InvoCare

Innovation Vocation Care

Annual Report 2005

InvoCare is an Australian company that owns and operates funeral homes, cemeteries and crematoria across Australia. The company was floated on the ASX in 2003 and owns key national brands Simplicity Funerals and White Lady Funerals, as well as leading brands in each state in which it operates.

InvoCare places great value on professional service and exercises responsibility as an industry leader. Our mission to shareholders is to increase investor value. Sound management, asset development and our national brand strategy are the keys to achieving this goal.

InvoCare's business model operates with multi-branded 'front-end' businesses, supported by 'back-office' shared service functions including marketing, pre need administration, human resources, information technology, finance, property and facilities.

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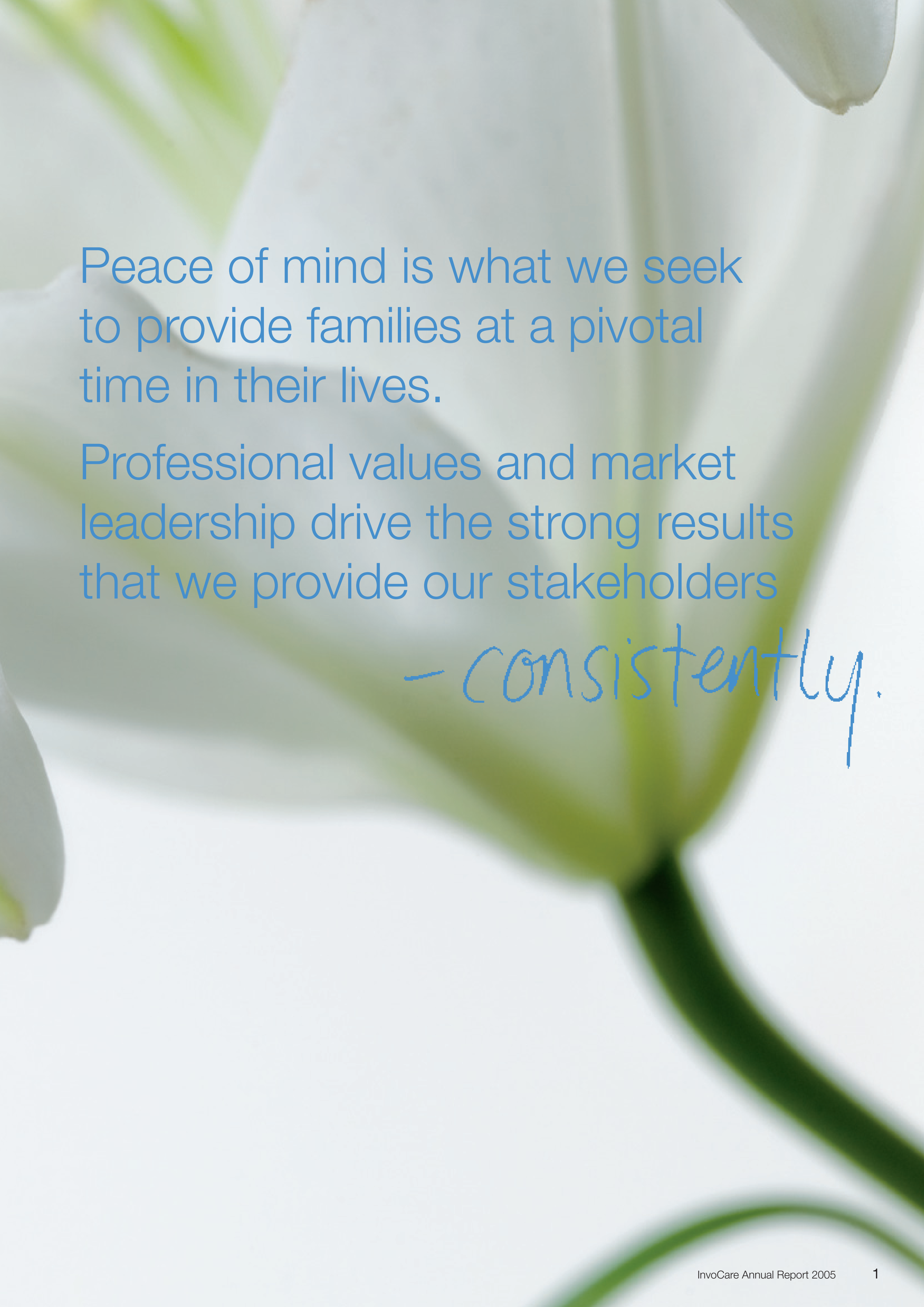


Peace of mind is what we seek to provide families at a pivotal time in their lives.

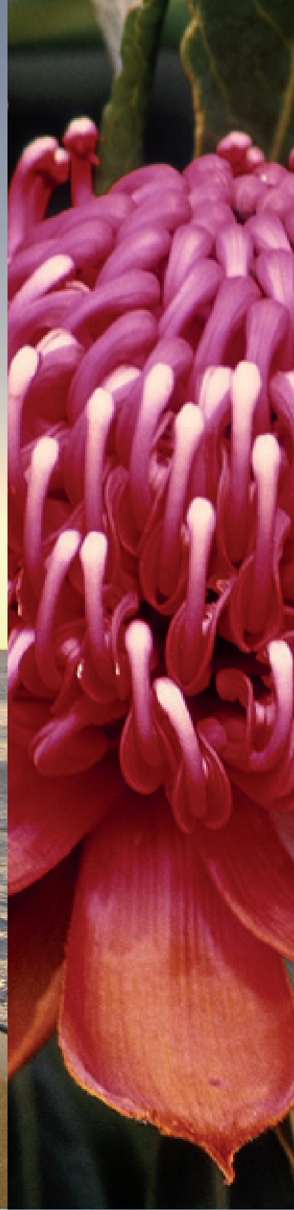
Professional values and market leadership drive the strong results that we provide our stakeholders – consistently.


1

Key strategies of 2005

Brand awareness and alignment to markets

Awareness of major InvoCare brands continues at a high level both nationally with White Lady Funerals and Simplicity Funerals, and with the major ‘traditional style’ brands operating in each state. The alignment of these major brands to their particular identified market segments also continued successfully during the year. In addition, the Guardian Funerals umbrella brand strategy in NSW has moved successfully forward – with total awareness of Guardian Funerals increasing to 26%, a 35% improvement from the prior year.



2

Key strategies of 2005

Pursuit of locations and acquisition opportunities

InvoCare continues to pursue growth and acquisition opportunities. During the year three new funeral locations were opened, with a further four planned for 2006. Late in the year the company also acquired Ann Wilson Funerals, located on Sydney's northern beaches. The Ann Wilson business is highly regarded, generating over $2 million in revenue in 2005.

3

Key strategies of 2005

Developing our people through recruitment and Learning and Development

The company continues to set high standards for the way its staff conduct themselves in servicing customer families. To this end, our training focus has been on recruitment quality, performance appraisal and service level improvement. Programs covering these aspects were successfully implemented during the year.

97%

of clients definitely or probably would recommend an InvoCare funeral provider at a time of need

95%

of clients definitely or probably would recommend an InvoCare cemetery or crematorium at a time of need

4

Key strategies of 2005

Improving our facilities and expanding memorialisation

At InvoCare, our ongoing program of improvement to our facilities and expansion of our activities to drive the growth of memorial sales helps underwrite the delivery of services. During 2005, $2.6 million (or 38% of the company's capital expenditure) was spent on facility upgrades – including the new condolence lounge at Albany Creek Memorial Park in Brisbane and new chapels at Allambe Gardens Memorial Park on the Gold Coast. During the year we completed a crypt construction of $1.8 million and commenced new crypt construction of $0.8 million. Strategic capital will increase over the next five years and a further $3.5 million in expenditure is in progress or planned for the 2006 year.

5

Key strategies of 2005

Solid financial and asset management

Solid financial management continued at InvoCare during the year, with the refinancing facility completed, and likely to yield over $1 million in annual pre-tax savings assuming current debt levels. The payment of a fully franked special dividend (10.5 cents) and the disposal of three non-performing and non-strategic assets were also aspects of the company's active capital management initiatives during 2005.

6

Key strategies of 2005

Valuable future income streams

InvoCare has over $220 million of prepaid funeral funds held in trust, an increase of 11% on the prior year. These funds provide a valuable future income stream as the services are provided. Additionally there is the opportunity to enhance operating margins if prepaid funeral investment returns continue to exceed cost increases.

Prepaid funerals offered by the company's Guardian Plan are funeral services that are planned for and paid in advance. These Plans offer financial peace of mind to consumers knowing their affairs are in order, their wishes will be carried out as planned and their family has been relieved of a financial burden.

Financial highlights 2005

Net Profit After Tax	$20.1 million
Operating EBITDA	$45.4 million
Earnings Per Share	21.0 cents
Sales Revenue	$148.2 million
Fully Franked Dividends	ordinary 16.5 cents special 10.5 cents

Results at a glance

$ million unless otherwise stated

	2005	2004	% change
Sales Revenues	**148.2**	148.3	–
Operating EBITDA	**45.4**	43.9	+3
Profit from Sale of Fixed Assets	**2.0**	2.0	–
Profit After Tax	**20.1**	19.3	+5
Earnings per Share (Basic) (cents per share)	**21.0**	20.4	+3
Total Assets	**279.3**	269.0	+3
Prepaid Funeral Funds in Trust	**220.9**	198.6	+11
Funeral Homes (number)	**128**	123	
Cemeteries and Crematoria (number)	**12**	12	
Employees (full time equivalents)	**792**	809	

Ian Ferrier

Chairman's message

Pleasingly, InvoCare's financial performance was strong despite the lower than expected number of deaths.

The profit after tax grew 5% to $20.1 million, achieving an earnings per share of 21 cents per share. The results have enabled the Board to declare a fully franked final dividend of 9.5 cents per share. The total fully franked dividends for the year amount to 27 cents per share including the special dividend of 10.5 cents per share and the interim dividend of 7.0 cents per share. This represents an increase of 75%.

