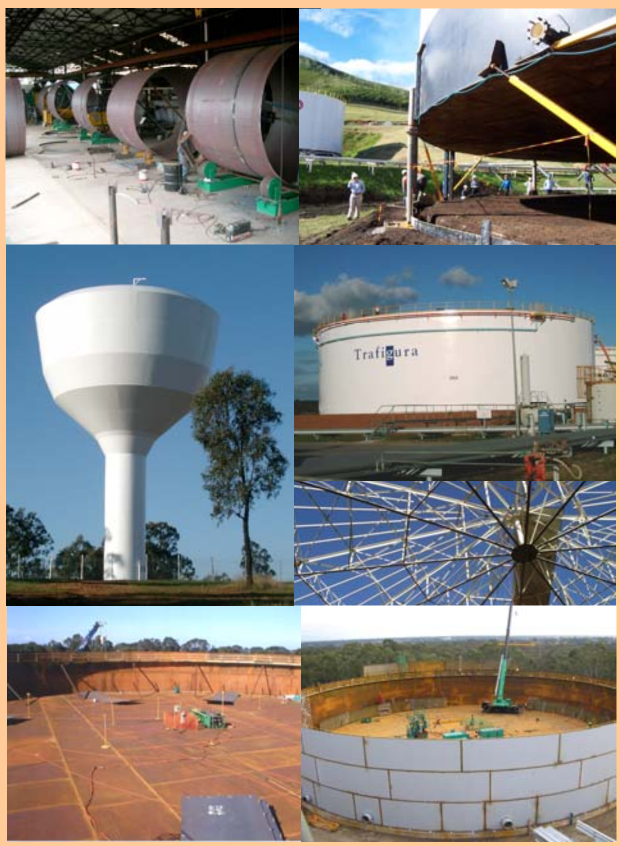
Saunders International Limited

ACN 050 287 431



ANNUAL REPORT

for the Financial Year Ended 30 June 2007

Directors' Report

The directors of Saunders International Limited submit herewith the annual financial report of the company for the financial year ended 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows.

The names and positions of the directors of the company during or since the end of the financial year are:-

Name

D.J. Bryant, Chairman
T.J. Burnett, Non Executive Director
J. Power, Managing Director
A. Auzins, Executive Director, resigned 14 September 2007

Directorships of Other Listed Companies

None of the directors are directors of other listed companies.

Company Secretary

T.J. Burnett, resigned 12 July 2007.
S.A. Dadich, appointed 12 July 2007.

Principal Activities

The principal activities of the company during the financial year were the design, construction and maintenance of bulk storage tanks and reservoirs. Ancillary activities included steel fabrication, painting and project management.

Review of Operations

Although total revenue increased only marginally over the prior year, net profit before tax increased significantly. This was principally due to the improved profit margins for projects in the Design and Contract Division and due to increased revenue in the Facilities Maintenance Division.

Changes in State of Affairs

There was no significant change in the state of affairs of the company during the financial year.

Subsequent Events

The company is considering an Initial Public Offering to become listed on the ASX. No firm decision has been made as of the date of this report. Other than that, there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

Future Developments

Disclosure of other information regarding likely developments in the operations of the company in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the company. Accordingly, this information has not been disclosed in this report.

Dividends

In respect of the financial year ended 30 June 2006, as detailed in the directors' report for that financial year, a final dividend of 7 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 03 October 2006.

In respect of the financial year ended 30 June 2007, an interim dividend of 8 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 14 March 2007.

In respect of the financial year ended 30 June 2007, the directors have not made any decision on the payment of a final dividend.

Indemnification of Officers and Auditors

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company, the company secretary, and all executive officers of the company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or of any related body corporate against a liability incurred as such an officer or auditor.

Directors' Meetings

The following table sets out the number of directors' meetings held during the financial year and the number of meetings attended by each director. During the financial year, 12 board meetings were held.

Directors	Held	Attended
D.J. Bryant	12	10
T.J. Burnett	12	12
J. Power	12	12
A. Auzins	12	10

Directors' Shareholdings

The following table sets out each director's relevant interest in shares of the company as at the date of this report.

Directors	Fully Paid Ordinary Shares Number
D.J. Bryant	3,149,000
T.J. Burnett	1,938,000
J. Power	620,000
A. Auzins	125,000

Directors

The aggregate of directors remuneration is contained in Note 22 to the financial statements.

