Share Placement. The Second Share Placement is defined as being the issue by Clough Limited of 30,000,000 ordinary shares to Murray & Roberts International Limited or a related entity to take place on the earlier of:

- (a) the second anniversary of the First Share Placement which took place on 11 November 2005; and
- (b) the sixty-first day following an announcement by Clough Limited to the Australian Stock Exchange Limited confirming the full and final settlement of the BassGas dispute with Origin Energy Limited, but in any event no later than 10 November 2007.

Clough Limited was required to pay an arrangement fee of \$75,000 on execution of the loan agreement. Clough Limited has provided an indemnity to Murray & Roberts International Limited for all losses incurred in connect with an event of default.

(e) Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
<i>Revenue - Provision of services</i>				
Associates	1,128,905	191,000	-	-
Jointly controlled entities	<u>30,538,893</u>	<u>12,161,978</u>	-	-
	<u>31,667,798</u>	<u>12,352,978</u>	-	-
 <i>Purchases of goods</i>				
Purchases from associates	4,547,083	1,891,837	-	-
Purchases from jointly controlled entities	<u>1,694,424</u>	<u>7,693,269</u>	-	-
	<u>6,241,507</u>	<u>9,585,106</u>	-	-

39 Related party transactions (continued)

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
<i>Loans to related parties</i>				
Loans advanced to:				
Subsidiaries	-	-	46,543,009	76,654,073
Associates	600,000	-	-	-
Jointly controlled entities	757,866	2,149,250	-	-
	<u>1,357,866</u>	<u>2,149,250</u>	<u>46,543,009</u>	<u>76,654,073</u>
Loan repayments from:				
Associates	(1,850,000)	-	-	-
Jointly controlled entities	(2,290,243)	(251,118)	-	-
	<u>(4,140,243)</u>	<u>(251,118)</u>	<u>-</u>	<u>-</u>
<i>Interest revenue</i>				
Subsidiaries	-	-	4,855,104	2,978,200
	<u>-</u>	<u>-</u>	<u>4,855,104</u>	<u>2,978,200</u>

(f) Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
<i>Current receivables (provision of services)</i>				
Associates	334,371	-	-	-
Jointly controlled entities	4,835,181	9,485,325	-	-
	<u>5,169,552</u>	<u>9,485,325</u>	<u>-</u>	<u>-</u>
<i>Current receivables (loans)</i>				
Subsidiaries	-	-	56,742,000	51,271,000
Associates	-	1,250,000	-	1,250,000
Jointly controlled entities	1,816,873	3,349,250	-	-
	<u>1,816,873</u>	<u>4,599,250</u>	<u>56,742,000</u>	<u>52,521,000</u>
<i>Non-current receivables (loans)</i>				
Subsidiaries	-	-	139,179,377	143,759,451
Associates	155,727	-	-	-
Jointly controlled entities	750,000	750,000	-	-
	<u>905,727</u>	<u>750,000</u>	<u>139,179,377</u>	<u>143,759,451</u>
<i>Current payables (provision of services)</i>				
Associates	-	640,790	-	-
Jointly controlled entities	2,433,137	463,581	-	-
	<u>2,433,137</u>	<u>1,104,371</u>	<u>-</u>	<u>-</u>
<i>Non-current payables (loans)</i>				
Subsidiaries	-	-	2,537,269	48,189,352
	<u>-</u>	<u>-</u>	<u>2,537,269</u>	<u>48,189,352</u>

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

39 Related party transactions (continued)

(g) Guarantees

The following guarantees have been given:

	Consolidated		Parent	
	2006	2005	2006	2005
	\$	\$	\$	\$
Guarantee of portion of the overdraft facility provided to jointly controlled entities	750,000	3,650,000	750,000	3,650,000
Guarantee of portion of the overdraft facility provided to an associated entity	-	500,000	-	500,000
Guarantee of banking facilities provided to PT Petrosea Tbk #	52,574,818	51,315,789	52,574,818	51,315,789
Guarantee of bonding facility provided to overseas subsidiary	-	<u>1,336,364</u>	-	<u>1,336,364</u>
	<u>53,324,818</u>	<u>56,802,153</u>	<u>53,324,818</u>	<u>56,802,153</u>

As at 30 June 2006, the utilisation of the banking facility provided to PT Petrosea Tbk was \$5,103,000 (2005: \$9,644,000).

40 Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Note	Equity holding *	
			2006 %	2005 %
Clough Limited			-	-
Asia Offshore Services Pte Ltd	Singapore	(i)	100	100
C Engineering Concepts Pty Ltd	Australia	(v)	100	100
Challenge Insurance Pte Ltd	Singapore	(ii)	100	100
Clo Pty Ltd	Australia	(v)	100	100
Clough Construction Queensland Pty Ltd	Australia		100	100
Clough Developments Pty Ltd	Australia	(v)	100	100
Clough Engineering Limited	Australia	(viii)	100	100
Clough Engineering & Integrated Solutions (CEIS) Pty Ltd	Australia		100	100
Clough International Singapore Pte Ltd	Singapore	(i)	100	100
Clough Investments (ESOP) Pty Ltd	Australia	(v)	100	100
Clough Investment Holdings Pty Ltd	Australia	(v)	100	100
Clough Java Offshore Pte Ltd	Singapore	(i)	100	100
Clough Malaysia Sdn Bhd	Malaysia	(ii)	100	100
Clough Mining & Minerals Pty Ltd	Australia	(v)	100	100
Clough Mining Pty Ltd	Australia	(v)	100	100
	Papua New Guinea			
Clough Niugini Limited	Guinea	(ii)	100	100
Clough Oil & Gas India Private Ltd	India	(i)	100	100
Clough Operations Pty Ltd	Australia		100	100
Clough Overseas Pty Ltd	Australia		100	100
Clough Petrosea Pte Ltd	Singapore	(i)	100	100
Clough Petrosea Pty Ltd	Australia	(v)	100	100
Clough (Portugal) - Comércio Marítimo, Sociedade Unipessoal, Lda	Portugal	(v)	100	100
Clough Project Holdings Pty Ltd	Australia		100	100
Clough Projects Australia Pty Ltd	Australia		100	100
Clough Projects International Pty Ltd	Australia		100	100
Clough Projects Pty Ltd	Australia		100	100
Clough Property Beaconsfield Pty Ltd	Australia	(v)	100	100
Clough Property Beveridge Pty Ltd	Australia	(v),(vii)	100	-
Clough Property Brookwater Pty Ltd	Australia	(v),(vii)	100	-
Clough Property Bunbury Pty Ltd	Australia	(v),(vii)	100	-
Clough Property Claremont Pty Ltd	Australia	(v)	100	100
Clough Property Claremont Pty Ltd	Australia	(v)	100	100
Clough Property Dolphin Point Pty Ltd	Australia	(v),(vii)	100	-
Clough Property East Coast Pty Ltd	Australia	(v)	100	100
Clough Property Geelong Pty Ltd	Australia	(v)	100	100
Clough Property Holdings Pty Ltd	Australia		100	100
Clough Property Hook Close Pty Ltd	Australia	(v)	100	100
Clough Property Investments Pty Ltd	Australia	(v)	100	100
Clough Property Lyndhurst Pty Ltd	Australia	(v)	100	100
Clough Property Mernda Pty Ltd	Australia	(v)	100	100
Clough Property Nambelup Pty Ltd	Australia	(v),(vii)	100	-
Clough Property Ranford Road Pty Ltd	Australia	(v)	100	100
Clough Property Ravenswood Pty Ltd	Australia	(v)	100	100
Clough Property South Street Pty Ltd	Australia	(v),(vii)	100	-
Clough Property Southern River Pty Ltd	Australia	(v),(vii)	100	-
Clough Property Yunderup Pty Ltd	Australia	(v),(vii)	100	-
Clough Regional Pty Ltd	Australia	(v)	100	100
Clough Resources Pty Ltd	Australia	(v)	100	100
Clough Singapore Constructor Pte Ltd	Singapore	(i),(vii)	100	-