Total shareholder returns (price movement plus cash dividends) for the year ended December 2005 amounted to 33%, increasing total shareholder returns since listing in December 2003 to 149%.

The review by CEO Richard Davis highlights the progress made during 2005 and the positioning for continued growth into the future. InvoCare's growth opportunities should lead to further improvements in shareholder value.

We are strongly committed to appropriate corporate governance best practice and continue to embrace the ASX Corporate Governance Guidelines and CLERP 9 reforms. Our Audit Committee, Risk Committee and Remuneration Committee have functioned effectively during the year. In March 2006, the Board strengthened its Corporate Governance further with the establishment of a Nomination Committee.

On behalf of the Board and all its shareholders, I congratulate and thank management and employees for their efforts and contribution in achieving the 2005 result.

Ian Ferrier
Chairman

Richard Davis

CEO review

Overall, InvoCare performed strongly throughout the year notwithstanding the financial impact arising from a lower than expected number of deaths.

The Financial highlights on page 8 and the Group financial review on pages 20-23 summarise the financial performance across the key parameters. Margin improvement resulted in earnings increasing 5% to $20.1 million. The strong performance again reflects the company's and staff commitment to service as well as its overall positioning in the market.

The company's robust business model remained unchanged.

Strategically, we maintained our focus on improving service, developing our people and our brands, upgrading our facilities, improving memorialisation, pursuing acquisitions and opening new locations, maintaining the strong prepaid funeral fund performance, managing our asset portfolio and controlling costs and capital.

Financial Overview

For the year ended 31 December 2005, overall sales revenues were in line with 2004. Strong average sale performance mitigated the impact of the lower than expected number of deaths in the markets where InvoCare operates. Whilst Australian Bureau of Statistics information is not available for 2005 as yet, management estimates that the overall decline in deaths in InvoCare markets to be in the vicinity of 4% to 5%. The decline in deaths for the period is believed to be an aberration rather than any change in death trends.

InvoCare generated $20.1 million in profit after tax in 2005, which was 5% above that achieved in 2004. Operating margins (earnings before depreciation amortisation and tax/sales revenues) increased 3% to 30.6% for the year, attributed to both revenue mix and strong cost control, the latter reducing 1% on that incurred in 2004. Profit generated from asset sales amounted to $2 million, in line with that achieved in the prior year. InvoCare incurred a $1.4 million after tax charge against profits as a consequence of refinancing and the adoption of AIFRS for the first time.

Earnings per share amounted to 21 cents, 3% above that achieved in 2004.

In December 2005, InvoCare successfully refinanced its debt. At year end the company had utilised $140 million of the $165 million five year non amortising facility, the interest savings on which at that level of debt is approximately $1 million per annum.

The strong financial performance enabled the Board to declare a final fully franked dividend of 9.5 cents per share. The total dividends paid or payable for the year amounted to 27 cents per share fully franked including a special dividend of 10.5 cents per share.

These dividends together with the growth in the share price during the year have delivered superior returns to shareholders.

Funeral Homes

Sales revenues from InvoCare's 128 funeral homes amounted to $97.6 million, 1% above that achieved in 2004. Average sale improved 6%, offsetting the 4% to 5% estimated decline in the number of deaths in the markets where InvoCare operates, as a result of pricing and improved mix, including prepaid funerals performed.

Management estimated a small decline in market share in the markets where InvoCare operates, as a consequence of divestitures and location closures, either in the year or in prior years, plus increased competition in some markets.

Major brand awareness remained strong throughout the year, with the new Guardian Funerals umbrella brand in Sydney increasing its awareness by 35% to 26%. The alignment of InvoCare's major brands to different market segments continues as the company endeavours to meet the needs of consumers.

Three new funeral locations were opened during the year with a further four scheduled for opening in 2006.

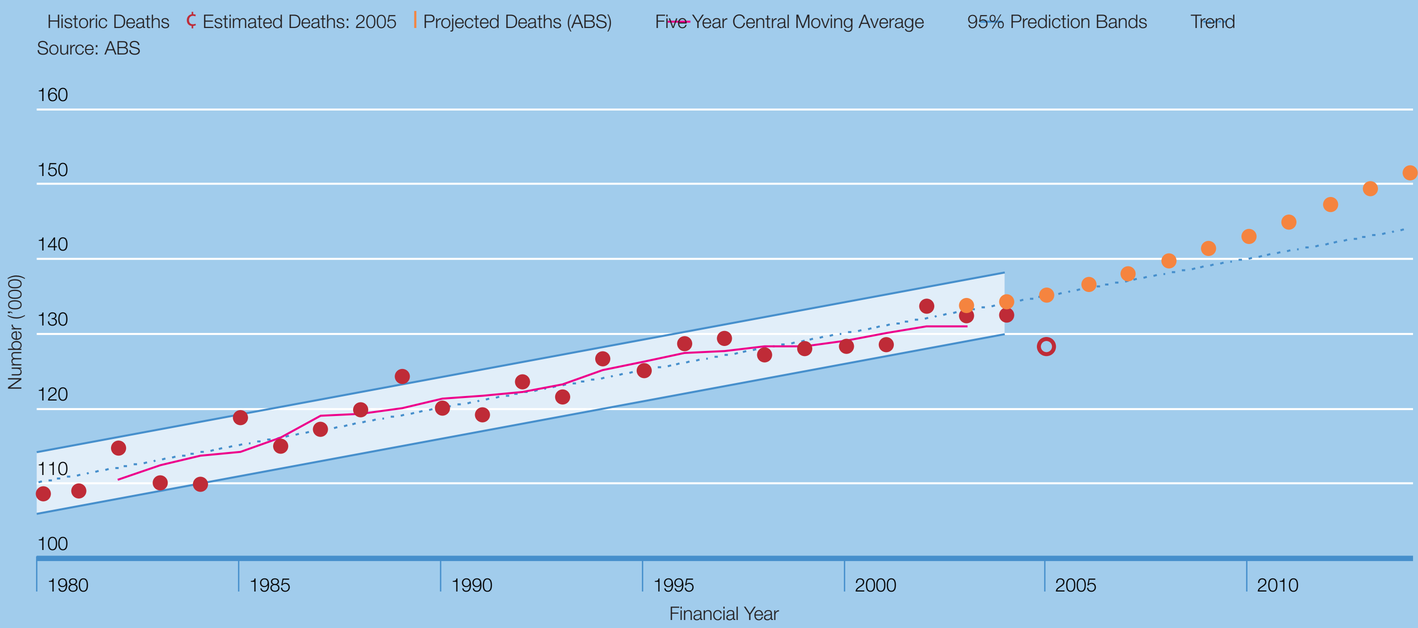
Client satisfaction remained high with 97% of InvoCare survey respondents continuing to indicate a willingness to recommend an InvoCare funeral provider to a third party should the need arise. Overall 88% of respondents continue to believe InvoCare's pricing is in line with or below their expectations.

Increasing death trends

Statistics published by the Australian Bureau of Statistics (ABS) show the number of deaths over the year to 30 June 2005 has been markedly below the historic trend over the last decade. Although this is the lowest deviation from the trend since 1984, ABS projections suggest the 2005 experience does not indicate a new trend of lower growth in deaths, and recovery to trend is anticipated. On the information available at this time, it is likely that the lower number of deaths in 2005 is a statistical anomaly, with the pattern of deaths in Australia likely to increase more rapidly than the historic trend over the next decade.

Source: Rice Walker Actuaries, January 2006.

Actual and Projected Deaths



Cemeteries and Crematoria

Sales revenues from InvoCare's 12 cemeteries and crematoria amounted to $50.6 million, a 1% decline on that achieved in 2004. The decline is largely attributed to the lower number of deaths, although the opening of Macquarie Park crematorium, at North Ryde in Sydney, is estimated to have impacted InvoCare's revenues by approximately $1 million. Further crematoria competition is expected in Sydney during 2007, with the Catholic Cemeteries Board commencing construction of a crematorium within the Catholic section of Rookwood Cemetery. Once established this new crematorium will have a minor impact on InvoCare's Cemetery and Crematorium businesses.

InvoCare's strategies to combat this increased competition include upgrading facilities and increasing memorial sales (memorialisation), both in cremation and burial.

Facility upgrades have been completed or are in progress at Northern Suburbs Memorial Gardens and Crematorium (Sydney), Rookwood Memorial Gardens and Crematorium (Sydney), Albany Creek Memorial Park (Brisbane) and Allambe Gardens Memorial Park (Gold Coast). Works include chapel refurbishments and condolence lounges.

Whilst there has been no shift in the rate of memorialisation for cremation in recent years, InvoCare continues to develop strategies to educate the public on the benefits of having a memorial. In 2005, initiatives included a general TV awareness campaign in regional NSW and Qld. In terms of burials InvoCare completed a major crypt and mausoleum development at Pinegrove Memorial Park (Sydney) and has commenced a similar construction at Albany Creek Memorial Park (Brisbane). Increasing demand for Chinese burial space at Pinegrove resulted in InvoCare commencing construction of Lung Po Shan stage 3.






In 2005, InvoCare introduced Client Surveys to its cemeteries and crematoria client families choosing to have a memorial in one of InvoCare's Memorial Parks or Gardens. Pleasingly, 95% of InvoCare's survey respondents indicated again a willingness to definitely or probably recommend an InvoCare provider to a third party if the need arose, with 95% of the respondents indicating InvoCare's pricing to be in line with or below their expectations.

Prepaid Funeral Funds

14% of the funerals InvoCare conducted in 2005 were prepaid, slightly up on 13% in 2004. As at 31 December 2005, $221 million was independently managed in trust funds, an increase of 11% on that held at the end of 2004. Gross returns for funds under management for the past year amounted to 14.3%, a 17% decline on that achieved in 2004, reflecting market conditions. The gross return excludes investment management fees and administration fees which are currently approximately 1.9%.

During the year the investment bias moved to where equities comprise 55% of the portfolio compared to 50% in the prior year.

