

FULL FINANCIAL REPORT 2005

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005



DESIGN

PROJECT MANAGEMENT

ENGINEERING

CONSTRUCTION

ASSET MANAGEMENT

Clough Limited

ABN 59 008 678 813

Full financial report - 30 June 2005

Contents

	Page
Financial report	
Statements of financial performance	2
Statements of financial position	3
Statements of cash flows	4
Notes to the financial statements	5
Directors' declaration	62
Independent audit report to the members	63

Clough Limited
Statements of financial performance
for the year ended 30 June 2005

	Notes	Clough Group		Clough Limited	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities (excluding share of equity accounted net profits of associates and joint venture entities)	3	549,316	752,982	60,076	5,486
Materials, plant and subcontractor costs		(400,741)	(447,515)	(4,040)	-
Labour costs		(134,111)	(213,448)	(835)	(1,300)
Written down value of non-current assets sold		(16,208)	(13,535)	(37,369)	(21)
Depreciation and amortisation expense	4	(12,616)	(21,422)	(9)	(8)
Other expenses		(46,487)	(42,579)	(1,144)	(1,513)
Borrowing costs expense	4	(3,046)	(1,288)	(2,978)	(1,025)
Share of net profits of associates and joint venture entities accounted for using the equity method		7,841	5,962	-	-
Profit/(loss) from ordinary activities before income tax (expense)/benefit	4	(56,052)	19,157	13,701	1,619
Income tax (expense)/benefit	5	(2,410)	(2,860)	268	(835)
Profit/(loss) from ordinary activities after income tax (expense)/benefit		(58,462)	16,297	13,969	784
Net profit attributable to outside equity interest		(1,176)	(126)	-	-
Net profit/(loss) attributable to members of Clough Limited	25(b)	(59,638)	16,171	13,969	784
Net increase (decrease) in foreign currency translation reserve		(6,673)	(3,829)	-	-
Total changes in equity attributable to members of Clough Limited other than those resulting from transactions with owners as owners	27	(66,311)	12,342	13,969	784
		Cents	Cents		
Basic earnings per share	42	(13.01)	3.85		
Diluted earnings per share	42	(13.01)	3.83		

The above statements of financial performance should be read in conjunction with the accompanying notes.

Clough Limited
Statements of financial position
As at 30 June 2005

	Notes	Clough Group		Clough Limited	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Current assets					
Cash assets	6,29	70,751	82,389	2,709	2,545
Receivables	7,29	152,009	162,815	52,587	66,016
Work in progress	8	67,920	36,597	72	372
Prepayments and deposits	9	17,684	14,590	-	-
Total current assets		308,364	296,391	55,368	68,933
Non-current assets					
Receivables	10,29	11,178	1,984	143,802	96,610
Investments accounted for using the equity method	11	24,614	29,751	-	-
Other financial assets	12,29	15,607	8,595	61,002	48,361
Property, plant and equipment	13	74,190	70,363	23	43
Deferred tax assets	14	12,680	12,771	9,017	8,753
Total non-current assets		138,269	123,464	213,844	153,767
Total assets		446,633	419,855	269,212	222,700
Current liabilities					
Payables	15,29	159,088	110,716	382	32,803
Contract work in progress	19	18,818	33,741	-	-
Interest bearing liabilities	16,29	56,080	37,162	51,271	34,500
Current tax liabilities	17	139	760	-	-
Provisions	18	11,390	9,705	-	-
Total current liabilities		245,515	192,084	51,653	67,303
Non-current liabilities					
Interest bearing liabilities	20,29	6,944	3,433	-	-
Deferred tax liabilities	21	38	1,220	-	-
Provisions	22	8,992	10,345	-	-
Other	23	-	-	48,189	40,000
Total non-current liabilities		15,974	14,998	48,189	40,000
Total liabilities		261,489	207,082	99,842	107,303
Net assets		185,144	212,773	169,370	115,397
Equity					
Parent entity interest					
Contributed equity	24	115,512	75,508	115,512	75,508
Reserves	25(a)	(20,801)	(14,128)	477	477
Retained profits	25(b)	74,095	133,733	53,381	39,412
Total parent entity interest		168,806	195,113	169,370	115,397
Outside equity interest in controlled entities	26	16,338	17,660	-	-
Total equity	27	185,144	212,773	169,370	115,397

The above statements of financial position should be read in conjunction with the accompanying notes.

Clough Limited
Statements of cash flows
for the year ended 30 June 2005

	Notes	Clough Group		Clough Limited	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		525,888	777,664	5,051	1,906
Payments to suppliers and employees (inclusive of goods and services tax)		(596,956)	(836,391)	(5,093)	(2,559)
Dividends received from associates and joint venture entities		936	7,692	-	-
Dividends received from controlled entities		-	-	-	1,229
Interest received		2,176	2,630	2,978	1,160
Borrowing costs paid		(3,046)	(1,303)	(2,978)	(1,040)
Income taxes paid		(4,122)	(3,505)	4	-
Net cash inflow (outflow) from operating activities	40	<u>(75,124)</u>	<u>(53,213)</u>	<u>(38)</u>	<u>696</u>
Cash flows from investing activities					
Payment for purchase of controlled entity, net of cash acquired	36	(192)	-	-	-
Payments for property, plant and equipment		(15,296)	(7,793)	-	(23)
Payments for investments		(2,557)	(1,428)	-	-
Payment for minority interest in controlled entity		-	(101)	-	-
Loans (to)/from other persons		994	(300)	-	-
Loans (to)/from associates and joint venture entities		(2,677)	(95)	-	226
Proceeds from sale of property, plant and equipment		2,841	12,913	11	-
Proceeds from sale of investments		25,460	4,024	-	-
Proceeds from disposal of controlled entities and interest in joint venture operation, net of cash disposed		8,019	786	-	-
Net cash inflow (outflow) from investing activities		<u>16,592</u>	<u>8,006</u>	<u>11</u>	<u>203</u>
Cash flows from financing activities					
Proceeds from issues of shares		40,800	-	40,800	-
Share issue costs		(796)	-	(796)	-
Proceeds from borrowings		104,156	48,949	96,208	47,300
Loans (to)/from controlled entities		-	-	(56,583)	(20,269)
Repayment of borrowings		(90,183)	(32,032)	(79,438)	(27,042)
Dividends paid to outside equity interests in controlled entities		(1,056)	(167)	-	-
Net cash inflow (outflow) from financing activities		<u>52,921</u>	<u>16,750</u>	<u>191</u>	<u>(11)</u>
Net increase (decrease) in cash held		(5,611)	(28,457)	164	888
Cash at the beginning of the financial year		82,389	114,007	2,545	1,657
Effects of exchange rate changes on cash		(6,027)	(3,161)	-	-
Cash at the end of the financial year	6	<u>70,751</u>	<u>82,389</u>	<u>2,709</u>	<u>2,545</u>
Financing arrangements	20				
Non-cash financing and investing activities	41				

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

Contents

	Page
Note 1. Summary of significant accounting policies	7
Note 2. Segment information	13
Note 3. Revenue	15
Note 4. Profit/(loss) from ordinary activities	16
Note 5. Income tax	17
Note 6. Current assets - Cash assets	18
Note 7. Current assets - Receivables	19
Note 8. Current assets - Work in progress	19
Note 9. Current assets - Prepayments and deposits	19
Note 10. Non-current assets - Receivables	20
Note 11. Non-current assets - Investments accounted for using the equity method	20
Note 12. Non-current assets - Other financial assets	21
Note 13. Non-current assets - Property, plant & equipment	21
Note 14. Non-current assets - Deferred tax assets	23
Note 15. Current liabilities - Payables	24
Note 16. Current liabilities - Interest bearing liabilities	24
Note 17. Current liabilities - Current tax liabilities	24
Note 18. Current liabilities - Provisions	25
Note 19. Current liabilities - Contract work in progress	25
Note 20. Non-current liabilities - Interest bearing liabilities	25
Note 21. Non-current liabilities - Deferred tax liabilities	27
Note 22. Non-current liabilities - Provisions	28
Note 23. Non-current liabilities - Other	28
Note 24. Contributed equity	28
Note 25. Reserves and retained profits	29
Note 26. Outside equity interests in controlled entities	30
Note 27. Equity	31
Note 28. Dividends	31
Note 29. Financial instruments	31
Note 30. Director and executive disclosures	36
Note 31. Remuneration of auditors	42
Note 32. Contingent liabilities and contingent assets	42
Note 33. Commitments for expenditure	43
Note 34. Employee benefits	44
Note 35. Related party Information	45
Note 36. Investments in controlled entities	46
Note 37. Investments in associates	47
Note 38. Interests in joint ventures	48
Note 39. Events occurring after reporting date	52

Note 40.	Reconciliation of profit/(loss) from ordinary activities after income tax to net cash inflow/(outflow) from operating activities	53
Note 41.	Non-cash financing and investing activities	53
Note 42.	Earnings per share	54
Note 43.	Impacts of adopting Australian equivalents to IFRS	55

Note 1. Summary of significant accounting policies

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the *Corporations Act 2001*.

The financial report has been prepared in accordance with the historical cost convention and, except where stated, does not take into account changing money values or current valuations of non-current assets. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

The Australian Accounting Standards Board (AASB) has adopted International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006. Information about how the transition to AIFRS is being managed, and the known or reliably estimable impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS, are set out in Note 43.

(a) Principles of consolidation

The consolidated financial statements include those of Clough Limited and its controlled entities, which are listed in Note 36. The consolidated financial statements are referred to as the Clough Group.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed. All significant inter-entity transactions and balances have been eliminated. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

(b) Equity accounting of associated companies

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits and losses of associates is recognised in the consolidated statement of financial performance, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

(c) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statements of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or the future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond a reasonable doubt, or if relating to tax losses when realisation is virtually certain.

Note 1. Summary of significant accounting policies (continued)

(d) Depreciation of property, plant and equipment

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:

Category	Useful life
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. Profits and losses on disposals of property, plant and equipment are taken into account in determining the profit for the year.

(e) Investments

Interests in listed and unlisted securities, other than controlled entities and associates in the consolidated financial statements, are brought to account at cost and dividend income is recognised in the statements of financial performance when receivable. Controlled entities and associates are accounted for in the consolidated financial statements as set out in notes 1(a) and 1(b) respectively.

Interests in a joint venture entities are accounted for as set out in note 1(p).

(f) Revenue and profit recognition on contracts

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 excess of progress billings over costs incurred or work in progress. Where a contract has progressed beyond the early stages contract revenue and expenses are recognised on a percentage completion basis and expected losses are recognised as soon as they become apparent.

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 that costs incurred to date bear compared to the estimated total costs of the contract.

(g) Foreign currency translation

Foreign currency transactions during the year are recorded in Australian currency using the rate of exchange prevailing at the date of the transaction. The financial statements of integrated foreign controlled entities are translated using the temporal method. At balance date, amounts receivable and payable are translated at the exchange rate prevailing at that date. Exchange gains and losses are brought to account in determining the profit or loss for the year. Property, plant and equipment and investments of integrated foreign subsidiaries are translated using the exchange rates current at date of purchase or date of revaluation.

The financial statements of self-sustaining foreign controlled entities are translated using the current rate method and any exchange differences are taken directly to the foreign currency translation reserve.

Note 1. Summary of significant accounting policies (continued)

(h) Work in progress and spare parts

Construction contracts are stated at cost, plus attributable profit to date (based on estimate of completion of each contract), less recognised losses and progress billings. Cost includes all costs directly related to contracts and an allocation of general overhead expenses incurred by the consolidated entity's contract operations to the extent recoverable under the contract. Losses are recognised in the period in which they become apparent.