Auditor's Independence Declaration

The auditor's independence declaration is included on page 5 of the annual report.

Rounding Off of Amounts

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.298(2) of the Corporations Act 2001.

On behalf of the Directors

John Power
Director
Sydney, 9 October 2007

The Board of Directors
Saunders International Limited
271 Edgar Street,
Condell Park NSW 2200

Dear Board Members

Saunders International Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the Directors of Saunders International Limited.

As lead audit partner for the audit of the financial statements of Saunders International Limited for the financial year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Alfie Nehama
Partner
Chartered Accountants

Member of
Deloitte Touche Tohmatsu

Liability limited by a scheme approved under Professional Standards Legislation.

Independent Auditor's Report
to the Members of Saunders International Limited

We have audited the accompanying financial report of Saunders International Limited, which comprises the balance sheet as at 30 June 2007, and the income statement, cash flow statement and statement of changes in equity for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of Saunders International Limited as set out on pages 8 to 27.

Directors' Responsibility for the Financial Report

The directors of *Saunders International Limited* are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Deloitte.

Auditor's Opinion

In our opinion, the financial report of *Saunders International Limited* is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the *Saunders International Limited*'s financial position as at 30 June 2007 and of its performance for the year ended on that date; and

(b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Alfie Nehama

Partner

Chartered Accountants

Sydney,

Directors' Declaration

The directors declare that:-

(a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the company and the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the Corporations Act 2001.

On behalf of the Directors

John Power
Director
Sydney, 9 October 2007

Income Statement
for the Financial Year Ended 30 June 2007

		Consolidated		Company	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Continuing operations					
Revenue	2	35,057	33,971	35,111	33,971
Other income	3	207	30	207	30
Changes in inventories of finished goods and work in progress		2,008	1,061	2,008	1,126
Raw materials, consumables and employee benefits expense		(29,382)	(29,051)	(29,382)	(28,634)
Depreciation and amortisation expense		(622)	(636)	(622)	(636)
Other expenses		(1,191)	(2,298)	(1,191)	(2,298)
Profit before tax	3	6,077	3,077	6,131	3,023
Income tax expense	4	(1,806)	(854)	(1,806)	(851)
Profit for the year	14	4,271	2,223	4,325	2,172
Attributable to:					
Equity holders of the parent		4,271	2,223	4,325	2,172
Earnings per share					
Basic (cents per share)	16	64.77	33.29		
Diluted (cents per share)	16	64.77	33.29		

The accompanying notes form part of these financial statements.

Balance Sheet
as at 30 June 2007

		Consolidated		Company	
	Note	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Current assets					
Cash and cash equivalents	21(a)	8,120	4,578	8,120	4,578
Trade and other receivables	5	5,944	3,786	5,944	3,786
Inventories	6	512	195	512	195
Other	9	133	36	133	36
Total current assets		14,709	8,595	14,709	8,595
Non-current assets					
Other financial assets	7	-	-	-	-
Property, plant and equipment	8	2,462	2,738	2,462	2,738
Deferred tax assets	4	122	146	122	146
Total non-current assets		2,584	2,884	2,584	2,884
Total assets		17,293	11,479	17,293	11,479
Current liabilities					
Trade and other payables	10	5,587	2,848	5,587	2,848
Current tax liabilities	4	233	285	233	283
Provisions	11	702	693	702	693
Total current liabilities		6,522	3,826	6,522	3,826
Non-current liabilities					
Trade and other payables	10	-	-	-	54
Provisions	11	658	810	658	810
Total non-current liabilities		658	810	658	864
Total liabilities		7,180	4,636	7,180	4,690
Net assets		10,113	6,843	10,113	6,789
Equity					
Issued capital	13	1,012	1,012	1,012	1,012
Retained earnings	14	9,101	5,831	9,101	5,777
Total equity		10,113	6,843	10,113	6,789

The accompanying notes form part of these financial statements.