Cash Flows and Acquisitions

In late December, InvoCare completed the acquisition of Ann Wilson Funerals. This premier business servicing the northern beaches of Sydney from two locations at Mona Vale and Dee Why generated revenues in 2005 of $2.3 million. In addition to providing InvoCare with incremental revenues and market share it provides the company with a service centre for this growing market.

Compared to the prior year, operating cash flows improved 12% or $2.7 million largely as a result of margin improvement, whereas cash flow used in investing activities increased $7.1 million as a result of the acquisition of Ann Wilson Funerals and the $2.9 million or 72% increase in capital expenditure, all of which is considered strategic. Proceeds from asset sales were slightly down on that achieved in the prior year at $3 million.

In total, dividends amounting to $25.5 million were paid during the year compared to $6.1 million in the prior year. Proceeds from the issue of ordinary shares relating to the company's employee share option plan amounted to $2.2 million.

Overview of Operations

Three non-strategic or non-performing assets were sold in the past year at Northam (WA), North Perth (WA) and Rouse Hill (NSW), generating $2 million in profit. The revenues and profit contributions from these assets were not material. Further non-strategic property has been identified for divestment in 2006 as the company continues to focus on the strategic importance and effective returns of its locations.

Capital expenditure is scheduled to increase over the next five years as the company increases its strategic expenditure, particularly in cemeteries and crematoria. The increased expenditure is likely to be financed in part by further sales of non-strategic or non-performing assets.

InvoCare continues working with the industry and other stakeholder groups as various State Governments review their legislation in respect to the industry. The majority of the focus continues to be on protecting consumers.

The company and its staff continue to foster relationships with local communities in which they serve. These efforts are not just based on sponsorship, but often on volunteering time, facilities and assisting in raising funds.

InvoCare continues to be committed to developing its employees with extensive Learning and Development programs catering to key areas of the business. The company has a network of accredited trainers within the organisation who focus on delivering programs which ensure the company sets the highest standards for the way staff conduct themselves and service our client families. During 2005, 'on line' Learning and Development was introduced for some programs to both make them more flexible and dynamic as well as more cost efficient.

The company has recently appointed a General Manager of Human Resources to oversee the company's Learning and Development, recruitment and performance reviews and occupational health and safety.

InvoCare completed successfully the implementation of its Cemetery and Crematorium operating system, whilst the Funeral resource utilisation system remains in development, scheduled for completion in 2006.

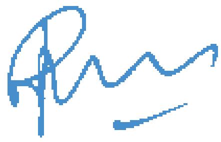
Looking Ahead

Since listing in 2003 InvoCare has continued to grow.

The company's commitment to service, its strong brands, its network of locations and its operating leverage position the company well for sustainable growth.

Whilst InvoCare's results will always be affected by the number of deaths, the positioning in the market place and the strategies we are putting in place position the company well for the future.

Finally, I would like to take this opportunity to thank the management team and all the dedicated employees of InvoCare who have worked so hard to achieve this result.



Richard Davis
Chief Executive Officer

Organisational and management structure

Chief Executive Officer
Richard Davis

Chief Financial Officer
Andrew Smith

Chief Operating Officer
Michael Grehan

Company Secretary
Kenneth Mealey

Group Finance Manager
Phillip Friery

Funerals
Andrew Hogan General Manager,
Western Australia Funeral Division

Damian Hiser General Manager,
New South Wales Funeral Division

Doris Zagdanski General Manager,
Queensland Funeral Division

Jason Maher General Manager,
South Australia Funeral Division

John Fowler General Manager,
Victoria Funeral Division

Cemeteries and Crematoria
Armen Mikaelian General Manager
Cemeteries & Crematoria

Supported by back office service functions including:
– Marketing
– Pre Need Administration
– Human Resources
– Information Technology
– Finance
– Property and Facilities
– Investor Relations

Collectively the above management have in excess of 110 years of management experience with the company of which the national executive have in excess of 45 years.

In addition, the above management have also held various senior management positions with other companies prior to joining the group.

From left to right; Armen Mikaelian, Andrew Hogan,
John Fowler, Jason Maher, Doris Zagdanski and Damian Hiser

Environment, safety, people and community

InvoCare is committed to acting responsibly in ensuring that the company and its employees deliver long term sustainable returns, by seeking to add value for our customers, employees, the communities it operates in and for shareholders.

Environment

InvoCare is conscious of its environmental responsibilities and continually strives to improve the environmental performance of its locations. The main focus is on the emissions from its crematoria and the disposal of waste. InvoCare cremators and mortuaries are regularly monitored to ensure compliance with the company's standards and all appropriate environmental laws and regulations. All cremators of the company now run on natural gas to minimise emissions.

The company's cemeteries and crematoria which are accessible to the community, provide much needed open space in high density urban areas. These memorial parks provide a tranquil environment for people to reflect and remember their family and friends. The company is well advanced in developing master plans for all its cemeteries and crematoria, plans that will preserve the integrity of these facilities whilst addressing the needs for the future.

Safety

InvoCare's commitment to the safety of its employees, contractors and the public at large is taken very seriously. The company has a Risk Management System that highlights such risks and documents the actions being taken to either eliminate or reduce risk.

Key initiatives in 2005 include the development of new Learning and Development modules for manual handling and infection control. These modules and others will be introduced in 2006. In addition to Learning and Development, InvoCare monitors all equipment used from a safety perspective, upgrading equipment where deemed necessary.

Occupational Health and Safety (OH&S) is an important element in InvoCare's approach to its staff. The company leads the industry in OH&S management. The Board monitors OH&S performance including Lost Time Injury Frequency Rate which has reduced some 50% in the last 12 months, and any significant incidents.

During 2005 an internal OH&S audit was completed of all major sites with all sites passing the audit. In addition a program has been developed for regular fire safety inspections by an independent organisation which will include training for employees and development of emergency procedures.

People

Employees are one of InvoCare's greatest assets. The company has 976 employees. The company endeavours to recruit and retain the best people in the industry and in this regard has developed a comprehensive recruiting, performance management and Learning and Development system.

The company's comprehensive Learning and Development program helps ensure staff are properly trained and equipped for further advancement within the organisation or the industry at large. InvoCare is recognised as an industry leader in this respect. The company has recently appointed a General Manager – Human Resources to support its businesses in identifying development needs and to further enhance Learning and Development across the company.

In addition to performance reviews InvoCare recognises employee service with various awards based on years of service with the company. The company employs 753 full time and 223 part time employees as well as 65 consultants. Over 55% of the company's personnel have 5 years of service or more with the company and 27% have 10 years of service or more.

The company strongly supports Equal Employment Opportunities (EEO) with an EEO Policy. It also has anti-discrimination and harassment policies in place. The company employs 523 females or 53% of its total employees.

The company has a comprehensive Code of Conduct in place which all employees are required to be familiar with. This is particularly important having regard to the sensitive nature of the business and the confidentiality of information required.

Also the company has an Employee Assistance Program as a part of a commitment to the well being of its employees. Confidential counselling is available for employees suffering trauma, stress or conflict.

Community

InvoCare's operations and its employees play a significant community role, providing important services and interment rights for the various cultural and religious groups that comprise these communities.

Market research both internal and external is continually being undertaken, the results of which are taken into consideration in the company's strategic planning. InvoCare's branding strategy and in particular the alignment of its major brands to identified major market segments is an example of this.

The company's cemeteries and crematoria preserve heritage and provide a valuable history of the past. A number of InvoCare's locations have been acknowledged as sites of historical significance as well as being beautiful places to reflect and remember. Several memorial parks have won garden awards in their local government areas. The company's ongoing community awareness program encouraging memorialisation helps ensure community history is not lost.

The company supports financially (both directly in financial support and indirectly via its employees) various community activities. In 2005 there were 168 community events held across Australia with many thousands of community attendees. These included fund raising events for the Cancer Council to open days at company facilities and grief seminars. In addition to the recognition the company has received from various communities, a number of our employees have been recognised by Federal, State and Local Governments for their community services.

Leading brands supported by an established network of locations

InvoCare operates in capital cities and major regional areas where the majority of Australians reside. The company's leading brands, including the only two national brands White Lady and Simplicity Funerals, are supported by a network of strategically located facilities – the majority of which are fully owned.

Key

- White Lady Funerals
- Simplicity Funerals
- Traditional Funerals
- Cemeteries and Crematoria

WHITE LADY FUNERALS *a woman's understanding*

GUARDIAN FUNERALS

GEORGE HARTNETT FUNERALS

Le Pine FUNERAL SERVICES

White Lady Funerals

New South Wales/ACT
Bankstown
Belconnen (ACT)
Bondi Junction
Charlestown
Eastwood
Kingston (ACT)
Manly
Mosman
Narrabeen
Pennant Hills
Penrith
Roseville
Sutherland

Queensland
Ashmore
Chelmer
Kelvin Grove
Morningside
Tanah Merah

Victoria
Caulfield South
Epping
Heidelberg
North Essendon
South Melbourne

South Australia
Hillcrest
Plympton

Western Australia
InvoCare operates under *Mareena Purslowe & Associates Funerals* at
Subiaco
Willetton

Traditional Funerals

New South Wales/ACT

Guardian Funeral Providers

AF Anderson Funerals
Granville

Allen Matthew Funerals
Cremorne
North Ryde

Butler Funerals
Camden
Campbelltown

Dignified Funerals
Burwood
Five Dock

Bruce Maurer Funerals
Crows Nest

Guardian Funerals
Blacktown

Hansen & Cole Funerals
Bulli
Kembla Grange
Wollongong

J & C Hardy Funerals
Hurstville
Rockdale

J W Chandler Funerals
Richmond
Windsor

Labour Funerals
Bankstown

Macarthur District Funerals
Leppington

Metcalfe & Morris Funerals
Parramatta

Metropolitan Funeral Homes
Bankstown
Rockdale

Parkway Funerals
Dee Why

Sydney Funerals
Minchinbury

Tobin Brothers Funerals
Belconnen (ACT)
Kingston (ACT)
Queanbeyan

Other Traditional Providers

Allan Drew Funerals
Castle Hill
Rouse Hill

Ann Wilson Funerals
Dee Why
Mona Vale

David Lloyd Funerals
Adamstown
Belmont
Beresfield

Casino Funerals
Casino

Economy Funerals
all areas

Kevin Geaghan Funerals
Ballina

Twin Town Funerals
Tweed Heads

William Riley & Sons
Lismore

Universal Chung Wah
Fairfield

Queensland

George Hartnett Funerals
Albany Creek
Cleveland
Holland Park
Redcliffe
Sandgate
Wynnum