Spare parts are valued at the lower of cost and net realisable value. Where appropriate, cost represents both variable and fixed costs. Costs are assigned by using specific identification of their individual costs.

(i) Derivative financial instruments

Forward exchange contracts

The consolidated entity enters into forward exchange contracts where it agrees to sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains or losses on forward exchange contracts are recognised in net profit except those relating to hedges of specific commitments that are deferred in the statement of financial position and included in the measurement of the sale or purchase when the underlying hedged transaction occurs.

(j) Receivables

Trade accounts receivable are generally settled within 30 days and are carried at amounts due. A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date. Bad debts are written off in the period in which they are identified.

(k) Trade and other creditors

Trade accounts payable, including accruals not yet billed, are recognised when the consolidated entity becomes obliged to make future payments as a result of a purchase of assets or services. Trade accounts payable are generally settled within 30 days.

(l) Interest bearing liabilities

Loans and bills of exchange are recognised when issued at the amount of the net proceeds received and carried at amortised cost until the liabilities are settled. Interest on the instruments is recognised as an expense on an effective yield basis.

Note 1. Summary of significant accounting policies (continued)

(m) Net fair values of financial assets and liabilities

Net fair values of financial instruments are determined as follows:

- Financial instruments traded in an organised financial market (traded securities) - current quoted market bid price for an asset. Quoted market prices are available for listed shares;
- Monetary financial assets and liabilities not traded in an organised financial market - trade debtors, trade accounts payable, accruals and dividends payable are carried at cost (which approximates net market value);
- Bills of exchange - current risk adjusted market rates;
- Investments in shares not traded in an organised financial market - Directors' estimates of net market values based on future cash flows, including transaction costs necessary to realise the securities, discounted at current risk adjusted market rates; and
- Foreign exchange contracts - difference between value of the contract at spot rate at balance date and the rate written in the contract.

(n) Employee benefits

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

The liability for employee benefits for wages and salaries, annual leave and sick leave represent present obligations resulting from employees' services up to the reporting date and are calculated at undiscounted amounts based on remuneration wage and salary rates expected to be paid when the liabilities are settled. Liabilities for wages and salaries and sick leave are recognised in current payables. Liabilities for annual leave are recognised in the current provision for employee benefits.

(ii) Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using 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.

(iii) Employee benefit on-costs

Employee benefit on-costs, including payroll tax, are recognised and included in employee benefit liabilities and costs when the employee benefits to which they relate are recognised as liabilities.

(o) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets.

Note 1. Summary of significant accounting policies (continued)

Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings
- amortisation of discounts or premiums relating to borrowings
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings
- finance lease charges, and
- certain exchange differences arising from foreign currency borrowings.

(p) Joint ventures

(i) Joint venture operations

The proportionate interests in the assets, liabilities and expenses of joint venture operations have been incorporated in the financial statements under the appropriate headings. Details of the joint ventures are set out in note 38.

(ii) Joint venture entities

The interests in joint venture entities are accounted for using the equity method. Under this method, the share of the profits or losses of entities are recognised as revenue in the statement of financial performance, and the share of movements in reserves is recognised in reserves in the statement of financial position. Details relating to the joint venture entities are set out in note 38.

(q) Acquisition of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is determined as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their fair value as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

(r) Recoverable amount of non-current assets

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cash flows included in determining recoverable amounts of non-current assets are undiscounted. Impairment provisions no longer required are released to profit or loss.

(s) Maintenance and repairs

Certain items of plant of the consolidated entity are required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with note 1(d). Other routine operating maintenance, repair costs and minor renewals are also charged as expenses as incurred.

Note 1. Summary of significant accounting policies (continued)

(t) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing the net profit after income tax attributable to members 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.

(u) Comparative figures

Comparative figures are, where appropriate, reclassified and restated so as to be comparable with the figures in the current year.

(v) Cash

Cash at bank and on hand and funds on deposit are stated at nominal value. For the purpose of the Statement of Cash Flows, cash includes cash on hand, at bank and short term deposits at call, net of outstanding bank overdrafts.

(w) Leases

A distinction is made between finance leases which effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

Operating lease payments are charged to the statements of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

Note 2. Segment information

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 investment sales and corporate and treasury assets and liabilities.

Geographical segments

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

Primary reporting - business segments

	Oil & Gas \$'000	Minerals & Infrastructure \$'000	Property \$'000	Other \$'000	Consolidated \$'000
2005					
Operating revenue	308,554	173,629	31,717	-	513,900
Other revenue	<u>3,051</u>	<u>2,253</u>	<u>4,756</u>	<u>25,356</u>	<u>35,416</u>
Revenue from ordinary activities	311,605	175,882	36,473	25,356	549,316
Share of net profits of associates and joint venture entities	<u>4,497</u>	<u>677</u>	<u>2,133</u>	<u>534</u>	<u>7,841</u>
Total segment revenue	<u>316,102</u>	<u>176,559</u>	<u>38,606</u>	<u>25,890</u>	<u>557,157</u>
Segment result	<u>(84,690)</u>	<u>7,291</u>	<u>9,582</u>	<u>11,765</u>	<u>(56,052)</u>
Segment assets	<u>217,749</u>	<u>129,253</u>	<u>44,530</u>	<u>55,101</u>	<u>446,633</u>
Segment liabilities	<u>141,246</u>	<u>46,995</u>	<u>7,882</u>	<u>65,366</u>	<u>261,489</u>
Investments in associates and joint venture entities	<u>12,981</u>	<u>1,374</u>	<u>9,748</u>	<u>511</u>	<u>24,614</u>
Acquisition 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>2,059</u>	<u>8,504</u>	<u>11</u>	<u>2,042</u>	<u>12,616</u>
Other non-cash expenses	<u>8,616</u>	<u>(748)</u>	<u>-</u>	<u>196</u>	<u>8,064</u>

Note 2. Segment information (continued)

Note 2. Segment information (continued)

	Oil & Gas \$'000	Minerals & Infrastructure \$'000	Property \$'000	Other \$'000	Consolidated \$'000
2004					
Operating revenue	524,735	180,515	14,549	4,340	724,139
Other revenue	<u>7,348</u>	<u>18,521</u>	<u>2,602</u>	<u>372</u>	<u>28,843</u>
Revenue from ordinary activities	532,083	199,036	17,151	4,712	752,982
Share of net profits of associates and joint venture entities	<u>3,006</u>	<u>739</u>	<u>1,731</u>	<u>486</u>	<u>5,962</u>
Total segment revenue	<u>535,089</u>	<u>199,775</u>	<u>18,882</u>	<u>5,198</u>	<u>758,944</u>
Segment result	<u>6,010</u>	<u>9,452</u>	<u>9,753</u>	<u>(6,058)</u>	<u>19,157</u>
Segment assets	<u>183,044</u>	<u>164,509</u>	<u>42,027</u>	<u>30,275</u>	<u>419,855</u>
Segment liabilities	<u>110,159</u>	<u>45,528</u>	<u>13,951</u>	<u>37,444</u>	<u>207,082</u>
Investments in associates and joint venture entities	<u>8,181</u>	<u>11,736</u>	<u>9,179</u>	<u>655</u>	<u>29,751</u>
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	<u>1,400</u>	<u>4,942</u>	<u>24</u>	<u>1,427</u>	<u>7,793</u>
Depreciation and amortisation expense	<u>3,015</u>	<u>14,986</u>	<u>21</u>	<u>3,400</u>	<u>21,422</u>
Other non-cash expenses	<u>11,057</u>	<u>3,883</u>	<u>-</u>	<u>1,467</u>	<u>16,407</u>

Secondary reporting - geographical segments

	Segment revenues from sales to external customers		Segment assets		Acquisitions of property, plant and equipment, intangibles and other non- current segment assets	
	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Australia	203,848	417,287	205,319	227,621	1,674	2,043
Asia	335,875	332,815	236,643	187,016	21,954	5,750
Other countries	<u>9,593</u>	<u>2,880</u>	<u>4,671</u>	<u>5,218</u>	<u>18</u>	<u>-</u>
	<u>549,316</u>	<u>752,982</u>	<u>446,633</u>	<u>419,855</u>	<u>23,646</u>	<u>7,793</u>

Clough Limited
Notes to the financial statements
30 June 2005
(continued)

Note 3. Revenue

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from operating activities				
Construction projects	459,883	624,598	4,490	-
Sale of goods	-	9,854	-	-
Share of revenue from joint venture operations	54,017	89,687	-	-
	<u>513,900</u>	<u>724,139</u>	<u>4,490</u>	<u>-</u>
 Revenue from outside the operating activities				
Interest from controlled entities	-	-	2,978	1,040
Other interest income	2,176	2,630	132	120
Dividends from controlled entities	-	-	-	1,229
Rent	28	423	-	-
Foreign currency translation gains	-	-	-	15
Fees from controlled entities	-	-	458	3,082
Sale of controlled entities and interest in joint venture operation	2,450	8,347	-	-
Sale of property, plant and equipment	2,841	12,913	11	-
Sale of other non-current assets	25,647	4,024	51,900	-
Other revenue	2,274	506	107	-
	<u>35,416</u>	<u>28,843</u>	<u>55,586</u>	<u>5,486</u>
 Revenue from ordinary activities (excluding share of equity accounted net profits of associates and joint venture entities)	<u>549,316</u>	<u>752,982</u>	<u>60,076</u>	<u>5,486</u>

Note 4. Profit/(loss) from ordinary activities

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
(a) Net gains and expenses				
Profit/(loss) from ordinary activities before income tax expense includes the following specific net gains and expenses:				
Net Gains				
Net gain/(loss) recognised in the statement of financial performance on the disposal of:				
Investments in controlled entities	-	-	14,542	-
Investments in associates and joint venture entities	9,900	1,337	-	-
Investments in other financial assets	1,617	24	-	-
Interest in joint venture operation	224	3,869	-	-
Property, plant and equipment	575	3,728	-	(21)
Expenses				
Cost of sales of goods	-	7,186	-	-
Depreciation and amortisation				
Freehold and leasehold land, buildings and improvements	92	103	-	-
Plant and equipment	12,524	21,319	9	8
Total depreciation	<u>12,616</u>	<u>21,422</u>	<u>9</u>	<u>8</u>
Other charges against assets				
Provision for diminution in other financial assets	284	(3,853)	-	-
Net movement in bad and doubtful debts provision in respect of trade debtors	(1,885)	429	-	-
Provision for impairment of non-current assets				
Land and buildings	-	1,595	-	-
Plant and equipment	-	(4,914)	-	-
Borrowing costs				
Interest and finance charges paid/payable	3,046	1,303	2,978	1,040
Net exchange (gains)/losses on foreign currency borrowings	-	(15)	-	(15)
Total borrowing costs	<u>3,046</u>	<u>1,288</u>	<u>2,978</u>	<u>1,025</u>
Rental expense on operating leases	3,355	3,057	-	-
Other Provisions				
Employee entitlements	<u>7,721</u>	<u>8,957</u>	<u>-</u>	<u>-</u>