Statement of Changes in Equity
for the Financial Year Ended 30 June 2007

	Issued Capital $'000	Retained earnings $'000	Total $'000
Consolidated			
Balance at 1 July 2005	359	3,608	3,967
Profit for the year	-	2,223	2,223
Issue of share capital	653	-	653
Balance at 30 June 2006	1,012	5,831	6,843
Profit for the year	-	4,271	4,271
Dividend paid	-	(1,001)	(1,001)
Balance at 30 June 2007	1,012	9,101	10,113
Company			
Balance at 01 July 2005	359	3,605	3,964
Profit for the year	-	2,172	2,172
Issue of share capital	653	-	653
Balance at 30 June 2006	1,012	5,777	6,789
Profit for the year	-	4,325	4,325
Dividend paid	-	(1,001)	(1,001)
Balance at 30 June 2007	1,012	9,101	10,113

The accompanying notes form part of these financial statements.

Cash Flow Statement
for the Financial Year Ended 30June 2007

	Note	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Cash flows from operating activities					
Receipts from customers		36,435	35,571	36,494	35,111
Payments to suppliers and employees		(30,244)	(31,748)	(30,353)	(31,352)
Interest received and other costs of finance paid		373	128	373	128
Income taxes paid		(1,833)	(786)	(1,833)	(764)
Net cash provided by operating activities	21(b)	4,681	3,165	4,681	3,123
Cash flows from investing activities					
Payments for property, plant and equipment		(348)	(1,028)	(348)	(1,028)
Proceeds on disposal of property, plant and equipment		210	53	210	53
Loans to/(Repayment from) related parties		-	(6)	-	726
Net cash used in investing activities		(138)	(981)	(138)	(249)
Cash flows from financing activities					
Shares Issued		-	653	-	653
Dividends paid to:					
- equity holders of the parent		(1,001)	-	(1,001)	-
Net cash (used in)/provided by financing activities		(1,001)	653	(1,001)	653
Net increase in cash and cash equivalents		3,542	2,837	3,542	3,527
Cash and cash equivalents at the beginning of the financial year		4,578	1,741	4,578	1,051
Cash and cash equivalents at the end of the financial year	21(a)	8,120	4,578	8,120	4,578

The accompanying notes form part of these financial statements.

SAUNDERS

1. SUMMARY OF ACCOUNTING POLICIES

Adoption of new and revised Accounting Standards

At the date of authorisation of the financial report, a number of Standards and Interpretations were in issue but not yet effective.

Initial application of the following Standards and interpretations is not expected to have material impacts to the financial report, nor significantly effect the disclosures presently made in relation to the consolidated entity's and the company's financial report:

Standard	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB Interpretation 10 'Interim Financial Reporting and Impairment'	1 November 2006	30 June 2008
AASB 7 'Financial Instruments: Disclosures' and consequential amendments to other accounting standards resulting from its issue	1 January 2007	30 June 2008
AASB 101 'Presentation of Financial Statements' – revised standard	1 January 2007	30 June 2008
AASB Interpretation 11 'AASB 2 – Group and Treasury Share Transactions'	1 March 2007	30 June 2008
AASB 2007-1 'Amendments to Australian Accounting Standards arising from AASB Interpretation 11'	1 March 2007	30 June 2008
AASB 2007-4 'Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments'	1 July 2007	30 June 2008
AASB 2007-7 'Amendments to Australian Accounting Standards'	1 July 2007	30 June 2008
AASB Interpretation 12 Service Concession Arrangements	1 January 2008	
AASB 2007-2 'Amendments to Australian Accounting Standards arising from AASB Interpretation 12'	1 January 2008	30 June 2009
AASB Interpretation 14 'AASB 119 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'	1 January 2008	30 June 2009
AASB Interpretation 13 Customer Loyalty Programmes	1 July 2008	
AASB 8 'Operating Segments'	1 January 2009	30 June 2010
AASB 123 'Borrowing Costs' – revised standard	1 January 2009	30 June 2010
AASB 2007-6 'Amendments to Australian Accounting Standards arising from AASB 123'	1 January 2009	30 June 2010

Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 9 October 2007.

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 "Consolidated and Separate Financial Statements". Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtained control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(b) Cash and Cash Equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(c) Construction Contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

(d) Employee Benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

<u>Defined contribution plans</u>
Contributions to defined contribution superannuation plans are expenses when incurred.