Other Providers

Cannon & Cripps
Kelvin Grove

J & H Reed / O. Bottcher & Sons Funerals
Ipswich

Somerville Funerals
Nerang
Southport

Value Funerals
all areas

Victoria

Le Pine Funerals including Le Pine Heritage
Box Hill
Camberwell
Dandenong
Eltham
Ferntree Gully
Glen Waverley
Healesville
Kew East
Lilydale
Mordialloc
St Kilda
Thornbury
Croydon

Other Providers

Mulqueen Funerals
Coburg

Provinciale Servzio Funebre
Coburg

Value Funerals
all areas

PURSLOWE FUNERALS

BLACKWELL FUNERALS

Simplicity Funerals

Western Australia

Purslowe Funeral Home
Midland
North Perth
South Fremantle
Victoria Park
Wangara

Other Providers
Oakwood Funerals
Booragoon
Rockingham

Value Funerals
all areas

South Australia

Blackwell Funerals including Pengelly and Knabe Funerals
Morphett Vale
Payneham
Prospect
Torrensville

Other Providers
Value Funerals
all areas

Simplicity Funerals

New South Wales
Balgowlah
Bateau Bay
Chatswood
Erina
Liverpool
Mascot
Miranda
Newtown
Paddington
Penrith
Randwick
Smithfield
Toukley East
Tweed Heads
Warrawee
Woy Woy

Queensland
Buranda
Ipswich
Kedron
Miami
Parkwood

Victoria
Carnegie
Frankston
Reservoir
Sunshine

South Australia
Black Forest
Enfield
Victor Harbor

Western Australia
Kelmscott
Osborne Park

Cemeteries and Crematoria

New South Wales
Castlebrook Memorial Park – Rouse Hill

Forest Lawn Memorial Park – Leppington

Lake Macquarie Memorial Park – Ryhope

Lakeside Memorial Park – Dapto

Newcastle Memorial Park – Beresfield

Northern Suburbs Memorial Gardens and Crematorium – Ryde

Pinegrove Memorial Park – Eastern Creek

Rookwood Memorial Gardens and Crematorium – Rookwood

Tweed Heads Memorial Gardens – Tweed Heads

Queensland
Albany Creek Memorial Park – Bridgeman Downs

Allambe Gardens Memorial Park – Nerang

Mt Thompson Memorial Park – Holland Park

Group financial review

Financial Highlights

	2005 $'m	2004 $'m	Movement %	1st Half 2005 $'m	1st Half 2004 $'m	Movement %	2nd Half 2005 $'m	2nd Half 2004 $'m	Movement %
Sales Revenues	**148.2**	148.3	–	**69.6**	70.6	-1	**78.6**	77.7	+1
Operating EBITDA (i)	**45.4**	43.9	+3	**19.3**	18.8	+3	**26.0**	25.1	+4
Operating Margin (ii)	**30.6%**	29.6%	+3	**27.8%**	26.7%	+4	**33.1%**	32.3%	+3
Profit on Sale of Assets	**2.0**	2.0	–	**0.4**	0.1	+300	**1.6**	1.9	-16
Finance Costs	**12.8**	11.9	+8	**5.9**	6.2	-4	**6.9**	5.7	+21
Income Tax Expense	**8.8**	8.8	–	**3.2**	3.2	–	**5.6**	5.6	–
Effective Tax Rate	**30.4%**	31.2%	-3	**29.1%**	32.4%	-10	**31.1%**	30.6%	+2
Profit After Tax	**20.1**	19.3	+5	**7.8**	6.6	+18	**12.3**	12.6	-2
Basic Earnings per Share	**21.0 cents**	20.4 cents	+3	**8.2 cents**	7.1 cents	+15	**12.7 cents**	13.3 cents	-5

(i) Operating EBITDA excluding Asset Sales
(ii) Operating EBITDA excluding Asset Sales/Sales Revenues

Earnings

InvoCare performed strongly throughout the year even though there was a lower than expected number of deaths. Improved mix and cost control over key employee and marketing expenses throughout the year enabled the company to increase Profit after Tax by 5% to $20.1 million and increase both Operating Margin and Basic Earnings per Share by 3%.

Sales Revenue

Strong average sale performance in both funerals and cemeteries and crematoria largely offset the 4-5% estimated decline in deaths in the markets in which InvoCare operates and a small decline in funeral market share caused in part by the sale or closure of several non strategic funeral homes.

Overall funeral market share on a year on year basis was down slightly, however, there were minor market share improvements noted in the second half. Funeral sales revenues for the year represented 65.9% of overall sales revenues for the year, in line with 65.5% in 2004.

Cemetery and crematoria revenues were also impacted by increased competition in the Sydney market, which was more than offset by improved pre need sales and the recognition of crypt sales of approximately $1.0 million in the second half.

Dividends

The directors have declared a final fully franked dividend of 9.5 cents per share which, together with the interim fully franked dividend of 7.0 cents per share paid in October 2005, results in the total ordinary dividends for the year of 16.5 cents per share. This is 7.1% higher than the ordinary dividends in the previous year. In addition, in May 2005, the company paid a fully franked special dividend of 10.5 cents per share.

Locations and Asset Sales

Three new leased funeral locations were opened in 2005 with a further four funeral locations planned for 2006.

Proceeds from the sale of non-strategic locations amounted to $3.0 million (2004: $3.7 million), generating a before tax gain on disposal of $2.0 million (2004: $2.0 million). The non strategic properties sold were the result of management's ongoing asset performance assessment.

A further location has been identified for sale and has been disclosed as a current asset on the balance sheet. The proceeds from this location are expected to be in the vicinity of the location's carrying value of $3.0 million.

Finance Costs

The Group's finance costs increased by 8% to $12.8 million and included a non cash $2.0 million expense, required by AIFRS, to write off the balance of establishment costs relating to former borrowing facilities. These borrowings were replaced in December 2005 by an unsecured, non amortising $165.0 million facility which was drawn to $140.0 million at the end of 2005.

Income Tax Expense

The Group's income tax expense was $8.8 million reducing the overall effective rate to 30.4% in 2005, from 31.2% in 2004.

Acquisitions

The Group completed the acquisition of Ann Wilson Funerals in December 2005, for $4.1 million. This business generated revenues in 2005 amounting to $2.3 million from its two locations on the northern beaches of Sydney.

Prepaid Funerals

	2005 $'m	2004 $'m	Movement %
Prepaid Funeral Funds	**220.9**	198.6	+11
Gross Returns			
12 months ended	**14.3%**	17.2%	-17
3 years ended	**13.0%**	7.4%	+76
5 years ended	**8.7%**	7.8%	+11
7 years ended	**7.0%**	n/a	n/a

Gross returns exclude investment management fees and administration fees (currently totalling 1.9%)
Percentage of 2005 funerals performed previously prepaid 14% (prior year 13%)

Prepaid Funeral Funds held in trust and yet to be performed and recognised increased 11% to $221 million. The asset allocation of these funds under administration were invested 55% Australian equities, 2% international equities, 5% Australian property, and 38% cash and fixed interest. The company closely monitors the asset allocation of the funds under administration and the asset manager performance.

Cash Flow Highlights

	2005 $'m	2004 $'m
Net cash provided by operating activities	**25.6**	22.9
Proceeds from sale of property, plant and equipment	**3.0**	3.7
Purchase of subsidiary net of cash acquired	**-3.4**	–
Purchase of property, plant and equipment	**-6.9**	-4.0
Net cash used in investing activities	**-7.3**	-0.3
Proceeds from issue of ordinary shares	**2.2**	0.6
Proceeds from borrowings	**159.0**	2.0
Repayment of borrowings	**-150.5**	-25.5
Payment of dividends – InvoCare Limited shareholders	**-25.5**	-6.1
Other	**-0.1**	-0.1
Net cash used in financing activities	**-15.0**	-29.1
Net increase/(decrease) in cash held	**3.3**	-6.5
Cash and cash equivalents at the beginning of the year	**0.7**	7.1
Cash and cash equivalents at the end of the year	**4.0**	0.7

Cash and cash equivalents at 31 December 2005 was $4.0 million, representing an increase of $3.3 million for the 2005 year. Operating cash flows remained strong and increased by $2.7 million (or 12%) to $25.6 million for the year, largely as a result of cost control and reduced finance costs impacts.

Asset sale proceeds of $3.0 million and the $2.2 million received upon exercise of employee share options partly funded a special dividend in May 2005 of 10.5 cents per share. Total dividends paid to shareholders during 2005 was $25.5 million.

Additional net borrowings of $8.5 million allowed the company to invest in capital expenditure of $6.9 million, including strategic capital expenditure of $2.6 million for condolence lounges and chapels. It also in part funded the initial acquisition consideration of $3.4 million for the Ann Wilson Funerals business.

AIFRS

The company completed its transition to AIFRS resulting in the following major adjustments:

- a charge of $1.4 million after tax relating to the write off of borrowing costs was incurred during 2005
- a $44.9 million reduction in 2004 opening retained earnings, primarily as a result of the recognition of deferred tax liabilities and impairment losses on cemetery and crematorium land. This adjustment may reduce by $34.8 million if the standard setting authorities recommendations are adopted
- the reversal of goodwill amortisation of approximately $2.5 million in 2004
- the expensing of share based payments resulting in additional employee benefits expense for 2005 of $0.9 million and for 2004 of $0.4 million.

Importantly, the AIFRS adjustments should not materially adversely impact or restrict InvoCare's current and future operational profitability, cash flows or dividend capability.