Note 5. Income tax

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Income tax expense/(benefit)				
The income tax expense/(benefit) for the financial year differs from the amount calculated on the profit/(loss). The differences are reconciled as follows:				
Profit/(loss) from ordinary activities before income tax expense/(benefit)	<u>(56,052)</u>	<u>19,157</u>	<u>13,701</u>	<u>1,619</u>
Prima facie income tax calculated @ 30% (2004 - 30%)	(16,816)	5,747	4,110	486
Tax effect of permanent and other differences which increase/(decrease) income tax expense:				
Expenses incurred not deductible/(gains not assessable) for tax purposes	(2,932)	(48)	(4,392)	9
Research and development allowance	-	(450)	-	-
Effect of different rates of tax on overseas income including withholding tax on foreign revenue	2,506	(208)	-	-
Future tax benefit not recognised arising from - tax losses	20,400	4,625	282	-
Under/(over) provision in prior years	183	456	-	2
Benefit of timing differences previously not recognised	-	(7,262)	-	-
Rebateable dividends	(931)	-	-	(369)
Income tax expense attributable to profit from ordinary activities before impact of tax consolidation	<u>2,410</u>	<u>2,860</u>	<u>-</u>	<u>128</u>
Profit/(loss) from ordinary activities before income tax expense – tax consolidated group (excluding parent entity)			<u>(78,091)</u>	<u>26,570</u>
Prima facie income tax expense on profit/(loss) from ordinary activities at 30 per cent			(23,427)	7,971
Tax effect of permanent and other differences which increase/(decrease) income tax expense:				
Expenses incurred not deductible/(gains not assessable) for tax purposes			1,808	27
Research and development allowance			-	(450)
Future tax benefit not recognised arising from tax losses			20,118	1,362
Effect of different rates of tax on overseas income including withholding tax on foreign revenue			1,982	-
Under/(over) provision in prior year			182	(316)
Rebateable dividends			(931)	-
Grossing up of withholding tax on foreign revenue			-	(625)
Benefit of timing differences previously not recognised			<u>-</u>	<u>(7,262)</u>
Income tax expense/(benefit) – tax consolidated group (excluding parent entity)			<u>(268)</u>	<u>707</u>
Income tax expense/(benefit)	<u>2,410</u>	<u>2,860</u>	<u>(268)</u>	<u>835</u>

Note 5. Income tax (continued)

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

Tax losses

No part of the future income tax benefit shown in note 14 is attributable to tax losses. The directors estimate that the potential future income tax benefit at 30 June 2005 in respect of tax losses not brought to account is

	46,885	33,632	42,843	24,831
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This benefit for tax losses will only be obtained if:

- (i) the entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- (ii) the losses are transferred to an eligible entity in the consolidated entity, and
- (iii) the entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iv) no changes in tax legislation adversely affect the entity in realising the benefit from the deductions for the losses.

Tax consolidation legislation

Clough Limited and its wholly-owned Australian entities implemented the tax consolidation legislation as of 1 July 2002. The impact on the income tax expense for the year is disclosed in the tax reconciliation above.

As a consequence, Clough Limited, as the head entity in the tax consolidated group, has recognised current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group in these financial statements as if those transactions, events and balances were its own, in addition to the current and deferred tax balances arising in relation to its own transactions, events and balances.

Note 6. Current assets - Cash assets

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Cash at bank and on hand	50,610	26,027	2,709	2,545
Deposits	20,141	56,362	-	-
	70,751	82,389	2,709	2,545

Note 7. Current assets - Receivables

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Trade debtors	133,125	152,286	66	48
Less: Provision for doubtful debts	<u>2,530</u>	<u>4,415</u>	<u>-</u>	<u>-</u>
	130,595	147,871	66	48
Other debtors	15,622	10,876	-	130
Loans to controlled entities	-	-	51,271	46,461
Loans to other persons	-	953	-	-
Loans to associates and joint ventures entities	5,792	3,115	1,250	1,250
Loans to joint venture operations	-	-	-	1,931
Dividends receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,196</u>
	<u>152,009</u>	<u>162,815</u>	<u>52,587</u>	<u>66,016</u>

Note 8. Current assets - Work in progress

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Spare parts	4,595	4,567	-	-
Construction work in progress (amount due from customers for contract work)				
Construction work in progress	932,722	1,020,743	4,562	372
Less progress billings	<u>869,397</u>	<u>988,713</u>	<u>4,490</u>	<u>-</u>
	63,325	32,030	72	372
	<u>67,920</u>	<u>36,597</u>	<u>72</u>	<u>372</u>

Retentions on construction contracts in progress included in trade debtors total \$14,013,000 (2004 - \$13,258,000). Total progress billings and advances received in relation to construction contracts in progress amount to \$877,321,000 (2004 - \$993,391,000).

Contract work in progress (amounts due to customers for contract work) is detailed in Note 19.

Note 9. Current assets - Prepayments and deposits

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Prepayments and deposits	<u>17,684</u>	<u>14,590</u>	<u>-</u>	<u>-</u>

Note 10. Non-current assets - Receivables

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Trade debtors	10,334	1,099	-	-
Loans to controlled entities	-	-	143,746	96,525
Other loans	94	135	56	85
Loans to associates and joint venture entities	<u>750</u>	<u>750</u>	<u>-</u>	<u>-</u>
	<u>11,178</u>	<u>1,984</u>	<u>143,802</u>	<u>96,610</u>

Non-current assets pledged as security

Refer to note 20 for information on non-current assets pledged as security by the parent entity or its controlled entities.

Note 11. Non-current assets - Investments accounted for using the equity method

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Shares and interests in associates (notes 12 and 37)	10,614	9,889	-	-
Shares and interests in joint venture entities (note 38)	<u>14,000</u>	<u>19,862</u>	<u>-</u>	<u>-</u>
	<u>24,614</u>	<u>29,751</u>	<u>-</u>	<u>-</u>

Non-current assets pledged as security

Refer to note 20 for information on non-current assets pledged as security by the parent entity or its controlled entities

Note 12. Non-current assets - Other financial assets

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Investments traded on organised markets				
Shares in other corporations - at cost	3,613	6,493	2	2
Shares in other corporations - at recoverable amount	<u>5,353</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>8,966</u>	<u>6,493</u>	<u>2</u>	<u>2</u>
Other (non-traded) investments				
Shares in controlled entities - at cost (note 36)	-	-	61,000	42,675
Shares and units in other entities - at cost	6,641	2,102	-	-
Shares in associates - at cost	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,684</u>
Total non-traded shares - at cost	<u>6,641</u>	<u>2,102</u>	<u>61,000</u>	<u>48,359</u>
	<u>15,607</u>	<u>8,595</u>	<u>61,002</u>	<u>48,361</u>

Traded shares in other corporations

Listed securities are readily traded on recognised markets. The aggregate net fair values of the listed shares in other corporations included in non-current financial assets at 30 June 2005 is \$8,993,000 (2004: \$7,221,000).

Net fair values

The Directors consider the carrying amount of investments in unlisted securities approximate their net fair values.

Non-current assets pledged as security

Refer to note 20 for information on non-current assets pledged as security by the parent entity or its controlled entities.

Note 13. Non-current assets - Property, plant & equipment

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Land & buildings				
Freehold and leasehold land				
At cost	3,269	5,002	-	-
Less: Accumulated depreciation	<u>-</u>	<u>72</u>	<u>-</u>	<u>-</u>
	<u>3,269</u>	<u>4,930</u>	<u>-</u>	<u>-</u>
Buildings				
At cost	1,643	2,224	-	-
Less: Accumulated depreciation	<u>928</u>	<u>1,133</u>	<u>-</u>	<u>-</u>
	<u>715</u>	<u>1,091</u>	<u>-</u>	<u>-</u>
Total land and buildings	<u>3,984</u>	<u>6,021</u>	<u>-</u>	<u>-</u>

Note 13. Non-current assets - Property, plant & equipment (continued)

	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Plant and equipment				
Plant and equipment				
At cost	189,211	182,299	38	95
Less: Accumulated depreciation	<u>119,005</u>	<u>117,957</u>	<u>15</u>	<u>52</u>
	<u>70,206</u>	<u>64,342</u>	<u>23</u>	<u>43</u>
	<u><u>74,190</u></u>	<u><u>70,363</u></u>	<u><u>23</u></u>	<u><u>43</u></u>

Current value of land and buildings

The basis of valuation of land and buildings is fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. Based on Directors' estimates at balance date the current value of land and buildings is:

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Land and buildings				
At directors' estimate	<u>4,500</u>	<u>7,000</u>	<u>-</u>	<u>-</u>

Non-current assets pledged as security

Refer to note 20 for information on non-current assets pledged as security by the parent entity or its controlled entities.

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current year are set out below:

Note 13. Non-current assets - Property, plant & equipment (continued)

	Land & buildings \$'000	Plant & equipment \$'000	Plant & equipment under finance lease \$'000	Total \$'000
Clough Group				
Carrying amount at 1 July 2004	6,021	64,342	-	70,363
Additions	126	15,170	8,350	23,646
Disposals	-	(2,266)	-	(2,266)
Additions through acquisition of entity (note 36)	500	-	-	500
Depreciation/amortisation expense (note 4(a))	(92)	(12,425)	(99)	(12,616)
Disposal of interest in joint venture operation	(2,176)	-	-	(2,176)
Foreign currency exchange differences (note 1(g))	(395)	(2,866)	-	(3,261)
Carrying amount at 30 June 2005	<u>3,984</u>	<u>61,955</u>	<u>8,251</u>	<u>74,190</u>
	Land & buildings \$'000	Plant & equipment \$'000	Plant & equipment under finance lease \$'000	Total \$'000
Clough Limited				
Carrying amount at 1 July 2004	-	43	-	43
Disposals	-	(11)	-	(11)
Depreciation/amortisation expense (note 4(a))	-	(9)	-	(9)
Carrying amount at 30 June 2005	<u>-</u>	<u>23</u>	<u>-</u>	<u>23</u>

Note 14. Non-current assets - Deferred tax assets

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Future income tax benefit	<u>12,680</u>	<u>12,771</u>	<u>9,017</u>	<u>8,753</u>

Note 15. Current liabilities - Payables

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Trade creditors, advances and accruals	157,984	109,461	382	4
Unsecured interest free loans from associates and joint venture entities	1,104	1,255	-	-
Unsecured interest free loans from controlled entities	<u>-</u>	<u>-</u>	<u>-</u>	<u>32,799</u>
	<u>159,088</u>	<u>110,716</u>	<u>382</u>	<u>32,803</u>

Security completion bonds

In the construction industry bonds are required to be issued to clients as security for the completion of contracts.

Security and performance bonds issued to clients by controlled entities and counter indemnified by Clough Limited and other consolidated companies as at 30 June 2005 total \$111,707,000 (2004: \$139,560,000).

The above amounts exclude security and performance bonds issued on behalf of joint venture operations, which are set out in Note 38.

No losses due to the calling of the bonds are anticipated.

Note 16. Current liabilities - Interest bearing liabilities

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Secured				
Bank loans	49,448	34,500	46,000	34,500
Lease liability (note 33)	<u>1,361</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>50,809</u>	<u>34,500</u>	<u>46,000</u>	<u>34,500</u>
Unsecured				
Other interest bearing loans	<u>5,271</u>	<u>2,662</u>	<u>5,271</u>	<u>-</u>
	<u>5,271</u>	<u>2,662</u>	<u>5,271</u>	<u>-</u>
	<u>56,080</u>	<u>37,162</u>	<u>51,271</u>	<u>34,500</u>

Details of the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans are set out in note 20.

Note 17. Current liabilities - Current tax liabilities

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Income tax	<u>139</u>	<u>760</u>	<u>-</u>	<u>-</u>

Note 18. Current liabilities - Provisions

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Employee benefits (note 34)	<u>11,390</u>	<u>9,705</u>	<u>-</u>	<u>-</u>

Note 19. Current liabilities - Contract work in progress

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Contract work in progress (amounts due to customers for contract work)	<u>18,818</u>	<u>33,741</u>	<u>-</u>	<u>-</u>

Contract work in progress comprises the aggregate of contract costs incurred and recognised profits less recognised losses and progress billings for all contracts in progress for which progress billings exceed the aggregate of costs incurred plus recognised profits less recognised losses. In the prior year, the excess of progress billings over costs incurred and provisions for contract losses were separately disclosed in current liabilities.

