

Statements of Financial Performance

For the year ended 31 December 2004

	Notes	Consolidated		InvoCare Limited	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Revenues from ordinary activities	2	155,271	150,758	23,754	25,590
Finished goods and consumables used	3	(22,388)	(21,183)	–	–
Salaries and employee benefits expenses		(53,431)	(50,536)	–	–
Depreciation and amortisation expenses	3	(8,967)	(9,931)	–	–
Interest expenses	3	(11,895)	(14,115)	(11,160)	(13,337)
Refinancing costs	3	–	(2,148)	–	(2,148)
Advertising and public relations expenses		(5,539)	(5,722)	–	–
Occupancy and facilities expenses		(10,514)	(9,794)	–	–
Motor vehicle expenses		(3,343)	(3,204)	–	–
Written down value of assets sold or disposed and costs incurred		(2,080)	(5,083)	–	–
Other expenses from ordinary activities		(11,060)	(11,442)	(767)	(722)
Profit from ordinary activities before income tax expense		26,054	17,600	11,827	9,383
Income tax expense relating to ordinary activities	4	(8,909)	(5,917)	(1,700)	(710)
Profit from ordinary activities after income tax expense		17,145	11,683	10,127	8,673
Net profit		17,145	11,683	10,127	8,673
Net profit attributable to outside equity interest	25	(57)	(45)	–	–
Net profit attributable to members of InvoCare Limited	24	17,088	11,638	10,127	8,673
Total changes in equity attributable to members of InvoCare Limited other than those resulting from transactions with owners as owners		17,088	11,638	10,127	8,673
		Cents	Cents		
Basic earnings per share (cents per share)	30	18.1	12.0		
Diluted earnings per share (cents per share)	30	17.8	11.7		

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

Statements of Financial Position

As at 31 December 2004

	Notes	Consolidated		InvoCare Limited	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Current assets					
Cash assets	26	687	7,143	231	2,437
Receivables	6	15,040	14,567	–	2,542
Inventories	7	10,945	9,962	–	–
Property	8	2,990	4,313	–	–
Other assets	9	2,809	2,718	92	92
Total current assets		32,471	38,703	323	5,071
Non-current assets					
Receivables	10	7,325	7,306	173,929	189,782
Other financial assets	11	–	–	15,641	15,641
Property, plant and equipment	12	203,323	206,539	–	–
Deferred tax assets	4	5,422	6,022	615	637
Intangible assets	13	23,805	26,302	–	–
Other assets	14	6,687	6,195	–	–
Total non-current assets		246,562	252,364	190,185	206,060
Total assets		279,033	291,067	190,508	211,131
Current liabilities					
Payables	15	15,534	18,380	222	2,363
Interest-bearing liabilities	16	17	2,515	–	2,500
Current tax liabilities	4	3,763	3,962	450	42
Provisions	17	4,978	4,563	–	–
Deferred revenue	18	2,773	2,619	–	–
Total current liabilities		27,065	32,039	672	4,905
Non-current liabilities					
Payables	19	29	365	–	–
Interest-bearing liabilities	20	131,532	152,549	131,500	152,500
Deferred tax liabilities	4	2,479	2,328	–	–
Provisions	21	3,431	3,008	–	–
Deferred revenue	22	38,823	36,664	–	–
Total non-current liabilities		176,294	194,914	131,500	152,500
Total liabilities		203,359	226,953	132,172	157,405
Net assets		75,674	64,114	58,336	53,726
Equity					
Parent entity interest					
Contributed equity	23	52,589	52,026	52,589	52,026
Retained profits	24	22,041	11,033	5,747	1,700
Total parent entity interest in equity		74,630	63,059	58,336	53,726
Total outside equity interest	25	1,044	1,055	–	–
Total equity		75,674	64,114	58,336	53,726

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

Statements of Cash Flows

For the year ended 31 December 2004

	Notes	Consolidated		InvoCare Limited	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Cash flows from operating activities					
Receipts from customers		168,824	161,413	960	480
Payments to suppliers and employees		(128,784)	(119,266)	(2,908)	(778)
Interest received		494	683	16,714	18,110
Other revenue		2,741	2,054	–	–
Dividend received		–	–	6,080	7,000
Interest paid		(12,007)	(14,841)	(11,160)	(14,062)
Refinancing costs paid		–	(2,148)	–	(2,148)
Income tax paid		(8,357)	(4,361)	(1,270)	(2,102)
Net cash flows from operating activities	26	22,911	23,534	8,416	6,500
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		3,744	7,129	–	–
Purchase of property, plant and equipment		(4,011)	(6,054)	–	–
Net cash flows (used in)/from investing activities		(267)	1,075	–	–
Cash flows from financing activities					
Proceeds from issues of ordinary shares		563	2,026	563	2,026
Payment for share buy-back		–	(25,000)	–	(25,000)
Proceeds from borrowings		2,000	65,000	2,000	65,000
Repayment of borrowings		(25,500)	(19,580)	(25,500)	(19,580)
Repayment of convertible notes		–	(30,000)	–	(30,000)
Payment of dividends – InvoCare Limited shareholders		(6,080)	(15,000)	(6,080)	(15,000)
Payment of dividends – Outside Equity Interest		(68)	(67)	–	–
Repayment of finance lease principal		(15)	(41)	–	–
Proceeds from repayment of loan by controlled entity		–	–	18,395	18,444
Net cash flows (used in) financing activities		(29,100)	(22,662)	(10,622)	(4,110)
Net (decrease)/increase in cash held		(6,456)	1,947	(2,206)	2,390
Cash at the beginning of the financial year		7,143	5,196	2,437	47
Cash at the end of the financial year	26	687	7,143	231	2,437

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

Notes to the Financial Statements

For the year ended 31 December 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

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

It is prepared in accordance with the historical cost convention.

Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by InvoCare Limited (the Company) and the results of all controlled entities. InvoCare Limited and its controlled entities together are referred to as the consolidated entity or InvoCare. The effects of all transactions between entities in the consolidated entity are fully eliminated. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated Statements of Financial Performance and Statements of Financial Position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated Statements 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.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. Revenue is recognised as set out below:

Funeral operations

Revenue is recognised when the funeral service is performed.

InvoCare enters into prepaid funeral contracts providing for future funeral services at prices prevailing when agreements are signed. Payments under these contracts are placed in trust (pursuant to InvoCare's policy and, where relevant, state laws). The monies held in trust for individual prepaid funeral contracts are not controlled by InvoCare and are not recognised in the financial statements.

Cemeteries and crematoria operations

Sales of at-need and pre-need interment or inurnment rights are recognised immediately as revenue. Sales of associated memorials and other merchandise and burial and cremation services are recognised when the memorial or merchandise is determined as delivered or service is performed. Revenues relating to undelivered memorials and merchandise and unperformed services are deferred. Cash relating to recognised and deferred revenue on sale of rights, memorials and merchandise is recorded in the financial statements upon receipt. However, similarly to prepaid funeral services, monies for prepaid burial and cremation services are placed in trust until the service is performed.

Deferred selling costs

Selling costs applicable to prepaid funeral service contracts, net of any administrative fees recovered, are expensed as incurred.

Direct selling costs applicable to deferred revenue on undelivered memorials and merchandise and unperformed burial and cremation services are deferred until the revenue is recognised.

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.

Maintenance and repairs

Maintenance, repair costs and minor renewals 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 – Depreciation of property, plant and equipment, below.

Goods and Services Tax (GST)

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

Cash

For the purposes of the Statements of Cash Flows, cash includes deposits at call with financial institutions and other highly liquid investments with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of any outstanding bank overdrafts.

When in use, bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Receivables

All trade receivables are recognised at the amounts receivable from the date of recognition. Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, a proportion of variable and fixed overhead. Costs are assigned to individual items of inventory predominantly on the basis of weighted average cost.

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

Recoverable amount of non-current assets

Non-current assets are valued at cost except where this exceeds the recoverable amount. The recoverable amount of an asset is the net amount expected to be recovered through the net cash inflows 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 not discounted.

Depreciation of property, plant and equipment

Depreciation is calculated on a straight line basis to write off the net cost of each item of property, plant and equipment (excluding freehold land) over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

Buildings	40 years
Plant and equipment	3 – 10 years

Cemetery land

Cemetery land is carried at cost less accumulated amortisation. Cost includes the cost of acquisitions and improvements. The consolidated entity sells interment and inurnment rights in perpetuity, while retaining title to the property. Cemetery land is amortised, as the right to each plot is sold, to write off the net cost of the land over the period in which it is utilised and an economic benefit has been received.

Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter.