Banking Facilities

In December 2005, the company refinanced its debt facility achieving estimated annual cash savings of $1.0 million assuming debt levels of $140.0 million. Key terms of the new financing facility are as follows:

- 5 year term
- facility limit of $165.0 million, including a working capital facility of $5.0 million
- non secured and non amortising
- previous banking covenants restricting dividends to 75% of Net Profit before Goodwill Amortisation removed

At 31 December 2005, the facility was drawn to $140.0 million.

Hedging

At the time of refinancing the debt facility, old and new interest rate swap contracts were blended and extended by the company, resulting in an annual non cash expense of approximately $0.8 million before tax for the next three years.

New interest rate swaps, totalling $130.0 million, meant the Group's borrowings were 93% hedged at 31 December 2005.

2006 Outlook and Beyond

InvoCare's attractive and proven business model delivered another strong performance in 2005. The company is now well positioned to capitalise on its growth opportunities, including the expected increase in the number of deaths trend and to growing market share. The key strategies and impacts to InvoCare's financial future are expected to be:

- growing through acquisitions, new locations, investing strategic capital expenditure in existing locations and ongoing operational improvements
- servicing the projected ABS death rate growth per annum from 2005 to 2011 of 1.2% and from 2012 to 2021 of 1.4%
- improving revenues through pricing
- promoting pre need Cemetery and Crematoria products revenues to mitigate the impact of increased crematoria competition
- maximising investment returns from prepaid funeral funds held in trust

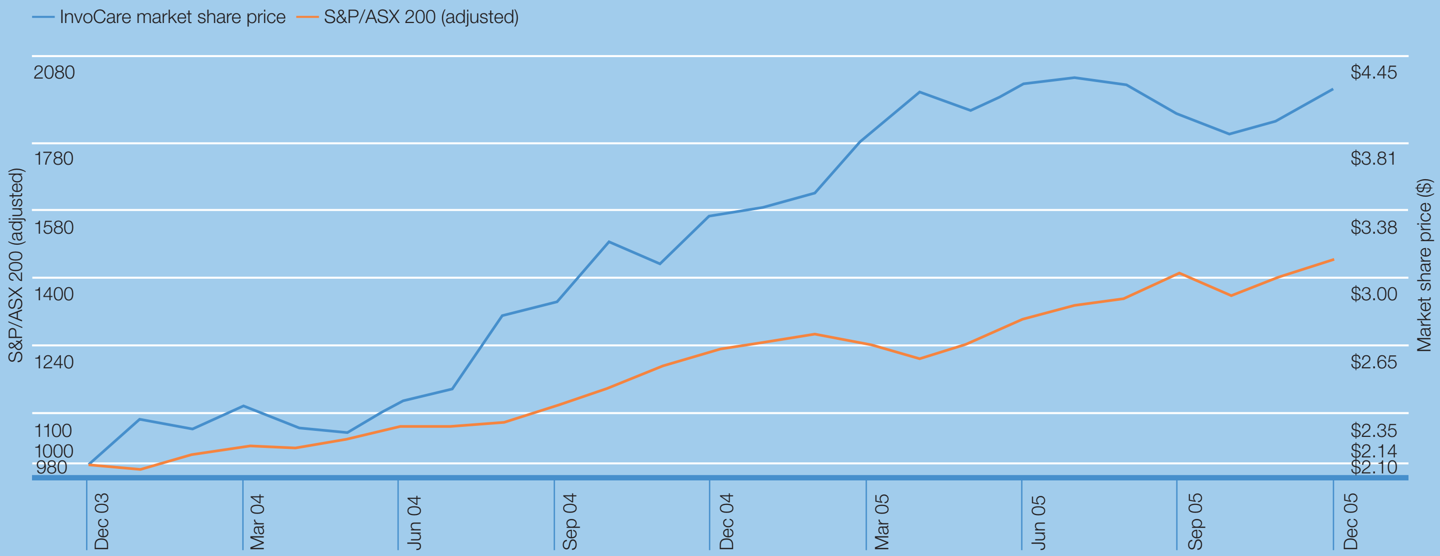
Future capital management will be dependent upon trading and economic conditions, and requirements for acquisition/expansion opportunities.

Subject to trading and economic conditions the directors intend to maintain a dividend pay out ratio of 75% of profit after tax.

Total shareholder returns

The increase in share price during calendar 2005 of 84 cents to $4.19 together with the dividends paid in the year of 26.5 cents gave a total shareholder return of 33% on the opening share price of $3.35. The share price performance since the company listed in December 2003 has exceeded the S&P/ASX 200 Index as shown on the chart below.

Market share price vs ASX/S&P 200



Mr Andrew Smith JP BCom MBA CA
Chief Financial Officer

Andrew Smith was appointed Chief Financial Officer on 16 January 2006. Andrew brings over 15 years financial expertise and extensive commercial and retail experience in senior executive roles. These included Chief Financial Officer and Company Secretary of listed retailers Brazin Limited and OrotonGroup Limited. Andrew was also the Financial Controller for Sales and Marketing at a major international fast moving consumer goods company, an Internal Audit Manager for a global insurance company and an Audit Senior at KPMG.

Andrew holds a Bachelor of Commerce from the University of Queensland and an MBA (with Distinction) from the University of New England. Andrew is a Justice of the Peace and also a member of the Institute of Chartered Accountants in Australia.

From left to right: Andrew Smith, Kenneth Mealey (Company Secretary) and Phillip Friery (Group Finance Manager).

Directors' report

The directors submit their report on the consolidated entity consisting of InvoCare Limited (the company) and the entities it controlled for the year ended 31 December 2005. InvoCare Limited and its controlled entities together are referred to as InvoCare or the consolidated entity in this Financial Report.

Directors

Unless indicated otherwise, the following persons were directors of InvoCare Limited during the whole of the financial year and until the date of this report:

Ian Ferrier
Richard Davis
Michael Grehan
Christine Clifton
Richard Fisher
Roger Penman (appointed 1 January 2005)
John Murphy (resigned 28 February 2005)

Principal Activities

InvoCare is Australia's leading private provider of services to the funeral industry. There were no significant changes in the nature of these activities during the year.

Significant Changes in the State of Affairs

There have been no significant changes in the state of the Company's affairs during the financial year.

Operating Results

The consolidated profit of the consolidated entity after providing income tax and eliminating minority interest was $20,141,000.

Dividends

Dividends to ordinary shareholders of the Company have been paid or declared as follows:

	2005 $'000	2004 $'000
Interim ordinary dividend of 7.0 cents (2004: 6.4 cents) per fully paid share paid on 12 October 2005	**6,785**	6,080
Special dividend of 10.5 cents (2004: nil) paid on 24 June 2005	**10,168**	–
Final ordinary dividend of 9.5 cents (2004: 9.0 cents) per fully paid share declared by directors on 10 March 2006 to be paid on 12 April 2006	**9,207**	8,550
Total dividends of 27.0 cents (2004: 15.4 cents)	**26,160**	14,630

All dividends are fully franked at the company tax rate of 30%.

Review of Operations

Results highlights:

	2005 $'000	2004 $'000	Change $'000	Change %
Sales revenue:				
Funerals	**97,614**	97,050	564	0.6
Cemeteries and Crematoria	**50,586**	51,242	(656)	(1.3)
Total sales revenue	**148,200**	148,292	(92)	(0.1)
Operating EBITDA				
(excluding net gains on asset sales)	**45,369**	43,902	1,467	3.3
Operating Margin	**30.6%**	29.6%		3.3
Net profit after tax attributable to InvoCare Limited shareholders	**20,141**	19,255	886	4.6
EPS				
Basic earnings per share	**21.0 cents**	20.4 cents	0.6 cents	2.9

Sales revenues in 2005 were in line with 2004, despite an estimated 4-5% decline in the overall number of deaths in the markets in which InvoCare operates. Strong average sales prices achieved in both funerals operations and cemeteries and crematoria operations mitigated the combined impacts of increased competition, especially in the Sydney cremations market, and a small decline in market share caused in part by the sale or closure of several non-strategic funeral homes.

Operating EBITDA (excluding gains on asset sales) and operating margins both improved by 3.3% as a result of a favourable revenue mix and effective cost control.

Proceeds from the sale of non-current assets amounted to $3.0 million (2004: $3.7 million), generating a before tax gain on disposal of $2.0 million (2004: $2.0 million). The non-strategic properties sold were the result of management's ongoing asset performance assessment.

Finance costs increased by 7.7% to $12.8 million and included a non-cash $2.0 million expense, required by AIFRS, to write off the balance of establishment costs relating to former borrowing facilities. These borrowings were replaced in December 2005 by an unsecured, non-amortising $165.0 million facility which was drawn to $140.0 million at the end of 2005.

Profit after tax attributable to InvoCare shareholders increased 4.6% on the previous year.

Operating cash flows remained strong and increased by $2.7 million (or 11.8%) to $25.6 million for the year. Asset sale proceeds of $3.0 million, $2.2 million received upon exercise of employee share options and additional borrowings of $8.5 million partly funded ordinary and special dividends to shareholders of $25.5 million, capital expenditure of $6.9 million and the acquisition for $3.4 million of the Ann Wilson Funerals business in late December 2005.

Consistent with the improved result, the directors have declared a final fully franked dividend of 9.5 cents per share which, together with the interim fully franked dividend of 7.0 cents per share paid in October 2005, will make the total ordinary dividends in respect of 2005 16.5 cents per share. This is 7.1% higher than the ordinary dividends in the previous year. In addition, in June 2005, the Company paid a fully franked special dividend of 10.5 cents.

Significant Events After the Balance Date

There have been no significant events occurring after balance date which have significantly affected or may significantly affect either InvoCare's operations or results of those operations or InvoCare's state of affairs in future financial years.

Future Developments and Results

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental Regulation and Performance

InvoCare is committed to the protection of the environment, the health and safety of its employees, customers and the general public, as well as compliance with all applicable environmental laws, rules and regulations in the jurisdictions in which the consolidated entity operates its business. The consolidated entity is subject to environmental regulation in respect of its operations, including some regulations covering the disposal of mortuary and pathological waste and the storage of hazardous materials. InvoCare has risk management systems in place at its appropriate locations.

There have been no claims during the year and the directors believe InvoCare has complied with all relevant environmental regulations and holds all relevant licences.