40 Subsidiaries (continued)

Clough (Spare No. 1) Pty Ltd	Australia	(v)	100	100
Clough (Thailand) Co., Ltd	Thailand	* (ii),(iv)	49	49
Clough UK Limited	Scotland	(i)	100	100
Clough USA Inc.	USA	(vii)	100	-
Clough Walker Civil Pty Ltd	Australia	(v)	100	100
Eclo Pty Ltd	Australia	(v)	100	100
Global Nippo Pte Ltd	Singapore	(i)	100	100
Llic Limited	Hong Kong	(ii)	100	100
MPA Energy Services Pty Ltd	Australia	(vi)	100	50
PT Clough	Indonesia	(ii)	100	100
PT Petrosea Tbk	Indonesia	(ii),(iii)	79	82
PTP Investments Pte Ltd	Indonesia	(vii)	79	-

* The proportion of ownership interest is equal to the proportion of voting power held.

- (i) Company is audited by another firm other than PricewaterhouseCoopers.
- (ii) Company is audited by an overseas PricewaterhouseCoopers firm.
- (iii) PT Petrosea Tbk is a public company listed on the Jakarta Stock Exchange.
- (iv) Controlled entity due to a substantial shareholding and control of the Board of Directors.
- (v) Controlled entity not audited as it is a small proprietary company.
- (vi) Controlled entity acquired during the year.
- (vii) Controlled entity incorporated during the year.
- (viii) Clough Limited has given an undertaking to provide sufficient assistance to the company to continue operations and fulfil all of its financial obligations for the period ending 31 October 2008.

Acquisition of controlled entities

On 1 January 2006, Clough Operations Pty Ltd acquired the remaining 50% of the issued share capital of MPA Energy Services Pty Ltd for \$1.3 million.

The operating results of the newly controlled entity have been included in the consolidated income statement since acquisition date. This acquisition is not material to the Clough Group.

41 Investments in associates

(a) Carrying amounts

Information relating to associates is set out below.

Name of company	Principal activity	Ownership interest		Consolidated		Parent	
		2006 %	2005 %	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Unlisted</i>							
HR Connect Pty Ltd	Personnel recruitment	-	33.33	-	511	-	-
Landrow Limited	Property development	-	49.50	-	7,984	-	-
PT Tirta Kencana Cahaya Mandiri	Operation and management of water treatment plant	47	47	516	<u>355</u>	<u>-</u>	<u>-</u>
				516	<u>8,850</u>	<u>-</u>	<u>-</u>

Each of the above associates is incorporated in Australia apart from PT Tirta Kencana Cahaya Mandiri which is incorporated in Indonesia.

41 Investments in associates (continued)

	Consolidated	
	2006	2005
	\$'000	\$'000
(b) Movements in carrying amounts		
Carrying amount at the beginning of the financial year	8,850	8,564
Share of profits after income tax	8,749	2,322
Dividends received/receivable	(441)	(636)
Interests in associates acquired	377	164
Interests in associates sold	(17,019)	(1,564)
Carrying amount at the end of the financial year	<u>516</u>	<u>8,850</u>
(c) Share of associates' profits or losses		
Profit before income tax	9,640	3,002
Income tax expense	(891)	(680)
Profit after income tax	<u>8,749</u>	<u>2,322</u>

The profit after tax includes an amount of \$8,189,000 from Landrow Limited. This entity was sold on 30 June 2006.

42 Interests in jointly controlled entities

The interests in the following jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting (refer to notes 14 and 16). Information relating to the jointly controlled entities is set out below.

Name and principal activity	Notes	Ownership interest		Carrying value of investment			
		2006	2005	Consolidated		Parent	
				2006	2005	2006	2005
				\$'000	\$'000	\$'000	\$'000
Incorporated joint ventures							
Al Bilad S&B Clough, Ltd Engineering and construction	(vii)	50 %	50 %	1,563	325	-	-
Clough Amec Pty Ltd Operations and maintenance asset management services to the oil and gas sector.	(iv)	50 %	-	435	-	-	-
Clough Sino-Thai Co Ltd Engineering and construction	(viii)	50 %	50 %	10,893	1,235	-	-
Covus Corporation Pty Ltd Subsea engineering	(ii),(v)	-	72.73 %	-	4,274	-	-
Elclough Pty Ltd Property Manager		50 %	50 %	-	-	-	-
Harbourworks Clough Contracting Pty Ltd	(ii),(iv), (xii)	51 %	-	-	-	-	-
Mashhor Clough Sdn Bhd Offshore pipeline installation	(i), (ix)	50 %	50 %	89	89	-	-
Mermaid Clough Pty Ltd Shallow water pipeline installation		50 %	50 %	222	97	-	-
MPA Energy Services Pty Ltd Operations and maintenance	(iii)	100 %	50 %	-	1,374	-	-
Shedden Uhde Pty Ltd Engineering and construction	(vi)	50 %	50 %	9,656	4,768	-	-

42 Interests in jointly controlled entities (continued)

Unincorporated joint ventures

Airlie Beach Joint Venture Property development		50 %	50 %	2,562	2,164	-	-
Aker Clough Joint Venture Hook-up and commissioning of offshore gas facilities		50 %	50 %	-	-	-	-
Aker Kvaerner Clough Murray & Roberts Joint Venture Engineering, procurement and construction management of processing facilities for the Boddington Gold Mine	(iv),(xii)	19.5 %	- %	-	-	-	-
Boulderstone Clough Joint Venture Operations and maintenance of inner-city freeway system		50 %	50 %	82	34	-	-
Clough Aker Joint Venture Transport and installation of offshore oil & gas production platforms		50 %	50 %	-	-	-	-
Clough AMEC Joint Venture - CoP Operations and maintenance asset management services to the oil and gas sector		50 %	50 %	1,634	1,013	-	-
Clough AMEC Joint Venture - WEL Operations and maintenance asset management services to the oil and gas sector		50 %	50 %	297	99	-	-
Clough Demol Joint Venture Property development	(xii)	80 %	80 %	1,092	1,017	-	-
Clough Downer Joint Venture Design and construction of coal ship loader facilities		50 %	50 %	-	-	-	-
Clough Lucas Joint Venture Gas pipeline construction		50 %	50 %	156	197	-	-
Clough Lucas (Bundeena) Joint Venture Design and construction of water cycle management scheme	(xii)	80 %	80 %	40	29	-	-
Clough Murray & Roberts Joint Venture EPCM services to the resources industry	(iv)	50 %	- %	-	-	-	-
Clough Seymour Whyte Joint Venture Design and construction of bus transport dual carriageway		50 %	50 %	-	2	-	-
Clough Seymour Whyte Joint Venture - Lake Cowal Construction of Lake Cowal gold plant - civils		50 %	50 %	524	250	-	-
Clough Shedden Uhde Joint Venture Design and construction of polypropylene plant expansion		- %	50 %	-	-	-	-
Harbourworks Clough Joint Venture Construction of a LNG loading berth	(iv)	50 %	- %	800	-	-	-
Henry Walker Eltin - Clough Joint Venture Design and construction of bus transport freeway system		- %	50 %	35	37	-	-