Leased non-current assets

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.

The leased asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset. The leased asset held at the reporting date is being amortised over three years.

Operating lease payments are charged to the Statements of Financial Performance in the period in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

Intangible assets – goodwill

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over 20 years, being the period during which the benefits are expected to arise. The cost of acquisition is discounted where settlement of any part of cash consideration is deferred.

Notes to the Financial Statements

For the year ended 31 December 2004

Interest-bearing liabilities

Interest-bearing liabilities are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors.

Employee benefits

Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave and, where applicable, accumulating sick leave are recognised in respect of employees' services up to the reporting date, and are measured at the amounts expected to be paid when the liabilities are settled, plus appropriate on-costs. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long service leave

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date, including appropriate on-costs. Consideration is given to expected future wage and salary levels, experience of employee departures and period of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency to match, as closely as possible, the estimated future cash outflows.

Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report, or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Employee Share Option Plan

Information relating to the Employee Share Option Plan is set out in Note 28 – Employee Benefits.

No accounting entries are made in relation to the Employee Share Option Plan until options are exercised, at which time the amounts receivable from participants are recognised in the Statements of Financial Position as share capital. The amounts disclosed for remuneration of Directors and Executives in Note 33 – Director and Executive Disclosures include the assessed fair values of options at the date they were granted, allocated equally over the period from grant date to vesting date.

Derivative financial instruments

The consolidated entity enters into interest rate swap agreements. The net amount receivable or payable under interest rate swap agreements is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

When an interest rate swap is terminated early and the underlying hedged transactions are still expected to occur as designated, the gains or losses arising on the swap upon its early termination continue to be deferred and are progressively brought to account over the period during which the hedged transactions are recognised.

When an interest rate swap is terminated early and the underlying hedged transactions are no longer expected to occur as designated, the gains or losses arising on the swap upon its early termination are recognised in the Statements of Financial Performance as at the date of the termination.

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

Earnings per share (EPS)

Basic EPS is calculated as net profit after tax attributable to members, divided by the weighted average number of ordinary shares outstanding during the financial year. The weighted average number of ordinary shares for 2003 has been adjusted for the effects of the share split.

Diluted EPS is calculated as net profit after tax attributable to members divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, for 2003 adjusted for the effects of the share split.

Dividends

When necessary, provision is made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of the financial year but not distributed at balance date.

	Notes	Consolidated		InvoCare Limited	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
2. REVENUES FROM ORDINARY ACTIVITIES					
Revenues from operating activities					
Revenues from sale of goods		77,847	74,027	-	-
Revenues from services		70,445	66,260	-	-
Management fees	35	-	-	960	480
Total revenues from operating activities		148,292	140,287	960	480
Revenues from outside the operating activities					
Rent		187	164	-	-
Administration fees		1,441	1,385	-	-
Sundry income		1,113	505	-	-
Dividends and distributions					
Wholly owned group – controlled entities		-	-	6,080	7,000
Interest revenues					
Other persons/corporations		494	683	-	-
Wholly owned group – controlled entities	35	-	-	16,714	18,110
Proceeds on the sale of non-current assets		3,744	7,734	-	-
Total revenues from outside the operating activities		6,979	10,471	22,794	25,110
Total revenues from ordinary activities		155,271	150,758	23,754	25,590
3. EXPENSES AND GAINS					
Expenses					
Cost of goods sold		22,388	21,183	-	-
Depreciation of non-current assets					
Buildings		2,087	2,124	-	-
Property, plant and equipment		3,700	4,651	-	-
Total depreciation of non-current assets		5,787	6,775	-	-
Amortisation of non-current assets					
Goodwill		2,497	2,497	-	-
Cemetery land		400	380	-	-
Leasehold land and buildings		128	129	-	-
Leasehold improvements		130	137	-	-
Plant and equipment under lease		25	13	-	-
Total amortisation of non-current assets		3,180	3,156	-	-
Total depreciation and amortisation expenses		8,967	9,931	-	-

Notes to the Financial Statements

For the year ended 31 December 2004

	Consolidated		InvoCare Limited	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
3. EXPENSES AND GAINS (CONTINUED)				
Borrowing costs				
Interest expenses				
Finance lease	5	4	-	-
Debentures	11,160	9,941	11,160	9,941
Convertible notes	-	3,394	-	3,394
Other interest	730	776	-	2
Total interest expenses	11,895	14,115	11,160	13,337
Refinancing costs	-	2,148	-	2,148
Total borrowing costs	11,895	16,263	11,160	15,485
Bad and doubtful debts – trade debtors	64	407	-	-
Operating lease rental – minimum lease payments	3,494	3,310	-	-
Gains				
Net gain on disposal of non-current assets	1,664	2,651	-	-

4. INCOME TAX

The income tax expense for the financial year differs from the amount calculated on profit. The differences are reconciled as follows:

Prima facie tax on profit from ordinary activities	7,816	5,280	3,548	2,815
Tax effect of permanent differences				
Amortisation of cemetery land	120	113	-	-
Depreciation and amortisation of buildings	346	344	-	-
Amortisation of goodwill	749	749	-	-
Non-assessable capital gain	(263)	(273)	-	-
Tax credit for intercorporate dividend	-	-	(1,824)	(2,100)
Other items (net)	141	(296)	(24)	(5)
Income tax expense attributable to ordinary activities	8,909	5,917	1,700	710
Tax assets/(liabilities)				
Current tax payable	(3,763)	(3,962)	(450)	(42)
Provision for deferred income tax – non-current	(2,479)	(2,328)	-	-
Future income tax benefit – non-current	5,422	6,022	615	637

Income tax losses

No part of the future income tax benefit shown above is attributable to operating tax losses or capital tax losses.

The consolidated entity had no operating tax losses as at either 31 December 2004 or 31 December 2003.

	Consolidated		InvoCare Limited	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000

4. INCOME TAX (CONTINUED)

Potential future income tax benefit as at 31 December 2004 in respect of capital tax losses not brought to account, as realisation of the benefit is not regarded as virtually certain, is:

	-	60	-	-
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This future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit of the capital losses to be realised, or
- the losses are transferred to an eligible entity in the consolidated entity,
- the conditions for deductibility imposed by tax legislation continue to be complied with, and
- no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Tax consolidation

InvoCare Limited and its wholly owned subsidiaries have the option of implementing the tax consolidation legislation. At the date of this report no decision has been taken although it is anticipated the legislation will be adopted from 1 January 2004. This is not expected to have any significant impact on the consolidated assets, liabilities and results.

5. DIVIDENDS PAID OR PROVIDED FOR

Dividends paid during the year

Dividend paid to InvoCare Limited shareholders

Interim dividend for the year ended 31 December 2004 of 6.4 cents paid 12 April 2004 – fully franked based on tax paid @ 30%

6,080	-	6,080	-
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Dividend of 20 cents paid 27 March 2003 prior to listing – fully franked based on tax paid @ 30%

-	15,000	-	15,000
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Dividend paid to Outside Equity Interest

Dividend of 8.4 cents paid 21 May 2004 (2003: 11 September 2003) – fully franked based on tax paid @ 30%

68	67	-	-
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6,148	15,067	6,080	15,000
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Dividends proposed and not recognised as a liability

In addition to the above dividends, since the end of the financial year, the Directors have recommended the payment of a final dividend to InvoCare Limited shareholders of 9 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 12 April 2005 out of retained profits at 31 December 2004, but not recognised as a liability at year end, is

8,550	-	8,550	-
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Franking credit balance

The amount of franking credits available for subsequent financial years are:

– franking account balance as at the end of the financial year at 30%

10,722	4,854	2,636	1,366
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– franking credits that will arise from the payment of income tax payable as at the end of the financial year

3,763	3,962	450	42
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14,485	8,816	3,086	1,408
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The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends.

Notes to the Financial Statements

For the year ended 31 December 2004

	Notes	Consolidated		InvoCare Limited	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
6. RECEIVABLES (CURRENT)					
Trade debtors		15,941	15,759	-	-
Provision for doubtful debts		(1,366)	(1,536)	-	-
		14,575	14,223	-	-
Other debtors		465	344	-	-
Loan to controlled entity (i)	10	-	-	-	2,542
		15,040	14,567	-	2,542

Terms and conditions

- (i) Details of the terms and conditions relating to the above financial instrument are set out in Note 10 – Receivables (non-current).