(e) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(f) Income Tax

Current Tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred Tax

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

Current and Deferred Tax for the Period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs are assigned to inventory on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

(h) Leased Assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

There are currently no finance leases

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

(i) Property, Plant and Equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost or at valuation less accumulated depreciation and impairment. Note 8 provides more detail. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The following estimated useful lives are used in the calculation of depreciation:

Motor Vehicle	6 years
Plant and equipment	3 – 20 years
Office Furniture and Equipment	3 – 7 years

(j) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

<u>Onerous contracts</u>

An onerous contract is considered to exist where the company has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(k) Revenue

Revenue is measured at the fair value of the consideration received or receivable.

<u>Rendering of services</u>

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. The stage of completion is determined as follows:

- Revenue from time and material contracts is recognised at the contractual rates as labour hours are derived and direct expenses incurred.

Revenue from construction contracts is recognised in accordance with the accounting policy outlined in note 1(c).

<u>Dividend and interest revenue</u>

Dividend revenue is recognised on a receivable basis. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

(l) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
ii. for receivables and payables which are recognised inclusive of GST.

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

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

(m) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries and related entities are measured at cost.

<u>Loans and receivables</u>
Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

(n) Impairment of assets

At each reporting date, the entity reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment or loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(o) Contributed equity

Ordinary shares and redeemable preference shares are classified as equity.

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

	Consolidated		Company	
2. Revenue	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
Revenue from continuing operations consisted of the following items:				
Revenue from the sale of goods	34,699	33,839	34,699	33,839
Interest received	358	132	358	132
Dividend received	-	-	54	-
	35,057	33,071	35,111	33,971

3. Profit before taxation

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Other income				
Gain on sale of property, plant and equipment	207	30	207	30
Profit before income tax has been arrived at after charging / (crediting) the following expenses:				
Cost of sales	25,470	25,975	25,470	25,493
Loss on sale of property plant and equipment	-	363	-	363
Depreciation				
Motor vehicle	2	13	2	13
Plant and equipment	564	563	564	563
Office furniture and equipment	56	60	56	60
	622	636	622	636
Employee benefits expense:				
Other benefits	15,817	14,255	15,817	14,182

4. Income Taxes
Income Tax Recognised in Profit

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
Tax expense comprises:				
Current tax expense	1,840	907	1,840	891
Adjustments recognised in the current year in relation to the current tax of prior years	(58)	(7)	(58)	6
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	24	(46)	24	(46)
Total tax expense	1,806	854	1,806	851
The prima facie income tax expense on pre-tax accounting profit reconciles to income tax expense in the financials as follows:				
Profit before taxation	6,077	3,077	6,131	3,023
Income tax at 30%	1,823	923	1,839	907
Dividend received	-	-	(16)	-
Adjustments recognised in the current year in relation to the current tax of prior years	(58)	(7)	(58)	6
Other	41	(62)	41	(62)
Total tax expense	1,806	854	1,806	851

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

	Consolidated		Company	
4. Income Taxes	**2007 $'000**	**2006 $'000**	**2007 $'000**	**2006 $'000**
Deferred Tax Balances				
The deferred tax expense itemized above is shown in the balance sheet as follows.				
Deferred tax assets				
Employee benefit	422	451	422	451
Allowance for doubtful debts	-	9	-	9
Accruals	99	85	99	85
Deferred tax liability				
Plant and equipment	(399)	(399)	(399)	(399)
Net deferred tax asset	122	146	122	146
Current tax liabilities – income tax payable	233	285	233	285
5. Trade and Other Receivables				
Trade receivables	5,944	3,802	5,944	3,802
Allowance for doubtful debts	-	(30)	-	(30)
	5,944	3,772	5,944	3,772
Other receivable	-	14	-	14
	5,944	3,786	5,944	3,786
6. Inventories				
Raw materials	512	195	512	195
7. Other financial assets				
Investment in subsidiary	-	-	-	-

The investment in subsidiary was less than $1,000.
The subsidiary was wound up during 2007.