42 Interests in jointly controlled entities (continued)

Kellogg Joint Venture - Train 4 Design, procurement and construction of LNG facilities	(xii)	17.5 %	17.5 %	-	-	-	-
Kellogg Joint Venture - Gorgon Pre-front end engineering design (FEED) for Greater Gorgon Downstream LNG Project	(xii)	20 %	20 %	-	15	-	-
Kvaerner Clough Joint Venture Design and construction of process plant facilities	(xii)	33.3 %	33.3 %	104	99	-	-
Mernda (Lot 6) Joint Venture Property Development	(iv)	50 %	- %	1,401	-	-	-
Moltoni Clough Joint Venture Property development		- %	50 %	-	1,849	-	-
Moltoni Clough (No. 2) Joint Venture Property Development	(iv)	50 %	- %	2,439	-	-	-
Nambeelup Joint Venture Property development	(iv)	50 %	- %	2,670	-	-	-
Nisconi Petrosea Joint Operation Design and engineering of offshore gas platform	(xi)	- %	50 %	-	-	-	-
Pama Petrosea Joint Operation Contract mining operations	(xi)	- %	50 %	-	-	-	-
Petrosea - Calibre - Roberts & Schaeffer Joint Operation Feasibility studies for engineering and management services of Maruwai coal facilities	(iv),(xi), (xii)	33.3 %	- %	135	-	-	-
PT Petrosea Tbk - PT Barclay Mowlem Indonesia Joint Operation Engineering services for Bontang coal terminal upgrade project	(iv),(xi)	50 %	- %	-	-	-	-
PTSC Clough Joint Venture Offshore installation	(x)	50 %	50 %	-	518	-	-
Rapley Clough Joint Venture Property development		50 %	50 %	5,701	1,892	-	-
Sonsub Clough Partnership Offshore installation		50 %	50 %	6	482	-	-
Trophy Assets Rapley Clough Joint Venture Property development		- %	25 %	-	-	-	-
Yunderup Joint Venture Property Development	(iv)	50 %	- %	1,205	-	-	-
				<u>43,741</u>	<u>21,859</u>	<u>-</u>	<u>-</u>

- (i) This entity has a 31 December year end.
(ii) This entity was not a controlled entity due to the provisions of a shareholder agreement.
(iii) The remainder of this entity was acquired during the year and it is now a controlled entity.
(iv) This entity was incorporated/established during the year.
(v) This entity was sold during the year.
(vi) This entity has a 31 October year end.
(vii) This entity is incorporated in Saudi Arabia.
(viii) This entity is incorporated in Thailand.
(ix) This entity is incorporated in Brunei.
(x) This entity is resident in the UK.
(xi) This entity is resident in Indonesia.
(xii) This entity is a jointly controlled entity due to the provisions of a joint venture agreement.

All the entities above were incorporated or are resident in Australia, unless otherwise noted.

42 Interests in jointly controlled entities (continued)

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Movements in carrying amounts of investments in jointly controlled entities				
Carrying amount at the beginning of the financial year	21,859	25,513	-	-
Share of profits after income tax	27,967	11,304	-	-
Dividends/distributions received	(8,812)	(5,181)	-	-
Interests acquired	6,295	495	-	-
Contributions made	1,912	3,738	-	-
Interests sold	(4,656)	(11,804)	-	-
Repayment of contributions	(49)	(2,206)	-	-
Transfer to controlled entities (note (iii) above)	(1,292)	-	-	-
Exchange differences	517	-	-	-
Carrying amount at end of financial year	<u>43,741</u>	<u>21,859</u>	<u>-</u>	<u>-</u>

	Consolidated	
	2006 \$'000	2005 \$'000
Share of jointly controlled entities' assets and liabilities		
Current assets	114,609	57,807
Non-current assets	<u>4,879</u>	<u>9,978</u>
Total assets	<u>119,488</u>	<u>67,785</u>
Current liabilities	69,233	42,716
Non-current liabilities	<u>6,514</u>	<u>3,210</u>
Total liabilities	<u>75,747</u>	<u>45,926</u>
Net assets	<u>43,741</u>	<u>21,859</u>

	Consolidated	
	2006 \$'000	2005 \$'000
Share of jointly controlled entities' revenue, expenses and results		
Revenues	214,605	134,574
Expenses	(183,549)	(122,910)
Income tax	<u>(3,089)</u>	<u>(360)</u>
Profit after income tax	<u>27,967</u>	<u>11,304</u>

43 Events occurring after the balance sheet date

No matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in periods subsequent to the year ended 30 June 2006, apart from the matter noted below.

Subsequent to 30 June 2006, the Company has announced its intention to divest of the Clough Property business segment. Clough Property is considered to be a non-core activity of the Group and its sale will allow the Company to concentrate on its core business. It is expected that the disposal will be completed within the next twelve months.

44 Reconciliation of profit (loss) after income tax to net cash inflow (outflow) from operating activities

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Profit (loss) for the year	(13,341)	(56,462)	(20,010)	13,707
Depreciation and amortisation	15,123	12,573	1	9
Impairment of investment in controlled entity	-	-	20,000	-
Non-cash employee benefits expense - share-based payments	111	8	-	-
Net (gain) loss on disposal of property, plant and equipment	(2,655)	(575)	-	-
Net (gain) loss on sale of other non-current assets	(8,685)	(11,928)	-	-
Net (gain) loss on disposal of controlled entities	-	-	-	(14,542)
Write down of investments to recoverable amount	-	284	-	-
Share of profits of associates and jointly controlled entities not received as dividends or distributions	(27,461)	(7,809)	-	-
Net exchange differences and other non-cash items	4,931	(1,153)	-	-
Decrease (increase) in receivables	(10,465)	(545)	66	112
Decrease (increase) in work in progress	(88,655)	(26,240)	72	300
Decrease (increase) in deferred tax assets	(3,418)	91	-	(264)
Decrease (increase) in other assets	(4,703)	(3,069)	-	-
Increase (decrease) in payables	82,161	41,021	(382)	378
Increase (decrease) in amounts due to customers for contract work	(4,827)	(14,724)	-	-
Increase (decrease) in provision for income taxes payable	(37)	(621)	-	-
Increase (decrease) in provision for deferred income tax	229	(1,182)	-	-
Increase (decrease) in other provisions	1,284	(1,555)	-	-
Net cash inflow (outflow) from operating activities	<u>(60,408)</u>	<u>(71,886)</u>	<u>(253)</u>	<u>(300)</u>