7. INVENTORIES (CURRENT)

Work in progress – at cost		823	-	-	-
Finished goods – at cost		10,122	9,962	-	-
		10,945	9,962	-	-

8. PROPERTY (CURRENT)**Land and buildings**

Freehold land – at cost		1,394	1,921	-	-
Buildings – at cost		1,970	2,845	-	-
Accumulated depreciation		(374)	(453)	-	-
		1,596	2,392	-	-
Total written down amount		2,990	4,313	-	-

Freehold land and buildings

Land and buildings held for sale are classified as current assets as they are expected to be sold within 12 months of year end.

9. OTHER ASSETS (CURRENT)

Prepayments		2,331	2,276	92	92
Deferred selling costs		478	442	-	-
		2,809	2,718	92	92

	Consolidated		InvoCare Limited	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
10. RECEIVABLES (NON-CURRENT)				
Trade debtors (i)	7,357	7,732	-	-
Provision for doubtful debts	(490)	(887)	-	-
	6,867	6,845	-	-
Security deposits	58	61	-	-
Other debtor	400	400	-	-
Loan to controlled entity (ii)	-	-	173,929	189,782
	7,325	7,306	173,929	189,782

Terms and conditions

- (i) Trade debtors are non-interest bearing and are receivable through regular instalments within a maximum period of 60 months from the original invoice date.
- (ii) The loan to a controlled entity bears interest at 9% (2003: 9%) and has no fixed terms of repayment.

11. OTHER FINANCIAL ASSETS (NON-CURRENT)

Shares in controlled entity – unlisted (i)	-	-	15,641	15,641
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- (i) The unlisted shares at cost relate to InvoCare Limited's 100% (2003: 100%) ownership interest in InvoCare Australia Pty Limited (formerly Service Corporation International Australia Pty Limited).

All the shares held are classified as ordinary shares.

Refer Note 36 – Investment in controlled entities for details of controlled entities.

12. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)

Land and buildings

Cemetery land – at cost	106,022	106,017	-	-
Accumulated amortisation	(3,436)	(3,036)	-	-
	102,586	102,981	-	-
Freehold land – at cost	32,976	33,393	-	-
Buildings – at cost	66,487	66,412	-	-
Accumulated depreciation	(16,564)	(14,725)	-	-
	49,923	51,687	-	-
Leasehold land and buildings – at cost	4,470	4,470	-	-
Accumulated amortisation	(1,454)	(1,326)	-	-
	3,016	3,144	-	-
Leasehold improvements – at cost	1,392	1,438	-	-
Accumulated amortisation	(842)	(747)	-	-
	550	691	-	-
Total land and buildings	189,051	191,896	-	-

Notes to the Financial Statements

For the year ended 31 December 2004

	Consolidated		InvoCare Limited	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
12. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT) (CONTINUED)				
Plant and equipment				
Operating plant and equipment – at cost	50,184	48,280	–	–
Accumulated depreciation	(36,829)	(35,961)	–	–
	13,355	12,319	–	–
Plant and equipment under lease – at cost	73	73	–	–
Accumulated amortisation	(31)	(6)	–	–
	42	67	–	–
Total plant and equipment	13,397	12,386	–	–
Assets under construction				
Assets under construction – at cost	875	2,257	–	–
Total property, plant and equipment				
At cost	262,479	262,340	–	–
Accumulated depreciation and amortisation	(59,156)	(55,801)	–	–
Total written down amount	203,323	206,539	–	–

Current valuation of land and buildings

The Directors' valuation of land and buildings as at 31 December 2004 amounted to \$225.8 million. As land and buildings are measured on the cost basis, the valuation has not been brought to account.

The basis of the valuation of land and buildings, except cemetery and crematorium properties, was fair value being the amounts for which the assets could be exchanged between willing parties in an arm's length transaction, based on an active market for similar properties in the same location and condition. The basis of valuation of cemetery and crematorium properties is historic cost, being the price at which the properties were acquired by InvoCare, less accumulated depreciation and amortisation since acquisition. The Directors believe this is a reasonable valuation due to there being no active market in cemetery and crematorium properties.

Assets pledged as security

Details of the non-current assets pledged as security are set out in Note 20 – Interest-bearing liabilities (non-current).

12. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT) (CONTINUED)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below for the consolidated entity. The parent entity does not hold any property, plant and equipment.

	Cemetery land \$'000	Freehold land \$'000	Buildings \$'000	Leasehold land and buildings \$'000	Leasehold improve- ments \$'000	Plant and equipment \$'000	Plant and equipment leased \$'000	Assets under construction \$'000	Total \$'000
Carrying amount 1 January 2004									
Current	–	1,921	2,392	–	–	–	–	–	4,313
Non-current	102,981	33,393	51,687	3,144	691	12,319	67	2,257	206,539
Total opening amount	102,981	35,314	54,079	3,144	691	12,319	67	2,257	210,852
Additions	–	–	493	–	2	3,516	–	–	4,011
Disposals	–	(944)	(961)	–	(13)	(162)	–	–	(2,080)
Depreciation/ amortisation expense	(400)	–	(2,087)	(128)	(130)	(3,700)	(25)	–	(6,470)
Transfers	5	–	(5)	–	–	1,382	–	(1,382)	–
Total closing amount	102,586	34,370	51,519	3,016	550	13,355	42	875	206,313
Representing closing amount									
Current	–	1,394	1,596	–	–	–	–	–	2,990
Non-current	102,586	32,976	49,923	3,016	550	13,355	42	875	203,323
	102,586	34,370	51,519	3,016	550	13,355	42	875	206,313

	Consolidated		InvoCare Limited	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000

13. INTANGIBLES

Goodwill	49,976	49,976	–	–
Accumulated amortisation	(26,171)	(23,674)	–	–
	23,805	26,302	–	–

14. OTHER ASSETS (NON-CURRENT)

Deferred selling costs	6,687	6,195	–	–
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15. PAYABLES (CURRENT)

Trade creditors	3,089	4,375	–	–
Other creditors and accruals	12,145	13,447	222	2,363
Deferred cash settlement for business interests acquired	300	558	–	–
	15,534	18,380	222	2,363

Terms and conditions

Trade and other creditors are non-interest bearing and are normally settled on 30 – 60 day terms

Notes to the Financial Statements

For the year ended 31 December 2004

	Notes	Consolidated		InvoCare Limited	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
16. INTEREST-BEARING LIABILITIES (CURRENT)					
Secured					
Borrowings secured by fixed and floating charges – cash advance facility		–	2,500	–	2,500
Lease liability secured by charge over leased assets		17	15	–	–
		17	2,515	–	2,500

Terms and conditions

Details of the terms and conditions of the above financial instruments are set out in Note 20 – Interest-bearing liabilities (non-current).

17. PROVISIONS (CURRENT)

Employee entitlements	28	4,978	4,563	–	–
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18. DEFERRED REVENUE (CURRENT)

Prepaid crematorium and cemetery revenue		2,773	2,619	–	–
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19. PAYABLES (NON-CURRENT)

Deferred cash settlement for business interests acquired		29	365	–	–
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Terms and conditions

At balance date, InvoCare had a deferred cash settlement representing the present value of the remaining consideration payable for the acquisition of business interests, discounted at the prevailing commercial borrowing rate of 9% at the time the business interests were acquired.

20. INTEREST-BEARING LIABILITIES (NON-CURRENT)**Secured**

Borrowings secured by fixed and floating charges					
– debentures		109,000	130,000	109,000	130,000
– cash advance facility		22,500	22,500	22,500	22,500
Lease liability secured by charge over leased assets		32	49	–	–
		131,532	152,549	131,500	152,500

Terms and conditions

InvoCare executed revised financing agreements with a syndicate of bankers in December 2003 providing total borrowing facilities of \$165 million, including a debenture stock facility of \$130 million, cash advance facility of \$30 million and a working capital facility of \$5 million. As at 31 December 2004, the available borrowing facilities amounted to \$157.5 million and \$131.8 million (2003: \$155 million) had been drawn down on these facilities.

(i) Debentures

Debentures issued at balance date amount to \$109 million (2003: \$130 million) and bear interest at a variable rate (based on BBR) plus a margin of 1.80% (2003: 2.05%). The interest rate at 31 December 2004 was 7.5% (2003: 7.6%) paid quarterly in arrears with a maturity date of 30 September 2006. Separate interest rate swap contracts apply to no less than 75% of the debentures.

After making a compulsory repayment of \$5 million in 2004, the remaining debentures have no set repayment terms, apart from repayment at the maturity date, 30 September 2006. Due to strong positive cash flows during the financial year, by 31 December 2004 InvoCare Limited had made \$16 million voluntary, early, redrawable debt repayments on the debenture facility. These early repayments may be applied against \$10 million compulsory repayment obligations on the cash advance facility during 2005.