Note 20. Non-current liabilities - Interest bearing liabilities

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Secured				
Bank loans	-	3,433	-	-
Lease liability (note 33)	<u>6,944</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total non-current interest bearing liabilities	<u>6,944</u>	<u>3,433</u>	<u>-</u>	<u>-</u>

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Secured liabilities				
Total secured liabilities (current and non-current) are:				
Bank overdrafts and bank loans	49,448	37,933	46,000	34,500
Lease liabilities	<u>8,305</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total secured liabilities	<u>57,753</u>	<u>37,933</u>	<u>46,000</u>	<u>34,500</u>

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.

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.

Note 20. Non-current liabilities - Interest bearing liabilities (continued)

Bank Covenants

Clough Limited has breached a number of its banking covenants as a direct consequence of the BassGas dispute and the impact on its financial results. Clough Limited's banking syndicate was notified of the initial breach in December 2004, they have formally acknowledged the breach in December 2004 and have continued to support the Company.

Assets pledged as security

The carrying amounts of non-current assets pledged as security are:

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Finance lease				
Plant and equipment under finance lease	8,251	-	-	-
First mortgage, fixed and floating charge				
Receivables - non current	11,178	1,984	143,802	96,610
Investments accounted for using the equity method	23,023	29,751	-	-
Other financial assets	8,996	8,595	61,002	48,361
Property, plant and equipment	<u>35,642</u>	<u>43,133</u>	<u>23</u>	<u>43</u>
Total non-current assets pledged as security	<u>87,090</u>	<u>83,463</u>	<u>204,827</u>	<u>145,014</u>

Note 20. Non-current liabilities - Interest bearing liabilities (continued)

Financing arrangements

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

Entities in the consolidated entity have access to financing arrangements with a number of financial institutions as follows at balance date:

Credit standby arrangements

Total facilities at balance date

Borrowings	95,377	79,095	-	-
Bonds and guarantees	<u>168,019</u>	<u>295,599</u>	<u>-</u>	<u>-</u>
	<u>263,396</u>	<u>374,694</u>	<u>-</u>	<u>-</u>

Used facilities at balance date

Borrowings	63,024	40,595	-	-
Bonds and guarantees	<u>112,931</u>	<u>139,560</u>	<u>-</u>	<u>-</u>
	<u>175,955</u>	<u>180,155</u>	<u>-</u>	<u>-</u>

Unused facilities at balance date

Borrowings	32,353	38,500	-	-
Bonds and guarantees	<u>55,088</u>	<u>156,039</u>	<u>-</u>	<u>-</u>
	<u>87,441</u>	<u>194,539</u>	<u>-</u>	<u>-</u>

Most of the group's banking facilities are of a revolving nature secured through a negative pledge and specific charges over the group's assets. The banks normally undertake at least one annual review of facilities provided to the group. Normally the reviews are held in the final quarter of the calendar year.

The parent company has drawn down \$51,271,000 (2004: \$34,500,000) under the group borrowing facility.

Note 21. Non-current liabilities - Deferred tax liabilities

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000

Provision for deferred income tax	<u>38</u>	<u>1,220</u>	<u>-</u>	<u>-</u>
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Note 22. Non-current liabilities - Provisions

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Employee benefits	6,764	8,029	-	-
Insurance claims	<u>2,228</u>	<u>2,316</u>	<u>-</u>	<u>-</u>
	<u>8,992</u>	<u>10,345</u>	<u>-</u>	<u>-</u>
				Insurance Claims \$'000

Clough Group

Carrying amount at 1 July 2004	2,316
Additional provisions recognised	48
Release of provisions	<u>(136)</u>
Carrying amount at 30 June 2005	<u>2,228</u>

Note 23. Non-current liabilities - Other

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Unsecured				
Unsecured interest free loan from controlled entities	<u>-</u>	<u>-</u>	<u>48,189</u>	<u>40,000</u>

Note 24. Contributed equity

	Clough Limited		Clough Limited	
	2005 Shares	2004 Shares	2005 \$'000	2004 \$'000
(a) Share capital				
Ordinary shares				
Fully paid ordinary	<u>480,232,225</u>	<u>420,232,225</u>	<u>115,512</u>	<u>75,508</u>

Note 24. Contributed equity (continued)

(b) Movements in ordinary share capital

Date	Details	Notes	Number of shares	Issue price	\$'000
30 June 2003	Opening balance		420,232,225		75,508
11 November 2004	Shares issued to Murray & Roberts		<u>60,000,000</u>	\$0.68	<u>40,800</u>
					116,308
	Less: Transaction costs arising on share issues				<u>796</u>
30 June 2005	Balance		<u>480,232,225</u>		<u>115,512</u>

(c) 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.

(d) 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.

Note 25. Reserves and retained profits

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(a) Reserves				
Foreign currency translation reserve	(21,521)	(14,848)	-	-
Capital reserve	<u>720</u>	<u>720</u>	<u>477</u>	<u>477</u>
	<u>(20,801)</u>	<u>(14,128)</u>	<u>477</u>	<u>477</u>
Movements:				
Foreign currency translation reserve				
Balance 1 July	(14,848)	(11,019)	-	-
Net exchange differences on translation of foreign controlled entity	<u>(6,673)</u>	<u>(3,829)</u>	-	-
Balance 30 June	<u>(21,521)</u>	<u>(14,848)</u>	<u>-</u>	<u>-</u>

Note 25. Reserves and retained profits (continued)

	Clough Group		Clough Limited	
	2005	2004	2005	2004
(b) Retained profits				
Retained profits at the beginning of the financial year	133,733	117,562	39,412	38,628
Net profit/(loss) attributable to members of Clough Limited	<u>(59,638)</u>	<u>16,171</u>	<u>13,969</u>	<u>784</u>
Retained profits at the end of the financial year	<u>74,095</u>	<u>133,733</u>	<u>53,381</u>	<u>39,412</u>

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, as described in note 1(g).

(ii) Capital reserve

The capital reserve is used to record capital profits on sale of certain non-current assets. The balance standing to the credit of the reserve may be used to distribute bonus shares and to pay cash dividends to shareholders.

Note 26. Outside equity interests in controlled entities

	Clough Group	
	2005	2004
	\$'000	\$'000
Interest in:		
Share capital	7,232	7,285
Reserves	(5,008)	(3,572)
Retained profits	<u>14,114</u>	<u>13,947</u>
	<u>16,338</u>	<u>17,660</u>

Note 27. Equity

	Notes	Clough Group		Clough Limited	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Total equity at the beginning of the financial year		212,773	201,580	115,397	114,613
Total changes in equity recognised in the statements of financial performance		(66,311)	12,342	13,969	784
Transactions with owners as owners:					
Contributions of equity, net of transaction costs	24	40,004	-	40,004	-
Total changes in outside equity interest	26	(1,322)	(1,149)	-	-
Total equity at the end of the financial year		<u>185,144</u>	<u>212,773</u>	<u>169,370</u>	<u>115,397</u>

Note 28. Dividends

No dividends were paid or declared during the year or subsequent to the year end (2004: Nil).

Note 29. Financial instruments

(a) Foreign exchange risk

Forward exchange risk

The consolidated entity has entered into forward exchange contracts to sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contracts with anticipated future cash flows from sales and purchases in foreign currencies, to protect against the possibility of losses from future exchange rate fluctuations. Exchange gains or losses on forward exchange contracts are recognised in the consolidated statement of financial performance except those relating to hedges of specific commitments, which are deferred in the statement of financial position and included in the measurement of the sale or purchase. The following table sets out the gross value of Australian dollars to be received under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the consolidated entity:

At balance date, the details of outstanding contracts are:

Note 29. Financial instruments (continued)

			Weighted average exchange rate	
	2005	2004	2005	2004
	Buy Australian dollars			
Sell US dollars	Total Value (AUD\$'000's)			
Forward foreign exchange contracts				
Maturity				
0 - 12 months	47,104	20,124	0.7515	0.7079
12 - 24 months	7,684	4,579	0.7483	0.7150
	Buy US Dollars			
Sell Sterling	Total Value (US\$'000's)			
Forward foreign exchange contracts				
Maturity				
0 - 12 months	10,386	-	1.8913	-
	Buy US Dollars			
Sell Norwegian Kroner	Total Value (US\$'000's)			
Forward foreign exchange contracts				
Maturity				
0 - 12 months	12,026	-	6.4311	-
	Buy Australian Dollars			
Sell Danish Kroner	Total Value (AUD\$'000's)			
Forward foreign exchange contracts				
Maturity				
0 - 12 months	12,887	-	4.3560	-
	Buy Euro's			
Sell Danish Kroner	Total Value (Euro's '000's)			
Forward foreign exchange contracts				
Maturity				
0 - 12 months	4,554	-	7.4662	-
	Buy Euro's			
Sell Australian Dollars	Total Value (Euro's '000's)			
Forward foreign exchange contracts				
Maturity				
0 - 12 months	3,692	-	0.5822	-

Note 29. Financial instruments (continued)

	Weighted average exchange rate			
	2005	2004	2005	2004
	Buy Indian Rupees			
Sell US dollars	Total Value (Ind Rupees '000's)			
Forward foreign exchange contracts				
Maturity				
0 - 12 months	218,776	-	43.7551	-
	Buy Euros			
Sell US dollars	Total Value (Euro's '000's)			
Forward foreign exchange contracts				
Maturity				
0 - 12 months	1,756	-	1.3039	-
	Buy Australian Dollars			
Sell PNG Kina	Total Value (AUDS'000's)			
Forward foreign exchange contracts				
Maturity				
0 - 12 months	1,404	-	0.4078	-

The net deferred costs and exchange gains and losses in hedges of anticipated foreign currency purchases and sales were:

	2005	2004
	\$'000	\$'000
Net unrealised gains/(losses) *	2,013	(325)

* Shown on the statements of financial position as other current debtors/creditors.

(b) Credit risk exposures

The carrying values of financial assets included in the consolidated statement of financial position represent the consolidated entity's maximum exposure to credit risk in relation to these assets. Where entities have a right of set-off and intend to settle on a net basis, this set-off has been reflected in the financial statements in accordance with Accounting Standards.

For unrecognised financial assets, credit risk arises from the potential failure of counterparties to meet their obligations under contracts or arrangements. Credit risk on off-balance sheet derivative contracts is minimised, as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

Note 29. Financial instruments (continued)

(c) Interest rate risk exposures

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate by maturity periods is set out in the following table. For interest rates applicable to each class of asset or liability refer to individual notes to the financial statements.