Information on directors

Details of the directors' qualifications and experience are set out on the following pages.

Board of Directors

Mr Ian Ferrier CA

Chairman of the Board
Chairman of Remuneration Committee
Chairman of Nomination Committee
(from 29 March 2006)
Member of Risk Committee

Ian has been Chairman of InvoCare Limited since 2001. He was the founder of Ferrier Hodgson and now is a consultant to the firm. He is a Fellow of The Institute of Chartered Accountants in Australia. Ian has had over 40 years of experience in company corporate recovery and turnaround practice. He is also a director of a number of private and public companies. Ian is currently Chairman of InvoCare Limited, Port Douglas Reef Resorts Limited and Australian Oil Company Limited and a director of McGuigan Simeon Wines Limited, Macquarie Goodman Management Limited and Reckon Group Limited. He has significant experience in turnaround management, property and development, tourism, manufacturing, retail, hospitality and hotels, infrastructure and aviation and service industries.

Mr Richard Davis BEc

Chief Executive Officer

Richard has been Chief Executive Officer of InvoCare Limited since 1995. Richard is a director of The Over 50s Guardian Friendly Society Limited. Richard was recruited to the position of Chief Financial Officer of Chase Corporation's funeral business in 1989 and stayed on in this position when the business was acquired by Industrial Equity Limited, following which he became Chief Executive Officer. Prior to joining the funeral industry, Richard worked in venture capital and as an accounting partner of Bird Cameron. Richard holds a Bachelor of Economics from the University of Sydney.

From left to right top:
Ian Ferrier, Richard Davis and Michael Grehan.

From left to right bottom:
Roger Penman, Christine Clifton and Richard Fisher.

Mr Michael Grehan BAcc MBA
Chief Operating Officer

Michael Grehan has held the position of Chief Operating Officer of InvoCare Limited since March 2000 and was appointed as a director of InvoCare Limited on 24 October 2003. Prior to joining InvoCare, Michael held senior management positions across a number of different industries.

These included Managing Director of National Jet Systems, Group Financial Controller overseeing all financial and commercial activities of Qantas' subsidiary businesses, including Regional Airlines, Flight Catering, Resorts, Freight and Property, and a long-term secondment as General Manager Purchasing, Distribution with Carrier Corporation (Australia). Prior to moving into management, Michael was a chartered accountant specialising in insolvency with KPMG, including two years spent in the United States with the firm. Michael holds a Bachelor of Business Accountancy and a Master of Business Administration from the Queensland University of Technology.

Dr Christine (Tina) Clifton MB BS (Hons) BHA FRACMA
Non-Executive Director
Chairman of Risk Committee,
Member of Audit Committee,
Member of Nomination Committee
(from 29 March 2006)

Tina Clifton is a registered medical practitioner. Tina has been a director of InvoCare Limited since 24 October 2003 and her other current directorships include HCF, Ambri Limited and IWPE Nominees Pty Limited. Tina was formerly a director of the Garvan Institute of Medical Research, the Victor Chang Cardiac Research Institute and St Vincent's Hospitals. Prior to 2001 Tina held various positions in the public and private healthcare sectors including Chief Executive Officer of the Sisters of Charity Health Service in New South Wales and deputy Chief Executive Officer of the Northern Sydney Area Health Service.

From 1980 to 1988 Tina was a general practitioner. Tina holds degrees in medicine and health administration and specialist qualifications in medical administration.

Mr Roger Penman BEc FCA FTIA

Non-Executive Director
Chairman of Audit Committee
(from 28 February 2005)
Member of Remuneration Committee
(from 28 February 2005)
Member of Nomination Committee
(from 29 March 2006)

Roger Penman was appointed as a director of InvoCare Limited on 1 January 2005 and commenced his roles on the Audit Committee and Remuneration Committee on 28 February 2005.

Roger has been a partner of WHK Greenwoods (part of the WHK Group Limited) since 1986. He is a Fellow of the Institute of Chartered Accountants and the Taxation Institute of Australia with over 30 years tax consulting and general business experience. Roger has extensive experience with mergers, acquisitions, complex taxation and other tax issues. He is also a specialist adviser to many professional practices on tax, accounting and general business matters.

Mr Richard Fisher MEc LLB
Non-Executive Director
Member of Risk Committee,
Member of Audit Committee
Member of Nomination Committee
(from 29 March 2006)

Richard Fisher is a partner and immediate past Chairman of Partners at Blake Dawson Waldron specialising in corporate law. He has been a director of InvoCare Limited since 24 October 2003. Richard is a former part-time Commissioner at the Australian Law Reform Commission and is a current International Consultant for the Asian Development Bank and Member of the Library Council of NSW. Richard holds a Master of Economics from the University of New England and a Bachelor of Laws from the University of Sydney.

Mr John Murphy resigned as a director of InvoCare Limited on 28 February 2005, having been appointed in May 2001.

Company Secretary

Mr Kenneth Mealey BComm CPA

Kenneth Mealey has been Company Secretary since joining the consolidated entity in 1994. Prior to joining the consolidated entity, Kenneth had considerable senior management and financial experience across several industries, including five years as Finance Director and Company Secretary of previously listed company Hunter Douglas Limited, two years as Technology Division Finance Director for Lend Lease Corporation and 10 years as Director of Finance and Administration at Otis Elevator Company Pty Limited. Kenneth holds a Bachelor of Commerce from the University of New South Wales and is a member of CPA Australia.

Retirement, election and continuation in office of directors

In accordance with the Constitution of InvoCare Limited, at each Annual General Meeting the following directors must retire from office:

- one-third (or a number nearest one-third) of the number of directors, excluding from the number of directors the Managing Director (i.e. the Chief Executive Officer), who is exempt from retirement by rotation, and any other director appointed by the directors either to fill a casual vacancy or as an addition to the existing directors; and
- any other director who has held office for three years or more since last being elected; and
- any other director appointed to fill a casual vacancy or as an addition to the existing directors.

Richard Fisher and Michael Grehan will retire by rotation as directors at the Annual General Meeting and, being eligible, offer themselves for re-election.

Corporate Governance

The Directors' Report continues on the following page with the start of the Corporate Governance Statement.

Meetings of directors

During the year ended 31 December 2005, the number of meetings of the Board of Directors and of each Board Committee and the number of meetings attended by each of the directors are as follows:

	Board		Audit Committee		Remuneration Committee		Risk Committee	
	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended	No. eligible to attend	No. attended
Ian Ferrier	14	14	–	2*	3	3	4	4
Richard Davis	14	14	–	6*	–	–	–	4*
Michael Grehan	14	13	–	5*	–	–	–	3*
Roger Penman	14	14	4	6*	2	3*	–	–
Christine Clifton	14	14	6	6	–	3*	4	4
Richard Fisher	14	13	6	5	–	3*	4	4
John Murphy	2	1	2	1	1	1	–	–

* Includes meetings attended as an invited guest of the Committee where not eligible to attend.

Corporate governance

InvoCare Limited (the Company) and the Board of Directors (the Board) are committed to achieving and demonstrating the highest standards of corporate governance.

This statement outlines the main corporate governance practices in place throughout the financial year, which comply with the ASX Corporate Governance Council's principles and recommendations, unless otherwise stated.

For further information on the corporate governance policies adopted by InvoCare Limited, refer to website: www.invocare.com.au

Unless disclosed below, all the Corporate Governance Council's principles and recommendations were in place for the financial year ended 31 December 2005.

Principle 1 – Lay solid foundations for management and oversight

Whilst the Board Charter was not formally adopted until March 2006, the Board has been applying the principles of the Board Charter concepts during the reporting period as previously outlined in the Company's corporate governance practices as set out in the 2004 Annual Report.

The Board of InvoCare Limited is responsible for guiding and monitoring the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The responsibility for the operation and administration of the Company, including day to day management of InvoCare's affairs and the implementation of the corporate strategy and policy initiatives, is delegated by the Board to the Chief Executive Officer (the CEO) and the Senior Executives. Delegations are set out in InvoCare's delegations policy and are reviewed regularly. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the Senior Executives.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including:

– Board approval of a strategic plan designed to enhance shareholder value, meet stakeholders' needs and manage business risk;
– on-going development of the strategic plan and approving initiatives and strategies designed to ensure the continued growth and success of the Company; and
– implementation of budgets by management and monitoring progress against budget – via the establishment and reporting of both financial and non-financial key performance indicators.

Other functions reserved to the Board include:

– approval of the annual and half-yearly financial reports;
– approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
– ensuring that the Company operates ethically and responsibly and in compliance with internal codes of conduct and legal and regulatory requirements;
– enhancing and protecting the reputation of InvoCare;
– establishing and determining the powers and functions of the committees of the Board;
– ensuring a high standard of corporate governance practice;
– ensuring that any significant risks are identified, assessed, appropriately managed and monitored;
– ratifying the appointment and/or removal and performance assessment of the CEO;
– ratifying the appointment and/or removal and contributing to the performance assessment of the members of the executive management team including the Chief Operating Officer (COO), Chief Financial Officer (CFO) and the Company Secretary; and
– reporting to shareholders.

In fulfilling these functions, the directors seek to enhance shareholder value and protect the interests of stakeholders.

Principle 2 – Structure the Board to add value

Board Composition

The Board currently comprises six directors, being four Non-Executive Directors (including the Chairman) and two Executive Directors. Any director appointed to fill a casual vacancy must stand for election by shareholders at the next Annual General Meeting. In addition, one-third of the Non-Executive Directors, and any other director who has held office for three years or more since last being elected, must retire from office and, if eligible, stand for re-election. The CEO is exempt from retirement by rotation and is not counted in determining the number of directors to retire by rotation.