20. INTEREST-BEARING LIABILITIES (NON-CURRENT) (CONTINUED)

(i) Debentures (continued)

The debentures are secured by fixed and floating charges over all the assets and undertakings of the consolidated entity, except those of Oakwood Funerals Pty Limited and Macquarie Memorial Park Pty Limited. The aggregate total assets of these two companies are \$6.7 million (2003: \$6.6 million).

The debentures require compliance with a number of covenants which were met as at 31 December 2004 (and 31 December 2003).

(ii) Cash advance facility

The cash advance facility at balance date bears interest at a variable rate (based on BBR) plus a margin of 1.80% (2003: 2.05%). The interest rate at 31 December 2004 was 7.6% (2003: 7.7%) paid quarterly in arrears with a maturity date of 30 September 2006. Separate interest rate swap contracts apply to no less than 75% of the closing balance.

The cash advance facility has two components. The bullet repayment facility amounts to \$10 million and at 31 December 2004 \$5 million (2003: \$5 million) had been drawn down. This amount is not repayable until the maturity date, 30 September 2006. The amortising facility amounts to \$20 million and at 31 December 2004 \$17.5 million (2003: \$20 million) had been drawn down. Repayments on the amortising facility are \$2.5 million in 2004, \$10 million in 2005 and \$7.5 million in 2006.

The cash advance facility is secured in the same manner as the debenture stock facility.

Due to strong positive cash flows during the financial year, by 31 December 2004 InvoCare Limited had made \$16 million voluntary, early, redrawable debt repayments on the debenture facility. These repayments may be applied against \$10 million compulsory repayment obligations on the cash advance facility during 2005. Accordingly, the total amount of the cash advance facility has been classified as a non-current liability in the Statements of Financial Position.

(iii) Finance leases

Finance leases have an average lease term of three years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the leases is 9.1% (2003: 9.1%). Lease liabilities are secured by a charge over the leased assets.

	Consolidated		InvoCare Limited	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Financing facilities available				
Unrestricted access was available at balance date to the following lines of credit:				
Total facilities				
– working capital facility	5,000	5,000	5,000	5,000
– debenture stock facility	125,000	130,000	125,000	130,000
– cash advance facilities	27,500	30,000	27,500	30,000
	157,500	165,000	157,500	165,000
Used at balance date				
– working capital facility	319	–	319	–
– debenture stock facility	109,000	130,000	109,000	130,000
– cash advance facilities	22,500	25,000	22,500	25,000
	131,819	155,000	131,819	155,000
Unused at balance date				
– working capital facility	4,681	5,000	4,681	5,000
– debenture stock facility	16,000	–	16,000	–
– cash advance facilities	5,000	5,000	5,000	5,000
	25,681	10,000	25,681	10,000

The working capital facility may be drawn at any time. The interest rate on this facility is variable.

Notes to the Financial Statements

For the year ended 31 December 2004

	Notes	Consolidated		InvoCare Limited	
		2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
21. PROVISIONS (NON-CURRENT)					
Employee entitlements	28	3,431	3,008	–	–

22. DEFERRED REVENUE (NON-CURRENT)

Prepaid crematorium and cemetery revenue		38,823	36,664	–	–
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In addition to deferred crematorium and cemetery revenue, monies held in trust not controlled by InvoCare for prepaid funeral contracts and prepaid burial and cremation services amounted to \$198.6 million (2003: \$169.5 million). The monies held in trust will only be recognised as revenue when the services are performed (refer "Revenue recognition" in Note 1 – Summary of significant accounting policies).

23. CONTRIBUTED EQUITY

Issued and paid up capital

		2004		2003	
		Number of shares	\$'000	Number of shares	\$'000
Ordinary shares fully paid		52,589	52,026	52,589	52,026
Movements in ordinary shares on issue					
Beginning of the financial year		93,918,733	52,026	15,000,000	15,000
Movement prior to listing					
– bought back during the year prior to listing (i)		–	–	(3,125,000)	(5,000)
– issued prior to listing		–	–	1,985,000	1,943
– conversion of preference shares to ordinary shares (ii)		–	–	47,500,000	40,000
Total before share split		–	–	61,360,000	51,943
Total after share split and at date of listing (ii)		–	–	93,753,273	51,943
Movement after listing					
– issued pursuant to exercise of share options (note 28)		1,084,245	563	165,460	83
End of the financial year		95,002,978	52,589	93,918,733	52,026
Movements in preference shares on issue					
Beginning of the financial year		–	–	60,000,000	60,000
Movement prior to listing					
– bought back during the year prior to listing (i)		–	–	(12,500,000)	(20,000)
– conversion to ordinary shares prior to listing (ii)		–	–	(47,500,000)	(40,000)
End of the financial year		–	–	–	–

(i) After 31 December 2002 the Directors reviewed InvoCare's financial position and capital structure and noted the significant reduction in bank loans achieved by accelerated repayments since the loans were originally advanced in May 2001. The Directors concluded that additional debt finance to pay a fully franked dividend and share buy-back would not materially prejudice InvoCare's creditors.

On 28 March 2003, 3,125,000 ordinary shares fully paid to \$1 (representing 21% of ordinary shares) and 12,500,000 preference shares fully paid to \$1 (representing 21% of preference shares) were bought back. The ordinary and preference shares were repurchased for \$1.60 per share for a total cost of \$25,000,000.

(ii) Immediately prior to the IPO pursuant to a Prospectus dated 31 October 2003, all the preference shares were converted to ordinary share status on 2 December 2003. All ordinary shares were then subject to a share split of approximately 1.528 new ordinary shares for each existing ordinary share resulting in a total of 93,753,273 ordinary shares at a total paid up value of \$51,942,900. The holders of 93,142,105 ordinary shares offered a 100% sell down of their respective interests in InvoCare Limited and received all the sale proceeds, less applicable costs. InvoCare Limited did not raise any capital from the IPO.

Terms and conditions

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.

23. CONTRIBUTED EQUITY (CONTINUED)

Terms and conditions (continued)

Preference shares entitled 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. Rights on winding up ranked higher than those ordinary shares. On a show of hands every holder of preference shares present at a meeting in person or by proxy, was entitled to one vote, and upon a poll each share was entitled to one vote. Preference shares were converted to ordinary shares on 2 December 2003.

Share options

Information relating to the share options is included in Note 28 – Employee Benefits.

	Consolidated		InvoCare Limited	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000

24. RETAINED PROFITS

Retained profits

Balance at the beginning of the year	11,033	14,395	1,700	8,027
Net profit attributable to members of InvoCare Limited	17,088	11,638	10,127	8,673
Total available for appropriation	28,121	26,033	11,827	16,700
Dividends paid	(6,080)	(15,000)	(6,080)	(15,000)
Balance at the end of the year	22,041	11,033	5,747	1,700

25. OUTSIDE EQUITY INTEREST

Reconciliation of outside equity interest in controlled entities:

Share capital	800	800		
Opening balance of retained earnings	156	178		
Add share of operating profit	57	45		
Less dividends paid	(68)	(67)		
Closing balance of retained earnings	145	156		
Reserves	99	99		
Closing balance	1,044	1,055		

26. STATEMENTS OF CASH FLOWS

Reconciliation of the net profit after income tax to the net cash flows from operations

Net profit after tax		17,145	11,683	10,127	8,673
Non-cash or non-operating items					
Depreciation of non-current assets	3	5,787	6,775	–	–
Amortisation of non-current assets	3	3,180	3,156	–	–
Net (profit) on disposal of property, plant and equipment	3	(1,664)	(2,651)	–	–
Changes in operating assets and liabilities					
(Increase)/decrease in trade and other receivables		(492)	479	–	–
(Increase)/decrease in inventory		(983)	(621)	–	–
(Increase)/decrease in future income tax benefit		600	(1,224)	22	(637)
(Increase)/decrease in other operating assets		(583)	(1,102)	(2,141)	(59)
(Decrease)/increase in trade and other creditors		(3,182)	1,576	–	(722)
(Decrease)/increase in deferred revenue		2,313	3,027	–	–
(Decrease)/increase in tax provision		(199)	2,530	408	(755)
(Decrease)/increase in deferred income tax liability		151	250	–	–
(Decrease)/increase in provisions		838	(344)	–	–
Net cash flow from operating activities		22,911	23,534	8,416	6,500

Notes to the Financial Statements

For the year ended 31 December 2004

	Consolidated		InvoCare Limited	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
26. STATEMENTS OF CASH FLOWS (CONTINUED)				
Reconciliation of cash				
Cash balance comprises:				
Cash on hand	47	47	-	-
Cash at bank	640	7,096	231	2,437
Closing cash balance	687	7,143	231	2,437

27. EXPENDITURE COMMITMENTS

Capital expenditure commitments

Commitments for the acquisition of property, plant and equipment contracted for at the reporting date but not recognised as liabilities payable:

- within one year	1,803	260	-	-
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Other expenditure commitments

Commitments for the construction of crypts, contracted for at the reporting date but not recognised as liabilities payable:

- within one year	788	2,286	-	-
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Lease expenditure commitments

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

- within one year	2,878	2,534	-	-
- later than one year and not later than five years	6,781	5,144	-	-
- later than five years	13,633	13,244	-	-

Aggregate lease expenditure contracted for at balance date	23,292	20,922	-	-
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Assets that are the subject of operating leases include property, motor vehicles and office equipment.