2005	Fixed interest maturing in:					Total \$'000
	Floating interest rate \$'000	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Non interest bearing \$'000	
Financial assets						
Cash and deposits	52,663	-	-	-	18,088	70,751
Trade debtors	-	-	-	-	140,929	140,929
Other debtors	-	-	-	-	15,622	15,622
Loans	-	-	-	-	6,636	6,636
Shares in other corporations	-	-	-	-	15,607	15,607
	<u>52,663</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>196,882</u>	<u>249,545</u>
Weighted average interest rate	2.81 %	- %	- %	- %		
Financial liabilities						
Trade and other creditors	-	-	-	-	157,984	157,984
Bank loans	49,448	-	-	-	-	49,448
Other loans	-	5,271	-	-	1,104	6,375
Lease liabilities	-	1,361	6,944	-	-	8,305
	<u>49,448</u>	<u>6,632</u>	<u>6,944</u>	<u>-</u>	<u>159,088</u>	<u>222,112</u>
Weighted average interest rate	6.74 %	7.67 %	8.00 %	- %		
Net financial assets (liabilities)	<u>3,215</u>	<u>(6,632)</u>	<u>(6,944)</u>	<u>-</u>	<u>37,794</u>	<u>27,433</u>

Note 29. Financial instruments (continued)

2004	Fixed interest maturing in:				Total \$'000
	Floating interest rate \$'000	1 year or less \$'000	More than 5 years \$'000	Non interest bearing \$'000	
Financial assets					
Cash and deposits	30,354	41,081	-	10,954	82,389
Trade debtors	-	-	-	148,970	148,970
Other debtors	-	-	-	10,876	10,876
Loans	-	-	-	4,953	4,953
Shares in other corporations	-	-	-	8,595	8,595
	<u>30,354</u>	<u>41,081</u>	<u>-</u>	<u>184,348</u>	<u>255,783</u>
Weighted average interest rate	1.97 %	0.13 %	-	%	
Financial liabilities					
Trade and other creditors	-	-	-	109,461	109,461
Bank loans	37,933	-	-	-	37,933
Other loans	-	2,662	-	1,255	3,917
	<u>37,933</u>	<u>2,662</u>	<u>-</u>	<u>110,716</u>	<u>151,311</u>
Weighted average interest rate	5.96 %	5.83 %	-	%	
Net financial assets (liabilities)	<u>(7,579)</u>	<u>38,419</u>	<u>-</u>	<u>73,632</u>	<u>104,472</u>

(d) Net fair value of financial assets and liabilities

(i) On-balance sheet

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

Equity investments traded on organised markets have been valued by reference to market prices prevailing at balance date. For non-traded equity investments, the net fair value is an assessment by the directors based on the underlying net assets, future maintainable earnings and any special circumstances pertaining to a particular investment.

(ii) Off-balance sheet

For forward exchange contracts, the net fair value is taken to be the unrealised gain or loss at balance date calculated by reference to the current forward rates for contracts with similar maturity profiles.

Note 30. Director and executive disclosures

(a) Specified 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 (appointed on 11 November 2004)

WH Clough

N Jorek (appointed on 11 November 2004)

RW Kelly

MB Robinson

(b) Specified Executives

The following persons were the executives with the greatest authority for the strategic direction and management of the consolidated entity ("specified executives") during the financial year:

Name	Position
NV Hall	Former Chief Executive Officer - Oil & Gas
SR High	Chief Executive Officer - Services
JFB Sheridan	President Director - PT Petrosea Tbk
ME Anderson	Deputy Chief Executive Officer - Services
GL Miller	Chief Executive Officer - Infrastructure & Construction
PD Archer	Group Manager - Legal and Commercial
JE Tucker	General Manager - Property
S Rogers	Chief Executive Officer - Oil & Gas

S Rogers commenced employment with the Clough Group on 23 May 2005. PD Archer resigned from the Clough Group and departed on 17 June 2005 and NV Hall's employment with the Clough Group was terminated on 19 May 2005.

ME Andersen commenced as Deputy Chief Executive Officer - Services on 1 April 2005, having previously been President Director - PT Petrosea Tbk. JFB Sheridan was appointed as President Director - PT Petrosea Tbk on 23 March 2005.

(c) Remuneration of Specified Directors and Specified Executives

(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 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 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.

Note 30. Director and executive disclosures (continued)

(c) Remuneration of Specified Directors and Specified Executives (continued)

(i) Remuneration Policy (continued)

- 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 2005 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 2005 of \$600,000, to be reviewed annually by the remuneration committee.
- 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.

Note 30. Director and executive disclosures (continued)

(d) Remuneration of Specified Directors and Specified Executives

Details of the nature and amount of each element of the remuneration of each specified Director of Clough Limited and each of the specified executives of the company and the consolidated entity are set out in the following tables.

(i) Specified Directors of Clough Limited

2005	Primary				Post-employment	Equity	Other Compensation	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Other	Super-annuation	Options	Termination Benefits	
Name	\$	\$	\$	\$	\$	\$	\$	\$
JM Clough	270,000	-	4,920	3,134	24,300	-	-	302,354
CM Anderson	75,000	-	-	607	6,750	-	-	82,357
WH Clough	29,000	-	4,920	-	-	-	-	33,920
BC Bruce (i)	-	-	-	-	-	-	-	-
N Jorek (i)	-	-	-	-	-	-	-	-
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	130,914	115,808	17,707	-	2,492,288

2004	Primary				Post-employment	Equity	Other Compensation	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Other	Super-annuation	Options	Termination Benefits	
Name	\$	\$	\$	\$	\$	\$	\$	\$
JM Clough	264,877	-	4,560	1,729	23,839	-	-	295,005
CM Anderson	60,577	-	-	602	5,452	-	-	66,631
WH Clough	67,500	-	4,560	-	-	-	-	72,060
RW Kelly	59,295	-	-	-	5,337	-	-	64,632
MB Robinson	75,000	-	-	-	6,750	-	-	81,750
DPA Singleton	710,129	300,000	4,180	97,446	32,042	14,647	-	1,158,444
AJ Walsh	358,835	120,000	3,040	46,912	23,508	21,526	-	573,821
RJ Jewkes #	184,247	-	-	1,622	16,582	563	593,412	796,426
MJ Goddard *	94,478	-	1,458	805	18,894	471	-	116,106
MJ Goddard **	190,879	56,000	3,102	1,715	40,210	1,001	-	292,907
Total	2,065,817	476,000	20,900	150,831	172,614	38,208	593,412	3,517,782

(i) BC Bruce and N Jorek were appointed as Directors of Clough Limited on 11 November 2004. No remuneration was paid to these Directors during the year.

RJ Jewkes received a termination payment of \$593,412 which included unused annual leave and long service leave.

* MJ Goddard resigned as a Director on 25 October 2003.

** MJ Goddard was a specified executive from 25 October 2003 until 30 June 2004.

Note 30. Director and executive disclosures (continued)

(d) Remuneration of Specified Directors and Specified Executives (continued)

(ii) Specified Executives of the Consolidated Entity

2005	Primary				Post-employment	Equity	Other Compensation	Total
	Cash salary and fees	Cash bonus (i)	Non-monetary benefits	Other (ii)	Super-annuation	Options	Termination Benefits	
Name	\$	\$	\$	\$	\$	\$	\$	\$
NV Hall # Former CEO Oil & Gas SR High	386,457	17,400	4,305	3,952	34,691	-	315,375	762,180
CEO Services ME Anderson	366,500	230,600	4,920	4,530	91,845	-	-	698,395
Deputy CEO Services GL Miller	355,041	68,168	1,230	64,939	8,955	-	-	498,333
CEO Infrastructure & Construction JE Tucker	365,194	21,000	4,920	3,707	31,950	-	-	426,771
General Manager - Property PD Archer ^	221,598	131,366	4,920	2,260	21,904	-	-	382,048
Group Manager - Legal & Commercial JFB Sheridan ~	284,419	-	4,715	3,367	26,595	-	-	319,096
President Director PT Petrosea Tbk S Rogers *	192,328	14,635	-	84,923	-	-	-	291,886
CEO Oil & Gas	45,594	-	410	359	4,103	-	-	50,466
Total	2,217,131	483,169	25,420	168,037	220,043	-	315,375	3,429,175

2004	Primary				Post-employment	Equity	Other Compensation	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Other (ii)	Super-annuation	Options	Termination Benefits	
Name	\$	\$	\$	\$	\$	\$	\$	\$
NV Hall CEO Oil & Gas SR High	437,013	32,000	4,560	3,644	35,820	-	-	513,037
CEO Services ME Anderson	399,686	32,000	4,560	4,033	57,308	-	-	497,587
President Director PT Petrosea Tbk PD Archer	302,581	61,200	-	93,081	-	736	-	457,598
Group Manager - Legal & Commercial I Ripley	277,343	50,000	4,560	3,098	22,912	-	-	357,913
Group Manager - Strategy and Business Development	269,539	32,000	4,560	2,521	26,141	-	-	334,761
Total	1,686,162	207,200	18,240	106,377	142,181	736	-	2,160,896

(i) Bonus includes adjustments for previous year.

(ii) Other includes travel and accommodation and benefits for executives located overseas.

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.

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

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

* S Rogers commenced on 23 May 2005.

Note 30. Director and executive disclosures (continued)

(d) Remuneration of Specified Directors and Specified Executives (continued)

(iii) Options granted as remuneration

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.

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.

(iv) Options exercised

No options were exercised during the year under the Clough Limited Executive Option Plan.

(v) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each specified director of Clough Limited and each of the specified executives of the consolidated entity, including their personally-related entities, are set out below.

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
<i>Directors of Clough Limited</i>						
DPA Singleton	5,000,000	-	-	-	5,000,000	2,000,000
AJ Walsh	3,000,000	-	-	-	3,000,000	1,200,000
<i>Specified executives of the consolidated entity</i>						
ME Anderson	50,000	-	-	(50,000)	-	-
JFB Sheridan	50,000	-	-	-	50,000	50,000
MJ Goddard	100,000	-	-	(100,000)	-	-

(vi) Share holdings

The numbers of shares in the company held during the financial year by each director of Clough Limited and each of the specified executives of the consolidated entity, including their personally-related entities, are set out below.

Note 30. Director and executive disclosures (continued)

Equity instrument disclosures relating to directors and executives (continued)

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 & N Jorek through Zero Nominees Pty Ltd [^]	-	-	144,781,445	144,781,445
Specified executives of the consolidated entity				
Ordinary shares				
NV Hall	2,027	-	(2,027)	-
ME Anderson	30,788	-	-	30,788
JFB Sheridan	128,579	-	(128,579)	-
JE Tucker	7,308	-	-	7,308
MJ Goddard	53,009	-	(53,009)	-

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

(e) Other transactions with directors and specified executives

(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 \$378,932 (2004: \$309,682). These services were provided on normal commercial terms and conditions.

The ultimate parent entity in the wholly owned group is Clough Limited. All transactions with related parties are made on normal commercial terms and conditions. There are no transactions with related parties requiring disclosure except as otherwise disclosed in these financial statements.

During the year remuneration was paid to MJ Goddard, a former director, for services provided up to the date of his resignation on 31 January 2005. The amount paid including termination payments for unused annual leave and long service leave was \$554,276.

Note 31. Remuneration of auditors

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$	\$	\$	\$
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:				
1. Audit services				
Fees paid to PricewaterhouseCoopers Australian firm:				
Audit and review of financial reports and other audit work under the Corporations Act 2001	367,000	295,270	-	-
Fees paid to related practices of the auditor - Overseas PricewaterhouseCoopers firms	146,951	143,235	-	-
Fees paid to non-PricewaterhouseCoopers audit firms for the audit or review of financial reports of any entity in the consolidated entity	<u>46,624</u>	<u>20,862</u>	-	-
Total remuneration for audit services	<u>560,575</u>	<u>459,367</u>	<u>-</u>	<u>-</u>
2. Other services				
Fees paid to PricewaterhouseCoopers Australian firm:				
Provision of financial reporting package	50,780	-	-	-
Review of internal audit function	20,000	-	-	-
Other services - training session on AIFRS	3,000	-	-	-
Other services	-	71,421	-	-
Fees paid to related practices of the auditor - Overseas PricewaterhouseCoopers firms	128,415	52,889	-	-
Fees paid to non-PricewaterhouseCoopers audit firms	<u>21,741</u>	<u>1,299</u>	-	-
Total remuneration for other services	<u>223,936</u>	<u>125,609</u>	<u>-</u>	<u>-</u>

Note 32. Contingent liabilities and contingent assets

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

Note 33. Commitments for expenditure

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Operating leases				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	1,417	2,396	-	-
Later than one year but not later than 5 years	4,213	6,106	-	-
Later than 5 years	<u>4,212</u>	<u>1,290</u>	-	-
	<u>9,842</u>	<u>9,792</u>	<u>-</u>	<u>-</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.