45 Non-cash investing and financing activities

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Acquisition of plant and equipment by means of finance leases	<u>15,874</u>	<u>8,350</u>	<u>-</u>	<u>-</u>
Acquisition of other financial assets in exchange for services performed	<u>-</u>	<u>6,641</u>	<u>-</u>	<u>-</u>
Acquisition of shares in controlled entities	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,999</u>
Disposal of shares in controlled entities and associates	<u>-</u>	<u>-</u>	<u>-</u>	<u>(51,900)</u>

46 Earnings (loss) per share

	Consolidated	
	2006	2005
	Cents	Cents
(a) Basic earnings (loss) per share		
Loss attributable to the ordinary equity holders of the company	(3.02)	(12.57)
(b) Diluted earnings (loss) per share		
Loss attributable to the ordinary equity holders of the company	(3.02)	(12.57)
(c) Reconciliations of earnings used in calculating earnings (loss) per share		

	Consolidated	
	2006	2005
	\$'000	\$'000
<i>Basic and diluted earnings (loss) per share</i>		
Loss for the year	(13,341)	(56,462)
Profit attributable to minority interests	(1,736)	(1,176)
Loss attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings (loss) per share	(15,077)	(57,638)

(d) Weighted average number of shares used as the denominator

	Consolidated	
	2006	2005
	Number	Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings (loss) per share</i>	499,218,526	458,369,211

(i) Options

The outstanding options granted under the Executive Option Plan have not been included in the calculation of diluted earnings (loss) per share because they are antidilutive for the year ended 30 June 2006. These options could potentially dilute basic earnings per share in the future. Details relating to the options are set out in note 47.

47 Share-based payments

(a) Executive Option Plan

Options are granted under the Clough Limited Executive Option Plan which was approved by special resolution at the annual general meeting of the Company held on 16 November 1998. The Board of Directors of the Company determines the eligibility of executives and their entitlement having regard to, amongst other things, the performance and future potential contribution of each executive. Participation by Executive Directors is subject to prior approval of a general meeting of the Company.

The maximum number of shares that can be issued or acquired under the Plan is 0.5% of the number of issued shares in the Company in each year from the commencement of the Plan. If less than 0.5% is issued or acquired in one year, the remainder can be added to issues in subsequent years.

The Board believes it is appropriate that the options be subject to suitable performance criteria. This may involve setting the exercise price of options above the current market price of the shares in the Company, or it may involve imposing performance conditions that must be satisfied before the options can be exercised. The Board will review and set the performance criteria attaching to options, as it considers appropriate. The exercise price of options as a minimum must not be less than the market price of shares in the Company at the time the options were granted.

On 17 November 2005 4,105,000 options were granted to executives of the Group under the Clough Limited Executive Option Plan.

The vesting period of the options issued is three years and the vesting date is 17 November 2008. The options have an exercise price of 39 cents and an expiry date of 17 November 2011 and may be exercised at any time between the vesting date and the expiry date. If an executive leaves the employment of the company, for reasons other than retirement, total and permanent disablement retrenchment or death, before the vesting date, the options will lapse.

The options were granted under the plan for no consideration.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share in Clough Limited.

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent - 2006							
11 June 2003	11 June 2008	\$0.50	1,000,000	-	-	1,000,000	-
11 June 2003	11 June 2008	\$0.75	1,000,000	-	-	1,000,000	-
11 June 2003	11 June 2008	\$1.00	1,000,000	-	-	1,000,000	-
11 June 2003	11 June 2008	\$1.25	1,000,000	-	-	1,000,000	-
11 June 2003	11 June 2008	\$1.50	1,000,000	-	-	1,000,000	-
14 November 2003	14 November 2008	\$0.67	600,000	-	-	600,000	-
14 November 2003	14 November 2008	\$0.92	600,000	-	-	600,000	-
14 November 2003	14 November 2008	\$1.17	600,000	-	-	600,000	-
14 November 2003	14 November 2008	\$1.42	600,000	-	-	600,000	-
14 November 2003	14 November 2008	\$1.67	600,000	-	-	600,000	-
17 November 2005	17 November 2011	\$0.39	-	4,105,000	(140,000)	3,965,000	-
Total			<u>8,000,000</u>	<u>4,105,000</u>	<u>(140,000)</u>	<u>11,965,000</u>	-

47 Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Forfeited during the year Number	Balance at end of the year Number	Exercisable end of the year Number
Consolidated and parent - 2005							
11 June 2003	11 June 2008	\$0.50	1,000,000	-	-	1,000,000	-
11 June 2003	11 June 2008	\$0.75	1,000,000	-	-	1,000,000	-
11 June 2003	11 June 2008	\$1.00	1,000,000	-	-	1,000,000	-
11 June 2003	11 June 2008	\$1.25	1,000,000	-	-	1,000,000	-
11 June 2003	11 June 2008	\$1.50	1,000,000	-	-	1,000,000	-
14 November 2003	14 November 2008	\$0.67	600,000	-	-	600,000	-
14 November 2003	14 November 2008	\$0.92	600,000	-	-	600,000	-
14 November 2003	14 November 2008	\$1.17	600,000	-	-	600,000	-
14 November 2003	14 November 2008	\$1.42	600,000	-	-	600,000	-
14 November 2003	14 November 2008	\$1.67	600,000	-	-	600,000	-
Total			<u>8,000,000</u>	<u>-</u>	<u>-</u>	<u>8,000,000</u>	<u>-</u>

The options granted on 11 June 2003 can only be exercised between 11 June 2007 and 11 June 2008, apart from the options with an exercise price of \$1.50 which can be exercised between 1 July 2007 and 11 June 2008. These options were split into 5 lots of 1,000,000 options with increasing exercise prices and have vesting dates of 1 July 2003, 2004, 2005, 2006 and 2007 respectively.

The options granted on 14 November 2003 can only be exercised between 14 November 2007 and 14 November 2008. These options were split into 5 lots of 600,000 options with increasing exercise prices and have vesting dates of 26 September 2003, 2004, 2005, 2006 and 2007 respectively.

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2006 was 12.8 cents per option and was determined by the directors based on an independent valuation prepared by Ernst & Young Transaction Advisory Services Pty Ltd. The fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting date and expected life, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2006 included:

- (a) options are granted for no consideration, have a six year life and are exercisable at any time between the vesting date and the expiry date
- (b) grant date: 17 November 2005
- (c) vesting date: 17 November 2008
- (d) expiry date: 17 November 2011
- (e) expected exercise date: 17 May 2009
- (f) share price at grant date: \$0.38
- (g) exercise price: \$0.39
- (h) expected price volatility of the company's shares: 38%
- (i) expected dividend yield: 0%
- (j) risk-free interest rate: 5.25%

The expected price volatility is based on the historic volatility corresponding to the remaining life of the options.