8. Property, Plant and Equipment

	Consolidated and Company				
	Motor Vehicle at Cost $'000	Plant and Equipment at Cost $'000	Plant and Equipment under Construction at Cost $'000	Office Furniture & Equipment at Cost $'000	Total $'000
Gross carrying amount					
Balance at 1 July 2005	288	4,548	116	460	5,412
Additions	-	923	18	87	1,028
Transfers	-	116	(116)	-	-
Disposals	(125)	(538)	-	(138)	(801)
Balance at 1 July 2006	163	5,049	18	409	5,639
Additions	-	293	24	31	348
Transfers	-	18	(18)	-	-
Disposals	(163)	(209)	-	(36)	(408)
Balance at 30 June 2007	-	5,151	24	404	5,579
Accumulated depreciation					
Balance at 1 July 2005	270	2,068	-	343	2,681
Disposals	(122)	(159)	-	(134)	(415)
Depreciation expense	13	563	-	60	636
Balance at 1 July 2006	161	2,472	-	269	2,902
Disposals	(163)	(209)	-	(36)	(408)
Depreciation expense	2	564	-	56	622
Balance at 30 June 2007	-	2,827	-	289	3,116
Net book value					
As at 30 June 2006	2	2,578	18	140	2,738
As at 30 June 2007	-	2,323	24	115	2,462

Impairment Testing

Under A-IFRS, Saunders International Limited reviews the carrying amounts of its tangible assets annually at each reporting date to determine whether there are any indicators of impairment. As at 30 June 2007 the company has undertaken a review to determine whether there are any indications of impairment. No indicators of impairment were noted and therefore there are no material impairment losses recorded.

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
9. Other Assets				
Current				
Prepayments	133	36	133	36
10. Trade and Other Payables				
Current				
Trade payables	1,566	945	1,566	945
Work in progress (Note 12)	2,931	922	2,931	922
Goods and services tax payable	-	61	-	61
Accruals	1,090	920	1,090	920
	5,587	2,848	5,587	2,848
Non Current				
Trade payables	-	-	-	54
11. Provisions				
Current				
Employee benefits	702	693	702	693
Non-current				
Employee benefits	658	810	658	810
12. Construction Contracts				
Contracts in progress at the reporting date:				
Construction costs incurred plus recognised profits less recognised losses to date	27,134	29,334	27,134	29,334
Less: progress billings	(30,065)	(30,256)	(30,065)	(30,256)
	(2,931)	(922)	(2,931)	(922)
13. Issued Capital				
6,677,000 fully paid ordinary shares (2006: 6,677,000)	1,012	1,012	1,012	1,012

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

	Consolidated 2007 $'000	Consolidated 2006 $'000	Company 2007 $'000	Company 2006 $'000
14. Retained Earnings				
Balance at beginning of financial year	5,831	3,608	5,777	3,605
Net profit for the year	4,271	2,223	4,325	2,172
Dividends provided for or paid	(1,001)	-	(1,001)	-
Balance at end of financial year	9,101	5,831	9,101	5,777

15. Errors Note

In order to comply with Australian Accounting Standards the following adjustments have been made to the financial statements for the year ended 30 June 2006, as previously reported:

	Consolidated	Company
Retained Earnings	**$'000**	**$'000**
Opening retained earnings per audited financials – 1 July 2005	2,121	2,118
Recognition of deferred tax asset (a)	499	499
Reversal of revaluation reserve to retained earnings (c)	933	933
Effects of reversing amortisation of goodwill (b)	55	55
Opening retained earnings as restated – 1 July 2005	3,608	3,605
Net profit for the year per audited financial statements – 30 June 2006	2,123	2,072
Effects of changes in accounting for deferred tax (a)	46	46
Effects of reversing amortisation of goodwill (b)	54	54
Retained earnings as restated – 30 June 2006	5,831	5,777
Issued Capital		
Issued capital as per audited financials – 1 July 2005	3,426	3,426
Adjustments:		
Reversal of goodwill (b)	(1,082)	(1,082)
Reversal of revaluation reserve to retained earnings (c)	(933)	(933)
Recognition of deferred tax liability (c)	(399)	(399)
Issued capital as per audited financials – 30 June 2005	1,012	1,012
Net Assets		
Net assets per audited financials – 1 July 2005	8,324	8,270
Adjustments:		
Reversal of goodwill (b)	(1,082)	(1,082)
Recognition of deferred tax liability (c)	(399)	(399)
Net assets as restated – 30 June 2006	6,843	6,789
Property plant and equipment (c)		
Property, plant and equipment per audited financials - 1 July 2005	1,773	1,773
Property, plant and equipment as restated – 1 July 2005	3,105	3,105
Deferred tax (a)		
Deferred tax per audited financials- 1 July 2005	-	-
Deferred tax as restated – 1 July 2005	499	499
Goodwill (b)		
Goodwill per audited financials - 1 July 2005	1,082	1,082
Goodwill as restated – 1 July 2005 (b)	-	-