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Finance leases				
Commitments in relation to finance leases are payable as follows:				
Within one year	1,951	-	-	-
Later than one year but not later than 5 years	2,270	-	-	-
Later than 5 years	<u>5,799</u>	-	-	-
Minimum lease payments	10,020	-	-	-
Less: Future finance charges	<u>1,715</u>	-	-	-
Recognised as a liability	<u>8,305</u>	-	-	-
Total lease liabilities	<u>8,305</u>	-	-	-
Representing lease liabilities:				
Current (note 16)	1,361	-	-	-
Non-current (note 20)	<u>6,944</u>	-	-	-
	<u>8,305</u>	-	-	-

The weighted average interest rate implicit in the leases is 8%.

Note 34. Employee benefits

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Employee benefit and related on-costs liabilities				
Provision for employee entitlements - current (note 18)	11,390	9,705	-	-
Provision for employee entitlements - non-current (note 22)	<u>6,764</u>	<u>8,029</u>	<u>-</u>	<u>-</u>
Aggregate employee benefit and related on-costs liabilities	<u><u>18,154</u></u>	<u><u>17,734</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
	Number		Number	
	2005	2004	2005	2004
Employee numbers				
Employee numbers at the end of the financial year	<u>2,626</u>	<u>2,839</u>	<u>-</u>	<u>-</u>

Clough Share Purchase Plan

The Clough Share Purchase Plan was adopted by a resolution of shareholders of the Company on 16 February 1998. All employees, including executive Directors, of the consolidated entity who had been employed for at least 12 months continuously were eligible to be invited to participate in the Plan. Participation by Directors was subject to prior approval of a general meeting of the Company.

On 12 March 1998, 20,004,200 shares were allocated to 571 employees at an issue price of 1 cent per share. The value of each share allocated was 76 cents. Participating employees are required to pay the 1 cent issue price within 30 days of cessation of employment, or within 12 months of death and, in any case, by 1 March 2008 (subject to any decision of the Trustee to extend the due date).

The loans receivable by the consolidated entity from the Plan at balance date amounted to \$30,562 (2004 \$50,097). As at 30 June 2005 3,056,200 (2004: 5,009,700) ordinary shares were held by the Plan's Trustee. No shares were issued during the year.

Employee share scheme

The Clough Employee Share Ownership Plan was adopted by a resolution of shareholders of the Company on 16 February 1998. The Plan was subsequently amended at the annual general meeting of the Company on 16 November 1998. All current employees, including executive Directors, of the consolidated entity who have been employed for at least 3 years continuously are eligible to participate in the Plan.

The Plan operates within Federal taxation legislation, which allows the Plan to issue shares to participating employees of up to a value of \$1,000 per annum for no cash payment. Shares issued under the Plan cannot be sold until the earlier of 3 years after issue or the time when the participating employee ceases employment.

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.

For the acquisition of new shares the price paid by the Trustee will be equal to 95% of the market price of the Company's shares or such higher amounts as the Board may determine. If the Trustee acquires existing shares, the price will be the market price of the Company's shares.

Note 34. Employee benefits (continued)

No shares were issued to employees under the Plan during the year.

Existing Employee Share Loan Arrangement

The Company has in the past lent funds to employees to assist them in acquiring shares. The loans receivable from this arrangement at balance date from employees amounted to \$52,800 (2004: \$85,007).

These loans are interest free. Each employee is free to dispose of the shares to which the loan relates at any time. Upon ceasing employment within the consolidated entity, or selling the shares, the loan must be repaid.

It is not intended that any further loans will be made to employees under these arrangements and they will come to an end when the current loans are repaid.

Note 35. Related party Information

Directors and specified executives

Disclosures relating to directors and specified executives are set out in note 30.

Controlling Entities

The ultimate parent entity in the wholly owned group is Clough Limited. All transactions with related parties are made on normal commercial terms and conditions. There are no transactions with related parties requiring disclosure except as otherwise disclosed in these financial statements. Ownership interests in these controlled entities are set out in note 36.

Transactions between Clough Limited and other entities in the wholly-owned group during the years ended 30 June 2005 and 2004 consisted of:

- (a) loans advanced by Clough Limited
- (b) loans repaid to Clough Limited
- (c) the payment of interest on the above loans
- (d) the payment of dividends to Clough Limited
- (e) forward exchange contracts entered into by Clough Limited
- (f) the sale of various investments in controlled entities and associated entities to other group entities as part of a group restructuring, and
- (g) transactions between Clough Limited and its wholly-owned Australian controlled entities in accordance with the tax consolidation arrangements.

The transactions with controlled entities were conducted on normal commercial terms and conditions with the exception of certain investments which were transferred to various controlled entities at cost as part of the group restructure as detailed below.

Group Restructure

During the year, Clough Limited sold investments in various controlled entities and an associated entity to other group entities as part of a group restructuring designed to simplify the Clough Group structure. As a result of these transactions, Clough Limited has recognised a net profit of \$14,542,000 for the year ended 30 June 2005.

Since all these transactions are internal transactions within the Clough Group, there is no impact on the consolidated entity.

Superannuation commitments

The consolidated entity contributes sums on behalf of employees to a number of superannuation funds and schemes. In all cases these contributions are the only amounts payable by the consolidated entity.

Note 36. Investments in controlled entities

Name of entity	Country of incorporation	Note	Equity holding	
			2005 %	2004 %
Clough Limited			-	-
Challenge Insurance Pte Ltd	Singapore	(ii)	100	100
Clo Pty Ltd	Australia	(vi)	100	100
Clough Construction Queensland Pty Ltd	Australia		100	100
Clough Developments Pty Ltd	Australia	(vi)	100	100
Clough Engineering Limited	Australia	(vii)	100	100
Clough Engineering & Integrated Solutions (CEIS) Pty Ltd (formerly C Engineering & Integrated Services (CEIS) Pty Ltd)	Australia		100	100
C Engineering Concepts Pty Ltd	Australia	(vi)	100	100
Clough Java Offshore Pte Ltd	Singapore	(i)	100	100
Clough Mining Pty Ltd	Australia	(vi)	100	100
	Papua New Guinea			
Clough Niugini Limited	Guinea	(ii)	100	100
Clough Petrosea Pty Ltd	Australia	(vi)	100	100
Clough Petrosea Pte Ltd	Singapore	(i),(viii)	100	50
Llic Limited	Hong Kong	(ii)	100	100
Clough (Portugal) - Comércio Marítimo, Sociedade Unipessoal, Lda	Portugal	(vi)	100	100
Clough (Thailand) Co., Ltd	Thailand	(ii),(iii),(v)	49	49
Eclo Pty Ltd	Australia	(vi)	100	100
Clough Investments (ESOP) Pty Ltd (formerly Clough Property Holdings Pty Ltd)	Australia	(vi)	100	100
Clough Investment Holdings Pty Ltd	Australia	(vi),(ix)	100	-
Clough Property Holdings Pty Ltd	Australia	(ix)	100	-
Clough Operations Pty Ltd	Australia		100	100
Clough Overseas Pty Ltd	Australia		100	100
Asia Offshore Services Pte Ltd	Singapore	(i)	100	100
Clough International Singapore Pte Ltd	Singapore	(i)	100	100
PT Clough	Indonesia	(ii)	100	100
PT Petrosea Tbk	Indonesia	(ii),(iv)	82	82
Clough Malaysia Sdn Bhd	Malaysia	(ii)	100	100
Clough UK Limited	Scotland	(i)	100	100
Global Nippo Pte Ltd	Singapore	(i)	100	100
Clough Projects Pty Ltd	Australia		100	100
Clough Projects Australia Pty Ltd (formerly Clough Investments Pty Ltd)	Australia		100	100
Clough Projects International Pty Ltd	Australia		100	100
Clough Property Beaconsfield Pty Ltd	Australia	(vi)	100	100
Clough Property Developments Pty Ltd	Australia	(vi)	100	100
Clough Property Investments Pty Ltd	Australia	(vi)	100	100
Clough Property Mernda Pty Ltd	Australia	(vi)	100	100
Clough Property Ranford Road Pty Ltd	Australia	(vi)	100	100
Clough Resources Pty Ltd	Australia	(vi)	100	100
Clough Mining & Minerals Pty Ltd	Australia	(vi),(ix)	100	-
Clough Regional Pty Ltd	Australia	(vi),(ix)	100	-
Clough Property East Coast Pty Ltd	Australia	(vi),(ix)	100	-
Clough Property Geelong Pty Ltd	Australia	(vi),(ix)	100	-
Clough Property Ravenswood Pty Ltd	Australia	(vi),(ix)	100	-

Note 36. Investments in controlled entities (continued)

			2005	2004
			%	%
Clough Oil & Gas India Private Ltd	India	(i),(ix)	100	-
Clough Project Holdings Pty Ltd	Australia	(ix)	100	-
Clough Property Claremont Pty Ltd	Australia	(vi),(ix)	100	-
Clough Property Hook Close Pty Ltd	Australia	(vi),(ix)	100	-
Clough Property Lyndhurst Pty Ltd	Australia	(vi),(ix)	100	-
Clough (Spare No. 1) Pty Ltd	Australia	(vi),(ix)	100	-
Clough Walker Civil Pty Ltd (formerly HWE Clough JV Pty Ltd)	Australia	(vi),(viii)	100	50

- (i) Company is audited by another firm other than PricewaterhouseCoopers.
- (ii) Company is audited by an overseas PricewaterhouseCoopers firm.
- (iii) Outside equity interest is comprised of ordinary share capital, reserves and retained earnings.
- (iv) PT Petrosea Tbk is a public company listed on the Jakarta Stock Exchange.
- (v) Controlled entity due to a substantial shareholding and control of the Board of Directors.
- (vi) Controlled entity not audited, as it is a small proprietary company.
- (vii) 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 2006.
- (viii) Controlled entity acquired during the year.
- (ix) Controlled entity incorporated during the year.

Acquisition of controlled entities

On 1 January 2005, Clough Petrosea Pty Ltd acquired the remaining 50% of the issued share capital of Clough Petrosea Pte Ltd for \$494,000.

The operating results of the newly controlled entities have been included in the consolidated statements of financial performance since the respective acquisition dates. These acquisitions are not material to the Clough Group.

Note 37. Investments in associates

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are carried at cost by the parent entity. Information relating to the associates is set out below.