28. EMPLOYEE BENEFITS

Employee benefit and related on-costs liabilities

Included in other creditors and accruals

- current (Note 15)	2,817	2,693	-	-
Provisions for employee entitlements				
- current (Note 17)	4,978	4,563	-	-
Provisions for employee entitlements				
- non-current (Note 21)	3,431	3,008	-	-

Aggregate employee benefit and related on-costs liabilities	11,226	10,264	-	-
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Consolidated		InvoCare Limited	
2004	2003	2004	2003
No.	No.	No.	No.

28. EMPLOYEE BENEFITS (CONTINUED)

Employee numbers

Number of full-time equivalent employees at the reporting date

809	806	–	–
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Employee Share Options

InvoCare Limited has options over unissued shares granted to:

- a Non-Executive Director, Ian Ferrier, on 8 May 2001 under a letter dated 1 May 2001. These options vested on 8 May 2002 and were exercised during 2004.
- executive management on 22 September 2003, including Michael Grehan, who was an Executive but not a Director at the time of grant, under the Employee Share Option Plan approved in a meeting of the Board of Directors. Further details are set out below.
- an Executive Director, Richard Davis, on 8 May 2004 under a Service Agreement dated 8 May 2001. These options vested on the date of issue.

Details of the movements in the numbers of options over ordinary shares in InvoCare Limited held by each Director and Specified Executive are set out in Note 33.

Each option granted over unissued shares of InvoCare Limited entitles the holder to subscribe for one fully paid ordinary share in the capital of the Company. Options are granted for no consideration and carry no dividend or voting rights. No option holder has any rights under the options to participate in any other share issue of the Company or any other entity.

The Directors have determined that a grant of options made to a participant in the Employee Share Option Plan will vest as follows:

- for options with an exercise price of \$0.50, one third of the number of options granted vested on 22 September 2003, a further one third vested on 1 May 2004 and the final one third will vest on 1 May 2005,
- for options with an exercise price of \$0.59, one third of the number of options granted vested on 1 May 2004, a further one third will vest on 1 May 2005 and the final one third will vest on 1 May 2006, and
- for options with an exercise price of \$1.07, one third of the number of options granted will vest on 1 May 2005, a further one third will vest on 1 May 2006 and the final one third will vest on 1 May 2007.

No option can be exercised until it has vested.

Unless otherwise determined, under the Employee Share Option Plan vested options of employees may be exercised at any time prior to the first to occur of:

- The expiry of five years from the date of issue,
- Expiry of three months after the date upon which the option holder dies or voluntarily or without cause ceases to be employed by the consolidated entity, and
- Immediately upon the option holder's employment by the consolidated entity being terminated with cause.

If InvoCare Limited makes a bonus issue of shares or other securities pro rata to holders of shares (other than an issue in lieu, or in satisfaction, of dividends or by way of dividend reinvestment) and no shares have been allotted in respect of an option before the record date for determining entitlements to the bonus issue, then that option, when exercised in accordance with the Employee Share Option Plan, will entitle the option holder to receive the number of shares that the option holder would have been entitled to under the bonus issue as if the option had been exercised and the shares allotted before that record date.

If InvoCare Limited makes a rights offer to all or most of the shareholders of the Company (other than in lieu of dividends or by way of dividend reinvestment) then the exercise price of the options will be reduced by the values of the theoretical rights of entitlement received in relation to each share (as determined by the formula expressed in the terms of the Plan).

The total number of shares issued upon exercise of the options under the Plan must not exceed 10% of the total number of shares on issue in the capital of InvoCare Limited (or shares capable of being issued under an equity security). However, if an applicable law at any time imposes a lower limit, then that lower limit will apply.

Once options issued under the Plan have reached their vesting dates options may be exercised in parcels of no less than 10,000 (or if the vested entitlement is less than 10,000 the full amount of that vested entitlement must be exercised) until the earlier of the fifth anniversary of the issue date, the date of sale of all the shares in InvoCare Limited and the occurrence of one of the events that causes the lapse of options.

Notes to the Financial Statements

For the year ended 31 December 2004

28. EMPLOYEE BENEFITS (CONTINUED)

Employee Share Options (continued)

Set out below is a summary of the movement in options during the year, including those held by Directors.

Grant date	Expiry date	Exercise price	Balance at start of year	Issued during year	Exercised during year	Lapsed during year	Balance at end of year
8 May 2001*	1 May 2006	\$0.50	302,401	–	302,401	–	–
22 September 2003**	1 May 2006	\$0.50	904,084	–	547,566	–	356,518
22 September 2003**	1 May 2007	\$0.59	702,843	–	234,278	–	468,565
22 September 2003**	1 May 2008	\$1.07	1,123,019	–	–	122,233	1,000,786
8 May 2004***	8 May 2009	\$1.51	–	988,565	–	–	988,565
			3,032,347	988,565	1,084,245	122,233	2,814,434

* Options issued to a Director, Ian Ferrier, under a letter dated 8 May 2001

** Options issued under the Employee Share Option Plan

*** Options issued to Richard Davis under a Service Agreement dated 8 May 2001.

Options exercised during the financial year and number of shares issued on the exercise of the options:

Exercise date	Exercise price	Fair value of shares issued*	Options exercised Number	Proceed from shares issued \$
2004				
29 June 2004	\$0.50	\$2.37	254,653	127,327
29 June 2004	\$0.59	\$2.37	140,059	82,636
30 August 2004	\$0.50	\$2.74	302,401	151,201
31 August 2004	\$0.50	\$2.80	101,860	50,930
31 August 2004	\$0.59	\$2.80	25,464	15,024
1 September 2004	\$0.50	\$2.84	191,053	95,526
1 September 2004	\$0.59	\$2.84	68,755	40,566
Total			1,084,245	563,210
2003				
24 October 2003**	**	\$1.88	3,032,912	1,942,900
29 December 2003	\$0.50	\$2.09	165,460	82,730
Total			3,198,372	2,025,630

* The fair value of shares issued on the exercise of options after the Company listed on 4 December 2003 is the closing price at which the Company's shares were traded on the ASX on the day of the exercise of the options. The fair values of shares issued before initial listing of the Company's shares has been estimated as the closing price at which the Company's shares were traded on the ASX on 4 December 2003.

** The number of options exercised on 24 October 2003 and the exercise price of those options have been disclosed as post share split amounts. These options, originally issued to a Director, Richard Davis, and exercised prior to the capital restructure and listing of InvoCare Limited, were not all exercised by Richard Davis. Richard Davis exercised 400,000 (611,168 post share split) options at \$0.76 per share which increased net assets by \$304,000. By agreement Macquarie Direct Investment A Limited, a former shareholder of InvoCare Limited, purchased and exercised 1,585,000 (2,421,744 post share split) options at \$0.76 per share for 725,000 options, \$0.90 per share for 430,000 options and \$1.63 per share for 430,000 options which increased net assets by \$1,638,900.

The aggregate number of shares issued to, and proceeds received from, employees on the conversion of options to shares during the financial year were 781,844 and \$412,009 respectively (2003: 776,628 and \$386,730).

Options vested at the reporting date:

	2004 Number	2003 Number
Issued to employees (including Executive Directors)	988,565	191,055
Issued to Non-Executive Directors	–	302,401
	988,565	493,456

	Consolidated		InvoCare Limited	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
29. CONTINGENT LIABILITIES				
The parent entity and consolidated entity had contingent liabilities at 31 December 2004 in respect of bank guarantees given in respect of leased premises of controlled entities to a maximum amount of:	143	225	143	225

No material losses are anticipated in respect of the above contingent liabilities.