47 Share-based payments (continued)

	Consolidated		Parent	
	2006 '000	2005 '000	2006 '000	2005 '000
Shares issued under the plan to participating employees on 1 December 2005 (2005 - 2 December 2004)	<u>111</u>	<u>9</u>	<u>-</u>	<u>-</u>

(b) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of labour costs were as follows:

	Consolidated		Parent	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Options issued under executive option plan	111	9	-	-

48 Explanation of transition to Australian equivalents to IFRS

(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) At the date of transition to AIFRS: 1 July 2004

	Notes	Consolidated			Parent		
		Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
ASSETS							
Current assets							
Cash and cash equivalents	b	82,389	(6,083)	76,306	2,545	-	2,545
Receivables	b	177,405	(3,255)	174,150	66,016	-	66,016
Work in progress	b	36,597	(6,053)	30,544	372	-	372
Total current assets		<u>296,391</u>	<u>(15,391)</u>	<u>281,000</u>	<u>68,933</u>	<u>-</u>	<u>68,933</u>
Non-current assets							
Receivables		1,984	-	1,984	96,610	6	96,616
Investments accounted for using the equity method	b,c,e	29,751	4,326	34,077	-	-	-
Other financial assets	e	8,595	-	8,595	48,361	(1,000)	47,361
Other non-current assets	f	-	3,011	3,011	-	-	-
Property, plant and equipment	a,b,d,f	70,363	(13,963)	56,400	43	-	43
Intangible assets - computer software	d	-	3,945	3,945	-	-	-
Deferred tax assets	j	12,771	-	12,771	8,753	(8,753)	-
Total non-current assets		<u>123,464</u>	<u>(2,681)</u>	<u>120,783</u>	<u>153,767</u>	<u>(9,747)</u>	<u>144,020</u>
Total assets		<u>419,855</u>	<u>(18,072)</u>	<u>401,783</u>	<u>222,700</u>	<u>(9,747)</u>	<u>212,953</u>

48 Explanation of transition to Australian equivalents to IFRS (continued)

	Notes	Consolidated			Parent		
		Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
LIABILITIES							
Current liabilities							
Payables	b	110,716	(5,150)	105,566	32,803	-	32,803
Amounts due to customers for contract work	b	33,741	(1,302)	32,439	-	-	-
Interest bearing liabilities		37,162	-	37,162	34,500	-	34,500
Current tax liabilities		760	-	760	-	-	-
Provisions	b	<u>9,705</u>	<u>(14)</u>	<u>9,691</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities		<u>192,084</u>	<u>(6,466)</u>	<u>185,618</u>	<u>67,303</u>	<u>-</u>	<u>67,303</u>
Non-current liabilities							
Interest bearing liabilities	b	3,433	(3,433)	-	-	-	-
Deferred tax liabilities		1,220	-	1,220	-	-	-
Provisions	b	10,345	(35)	10,310	-	-	-
Non-interest bearing liabilities		<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Total non-current liabilities		<u>14,998</u>	<u>(3,468)</u>	<u>11,530</u>	<u>40,000</u>	<u>-</u>	<u>40,000</u>
Total liabilities		<u>207,082</u>	<u>(9,934)</u>	<u>197,148</u>	<u>107,303</u>	<u>-</u>	<u>107,303</u>
Net assets		<u>212,773</u>	<u>(8,138)</u>	<u>204,635</u>	<u>115,397</u>	<u>(9,747)</u>	<u>105,650</u>
EQUITY							
Contributed equity		75,508	-	75,508	75,508	-	75,508
Reserves	a,g	(14,128)	14,854	726	477	6	483
Retained earnings	a,c,e,f, g	<u>133,733</u>	<u>(22,916)</u>	<u>110,817</u>	<u>39,412</u>	<u>(9,753)</u>	<u>29,659</u>
Parent entity interest		195,113	(8,062)	187,051	115,397	(9,747)	105,650
Minority interest	f	<u>17,660</u>	<u>(76)</u>	<u>17,584</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity		<u>212,773</u>	<u>(8,138)</u>	<u>204,635</u>	<u>115,397</u>	<u>(9,747)</u>	<u>105,650</u>

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Notes	Consolidated			Parent		
		Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
ASSETS							
Current assets							
Cash and cash equivalents	b	70,751	(5,843)	64,908	2,709	-	2,709
Receivables	b	169,693	(9,724)	159,969	52,587	-	52,587
Work in progress	b	<u>67,920</u>	<u>(11,136)</u>	<u>56,784</u>	<u>72</u>	<u>-</u>	<u>72</u>
Total current assets		<u>308,364</u>	<u>(26,703)</u>	<u>281,661</u>	<u>55,368</u>	<u>-</u>	<u>55,368</u>

48 Explanation of transition to Australian equivalents to IFRS (continued)

	Notes	Consolidated			Parent		
		Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000	Previous AGAAP \$'000	Effect of transition to AIFRS \$'000	AIFRS \$'000
Non-current assets							
Receivables		11,178	-	11,178	143,802	14	143,816
Investments accounted for using the equity method	b,c,e	24,614	6,095	30,709	-	-	-
Other financial assets	e	15,607	-	15,607	61,002	(1,000)	60,002
Other non-current assets	f	-	2,617	2,617	-	-	-
Property, plant and equipment	a,b,d,f	74,190	(11,948)	62,242	23	-	23
Intangible assets - computer software	d	-	3,204	3,204	-	-	-
Deferred tax assets		<u>12,680</u>	<u>-</u>	<u>12,680</u>	<u>9,017</u>	<u>(9,015)</u>	<u>2</u>
Total non-current assets		<u>138,269</u>	<u>(32)</u>	<u>138,237</u>	<u>213,844</u>	<u>(10,001)</u>	<u>203,843</u>
Total assets		<u>446,633</u>	<u>(26,735)</u>	<u>419,898</u>	<u>269,212</u>	<u>(10,001)</u>	<u>259,211</u>
LIABILITIES							
Current liabilities							
Payables	b	159,088	(12,436)	146,652	382	-	382
Amounts due to customers for contract work	b	18,818	(1,089)	17,729	-	-	-
Interest bearing liabilities	b	56,080	(3,448)	52,632	51,271	-	51,271
Current tax liabilities		139	-	139	-	-	-
Provisions	b	<u>11,390</u>	<u>(14)</u>	<u>11,376</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total current liabilities		<u>245,515</u>	<u>(16,987)</u>	<u>228,528</u>	<u>51,653</u>	<u>-</u>	<u>51,653</u>
Non-current liabilities							
Interest bearing liabilities		6,944	-	6,944	-	-	-
Deferred tax liabilities		38	-	38	-	-	-
Provisions	b	8,992	(43)	8,949	-	-	-
Non-interest bearing liabilities		<u>-</u>	<u>-</u>	<u>-</u>	<u>48,189</u>	<u>-</u>	<u>48,189</u>
Total non-current liabilities		<u>15,974</u>	<u>(43)</u>	<u>15,931</u>	<u>48,189</u>	<u>-</u>	<u>48,189</u>
Total liabilities		<u>261,489</u>	<u>(17,030)</u>	<u>244,459</u>	<u>99,842</u>	<u>-</u>	<u>99,842</u>
Net assets		<u>185,144</u>	<u>(9,705)</u>	<u>175,439</u>	<u>169,370</u>	<u>(10,001)</u>	<u>159,369</u>
EQUITY							
Contributed equity		115,512	-	115,512	115,512	-	115,512
Reserves	a,f,g	(20,801)	11,329	(9,472)	477	14	491
Retained earnings	a,c,e,f,g	<u>74,095</u>	<u>(20,916)</u>	<u>53,179</u>	<u>53,381</u>	<u>(10,015)</u>	<u>43,366</u>
Parent entity interest		168,806	(9,587)	159,219	169,370	(10,001)	159,369
Minority interest	f	<u>16,338</u>	<u>(118)</u>	<u>16,220</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity		<u>185,144</u>	<u>(9,705)</u>	<u>175,439</u>	<u>169,370</u>	<u>(10,001)</u>	<u>159,369</u>