(a) Deferred tax

Deferred tax was not previously recognised. At 1 July 2005 a deferred tax asset of $499 thousand should have been recognised. This deferred asset should have increased to $545 thousand at 30 June 2006 with the increase of $46 thousand being recognised as a reduction of the income tax expense in the income statement.

(b) Goodwill

On 1 July 2005 the previous shareholder of Saunders International Limited transferred their shares via a demerger to the current shareholders. This transaction had no impact on the company, except for the change in ownership. In the financial statements for the year ended 30 June 2006, the change in owership was incorrectly accounted for. The difference between the fair value of the assets, liabilities and contingent liabilities of the company and the consideration paid (which was nil) was allocated to goodwill ($1,082 thousand) with a corresponding credit to issued capital. In addition, the company incorrectly amortised the goodwill balance recorded in both the 2005 and 2006 financial years. These errors have been corrected in these financial statements.

(c) Property, Plant and Equipment

Immediately prior to the transaction discussed in item (b) above, a class of plant and equipment was revalued upwards by $1,399 thousand. The upward revaluation was based on a valuation performed by an independent valuer and represented the fair value of the plant and equipment at that date. The credit in relation to this upward revaluation was incorrectly allocated to issued capital instead of being recorded as an asset revaluation reserve.

On adoption of Australian Equivalents to International Financial Reporting Standards:

- the company elected to record this plant and equipment at its deemed cost in accordance with the initial adoption exemptions available in AASB 1 "*First-Time Adoption of Australian Equivalents to International Financial Reporting Standards*".
- the company did not however record any deferred tax in relation to this plant and equipment in accordance with AASB 112 "*Income Taxes*". This error has been corrected in the financial statements (refer item (a)).
- the company elected to transfer the asset revaluation reserve to retained earnings in accordance with the initial adoption exemptions available in AASB 1 "*First-Time Adoption of Australian Equivalents to International Financial Reporting Standards*". However, this election was not reflected in the financial statements in respect of the financial year ended 30 June 2006 in error.

The impact of these adjustment is to increase earnings per share in 2006 by 1.5 cents per share (of which 0.8 cents per share relates to the reversal of the goodwill amortisation and 0.7 cents per share to the accounting for deferred taxation).

16. Earnings Per Share

	Consolidated	
	2007 Cents per share	**2006 Cents per share**
Basic earnings per share		
Total basic earnings per share	63.97	33.29
Diluted earnings per share		
Total diluted earnings per share	63.97	33.29

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2007 $'000	**2006 $'000**
Net profit	4,271	2,223
Earnings used in the calculation of basic EPS	4,271	2,223

	2007 No.'000	**2006 No.'000**
Weighted average number of ordinary shares for the purposes of basic earnings per share	6,677	6,677

Diluted earnings per share

The diluted earnings per share are the same as the basic earnings per share because there are no employee options, partly paid shares or convertible notes.

17. Dividends

	2007		2006	
	Cents per share	**Total $'000**	**Cents per share**	**Total $'000**
Recognised amounts				
Fully paid ordinary shares				
Final dividend (2006):				
Fully franked at a 30% tax rate	7	467	-	-
Interim dividend (2007):				
Fully franked at a 30% tax rate	8	534	-	-
	15	1,001	-	-

Unrecognised amounts

Fully paid ordinary shares

Final dividend (2007): No decision has been made with respect to the payment of a final dividend.

	Company	
	2007 $'000	**2006 $'000**
Adjusted franking account balance	3,740	2,142

18. Revenue by Business Segments

The Group operates in one segment being the design, construction, and maintenance of bulk storage tanks and reservoirs, in Australia.

19. Contingent Liabilities and Contingent Assets

	Consolidated		Company	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Contingent liabilities				
Bank Guarantees	2,592	3,310	2,592	3,310

Bank guarantees have been issued to customers in the normal course of business. These bank guarantees are issued by the company's bankers and are secured by a fixed and floating charge over all the assets of the company.