The majority of the Board must be independent directors, one of whom is the Chairman, and the Chairman and CEO must be separate persons. A director is deemed to be 'independent' if they are independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

Specifically, an independent director is a Non-Executive Director and:

(i) is not a substantial shareholder of the Company (as defined by the Corporations Act 2001) or an officer or otherwise associated directly with a substantial shareholder of the Company;

(ii) has not been employed in an executive capacity by the Company or another group member within the last three years;

(iii) has not been a principal of a material professional adviser or material consultant to the Company or another group member or an employee materially associated with the service provided, within the last three years;

(iv) is not a material supplier or customer of the Company or other group member or an officer of or otherwise associated directly or indirectly with a material supplier or customer;

(v) has no material contractual relationship with the Company or another group member other than as a director of the Company;

(vi) has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company; and

(vii) is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Directors considered by the Board to be independent are Ian Ferrier, Christine Clifton, Roger Penman and Richard Fisher. Where the independence status of a director changes, the Company will provide immediate notification of such change to the market. The Board has assessed the independence of Non-Executive Directors in light of their interests and relationships and considers them all to be independent.

The Nomination Committee is responsible for the selection of new directors. The Board regularly reviews its composition to ensure that the Board continues to have the mix of skills and experience necessary for the conduct of the Company's activities. The directors believe the skill base of the current directors is appropriate and adequate for the Company at its present size and stage of development. The Board will continue to monitor the need for additional skills on the Board and make further appointments as appropriate. The Chairman is elected by the full Board.

The skills, experience and expertise relevant to the position of each director and their term of office are detailed in the Directors' Report.

Board of Directors Quorum

A Board of Directors quorum is two directors, both of whom must be independent directors.

Meetings

The Board holds at least eight meetings each year. Additional meetings may be held as deemed necessary to address significant matters as they arise. At least two of the meetings include visits to operations and meeting employees.

The number of Board meetings and committee meetings and the number of meetings attended by each director are disclosed in the Company's Directors' Report under the heading 'Meetings of Directors'.

The Chairman and the CEO meet regularly to discuss key issues and performance trends of InvoCare. Other directors maintain contact with relevant Senior Executives through dealings on Committees.

On regular occasions the directors receive a detailed operating review from the CEO regardless of whether or not a Board meeting is being held.

The Non-Executive Directors meet at least twice during the year, in scheduled sessions without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings are shared with the full Board.

The Chairman is responsible for leading the Board, ensuring that Board activities are organised and efficiently conducted and for ensuring directors are properly briefed for meetings. The CEO is responsible for implementing InvoCare's strategies and policies. The Board charter specifies that these are separate roles to be undertaken by separate people.

Potential conflicts of interest by directors will be reported to the Board and, if necessary, directors will be excluded from discussion of the relevant matter and will not vote on that matter.

Directors' Access to Independent Professional Advice and Company Information

To assist in the effective discharge of their duties, directors may, in consultation with the Chairman, seek independent legal or financial advice on their duties and responsibilities at the expense of the Company and, in due course, make all Board members aware of both instructions to advisers and the advice obtained.

All directors have the right of access to all relevant Company information and to seek information from the Company Secretary and senior executives. They also have a right to other records of the Company subject to these not being sought for personal purposes.

All directors and former directors are entitled to inspect and copy the books of the Company for the purposes of legal proceedings including situations where the director is a party to proceedings, where the director proposes in good faith to bring proceedings and where a director has reason to believe proceedings will be brought against him or her. In the case of former directors, this right of access continues for a period of seven years after the person ceases to be a director.

Prior to each board meeting, the Board is provided with management reports and information in a form, timeframe and quality that enables them to discharge their duties. If they consider this information to be insufficient to support informed decision-making, then they are entitled to request additional information prior to or at Board meetings.

Delegation of Authority to Management

The Board delegates authority to management in relation to various operational functions. These authorities relate to expenditure, disciplinary action, remuneration changes, recruitment of new staff, termination of staff, release of intellectual property, pricing, and commitment to promotional and advertising expenditure programs.

The following rules take precedence over specific delegations:

– there has to be a budget for the expenditure;

– items not in the budget that are considered material must have been subsequently approved by the Board, or it must be within the overall budget limit and be approved by either the CEO or the CFO;

– an executive can never approve his/her own expenditure item. Items must be approved by the executive deemed to be on the next level above the relevant executive; and

– authorities cannot be sub-delegated without prior authority from the next level up.

Board Committees

Whilst at all times the Board retains full responsibility for guiding and monitoring the Company, in discharging its stewardship it makes use of committees. Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board.

The Board has four formally constituted Committees:

– the Audit Committee – refer Principle 4;

– the Risk Committee – refer Principle 7;

– the Remuneration Committee – refer Principle 9; and

– the Nomination Committee.

Each is comprised entirely of Non-Executive Directors. The Committee structure and membership are reviewed regularly.

Each of these Committees has developed its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the Committee is to operate. All of these charters will be reviewed regularly.

The minutes of all Board Committee meetings are tabled and any recommendations considered at the next scheduled Board meeting.

Additional requirements for specific reporting by the Committees to the Board are addressed in the charter of the individual Committees.

Nomination Committee

During 2005, in view of its size and functionality, the Board did not establish a Nomination Committee. The Board was in a position to perform the functions typically carried out by a Nomination Committee.

In March 2006, the Board established a Nomination Committee. The Nomination Committee will critically review on a regular basis the corporate governance procedures of the Company and the composition and effectiveness of the Board. The CEO attends the meeting by invitation.

In addition to its role in proposing candidates for director appointment for consideration by the Board, the Nomination Committee will review fees payable to Non-Executive Directors and will review and advise the Board in relation to CEO succession planning.

The Nomination Committee's charter is available on the Company's website.

Responsibilities
The main responsibilities of the Committee are:

- assessing the necessary and desirable competencies of Board members – including an evaluation of the range of skills, expertise and experience on the Board before identifying and recommending a candidate for appointment who will best increase the effectiveness of the Board;
- reviewing Board and CEO succession plans – ensuring that plans are in place to maintain an appropriate balance of skills, experience and expertise on the Board and with the CEO;
- evaluating the Board and committees' performances – including both a review of the size and composition of the Board and committees and also the effectiveness of the Board and committees to ensure that the Board is making decisions expediently, with the benefit of a variety of perspectives and skills;
- considering the appointment and removal of directors – if a need for a new Board member is identified, selecting a new director who can contribute additional skills and experience, particularly having regard to the Company's size and its various businesses. The Board looks for candidates with a proven ability to make a contribution to a Board's strategy, policies, stewardship and effectiveness. The Board may seek assistance from external independent consultants when considering the appointment of directors; and
- ensuring that an effective induction process is in place.

The names of candidates submitted for election to shareholders are accompanied by key supporting information including biographical details, qualifications and competencies, directorships and other relevant business relationships including any relationships which might involve or be perceived to involve the Company, the term of office currently served by directors subject to re-election, and other particulars required by law.

A director is engaged by way of Letter of Appointment, which specifies the key terms of the relationship including the term of appointment, remuneration, trading and notification policy as regards company shares, disclosure of directors' interests and matters that affect independence, general duties, responsibilities and obligations. It includes details of access to independent professional advice, as well as indemnity and insurance arrangements.

The Chairman annually assesses the performance of individual directors and meets privately with each director to discuss this assessment. The Nomination Committee also coordinates the Board's annual review of the Chairman. Directors conform to the Board's agreed performance criteria for directors.

Membership
The Nomination Committee members comprise the Non-Executive Directors, all of whom must be independent directors. The CEO attends by invitation.

Members of the Nomination Committee are currently Ian Ferrier, Roger Penman, Christine Clifton and Richard Fisher. Richard Davis attends by invitation.

Chairman
The Nomination Committee Chairman is the Board of Directors Chairman, currently Ian Ferrier.

Quorum
The quorum for Nomination Committee meetings is two members, both of whom must be independent, Non-Executive Directors.

Meetings
The Nomination Committee meets at least once each year and more regularly as required.

Directors' Induction

When appointed to the Board, all new directors receive an induction appropriate to their experience which is designed to quickly allow them to participate fully and productively in Board decision-making.

The induction program covers the Company's structure and goals, financial, strategic, operational and risk management positions, the rights and duties of a director and the role and operation of the Board committees. The Board is responsible for reviewing the effectiveness of the director induction program. New directors are given an orientation regarding the business including corporate governance policies, all other corporate policies and procedures, committee structures and responsibilities and reporting procedures.

Directors' Continuing Education

Directors are expected to undertake continuing education both as regards the normal discharge of their formal director duties as well as ongoing developments within the Company and its operating environment. Directors typically attend courses and seminars relevant to the effective discharge of their duties.

A summary of the Nomination Committee's charter is available on the Company's website.

Principle 3 – Promote ethical and responsible decision-making

Code of Conduct

The Board, in recognition of the importance of ethical and responsible decision-making has adopted a Code of Conduct for all employees and directors which outlines the standards of ethical behaviour and is essential to maintain the trust of all stakeholders and the wider community.

The Code requires high standards of personal integrity, objectivity and honesty in all dealings. The Code also requires a respect for the privacy of customers and others and compliance with the law and InvoCare policies. This Code is provided to all directors and employees as part of their induction process.

The Code is subject to ongoing review and assessment to ensure it continues to be relevant to contemporary conditions and is available on the Company's website.

All directors, executive officers and employees are responsible for taking appropriate action in proven cases of illegal behaviour outside the spirit of this Code in the workplace.

InvoCare recognises that its clients may be vulnerable due to a recent bereavement and it requires all employees to be aware of their ethical and legal responsibilities. Accordingly, InvoCare requires all employees to behave according to this code, to maintain its reputation as a good corporate citizen:

Ensuring Integrity

InvoCare is committed to maintaining its reputation for dealing with clients with integrity and honesty. The Company will view seriously any employee deliberately or recklessly breaching consumer protection laws. Offenders may be liable for dismissal or even legal proceedings.

InvoCare staff must immediately report to their manager any possible fraudulent activity including theft of company property, breach of any legal, regulatory or organisational requirement, or inappropriate practices or behaviour which affects InvoCare and its clients.

InvoCare staff must not engage in unconscionable conduct, i.e. they must not take advantage of a client family and must ensure client families understand the information provided. (In many cases, InvoCare asks its client families to acknowledge in writing that this is done.)

InvoCare staff must not use aggressive means or undue harassment in regard to the supply of goods or services to a client family, or payment for goods or services.