48 Explanation of transition to Australian equivalents to IFRS (continued)

(2) Reconciliation of profit/(loss) for the year ended 30 June 2005

	Notes	Consolidated			Parent		
		Previous AGAAP	Effect of transition to AIFRS	AIFRS	Previous AGAAP	Effect of transition to AIFRS	AIFRS
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue	b,i	549,316	(84,850)	464,466	60,076	(51,911)	8,165
Other income	i	-	12,503	12,503	-	14,542	14,542
Materials, plant and subcontractor costs	b	(400,741)	42,337	(358,404)	(4,040)	-	(4,040)
Labour costs	b,g	(134,111)	3,863	(130,248)	(835)	-	(835)
Other expenses	a,b,f,i	(46,487)	6,110	(40,377)	(1,144)	4	(1,140)
Written down value of non-current assets sold	i	(16,208)	16,208	-	(37,369)	37,369	-
Depreciation and amortisation expense	b	(12,616)	43	(12,573)	(9)	-	(9)
Finance costs		(3,046)	-	(3,046)	(2,978)	-	(2,978)
Share of net profits of associates and joint venture entities accounted for using the equity method	b,c,e	<u>7,841</u>	<u>5,786</u>	<u>13,627</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit/(loss) before income tax		<u>(56,052)</u>	<u>2,000</u>	<u>(54,052)</u>	<u>13,701</u>	<u>4</u>	<u>13,705</u>
Income tax expense		<u>(2,410)</u>	<u>-</u>	<u>(2,410)</u>	<u>268</u>	<u>(266)</u>	<u>2</u>
Profit/(loss) for the year		<u>(58,462)</u>	<u>2,000</u>	<u>(56,462)</u>	<u>13,969</u>	<u>(262)</u>	<u>13,707</u>
Profit attributable to minority interest		<u>(1,176)</u>	<u>-</u>	<u>(1,176)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Profit/(loss) attributable to members of Clough Limited		<u>(59,638)</u>	<u>2,000</u>	<u>(57,638)</u>	<u>13,969</u>	<u>(262)</u>	<u>13,707</u>

(a) Foreign currency translation

The company has elected to apply the exemption in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve are deemed to be zero at the date of transition to AIFRS.

In addition under AIFRS, the assets and liabilities of foreign operations with a functional currency other than Australian Dollars are now required to be translated into Australian Dollars using the closing exchange rate at the date of the balance sheet and resulting exchange differences are recognised as a separate component of equity. Exchange differences arising from the translation of any net investment in foreign operations are also required to be taken to shareholders' equity in the consolidated financial statements. Under previous AGAAP, exchange differences on translation of integrated operations were included in profit or loss for the period. The effect of the above is as follows:

(i) At 1 July 2004

For the Group, the debit balance of \$14,848,000 in the foreign currency translation reserve is reduced to zero and retained earnings is reduced by this amount. In addition, there is a reduction in property, plant and equipment previously translated at historical exchange rates of \$4,383,000 and a corresponding decrease in retained earnings.

There is no impact on the parent entity.

(ii) At 30 June 2005

For the Group, there is a credit to the foreign currency translation reserve of \$11,509,000 and retained earnings is reduced by this amount. In addition, there is a reduction in property, plant and equipment previously translated at historical exchange rates of \$5,277,000 and a corresponding decrease in retained earnings.

There is no impact on the parent entity.

48 Explanation of transition to Australian equivalents to IFRS (continued)

(iii) For the year ended 30 June 2005

For the Group, there is a credit to other expenses of \$2,445,000 in relation to exchange losses on the translation of foreign operations and net investments in foreign operations recorded in the income statement under AGAAP.

There is no impact on the parent entity.

(b) Correction of error made under previous AGAAP - Unincorporated joint ventures

The Group has interests in a number of unincorporated joint ventures as detailed in note 42. Under previous AGAAP, these unincorporated joint ventures were classified as joint venture operations and were proportionally consolidated. As a result of further review of the nature of these joint venture arrangements and consideration of industry practise, it is now considered that the Group's unincorporated joint ventures should have been classified as joint venture entities under AASB 1006 Interests in Joint Ventures and equity accounted.

Under previous AGAAP, this error would have been corrected in the period that it was discovered (the year ended 30 June 2006). Under AIFRS, the 2005 comparatives have been adjusted to reflect the correction of the error, the effect of which is:

(i) At 1 July 2004

For the Group, there is an increase in investments accounted for using the equity method of \$7,649,000 and a reduction in cash and cash equivalents of \$6,083,000, current receivables of \$3,255,000, work in progress of \$6,053,000, property, plant and equipment of \$2,192,000, payables of \$5,150,000, amounts due to customers for contract work of \$1,302,000, current provisions of \$14,000, non-current interest bearing liabilities of \$3,433,000 and non-current provisions of \$35,000. There is no impact on the net assets of the Group.

There is no impact on the parent entity.

(ii) At 30 June 2005

For the Group, there is an increase in investments accounted for using the equity method of \$9,697,000 and a reduction in cash and cash equivalents of \$5,843,000, current receivables of \$9,724,000, work in progress of \$11,136,000, property, plant and equipment of \$24,000, payables of \$12,436,000, amounts due to customers for contract work of \$1,089,000, current interest bearing liabilities of \$3,448,000, current provisions of \$14,000 and non-current provisions of \$43,000. There is no impact on the net assets of the Group.

There is no impact on the parent entity.

(iii) For the year ended 30 June 2005

For the Group, there is an increase in the share of net profits of associates and jointly controlled entities accounted for using the equity method of \$6,065,000 and a reduction in revenue of \$53,912,000, materials, plant and subcontractor costs of \$42,337,000, labour costs of \$3,871,000, depreciation and amortisation expense of \$43,000 and other expenses of \$1,596,000. There is no impact on the net loss of the Group.

There is no impact on the parent entity.