30. EARNINGS PER SHARE

Reconciliation of earnings used in calculating basic and diluted earnings per share

Net profit	17,145	11,683
Adjustments:		
Net profit attributable to outside equity interest	(57)	(45)
Earnings used in calculating basic and diluted earnings per share	17,088	11,638

	Number of shares 2004	Number of shares 2003
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used in calculating basic earnings per share:	94,399,665	96,920,114
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	96,235,120	99,228,347

The average market price utilised in calculating the weighted average number of shares used in calculating diluted earnings per share was \$2.56 (2003: \$2.02).

Information concerning the classification of securities

Ordinary shares

In determining the 2003 weighted average number of shares for basic and diluted earnings per share the preference shares on issue (up to the listing in 2003) have been treated as ordinary shares as they fall within the definition of ordinary shares. In addition, the 2003 weighted average number of ordinary shares used to calculate the basic and diluted earnings per share has been adjusted for the change in the number of ordinary shares which occurred as a result of the share split in December 2003. The number of ordinary shares outstanding before the share split has been adjusted for the proportionate change in the number of ordinary shares outstanding as if the share split had occurred at the beginning of the 2003 year.

Options

Options granted are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share.

Details relating to the options are set out in Note 28 – Employee Benefits.

Subsequent movements in contributed equity

Since the end of the financial year, no ordinary shares have been issued pursuant to the Employee Share Option Plan.

There have been no other conversions to, calls of, or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

Notes to the Financial Statements

For the year ended 31 December 2004

31. SUBSEQUENT EVENTS

There have been no significant events that have occurred subsequent to 31 December 2004.

32. SEGMENT INFORMATION

InvoCare operates in one industry, being the funeral industry, and in one geographical location, being Australia.

33. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Directors

The following persons were Directors of the Company during the financial year:

Chairman – Non-Executive

Ian Ferrier

Executive Directors

Richard Davis Managing Director and Chief Executive Officer

Michael Grehan Chief Operating Officer

Non-Executive Directors

Christine Clifton

Richard Fisher

John Murphy (resigned 28 February 2005)

Roger Penman was appointed a Non-Executive Director on 1 January 2005.

(b) Specified Executives

The following persons were the five executives, other than Directors, with the greatest authority for the strategic direction and management of the consolidated entity ("Specified Executives") during the financial year:

Name	Position	Employer
Kenneth Mealey	Chief Financial Officer	InvoCare Australia Pty Limited
Phillip Friery	Group Finance Manager	InvoCare Australia Pty Limited
Jacobus Adrichem	National Operations Manager Cemeteries & Crematoria	InvoCare Australia Pty Limited
Armen Mikaelian	National Sales Manager Cemeteries & Crematoria	InvoCare Australia Pty Limited
John Fowler	General Manager Funerals Vic	InvoCare Australia Pty Limited

(c) Remuneration of Directors and Executives

Principles used to determine the nature and amount of remuneration

Non-Executive Directors

Policy

The Board's primary focus is on the long term strategic direction and overall performance of the Company. Accordingly, Non-Executive Director remuneration is not targeted to short term results.

Fees paid to Non-Executive Directors are determined with the assistance of independent external advisers.

The remuneration policy is designed:

- to attract and retain competent and suitably qualified Non-Executive Directors;
- to motivate Non-Executive Directors to achieve InvoCare's long term strategic objectives;
- to align the interests of Non-Executive Directors with the long term interests of shareholders.

Fee pool and other fees

Non-Executive Directors' base fees for services as Directors are determined within an aggregate Directors' fee pool limit, which is periodically approved by shareholders. At the date of this report the pool limit is \$400,000, being the amount approved by shareholders at the Annual General Meeting held on 31 May 2004.

This remuneration is to be divided among the Non-Executive Directors in such proportion as the Board determines. During the year ended 31 December 2004, \$265,000 of the fee pool was utilised, consistent with an undertaking made by the Chairman to shareholders at the Annual General Meeting held on 31 May 2004. Currently fees for Non-Executive Directors are \$100,000 for the Chairman of the Board and \$65,000 for each of the other three Non-Executive Directors.

33. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Fee pool and other fees (continued)

This excludes any remuneration determined by the Directors where a Director performs additional or special duties for the Company. If a Director performs additional or special duties for the Company they may be remunerated as determined by the Directors and that remuneration can be in addition to the limit mentioned above. No fees for additional or special duties were paid to Non-Executive Directors during the year ended 31 December 2004.

Directors are entitled to be reimbursed for all reasonable costs and expenses incurred by them in the performance of their duties as Directors.

Equity participation

Non-Executive Directors may receive options as part of their remuneration, subject only to shareholder approval. No options are held by any Non-Executive Director at the date of this report.

Retiring allowances

No retiring allowances are paid to Non-Executive Directors.

Superannuation

Where relevant, total fees paid to Non-Executive Directors are inclusive of any superannuation guarantee charge and, at the discretion of each Non-Executive Director, may be paid into superannuation funds.

Executive Directors and Executive Management

Policy

The guiding principle underlying InvoCare's executive remuneration philosophy is to ensure rewards are fair and reasonable having regard to both internal and external relativities and appropriately balanced between fixed and variable components and that all variable components are commensurate with performance and results delivered.

InvoCare's remuneration policy is that:

- for each role, the balance between fixed and variable components should reflect market conditions;
- individual objectives should reflect the need for sustainable outcomes;
- all variable pay should be tightly linked to measurable personal and business group performance;
- total compensation be market competitive.

Approval

The Board Remuneration Committee makes recommendations to the Board of Directors in relation to the remuneration of the Chief Executive Officer ("CEO").

The CEO recommends and the Remuneration Committee approves all executive remuneration within a defined budget, approved by the Board of Directors.

Fixed remuneration

Executives are offered market competitive base salary (including benefits). Base salary is reviewed on a regular basis against market data for comparable positions provided by independent remuneration consultants and selected survey data.

Adjustments to base salary are made based on increases in role scope or responsibility, pay position relative to market and relative performance in the role.

Short term incentives

Short term incentives in the form of cash bonuses are paid to selected executives based on measured performance against a range of mainly quantitative financial performance measures. These include EBIT targets, income accretion targets, debt reduction targets, qualitative measures of customer satisfaction and debtor days outstanding targets.

Performance targets are agreed with each executive at the beginning of the period and performance measured against targets set determining the value of cash bonus paid.

As executives gain seniority, the balance between fixed and variable components shifts to a higher percentage of "at risk" remuneration.

Long term incentives

InvoCare's long term incentive policy aims to create a balance between corporate performance and retention of key executives.

The equity compensation provided to selected executives was initiated prior to the Initial Public Offering of InvoCare and was provided in the form of share options. Details are set out below under "Share-based compensation – options".

InvoCare's long term incentive practices have been reviewed in detail and proposed changes will be presented to shareholders for approval.

Notes to the Financial Statements

For the year ended 31 December 2004

33. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Service agreements

Chief Executive Officer

- Remuneration and other terms of employment for the CEO were formalised in a service agreement dated 8 May 2001 with an initial term of two years, renewable each year for a further twelve months at the discretion of the Board of Directors.
- The agreement provides for the provision of salary, short term performance related cash bonuses, superannuation and other benefits to be reviewed annually.
- Termination may be effected with either six month's notice or by payment of six month's remuneration. In the event of termination, the agreement provides normal commercial restraint conditions for a period of twelve months after termination.
- The agreement also provided for long term performance incentives by the grant of options over unissued shares in InvoCare Limited on 8 May 2004. Details of the share options are set out in Note 28.

Other executives

- Remuneration and other terms of employment for the Specified Executives and other executives are formalised in letters of appointment.
- Each of these appointments provide for the provision of base salary, short term performance related cash bonuses, superannuation and other benefits.
- In addition, selected senior executives receive long term performance incentives and participate in the Company's Employee Share Option Plan. Options were granted to them in September 2003. Details of these options are set in Note 28.

Details of remuneration

Details of the remuneration of each Director of InvoCare Limited and each of the five Specified Executives of the consolidated entity are set out in the following tables.