20. Leases

Operating Leases

Motor Vehicle

Operating leases relate to motor vehicles. These leases are non-cancellable lease of less than five-year term, with rent payable monthly in advance. The monthly lease payments are fixed for the term of the leases. Additional charges are required if proposed kilometres travelled are exceeded. There are no renewal of terms or purchase options at the end of the term of the leases

Non-cancellable operating lease commitments

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Not longer than 1 year	343	263	343	263
Longer than 1 year and not longer than 5 years	494	408	494	408
Longer than 5 years	-	-	-	-
	837	671	837	671

Workshop Property

As of 1st July 2007, the company is committed to a lease of the workshop property and offices that it occupies at Condell Park, Sydney. The lease including an exercised option is for 3½ years from 1st July 2007 and includes two CPI rental adjustments at 1st January 2009 and 1st January 2010. There is an option to extend the lease until 31st December 2013.

Non-cancellable operating lease commitments

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Not longer than 1 year	504	-	504	-
Longer than 1 and not longer than 5 years	1,280	-	1,280	-
Longer than 5 years	-	-	-	-
	1,784	-	1,784	-

21. Notes to the Cash Flow Statement

(a) Reconciliation of Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Cash and cash equivalents	8,120	4,578	8,120	4,578

(b) Reconciliation of Profit for the Period to Net Cash Flows from Operating Activities

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Profit for the year	4,271	2,223	4,325	2,172
(Gain)/loss on sale or disposal of non-current assets	(207)	333	(207)	333
Depreciation	622	636	622	636
Allowance for doubtful debt	(30)	(7)	(30)	(7)
Dividends received and receivable	-	-	(54)	-
Increase/(decrease) in current tax liability	(52)	114	(52)	134
Increase/(decrease) in deferred tax balances	24	(46)	24	(46)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:				
(Increase)/decrease in assets:				
Trade and other receivables	(2,128)	1,808	(2,128)	1,802
Inventories	(317)	352	(317)	285
Other assets	(97)	(9)	(97)	(9)
Increase/(decrease) in liabilities:				
Trade and other payables	2,739	(2,225)	2,739	(2,198)
Provisions	(144)	(14)	(144)	21
Net cash from operating activities	4,681	3,165	4,681	3,123

22. Directors and Key Management Personnel Compensation

The board of directors approves on an annual basis the amounts of compensation for directors and executives with reference to the company's performance and general compensation levels in equivalent companies and industries. A bonus scheme operates to reward executive directors based on company performance and executive performance as measured against KPI's.

The aggregate compensation made to directors of the company and the Group is set out below:

	Consolidated		Company	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Short-term employee benefits	972	705	972	705
Post-employment benefits	46	42	46	42
Other long-term benefits	-	-	-	-
	1,018	747	1,018	747

23. Related Party Transactions
The company leases a property containing its workshop and offices from a company ultimately beneficially owned by the directors and shareholders of the company. The details of this lease are contained in Note 20. The rental rate is evaluated to be market rental as assessed by independent real estate agents. Rent paid during the year amounted to $480,000 (2006: $508,560).

The parent entity is Saunders International Limited.
The parent held a 100% interest in Aca-bel Pty Limited. Aca-bel Pty Limited was liquidated in the current year.

The company received fees from related parties for administrative services provided of $131,690 (2006: $183,060).

24. Remuneration of Auditors

	Consolidated		Company	
	2007 $	2006 $	2007 $	2006 $
Auditor of the parent entity				
Audit or review of the financial report	50,000	23,000	50,000	23,000
Preparation of the tax return	5,000	2,000	5,000	2,000
	55,000	25,000	55,000	25,000

The auditor of Saunders International Limited is Deloitte Touche Tohmatsu (2006: Thomas Hopper and Partners).

25. Additional Company Information

General Information
Saunders International Pty Ltd (the company) became a public company, Saunders International Limited on 24th August 2007 and is incorporated in Australia and operating in Australia.

Saunders International Limited's registered office and its principal place of business is as follows:

Registered office	**Principal place of business**
271 Edgar Street	271 Edgar Street
Condell Park NSW 2200	Condell Park NSW 2200
Tel: (02) 9792 2444	Tel: (02) 9792 2444