Name of company	Principal activity	Ownership interest		Clough Group carrying amount		Clough Limited carrying amount	
		2005	2004	2005	2004	2005	2004
		%	%	\$'000	\$'000	\$'000	\$'000
HR Connect Pty Ltd	Personnel recruitment	33.3	33.3	511	710	-	-
Landrow Limited	Property development	49.5	49.5	9,748	7,834	-	5,684
PT Tirta Kencana Cahaya Mandiri	Operation and management of water treatment plant	47	-	355	-	-	-
Twenty Two Mount Street Pty Ltd	Property investor	-	25	-	1,345	-	-
				<u>10,614</u>	<u>9,889</u>	<u>-</u>	<u>5,684</u>

Note 37. Investments in associates (continued)

	Clough Group	
	2005 \$'000	2004 \$'000
Movements in carrying amounts of investments in associates		
Carrying amount at the beginning of the financial year	9,889	11,398
Share of profit from ordinary activities after income tax	2,761	6,378
Dividends received/receivable	(636)	(500)
Investment sold	(1,564)	(1,750)
Investment reclassified as other financial asset	-	(5,637)
Associates acquired	164	-
Carrying amount at the end of the financial year	<u>10,614</u>	<u>9,889</u>
Results attributable to associates		
Profits from ordinary activities before income tax	3,002	6,592
Income tax expense	241	214
Profits from ordinary activities after income tax	2,761	6,378
Less: Dividends received/receivable	636	500
	2,125	5,878
Retained profits attributable to associates at the beginning of the financial year	4,362	(1,516)
Retained profits attributable to associates at the end of the financial year	<u>6,487</u>	<u>4,362</u>

Note 38. Interests in joint ventures

Joint venture operations

Name and principal activity

	% Interest Held during the Year 2005	% Interest Held during the Year 2004
	ABB Clough Joint Venture Design and construction of phosphoric acid plant and port facilities	-
Agility Clough Lucas Joint Venture Gas pipeline construction	-	25
Airlie Beach Joint Venture Property development	50	-
Aker Clough Joint Venture Hook-up and commissioning of offshore gas facilities	50	50
Boulderstone Clough Joint Venture Operations and maintenance of inner-city freeway system	50	50

Note 38. Interests in joint ventures (continued)

Clough Aker Joint Venture	50	50
Transport and installation of offshore oil & gas production platforms		
Clough AMEC Joint Venture - CoP	50	-
Operations and maintenance asset management services to the oil and gas sector.		
Clough AMEC Joint Venture - WEL	50	-
Operations and maintenance asset management services to the oil and gas sector.		
Clough Demol Joint Venture	80	-
Property development		
Clough Downer Joint Venture	50	50
Design and construction of coal ship loader facilities		
Clough Lucas Joint Venture	50	50
Gas pipeline construction		
Clough Lucas (Bundeena) Joint Venture	80	80
Design and construction of water cycle management scheme		
Clough Parkridge Joint Venture	-	50
Property development		
Clough Seymour Whyte Joint Venture	50	50
Design and construction of bus transport dual carriageway		
Clough Seymour Whyte Joint Venture - Lake Cowal	50	-
Construction of Lake Cowal gold plant - civils		
Clough Shedden Uhde Joint Venture	50	50
Design and construction of polypropylene plant expansion		
ESI Clough Joint Venture	-	50
Design and construction of wastewater treatment facility		
Henry Walker Eltin - Clough Joint Venture	50	50
Design and construction of bus transport freeway system		
Henry Walker Eltin - Clough Joint Venture Roe Highway Stage 7	-	50
Design and construction of road freeway system		
Kellogg Joint Venture - Train 4	17.5	17.5
Design, procurement and construction of LNG facilities		
Kellogg Joint Venture - Gorgon	20	-
Pre-front end engineering design (FEED) for Greater Gorgon Downstream LNG Project.		
Kvaerner Clough Joint Venture	33.3	33.3
Design and construction of process plant facilities		
Moltoni Clough Joint Venture	50	50
Property development		
Nisconi Petrosea Joint Operation	50	50
Design and engineering of offshore gas platform		
Pama Petrosea Joint Operation	50	50
Contract mining operations		
PTSC Clough Joint Venture	50	50
Offshore installation		
Rapley Clough Joint Venture	50	50
Property development		
6 Miles Road Joint Venture	-	50
Property development		
Sonsub Clough Partnership	50	50
Offshore installation		
Trophy Assets Rapley Clough Joint Venture	25	25
Property development		
WA21 Woodman Alliance	-	50
Design and construction of wastewater treatment facility		

Note 38. Interests in joint ventures (continued)

Joint venture operations

The consolidated entity's interests in the assets employed in the joint venture operations are included in the consolidated statements of financial position, in accordance with the accounting policy described in note 1(p), under the following classifications:

	Clough Group		Clough Limited	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Current assets				
Cash	4,879	7,508	-	-
Receivables	10,340	10,259	-	-
Work in progress	10,451	6,053	-	-
Prepayments and deposits	<u>840</u>	<u>141</u>	<u>-</u>	<u>-</u>
Total current assets	<u>26,510</u>	<u>23,961</u>	<u>-</u>	<u>-</u>
Non-current assets				
Property plant and equipment	<u>24</u>	<u>2,192</u>	<u>-</u>	<u>-</u>
	<u>24</u>	<u>2,192</u>	<u>-</u>	<u>-</u>
Total non-current assets	<u>24</u>	<u>2,192</u>	<u>-</u>	<u>-</u>
Total assets	<u>26,534</u>	<u>26,153</u>	<u>-</u>	<u>-</u>

Share of security and performance bonds issued by Clough Limited and certain controlled entities on behalf of joint venture operations total \$1,224,000 (2004: \$Nil).

Note 38. Interests in joint ventures (continued)

Joint venture entities

Information relating to the joint venture entities, presented in accordance with the accounting policy described in note 1(p), is set out below.

Name and principal activity	Note	Ownership Interest		Carrying value of investment			
		2005	2004	Clough Group		Clough Limited	
				2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Al Bilad S&B Clough, Ltd Engineering and construction		50 %	50 %	325	361	-	-
Clough Petrosea Pte Ltd Land holding	(iii)	100 %	50 %	-	-	-	-
Clough Sino-Thai Co Ltd Engineering and construction		50 %	- %	1,235	-	-	-
Covus Corporation Pty Ltd Subsea engineering	(ii)	72.73 %	72.73 %	6,112	6,098	-	-
Elclough Pty Ltd Property Manager	(v)	50 %	- %	-	-	-	-
Mashhor Clough Sdn Bhd Offshore pipeline installation	(i)	50 %	50 %	89	190	-	-
Mermaid Clough Pty Ltd Shallow water pipeline installation		50 %	50 %	97	495	-	-
MPA Energy Services Pty Ltd Operations and maintenance		50 %	50 %	1,374	697	-	-
Shark Bay Resources Pty Ltd Salt producer	(iv)	- %	50 %	-	11,039	-	-
Shedden Uhde Pty Ltd (formerly Shedden Holdings Pty Ltd) Engineering and construction	(vi)	50 %	50 %	<u>4,768</u>	<u>982</u>	-	-
				<u>14,000</u>	<u>19,862</u>	-	-

- (i) This entity has a 31 December year end.
- (ii) This entity is 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 sold during the year.
- (v) This entity was acquired during the year.
- (vi) This entity has a 31 October year end.

Note 38. Interests in joint ventures (continued)

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Retained profits attributable to joint venture entities				
At the beginning of the financial year	8,414	16,019	-	-
At the end of the financial year	12,751	8,414	-	-
Movement in carrying amount of investments in joint venture entities				
Carrying amount at the beginning of the financial year	19,862	28,378	-	-
New capital invested	495	-	-	-
Share of profits/(losses) from ordinary activities after related income tax expense	5,079	(416)	-	-
Investment sold	(11,136)	(909)	-	-
Distributions received	(300)	(7,191)	-	-
Carrying amount at the end of the financial year	<u>14,000</u>	<u>19,862</u>	<u>-</u>	<u>-</u>
Share of joint venture entities assets and liabilities				
Current assets	31,104	18,011	-	-
Non-current assets	<u>11,792</u>	<u>21,070</u>	-	-
Total assets	<u>42,896</u>	<u>39,081</u>	-	-
Current liabilities	25,729	10,283	-	-
Non-current liabilities	<u>3,167</u>	<u>8,936</u>	-	-
Total liabilities	<u>28,896</u>	<u>19,219</u>	-	-
Net assets	<u>14,000</u>	<u>19,862</u>	-	-
Share of joint venture entities revenues, expenses and results				
Revenues	80,662	54,763	-	-
Expenses	<u>75,223</u>	<u>55,261</u>	-	-
Profit from ordinary activities before income tax	<u>5,439</u>	<u>(498)</u>	-	-

Note 39. Events occurring after reporting 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 2005.

Note 40. Reconciliation of profit/(loss) from ordinary activities after income tax to net cash inflow/(outflow) from operating activities

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Profit/(loss) from ordinary activities after income tax	(58,462)	16,297	13,969	784
Depreciation and amortisation	12,616	21,422	9	8
(Profit)/loss on sale of non-current assets	(12,092)	(5,088)	-	21
(Profit)/loss on disposal of controlled entities and interest in joint venture operation	(224)	(3,794)	(14,542)	-
Write down of investments to recoverable amount	284	-	-	-
Share of profits of associates and joint venture entities not received as dividends	(6,904)	1,729	-	-
Net exchange differences and other non-cash items	1,128	(1,700)	-	-
Change in operating assets and liabilities, net of effects from acquisition and disposal of controlled entities				
Decrease (increase) in receivables	(7,014)	55,539	112	(94)
Decrease (increase) in work in progress	(31,323)	(28,560)	300	(348)
Decrease (increase) in future income tax benefit	91	(2,255)	(264)	835
Decrease (increase) in other current assets	(3,069)	(8,683)	-	44
Increase (decrease) in trade and other creditors	48,126	(47,196)	378	(554)
Increase (decrease) in contract work in progress	(14,923)	(47,887)	-	-
Increase (decrease) in provision for income taxes payable	(621)	671	-	-
Increase (decrease) in provision for deferred income tax	(1,182)	939	-	-
Increase (decrease) in employee entitlements and other	(1,555)	(4,647)	-	-
Net cash inflow/(outflow) from operating activities	<u>(75,124)</u>	<u>(53,213)</u>	<u>(38)</u>	<u>696</u>

Note 41. Non-cash financing and investing activities

	Clough Group		Clough Limited	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Acquisition of plant and equipment by means of finance leases	<u>8,350</u>	-	-	-
Acquisition of other financial assets in exchange for services performed	<u>6,641</u>	-	-	-
Acquisition of shares in controlled entities	-	-	<u>49,999</u>	<u>40,000</u>
Disposal of shares in controlled entities and associates	-	-	<u>(51,900)</u>	-

Note 42. Earnings per share

	Clough Group	
	2005	2004
	Cents	Cents
Basic earnings per share	(13.01)	3.85
Diluted earnings per share	(13.01)	3.83

	Clough Group	
	2005	2004
	Number	Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share and diluted earnings per share	458,369,211	421,882,225

The number of potential ordinary shares that are not dilutive and are therefore not used in the calculation of diluted earnings per share is 8,575,000 (2004: 8,000,000).

AASB 1047 Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standard disclosures

Note 43. Impacts of adopting Australian equivalents to IFRS

The Australian Accounting Standards Board (AASB) has adopted International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. These Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The consolidated entity has established a project team to manage the transition to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team is chaired by the Chief Financial Officer and reports to the audit committee on a regular basis. The project team has prepared a detailed timetable for managing the transition and is currently on schedule.

The project team has analysed all of the AIFRS and has identified the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimable impacts on the opening AIFRS balance sheet as at 1 July 2004 and on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. No material impacts are expected in relation to the statements of cash flows.

The consolidated entity is still in the process of quantifying all the impacts of the introduction of AIFRS on the financial report. This process is continuing and will be completed during the period ended 31 December 2005.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its first full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

Note 43. Impacts of adopting Australian equivalents to IFRS (continued)

Set out below are details of the significant areas where there will be an impact on the consolidated entity and the parent entity as a result of the introduction of AIFRS and where known, the impacts have been quantified.

(a) Foreign currency translation reserve: cumulative translation differences

On the initial application of AIFRS, the Group will elect to apply the exemption in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* relating to the balance of the foreign currency translation reserve. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve will be deemed to be zero at the date of transition to AIFRS.

As a result of this exemption, the debit balance of \$14,848,000 relating to the foreign currency translation reserve of the consolidated entity at 1 July 2004 will be eliminated. Retained earnings will decrease by this amount. There is no effect on the parent entity.

(b) Functional and Presentation Currency

Under AASB 121 *The Effects of Changes in Foreign Exchange Rates*, it is necessary to determine the functional currency of all the entities in the Group. The Company has determined that the functional currency of its major Australian operating subsidiaries for AIFRS purposes will be Australian dollars. The Group's major foreign subsidiary, PT Petrosea Tbk, has the US dollar as its functional currency. The other foreign subsidiaries, associates, joint ventures and branches have various functional currencies determined by the economic environments in which they operate. The presentation currency of the Group will continue to be Australian dollars.