	Primary		Non monetary benefits \$	Post Employment		Equity	Total \$
	Salary & Fees \$	Cash bonus \$		Super- annuation \$	Retirement benefits \$	Options \$	
Non-Executive Directors							
Ian Ferrier	95,872	–	–	4,128	–	–	100,000
John Murphy	55,000	–	–	–	–	–	55,000
Christine Clifton	50,459	–	–	4,541	–	–	55,000
Richard Fisher	–	–	–	55,000	–	–	55,000
Executive Directors							
Richard Davis	400,000	200,000	28,896	36,000	–	721,652	1,386,548
Michael Grehan	300,000	150,000	8,997	27,676	–	580,831	1,067,504
Total	901,331	350,000	37,893	127,345	–	1,302,483	2,719,052
Specified Executives							
Kenneth Mealey	200,000	80,000	25,940	18,000	–	299,793	623,733
Phillip Friery	150,000	60,000	34,017	13,500	–	66,178	323,695
Jacobus Adrichem	151,000	22,650	7,934	14,634	–	52,933	249,151
Armen Mikaelian	168,294	110,775	19,516	30,367	–	37,144	366,096
John Fowler	140,000	16,800	27,355	13,404	–	74,011	271,570
Total	809,294	290,225	114,762	89,905	–	530,059	1,834,245
Other senior executive							
Colin Purslowe*	189,343	–	41,892	19,598	–	74,011	324,844

* Colin Purslowe, General Manager Funerals WA, has been included in the above table in order that the remuneration of the five most highly paid executives is disclosed. The salary includes payout of leave entitlements.

33. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Comparative information on either an individual or aggregate basis in respect of the remuneration of Directors and Specified Executives of InvoCare Limited for the year ended 31 December 2003 is not shown as this is the first financial report prepared since the issue of AASB 1046 "Director and Executive Disclosures by Disclosing Entities".

Share-based compensation – options

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

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
22 September 2003*	1 May 2006	\$0.50	\$1.32	1/3 on 22 September 2003, 1/3 on 1 May 2004, 1/3 on 1 May 2005
22 September 2003*	1 May 2007	\$0.59	\$1.18	1/3 on 1 May 2004, 1/3 on 1 May 2005, 1/3 on 1 May 2006
22 September 2003*	1 May 2008	\$1.07	\$0.69	1/3 on 1 May 2005, 1/3 on 1 May 2006, 1/3 on 1 May 2007
8 May 2004**	8 May 2009	\$1.51	\$0.73	Upon release of audited results for the year ended 31 December 2004

* Options granted at the discretion of the Directors to senior executives of the consolidated entity for no consideration under the Employee Share Option Plan. The options vest in 1/3 portions at various dates. When exercised, each option entitles the participant to acquire one fully paid ordinary share of the Company.

** Options granted for no consideration on 8 May 2004 to Richard Davis, Director and Chief Executive Officer, under a Service Agreement dated 8 May 2001. These options vested upon issue. When exercised, each option entitles Mr Davis to acquire one fully paid ordinary share of the Company. Under a voluntary escrow arrangement, Mr Davis agreed he would not dispose or otherwise deal in these options until the Company reports its audited financial results for the year ended 31 December 2004.

(d) Equity instrument disclosures relating to Directors and Specified Executives

Options provided as remuneration

Details of options over unissued ordinary shares in InvoCare Limited provided as remuneration to each Director and each of the five Specified Executives of the consolidated entity are set out below. Further information on the options is set out in Note 28.

The amounts disclosed for remuneration relating to options is the assessed fair value at grant date allocated equally over the period from grant date to vesting date. Fair values at grant date have been independently determined using a binomial option pricing model that takes into account the exercise price, the expected life of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price on grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the expected life of the option.

No amounts are unpaid on any shares issued on the exercise of options.

Notes to the Financial Statements

For the year ended 31 December 2004

33. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Option holdings

Details of the movements in the number of options over ordinary shares in InvoCare Limited held during the financial year by each Director and each of the five Specified Executives of the consolidated entity, including their personally-related entities, are set out below:

Name	Balance at start of year	Granted during year as remuneration	Exercised during year at exercise price \$0.50	Exercised during year at exercise price \$0.59	Balance at end of year	Vested during year	Vested and exercisable at end of year
Directors							
Ian Ferrier	302,401	–	302,401	–	–	–	–
Richard Davis*	–	988,565	–	–	988,565	988,565	988,565
Michael Grehan*	1,222,336	–	254,653	140,059	827,624	267,386	–
Specified Executives							
Kenneth Mealey	483,868	–	127,353	38,198	318,317	165,524	–
Phillip Friery	140,092	–	12,765	12,732	114,595	25,465	–
Jacobus Adrichem	81,494	–	25,470	5,093	50,931	30,558	–
Armen Mikaelian	122,233	–	–	–	122,233	–	–
John Fowler	152,792	–	50,930	12,732	89,130	38,198	–

* Under voluntary escrow arrangements, Richard Davis and Michael Grehan agreed they would not dispose or otherwise deal in these options until the Company reports its audited financial results for the year ended 31 December 2004.

No options are vested and unexercisable at the end of the year.

Share holdings

Details of the movements in the number of ordinary shares in InvoCare Limited held during the financial year by each Director and each of the five Specified Executives of the consolidated entity, including their personally-related entities, are set out below:

	Balance at start of year	Received during year on exercise of option	Other changes during year	Balance at end of year
Directors				
Ian Ferrier	–	302,401	(150,000)	152,401
Richard Davis*	611,168	–	–	611,168
Michael Grehan*	–	394,712	–	394,712
John Murphy	56,417	–	–	56,417
Christine Clifton	110,000	–	(10,000)	100,000
Richard Fisher	–	–	5,000	5,000
Specified Executives				
Kenneth Mealey	–	165,551	(65,551)	100,000
Phillip Friery	250	25,497	(15,000)	10,747
Jacobus Adrichem	1,000	30,563	(31,563)	–
Armen Mikaelian	–	–	–	–
John Fowler	–	63,662	–	63,662

* Under voluntary escrow arrangements, Richard Davis and Michael Grehan agreed they would not dispose or otherwise deal in ordinary shares until the Company reports its audited financial results for the year ended 31 December 2004.

33. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

(e) Loans to Directors and Executives

No loans have been made to Directors of InvoCare Limited or to any of the five Specified Executives of the consolidated entity, including their personally-related entities.

(f) Other transactions with Directors and Specified Executives

During the year, Investec Wentworth Pty Limited, of which John Murphy is a Director, provided professional advisory services to the consolidated entity on normal commercial terms and conditions amounting to \$103,148.

During the year, Blake Dawson Waldron, of which Richard Fisher is a partner, provided professional legal services to the consolidated entity on normal commercial terms and conditions amounting to \$31,097.

During the year, Hillmir Pty Ltd, an entity significantly influenced by a relative of Michael Grehan, provided professional advisory services to the consolidated entity on normal commercial terms and conditions amounting to \$46,436.

The aggregate amount of the above transactions with Director-related entities recognised as an expense during the financial year was \$180,681.

34. REMUNERATION OF AUDITOR

	Consolidated		InvoCare Limited	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
During the year the auditor of the parent entity and its related practices earned the following remuneration:				
PricewaterhouseCoopers – Australian firm				
Audit of financial reports of the entity or any entity in the consolidated entity	124,000	110,000	–	–
Review of financial report of the consolidated entity	40,000	40,000	–	–
Other audit-related work	92,900	66,650	–	–
Total audit and other assurance services	256,900	216,650	–	–
Advisory services	23,187	56,593	–	–
Taxation	152,500	157,082	–	–
Total other services	175,687	213,675	–	–
Total remuneration of PricewaterhouseCoopers	432,587	430,325	–	–
Related practices of PricewaterhouseCoopers Australian firm				
PricewaterhouseCoopers Legal	335,673	159,039	–	–
PricewaterhouseCoopers Securities	45,000	207,800	–	–
Total remuneration of related practices	380,673	366,839	–	–
Total remuneration of auditors and related practices	813,260	797,164	–	–

It is InvoCare's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the consolidated entity are important. These assignments are principally tax advice and advisory services, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is InvoCare's policy to seek competitive tenders for any major consulting projects.

Notes to the Financial Statements

For the year ended 31 December 2004

35. RELATED PARTY DISCLOSURES

Directors and Specified Executives

Disclosures relating to Directors and Specified Executives are set out in Note 33.

Transactions between InvoCare Limited and its controlled entities consist of:

- (a) Loan advanced by InvoCare Limited
- (b) Loan repaid to InvoCare Limited
- (c) The payment of interest on the above loan
- (d) The payment of dividends to InvoCare Limited, and
- (e) The payment of a management fee to InvoCare Limited.

Loan

The loan made by InvoCare Limited to a controlled entity has no fixed terms of repayment. The aggregate amount receivable included in Note 6 – Receivables (current) and Note 10 – Receivables (non-current) totalled \$173,929,000 (2003: \$192,324,000). Interest on the loan is charged at 9% (2003: 9%).

Repayments totalling \$18,395,000 (2003: \$16,303,000) were made during the year. In addition, interest revenue included in the determination of operating profit before income tax that resulted from transactions with the entity in the wholly owned group totalled \$16,714,000 (2003: \$18,110,000).