(c) Associates

The Group has an interest in Landrow Limited which is an associated entity and is equity accounted in the consolidated financial statements. As a result of the impact of the introduction of AIFRS on Landrow Limited, in particular the recognition of deferred tax, the carrying value of the equity accounted investment in Landrow Limited has been impacted as follows:

(i) At 1 July 2004

For the Group, there is a decrease of \$1,325,000 in investments accounted for using the equity method and a decrease in retained earnings of \$1,325,000.

There is no impact on the parent entity.

(ii) At 30 June 2005

For the Group, there is a decrease of \$1,764,000 in investments accounted for using the equity method and a decrease in retained earnings of \$1,764,000.

There is no impact on the parent entity.

(iii) For the year ended 30 June 2005

For the Group, there is a decrease in the share of net profits of associates and joint venture entities accounted for using the equity method of \$439,000.

48 Explanation of transition to Australian equivalents to IFRS (continued)

There is no impact on the parent entity.

(d) Computer software

Under previous AGAAP, computer software was included as part of property, plant and equipment. In accordance with AASB 138 Intangible Assets, computer software now falls within the definition of an intangible asset and as a result, computer software included in property, plant and equipment under AGAAP has been reclassified to intangible assets as a result of the introduction of AIFRS. The effect of this is as follows:

(i) At 1 July 2004

For the Group, computer software with a carrying value of \$3,945,000 has been reclassified from property, plant and equipment to intangible assets.

There is no impact on the parent entity.

(ii) At 30 June 2005

For the Group, computer software with a carrying value of \$3,204,000 has been reclassified from property, plant and equipment to intangible assets.

There is no impact on the parent entity.

(iii) For the year ended 30 June 2005

There is no impact on the Group or the parent entity.

(e) Impairment

A recoverable amount assessment was performed on the equity accounted investment in Covus Corporation Pty Ltd, a joint venture entity, as at 1 July 2004 on the transition to AIFRS as a result of its performance being below expectations. When this assessment was made under previous AGAAP, the recoverable amount was estimated on an undiscounted basis. Using a pre-tax discount rate of 13.65 % to arrive at the value-in-use of this investment, an impairment of \$1,998,000 existed at 1 July 2004.

Goodwill was included in the carrying value of the equity accounted investment in Covus Corporation Pty Ltd under previous AGAAP and was being amortised over a period of 10 years. Under AIFRS, the goodwill will no longer be amortised and will instead be tested for impairment on an annual basis. As a result of the impairment review performed as at 1 July 2004 on the transition to AIFRS, the goodwill totalling \$1,186,000 was found to be impaired as part of the total impairment of \$1,998,000 as detailed above. In addition, the goodwill which was amortised during the year ended 30 June 2005 under previous AGAAP totalling \$160,000 is required to be reversed under AIFRS.

For the parent entity, as a result of the impairment review performed as at 1 July 2004 on the transition to AIFRS, an investment in a subsidiary company was found to be impaired.

The effect of the above is as follows:

(i) At 1 July 2004

For the Group, there is a decrease in investments accounted for using the equity method of \$1,998,000 and a decrease in retained earnings of \$1,998,000.

For the parent entity, there is a decrease in other financial assets of \$1,000,000 and a decrease in retained earnings of \$1,000,000.

(ii) At 30 June 2005

For the Group, there is a decrease in investments accounted for using the equity method of \$1,838,000 and a decrease in retained earnings of \$1,838,000.

For the parent entity, there is a decrease in other financial assets of \$1,000,000 and a decrease in retained earnings of \$1,000,000.

(iii) For the year ended 30 June 2005

For the Group, the share of net profits of associates and joint venture entities accounted for using the equity method has increased by \$160,000.

There is no impact on the parent entity.

48 Explanation of transition to Australian equivalents to IFRS (continued)

(f) Indonesian Land

An Indonesian subsidiary, PT Petrosea Tbk, has various land (land with Hak Guna Bangunan (HGB) title) where the right to use the land has been granted by the Indonesian Government. Under AGAAP, this land was recorded as land at cost and was not being amortised but under AIFRS, it is considered to be an operating lease and the cost of acquiring the right to use the land is required to be amortised over the duration of the HGB title. The effect of this is as follows:

(i) At 1 July 2004

For the Group, there is a decrease of \$3,443,000 in freehold and leasehold land in property, plant and equipment, an increase in other non-current assets of \$3,011,000, a decrease in retained earnings of \$356,000 and a decrease in minority interests in equity of \$76,000.

There is no impact on the parent entity.

(ii) At 30 June 2005

For the Group, there is a decrease of \$3,443,000 in freehold and leasehold land in property, plant and equipment, an increase in other non-current assets of \$2,617,000, a decrease in retained earnings of \$514,000, a decrease in the foreign currency translation reserve of \$194,000 and a decrease in minority interests in equity of \$118,000.

There is no impact on the parent entity.

(iii) For the year ended 30 June 2005

For the Group, there is an increase in other expenses of \$158,000.

There is no impact on the parent entity.

(g) Share-based payments

Under AASB 2 *Share-based Payment*, from 1 July 2004 the Group is required to recognise an expense for those options that were issued to employees after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is as follows:

(i) At 1 July 2004

For the Group, there is a decrease in retained earnings of \$6,000 and a corresponding increase in reserves (share-based payments reserve).

For the parent entity, there is an increase in loans to controlled entities of \$6,000 and a corresponding increase in reserves (share-based payments reserve).

(ii) At 30 June 2005

For the Group, there is a decrease in retained earnings of \$14,000 and a corresponding increase in reserves (share-based payments reserve).

For the parent entity, there is an increase in loans to controlled entities of \$14,000 and a corresponding increase in reserves (share-based payments reserve).

(iii) For the year ended 30 June 2005

For the Group, there is an increase in employee benefits expense of \$8,000.

There is no effect on the parent entity.

(h) Financial instruments

The Group has elected to apply the exemption from restatement of comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. It has therefore continued to apply the previous AGAAP rules to derivatives, financial assets and financial liabilities and also to hedge relationships for the year ended 30 June 2005. The adjustments required for differences between previous AGAAP and AASB 132 and AASB 139 have been determined and recognised at 1 July 2005. Refer to section 4 of this note and note 1 for further details.

48 Explanation of transition to Australian equivalents to IFRS (continued)

(i) Sale of non-current assets

Under AASB 118 Revenue, the net gain or loss on the sale of non-current assets is included in other income or other expense as appropriate. Under previous AGAAP, the gross proceeds from the sale of non-current assets were recognised as revenue and the carrying amount of the assets sold as an expense. The effect of this is as follows:

(i) At 1 July 2004

There is no effect on the Group or the parent entity.

(ii) At 30 June 2005

There is no effect on the Group or the parent entity.

(iii) For the year ended 30 June 2005

For the Group, revenue is reduced by \$30,938,000, the written down value of non-current assets sold expense is reduced by \$16,208,000, other expenses are reduced by \$2,227,000 and other income is increased by \$12,503,000.

For the parent entity, revenue is reduced by \$51,911,000, the written down value of non-current assets sold expense is reduced by \$37,369,000 and other income is increased by \$14,542,000.