The impact on the Group will be that foreign group entities with a functional currency other than Australian dollars will be converted into Australian dollars at the closing exchange rate and any exchange movements will be recorded through the foreign currency translation reserve.

This will result in a change in the current accounting policy, under which the financial reports of integrated foreign operations are translated using the temporal method, whereby exchange gains and losses are brought to account in determining the profit or loss for the year.

If the policy required by AASB 121 had been applied, the effect would have been as follows:

(i) At 1 July 2004

For the consolidated entity there would have been a decrease in retained earnings of \$4,383,000, with a corresponding decrease in net assets, specifically property, plant and equipment. There is no effect on the parent entity.

(ii) At 30 June 2005

For the consolidated entity, an additional debit balance of \$3,137,000 would have been recorded in the foreign currency translation reserve, retained earnings would have increased by \$2,238,000 and net assets, specifically property, plant and equipment, would have decreased by \$5,282,000. There is no effect on the parent entity.

(iii) For the year ended 30 June 2005

For the consolidated entity foreign exchange losses of \$2,238,000 would have been recorded in the foreign currency translation reserve rather than in the statement of financial performance. There is no effect on the parent entity.

(c) Impairment of Assets

Under current Australian generally accepted accounting principles (Australian GAAP), the carrying amounts of non-current assets valued on a cost basis are reviewed at each reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount, with the write-down recognised in the statement of financial

Note 43. Impacts of adopting Australian equivalents to IFRS (continued)

performance in the period in which it occurs. In assessing the recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under AASB 136 *Impairment of Assets*, the carrying amount of the consolidated entity's non-current assets, excluding deferred tax assets and goodwill, will be reviewed at each reporting date to determine whether there is any indication of impairment. If such an indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount. Goodwill will be tested for impairment annually.

If there is any indication that any asset is impaired, or for those tested annually, the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs will be determined.

A cash-generating unit will be the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows of other assets or groups of assets, and each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash-generating unit exceeds its recoverable amount.

Under AIFRS, the recoverable amount of an asset will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated cash flows will be discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash-generating unit. Cash flows will be estimated for the asset or cash-generating unit in its current condition and therefore will not include cash inflows and outflows improving or enhancing the asset's performance.

No significant impact is expected for the consolidated entity or the parent entity as at 1 July 2004 and 30 June 2005 as a result of this change to the current accounting policy.

(d) Business Combinations

As permitted by the election available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, the classification and accounting treatment of business combinations that occurred prior to transition date have not been restated in preparing the opening AIFRS balance sheet. The assets and liabilities are then subject to the other requirements of AASB 1.

There is no effect of the above on either the consolidated entity or the parent entity.

Business combinations that occurred on or after 1 July 2004 will be restated to comply with AIFRS. All business combinations are accounted for by applying the purchase method. There will be no significant effect on the consolidated entity or the parent entity.

(e) Intangible assets - goodwill

Under AASB 3 *Business Combinations*, amortisation of goodwill will be prohibited, and will be replaced by annual impairment testing focusing on the cash flows of the related cash-generating unit as detailed above.

This will result in a change to the current accounting policy, under which goodwill is amortised on a straight-line basis over the period during which the benefits are expected to arise and not exceeding 20 years.

If the policy required by AASB 3 had been applied, the effect would have been as follows:

(i) At 1 July 2004

There would have been no effect on the consolidated entity or the parent entity.

Note 43. Impacts of adopting Australian equivalents to IFRS (continued)

(ii) At 30 June 2005

For the consolidated entity, investments accounted for using the equity method would have been \$159,849 higher, with a corresponding increase in retained earnings. There would have been no effect on the parent entity.

(iii) For the year ended 30 June 2005

For the consolidated entity, the share of profits of associates and joint venture entities accounted for using the equity method would have been \$159,849 higher. There would have been no effect on the parent entity.

(f) Revenue

Under AASB 118 *Revenue*, revenue from the sale of goods, which includes land and other property held for resale, is recognised when the significant risks and rewards of ownership of the goods has transferred to the buyer and neither continuing managerial involvement (to the degree usually associated with ownership) nor effective control over the goods is retained by the seller.

Under current Australian GAAP, revenue from the sale of goods can only be recognised when control of the goods or other assets passes to the purchaser.

This will result in a change to the current accounting policy, particularly in respect of property sales, however, there would have been no effect of this change in accounting policy on either the consolidated entity or the parent entity for the year ended 30 June 2005.

(g) Revenue disclosure in relation to the sale of non-current assets

Under AIFRS, the revenue recognised in relation to the sale of non-current assets is the net gain on the sale. This is in contrast to the current Australian GAAP treatment under which the gross proceeds from the sale are recognised as revenue and the carrying amount of the assets sold is recognised as an expense. The net impact on the profit or loss of this difference is nil.

If the policy required under AIFRS had been applied during the year ended 30 June 2005, the consolidated revenue from ordinary activities would have been \$28,264,000 lower (parent entity \$51,911,000 lower), the consolidated carrying amount of non-current assets sold disclosed as an expense in the statement of financial performance would have been \$16,235,000 lower (parent entity \$37,369,000 lower) and the consolidated other income would have been \$12,029,000 higher (parent entity \$14,542,000 higher).

(h) Equity-based compensation benefits

Under AASB 2 *Share-based Payment*, from 1 July 2004, the Group is required to recognise an expense for those options that have been issued to directors and other employees after 7 November 2002 but that had not vested by 1 January 2005. The fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in the share-based payment reserve in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employee becomes unconditionally entitled to the options.

This will result in a change to the current accounting policy, under which no expense is recognised for equity based compensation.

If the policy required by AASB 2 had been applied, the effect would have been as follows:

(i) At 1 July 2004

The consolidated entity's retained earnings at 1 July 2004 would have decreased by \$5,656, with a corresponding increase in the share-based payment reserve. The effect on the parent entity would have been an increase in loans to controlled entities of \$5,656, with a corresponding increase in the share-based payment reserve.

(ii) At 30 June 2005

Note 43. Impacts of adopting Australian equivalents to IFRS (continued)

The consolidated entity's retained earnings at 30 June 2005 would have decreased by \$14,177, with a corresponding increase in the share-based payment reserve. The effect on the parent entity would have been an increase in loans to controlled entities of \$14,177, with a corresponding increase in the share-based payment reserve.

(iii) For the year ended 30 June 2005

For the year ended 30 June 2005, the consolidated entity's employee benefits expense would have been \$8,521 higher. There is no effect on the parent entity.

(i) Equity Accounted Investments

The Group has a number of equity accounted investments in associates and joint venture entities. As required under AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*, the Group will record its ownership share of the AIFRS opening retained earnings adjustments relating to these investments in the equity accounted carrying value of these investments. At this stage, it is not possible to fully quantify the impact on current year or future year equity accounted earnings from any of the AIFRS accounting policy changes by these associated and joint venture entities impacting the Group's equity accounted results.

(j) Financial Instruments

The Group will be taking advantage of 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. This allows the Group to apply previous Australian GAAP to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report and the half-year ending 31 December 2005.

AASB 139 is likely to have the following impacts:

(i) Classification and measurement of financial assets and liabilities

Under AASB 139, financial assets held by entities in the consolidated entity will be classified as either at fair value through profit or loss, held-to-maturity, available for sale or loans and receivables and, depending upon classification, be measured at fair value or amortised cost.

Under AASB 139:

- Investments in non-traded equity securities will be classified as available for sale and measured at fair value, with changes in fair value recognised directly in equity until the underlying asset is derecognised.
- Loans and receivables and financial liabilities classifications will remain unchanged. Measurement of these instruments will initially be at fair value with subsequent measurement at amortised cost, using the effective interest rate method.

This will result in a change to the current accounting policy, under which financial assets are carried at the lower of cost and recoverable amount, with changes recognised in profit or loss.

As a result of the application of the exemption referred to above, there would have been no adjustment to the reclassification or measurement of financial assets or liabilities from the application of AIFRS during the year ended 30 June 2005. Changes in classification and measurement will be recognised from 1 July 2005.

(ii) Cash flow hedges

Under AASB 139, foreign exchange contracts held for hedging purposes will be accounted for as cash flow hedges. The effective portion of changes in the fair value of those contracts that are designated and qualify as cash flow hedges will be recognised directly in equity in the hedging reserve. The gain or loss relating to the ineffective portion will be recognised immediately in profit or loss. Amounts accumulated in equity will be recycled in profit or loss in the periods when the hedged item effects profit or loss (for instance when the forecast sale that is hedged takes place).

Note 43. Impacts of adopting Australian equivalents to IFRS (continued)

This will result in a change to the current accounting policy, under which the costs or gains arising under foreign exchange contracts together with any realised or unrealised gains from the remeasurement are included in assets or liabilities as deferred losses or deferred gains.

As a result of the application of the exemption referred to above, there would have been no adjustment to classification or measurement of cash flow hedges from the application of AIFRS during the year ended 30 June 2005. Changes in classification and measurement will be recognised from 1 July 2005 as a result of the exemption.

(k) Computer Software

Under AIFRS, computer software is specifically identified as an intangible asset under AASB 138 *Intangible Assets*. Under current Australian GAAP, computer software developed for internal use is included as part of property, plant and equipment. On transition to AIFRS, computer software will be reclassified from property, plant and equipment to intangible assets. The computer software is being amortised over its useful life which is consistent under both existing Australian GAAP and AIFRS.

If the requirements of AASB 138 had been applied, the effect would have been that property, plant and equipment recorded by the consolidated entity totalling \$3,945,000 at 1 July 2004 and \$3,090,000 at 30 June 2005 would have been reclassified to intangible assets. There would have been no effect on the parent entity.

The computer software is being amortised over its useful life which is consistent under both existing Australian GAAP and AIFRS. As a result, there would be no impact on the profit or loss of either the consolidated entity or the parent entity for the year ended 30 June 2005.

(l) Income Tax

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

A deferred tax asset (including a deferred tax asset relating to tax losses) will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity. Furthermore, future income tax benefits are currently not brought to account unless realisation of the asset is assured beyond a reasonable doubt, or if relating to tax losses when realisation is virtually certain.

The above change to the current accounting policy is not expected to have a significant impact on the consolidated entity or the parent entity as at 1 July 2004 or for the year ended 30 June 2005.

(m) Tax Consolidation

The AASB has recently approved Interpretation 1052 *Tax Consolidation Accounting* which relates to the recognition of tax amounts under the tax consolidation regime in the AIFRS framework. The Interpretation addresses the tax effect accounting by the members of a tax-consolidated group and significantly changes the accounting under previous Australian GAAP.

As a result of this Interpretation, wholly owned subsidiaries in the tax consolidated group will be required to recognise their own tax balances directly, and the current tax liability or asset will be assumed by the head entity via an equity contribution or distribution. Interpretation 1052 will impact on the separate financial statements of

Note 43. Impacts of adopting Australian equivalents to IFRS (continued)

the members of a tax-consolidated group including the head entity.

As Interpretation 1052 has only recently been issued, the impact that it will have is still in the process of being determined, however, there will be no impact on the consolidated entity.

Clough Limited
Directors' declaration
30 June 2005

In the directors' opinion:

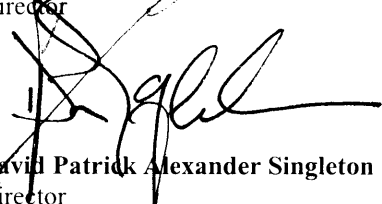
- (a) the financial statements and notes set out on pages 2 to 61 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance, as represented by the results of their operations 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
23 August 2005


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 Group (defined below) as at 30 June 2005, 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*.

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 statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Clough Limited (the company) and the Clough Group (the consolidated entity), for the year ended 30 June 2005. 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 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 2005