Dividends

A fully franked dividend of \$6,080,191 (2003: \$7,000,000) was received by InvoCare Limited from a controlled entity. This amount has been included in the determination of operating profit before income tax.

Management Fee

A management fee was charged by InvoCare Limited to a controlled entity during the year totalling \$960,000 (2003: \$480,000). This amount is included in the determination of operating profit before income tax.

Former shareholder transactions

A former shareholder provided a loan of \$30,000,000 in the form of convertible notes to InvoCare Limited until 10 December 2003 when the convertible notes were repaid in full. The interest expense for the year ended 31 December 2003 included \$3,394,000 on the convertible notes.

36. INVESTMENTS IN CONTROLLED ENTITIES

The consolidated entity comprises the parent entity and the entities it controlled at the end of, or during, the financial year.

Parent Entity

InvoCare Limited

Name of entity	Equity holding		Cost of parent entity's investment	
	2004 %	2003 %	2004 \$'000	2003 \$'000
InvoCare Australia Pty Limited (formerly Service Corporation International Australia Pty Limited)	100	100	15,641	15,641
New South Wales Cremation Company Pty Limited	100	100	-	-
Cremations (Newcastle) Holdings Pty Limited	100	100	-	-
Cremations (Newcastle) Pty Limited	100	100	-	-
Macquarie Memorial Park Pty Limited	83.14	83.14	-	-
Macquarie Funeral Service Pty Limited	83.14	83.14	-	-
Novocastrian Funerals Pty Limited	100	100	-	-
Novocastrian Funerals Unit Trust	100	100	-	-
Catholic Funerals Newcastle Pty Limited	100	100	-	-
Mead & Purslowe Pty Limited	100	100	-	-
Mead & Purslowe Trading Trust	100	100	-	-
Oakwood Funerals Pty Limited ^{^^}	50	50	-	-
Dignity Pre-Arranged Funerals Pty Limited	100	100	-	-
Memorial Guardian Plan Pty Limited	100	100	-	-
Pine Grove Forest Lawn Funeral Benefit Company Pty Limited	100	100	-	-
Kitleaf Pty Limited	100	100	-	-
The Australian Cremation Society Pty Limited	100	100	-	-
Metropolitan Burial and Cremation Society Funeral Contribution Fund Pty Limited	100	100	-	-
Labor Funerals Contribution Fund Pty Limited	100	100	-	-
Purslowe Custodians Pty Limited	100	100	-	-
Beresfield Funerals Pty Limited	100	100	-	-
			15,641	15,641

All entities are incorporated and domiciled in Australia.

^{^^} InvoCare Australia Pty Limited holds 50% of the shares in Oakwood Funerals Pty Limited, which is a controlling interest as it has the capacity to dominate decision making and operations of the company's business activities.

Notes to the Financial Statements

For the year ended 31 December 2004

37. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the reporting date, are as follows:

Notes	Floating interest rate		Fixed interest rate maturing in:				Non-interest-bearing		Total	Weighted average interest rate			
	2004	2003	1 year or less		Over 1 to 5 years		2004	2003		2004	2003		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		\$'000	\$'000	%	%
Financial assets													
Cash	26	461	5,002	-	-	-	-	-	-	461	5,002	4.4	3.7 [^]
Cash	26	-	-	226	2,141	-	-	-	-	226	2,141	4.5	4.5
Trade and other debtors	6,10	-	-	-	-	-	-	22,307	21,812	22,307	21,812	n/a	n/a
Security deposit	10	-	19	-	-	-	-	58	42	58	61	n/a	3.8
Total financial assets		461	5,021	226	2,141	-	-	22,365	21,854	23,052	29,016		
Financial liabilities													
Trade and other creditors	15,19	-	-	282	524	29	307	15,252	17,914	15,563	18,745	9.0	9.0
Deferred revenue	18,22	-	-	-	-	-	-	41,596	39,283	41,596	39,283	n/a	n/a
Debentures	16,20	109,000	130,000	-	-	-	-	-	-	109,000	130,000	7.5	7.6
Cash advance facility	16,20	22,500	25,000	-	-	-	-	-	-	22,500	25,000	7.6	7.7
Convertible notes	20	-	-	-	-	-	-	-	-	-	-	n/a	12.0
Lease liability	16,20	-	-	17	15	32	49	-	-	49	64	9.1	9.1
Interest rate swap*		(119,425)	(136,000)	27,899	20,994	91,526	115,006	-	-	-	-	#	#
Total financial liabilities		12,075	19,000	28,198	21,533	91,587	115,362	56,848	57,197	188,708	213,092		
Net financial assets/(liabilities)		(11,614)	(13,979)	(27,972)	(19,392)	(91,587)	(115,362)	(34,483)	(35,343)	(165,656)	(184,076)		

n/a Not applicable for non-interest-bearing financial instruments.

[^] Account is the aggregate of nine bank accounts. Where the aggregate balance is greater than \$5,000,000 a premium interest rate is received.

When the aggregate balance is overdrawn a rate of 9.1% (2003: 8.6%) is charged.

* Notional principal amounts. Not recognised in financial statements.

The disclosure of effective interest rates is not applicable to derivative financial instruments. For information on interest rates see below.

(b) Net fair value of financial assets and liabilities

On-balance sheet

The carrying amount of financial assets and liabilities approximates their fair value.

(c) Off-balance sheet derivative instruments

InvoCare Limited is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates.

	Carrying amount		Fair value	
	2004 \$'000	2003 \$'000	2004 \$'000	2003 \$'000
Financial liabilities				
Interest rate swaps, net liability	-	-	2,459	780

37. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate swap contracts

The debentures and cash advance facility currently bear an average variable interest rate of 7.50% (2003: 7.64%). It is policy to protect the majority of the loan agreement from exposure to increasing interest rates. In addition, the loan agreement requires at least 75% of the principal be covered by interest rate swaps. Accordingly, InvoCare has entered into interest rate swap contracts to reduce its exposure to adverse fluctuations in interest rates on debentures and cash advance facility. Swaps currently in place cover 91% (2003: 85%) of the debenture and cash advance facility principal outstanding.

Under the contracts, interest is paid at fixed rates and received at variable rates. The fixed weighted average interest rate is 5.757% (2003: 5.639%) and the variable rate is based on the BBSW which at the balance date was 5.600% (5.515%). The contracts have notional principal amounts with a similar maturity profile to the debentures and cash advance facility and require settlement of net interest receivable or payable each quarter coinciding with the dates on which interest is payable on the debentures and cash advance facility. There was no net amount receivable or payable on the swap contracts at the reporting date.

(d) Credit risk exposures

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, other than investment in shares, is generally the carrying amount, net of any provision for doubtful debts.

38. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

The Australian Accounting Standards Board (AASB) is adopting 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 is in the process of issuing interpretations corresponding to IASB interpretations originated by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS will be first reflected in InvoCare's financial statements for the half year ending 30 June 2005 and the year ending 31 December 2005.

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

InvoCare has established a project team to manage the transition to Australian equivalents to IFRS, including training of staff as well as 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.

To date, the project team with the help of external advisers, has analysed most of the Australian equivalents to IFRS and has identified a number of 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.

Major changes that will be required to InvoCare's existing accounting policies include the following (references to new AASB standards below are to the Australian equivalents to IFRS issued in July 2004):

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.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, under which 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.

Notes to the Financial Statements

For the year ended 31 December 2004

38. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS (CONTINUED)

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.

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.

Equity-based compensation benefits

Under AASB 2 Share-based Payments, equity-based compensation to employees will be recognised as an expense in respect of the services received.

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

Financial Instruments

Under AASB 139 Financial Instruments: Recognition and Measurement there may be impacts as a result of financial assets held by the Company being subjected to classification as either held for trading, held-to-maturity, available for sale or loans and receivables and, depending upon classification, measured at fair value or amortised cost.

The interest rate swap contracts will be carried at fair value on InvoCare's balance sheet. Where hedge effectiveness tests are met, changes in the fair value of the swap contracts will be recognised in equity and released to the income statement over the term of the contract. Where hedge effectiveness tests are not met or the swaps are not designated in a hedging relationship, changes in the fair value of the swap contracts will be recognised in the income statement. This may result in increased volatility in the income statement.

Other Changes

The above should not be regarded as a complete list of changes in accounting policies that will result from the transition to Australian equivalents to IFRS.

Directors' Declaration

In the Directors' opinion:

- (a) the financial statements and notes 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 31 December 2004 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.

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



Ian Ferrier
Director
Sydney
30 March 2005



Richard Davis
Director