(j) Income tax

Under previous AGAAP, income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of AIFRS has resulted in a change in accounting policy. The application of AASB 112 *Income Taxes* has resulted in the recognition of deferred tax assets and liabilities where the carrying value of assets and liabilities differs from their tax base.

Previously for Australian tax-consolidated groups, deferred tax balances and tax expenses were recognised at the head entity level - Clough Limited. However, on transition to AIFRS and Interpretation 1052 - Tax Consolidation Accounting, deferred tax balances and tax expenses are to be recognised instead by the individual entities in the tax-consolidated group.

The effects of the above are as follows:

(i) At 1 July 2004

For the Group, a deferred tax liability of \$877,890 is recognised as a result of the difference between the tax and accounting cost bases of the equity accounted investments. A deferred tax asset of \$877,890 is recognised as a result of tax losses that are now probable. These amounts have been netted off and thus no deferred tax asset or deferred tax liability is recognised in the accounts.

For the parent entity, there is a decrease in deferred tax assets of \$8,753,000 and a decrease in retained earnings of \$8,753,000.

(ii) At 30 June 2005

For the Group, a deferred tax liability of \$2,016,063 is recognised as a result of the difference between the tax and accounting cost bases of the equity accounted investments. A deferred tax asset of \$2,016,063 is recognised as a result of tax losses that are now probable. These amounts have been netted off and thus no deferred tax asset or deferred tax liability is recognised in the accounts.

For the parent entity, there is a decrease in deferred tax assets of \$9,015,000 and a decrease in retained earnings of \$9,015,000.

(iii) For the year ended 30 June 2005

There is no effect on the Group.

For the parent entity, there is an increase in the tax expense of \$266,000 and a decrease in other expenses of \$4,000.

(3) Other effects of the transition to AIFRS

Statement of cash flows

The Group's unincorporated joint ventures were previously treated as being joint venture operations and were proportionally consolidated. As detailed in note (b) above, these unincorporated joint ventures are now required to be equity accounted under AIFRS. As a result, the consolidated statement of cash flows for the year ended 30 June 2005 has been impacted as follows:

48 Explanation of transition to Australian equivalents to IFRS (continued)

Cash held at 1 July 2004 has decreased by \$6,083,000. Net cash outflow from operating activities has decreased by \$3,238,000, net cash inflow from investing activities has decreased by \$2,983,000, net cash inflow from financing activities has decreased by \$15,000 and there has been a net increase in cash for the year of \$240,000. As at 30 June 2005, the cash held has decreased by \$5,843,000.

(4) Adjustments on transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement: 1 July 2005*

	Consolidated			Parent		
	30 June 2005 \$'000	Adjustment \$'000	1 July 2005 \$'000	30 June 2005 \$'000	Adjustment \$'000	1 July 2005 \$'000
ASSETS						
Current assets						
Cash and cash equivalents	64,908	-	64,908	2,709	-	2,709
Receivables	159,969	(2,013)	157,956	52,587	-	52,587
Work in progress	56,784	-	56,784	72	-	72
Derivative financial instruments	-	2,482	2,482	-	-	-
Total current assets	281,661	469	282,130	55,368	-	55,368
Non-current assets						
Receivables	11,178	-	11,178	143,816	-	143,816
Available-for-sale financial assets	-	15,456	15,456	-	-	-
Investments accounted for using the equity method	30,709	-	30,709	-	-	-
Other financial assets	15,607	(15,607)	-	60,002	-	60,002
Other non-current assets	2,617	-	2,617	-	-	-
Property, plant and equipment	62,242	-	62,242	23	-	23
Intangible assets - computer software	3,204	-	3,204	-	-	-
Deferred tax assets	12,680	(454)	12,226	2	-	2
Total non-current assets	138,237	(605)	137,632	203,843	-	203,843
Total assets	419,898	(136)	419,762	259,211	-	259,211
LIABILITIES						
Current liabilities						
Payables	146,652	(2,013)	144,639	382	-	382
Amounts due to customers for contract work	17,729	-	17,729	-	-	-
Interest bearing liabilities	52,632	-	52,632	51,271	-	51,271
Current tax liabilities	139	-	139	-	-	-
Provisions	11,376	-	11,376	-	-	-
Derivative financial instruments	-	818	818	-	-	-
Total current liabilities	228,528	(1,195)	227,333	51,653	-	51,653
Non-current liabilities						
Interest bearing liabilities	6,944	-	6,944	-	-	-
Deferred tax liabilities	38	-	38	-	-	-
Provisions	8,949	-	8,949	-	-	-
Non-interest bearing liabilities	-	-	-	48,189	-	48,189
Total non-current liabilities	15,931	-	15,931	48,189	-	48,189
Total liabilities	244,459	(1,195)	243,264	99,842	-	99,842
Net assets	175,439	1,059	176,498	159,369	-	159,369

48 Explanation of transition to Australian equivalents to IFRS (continued)

	Consolidated			Parent		
	30 June 2005 \$'000	Adjustment \$'000	1 July 2005 \$'000	30 June 2005 \$'000	Adjustment \$'000	1 July 2005 \$'000
EQUITY						
Contributed equity	115,512	-	115,512	115,512	-	115,512
Reserves	(9,472)	1,059	(8,413)	491	-	491
Retained earnings	<u>53,179</u>	<u>-</u>	<u>53,179</u>	<u>43,366</u>	<u>-</u>	<u>43,366</u>
Parent entity interest	159,219	1,059	160,278	159,369	-	159,369
Minority interest	<u>16,220</u>	<u>-</u>	<u>16,220</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total equity	<u>175,439</u>	<u>1,059</u>	<u>176,498</u>	<u>159,369</u>	<u>-</u>	<u>159,369</u>

Refer to notes 1(o), 1(p) and 1 for further information on the transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* on 1 July 2005.

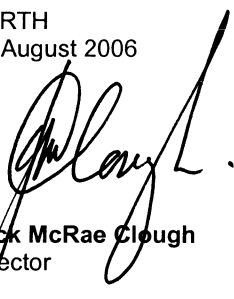
In the directors' opinion:

- (a) the financial statements and notes set out on pages 1 to 75 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2006 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

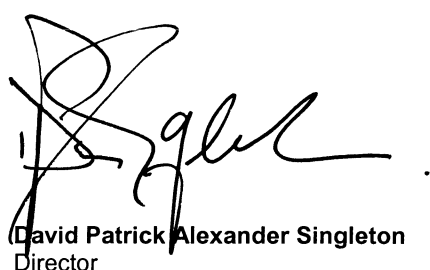
The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

PERTH
22 August 2006



Jock McRae Clough
Director



David Patrick Alexander Singleton
Director

Independent audit report to the members of Clough Limited

Audit opinion

In our opinion, the financial report of Clough Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Clough Limited and the Clough Limited Group (defined below) as at 30 June 2006 and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Clough Limited (the company) and the Clough Limited Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence.

Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.


PricewaterhouseCoopers



John O'Connor
Partner

Perth
23 August 2006