InvoCare staff must provide services with care and skill to the level that should be reasonably expected by client families to achieve the desired result.

InvoCare staff should not use "bait" advertising, i.e. advertising of goods or services if availability of these goods or services may not meet likely demand.

InvoCare staff must not accept payment if they do not intend to supply goods or services, or have reasonable grounds for believing they will not be able to supply these.

InvoCare staff must state full prices, even when discussing partial payment or a deposit, for goods or services.

Conflict of Interest Policy Statement

It is generally accepted as good business practice that employees/contractors disclose in detail any outside activities or interest which potentially may conflict or appears to conflict with InvoCare's best interest. Accordingly, it is the policy of InvoCare to require such disclosures.

While it is not possible to describe, or even anticipate all the circumstances and situations that might involve or even appear to involve conflict of interest, the following examples of some such activities are given for illustration. However, it should be understood that these examples are not intended to be an exhaustive list.

Conflict of Interest. Employees shall not without prior management approval, be connected directly or indirectly with any business as owner, partner, officer, director, participant, licensee, consultant or shareholder; or as a recipient of wages, salary bonus fees, commissions; as a supplier of equipment facilities or services to InvoCare; or which is in direct or indirect competition with; or which is a customer of InvoCare. Employees shall not deal directly or indirectly through ownership or lease of property, real estate or facilities in which InvoCare has an active or potential interest.

Gifts and Benefits. Employees shall not seek or accept gifts, payments, fees, services, privileges, vacations or pleasure trips without a business purpose, loans (other than conventional loans from lending institutions), or other favours from any person or business organisations that does or seeks to do business with, or is a competitor of InvoCare. No employee shall accept anything of value in exchange for referral of third parties to any such person or business organisation. The foregoing does not prohibit an employee from accepting a gift of nominal value made in the course of a normal business relationship.

Selling Products. Employees shall not speculate or commercially deal in products (first quality, used, obsolete or scrap) sold by InvoCare or in any used property (machinery, equipment, facilities, furniture and fixtures, flower stands, etc) of InvoCare.

Dealing in InvoCare Limited Shares. Insider trading in InvoCare Limited shares is illegal and can result in substantial penalties, including jail terms. Such illegal conduct will lead to disciplinary action and may lead to termination of employment. Employees must adhere to the InvoCare share trading policy, details of which are set out below under the heading Share Trading Policy.

Confidentiality
Information concerning InvoCare and its clients is confidential and must not be released without authorisation from a manager. Information gained through dealings with clients should only be used in the course of employment.

Privacy Act Obligations
Employees must comply with the Privacy Act. Employees have an obligation and personal responsibility to respect clients', and all individuals' rights to privacy. This means doing everything in their power to ensure the security of any personal information handled in the course of employment.

Protecting Confidential Information
Commercially sensitive documents, records and files should be stored securely and not left where visible. Confidential information should not be left on computer screens and computer access passwords must not be shared with others.

Computer systems should be secured and used for business purposes only. This ensures the long term integrity of the systems and confidentiality of business, customer and employee data. Employees must not misuse email or internet systems and should refer to the Email, Intranet and Internet Usage policy in the Corporate Policies and Procedures manual.

Communication with the Media
Media or public comment on InvoCare must be authorised by Executive Management or the Communications Manager.

InvoCare staff should be familiar with the Corporate Policies and Procedures relating to media, enquiries and visits.

Confidentiality after Ceasing Employment
When signed, InvoCare's Code of Conduct legally obliges staff to keep any information acquired during employment confidential, even after employment ceases. Staff cannot pass on information about InvoCare's business, customers, suppliers or staff.

Employees
Employees must maintain a strong focus on a safe working environment and support training and further education. Employees must be familiar with the company's Occupational Health and Safety Risk Injury Management System Manual to understand responsibilities, reporting procedures, safety guidelines and all other policies and procedures to ensure safety of all persons in the workplace.

InvoCare is an equal opportunity employer and supports anti discrimination. Employees must not engage in conduct which is discriminatory or constitutes harassment.

Drugs and Alcohol
The use of drugs and alcohol may impair an employee's capacity to perform their job safely, efficiently and with respect for work colleagues and clients.

No employees are to work whilst under the influence of alcohol or drugs. Employees found to be under the influence of drugs or alcohol, or in possession of illegal drugs whilst at work will be subject to disciplinary action and in some cases, their employment may be terminated. Employees who from time to time require prescription medication that affects or has the potential to affect their ability to carry out their duties in a safe manner are required to report the taking of any such medication to their Manager.

Responsibilities
It is the responsibility of all directors and employees to ensure that they work in a manner consistent with this Code.

Share Trading Policy

The Company's share trading policy is designed to minimise the risk that InvoCare, its directors and its employees will breach the insider trading provisions of the Corporations Act or compromise confidence in InvoCare's practices in relation to securities trading. The policy prohibits directors and employees from trading in InvoCare securities when they are in possession of information not generally available to the investment community, and otherwise confining the opportunity for directors and employees to trade in InvoCare securities to certain limited periods.

This policy applies to the following ("Senior Personnel"):

– Directors,
– Chief Executive Officer,
– Chief Financial Officer,
– Chief Operating Officer,
– Company Secretary,
– National Managers,
– General Managers,
– Communication Manager,
– all financial management employees, and
– any other employee who has access to Non-Public Price Sensitive Information (see below).

This policy also applies to related parties of Senior Personnel such as spouses (including de-factos), children under 18, family companies of which the Senior Personnel is a director and family trusts in which the Senior Personnel has a beneficial interest or makes the investment decisions.

Background
Generally, the insider trading provisions of the Corporations Act prohibit a person who possesses Non-Public Price Sensitive Information from

applying for, acquiring, or disposing of, securities, or procuring another person to do the same ("Deal" or "Dealing").

"Non-Public Price Sensitive Information" means information that is not generally available, but if it were generally available, a reasonable person would expect it to have a material effect on the price or value of a company's securities.

A person who breaches the insider trading provisions may face severe penalties, including imprisonment.

The policy

Senior Personnel must not, at any time, Deal in InvoCare securities if in possession of Non-Public Price Sensitive Information. Further, Senior Personnel must only communicate that information to other persons on a "need to know" basis.

Senior Personnel who are personally satisfied that they are not in possession of Non-Public Price Sensitive Information may Deal in InvoCare securities during designated "Senior Personnel Trading Periods". Unless notified otherwise, the "Senior Personnel Trading Periods" are:

– 30 days following the day after the release of InvoCare's interim results;

– 30 days following the day after the release of InvoCare's final results; and

– 30 days following the day after InvoCare's Annual General Meeting.

Outside of the Senior Personnel Trading Periods, Senior Personnel who are personally satisfied that they are not in possession of Non-Public Price Sensitive Information may only Deal in InvoCare securities with the prior consent of the Chairman of the Board.

Under the ASX Listing Rules, InvoCare must notify the ASX within five days of any Dealing in its securities by directors. Further, under the Corporations Act, directors themselves must notify the ASX within 14 days. Notice given by InvoCare satisfies the director's personal obligations under the Corporations Act. Accordingly, any director who wishes to Deal in InvoCare securities, either during the Senior Personnel Trading Periods, or outside of the Senior Personnel Trading Periods but with the Chairman's prior consent, must notify the company secretary prior to undertaking such Dealing.

Following a Deal by Senior Personnel, details of that Deal must be provided to the Company Secretary within five days and also in accordance with the Corporations Act.

It is inappropriate for Senior Personnel to procure others to trade in InvoCare securities when they are precluded from trading.

Exceptions to the policy

The Chairman has the discretion to grant an exemption to Dealing by a related party where it can be demonstrated the related party Deals independently in shares or securities on a bona fide basis.

In exceptional cases of financial hardship, the Chairman has discretion to approve Dealing in InvoCare securities that would otherwise be prohibited by the share trading policy. However, the Chairman has no discretion to approve Dealing by Senior Personnel who possess Non-Public Price Sensitive Information.

Principle 4 – Safeguard integrity in financial reporting

Audit Committee

The Audit Committee provides assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Company's financial reporting, internal control structure, risk management systems, and the internal and external audit functions.

It is the responsibility of the Committee to maintain free and open communication between the Committee, the external auditor, the internal auditor and management of the Company. Both the internal and external auditors have a direct line of communication to the Chairman of the Audit Committee.

The chief executive officer, chief financial officer and the chief operating officer declared in writing to the Board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the year ended 31 December 2005 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results.

Convergence with Australian equivalents to International Financial Reporting Standards (AIFRS) was a key financial reporting project for the financial year ended 31 December 2005. The consolidated entity now fully complies with the reporting requirements of AIFRS. The impact of transition to AIFRS on the financial report for the year ended 31 December 2005 is included in Note 2.

The external auditor met with the Audit Committee and the Board of Directors twice during the year without management being present.

Responsibilities

The main responsibilities of the Audit Committee are to:

– review, assess and approve the Annual Report, the half-year Financial Report and all other financial information published by InvoCare or released to the market;

– review and monitor InvoCare's compliance with law and ASX Listing Rules;

– assist the Board in reviewing the effectiveness of InvoCare's internal control environment covering:

  – reliability of financial reporting, and
  – compliance with applicable laws and regulations;
- determine the scope of the internal audit function and ensure that its resources are adequate and used effectively, and assess its performance, including independence;
- recommend to the Board the appointment, removal and remuneration of the external auditor, and review the terms of its engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditor and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety; and
- report to the Board on matters relevant to the Committee's role and responsibilities.

In fulfilling its responsibilities, the Audit Committee:

- receives regular reports from management and the external auditor;
- meets with the external auditor at least twice a year or more frequently if necessary;
- requires the CEO, COO and CFO to state in writing to the Board that InvoCare's Financial Reports present a true and fair view, in all material respects, of InvoCare's financial condition, operational results and are in accordance with relevant accounting standards;
- reviews any significant disagreements between the auditor and management, irrespective of whether they have been resolved;
- meets separately with the external auditor at least twice a year without the presence of management; and
- provides the internal and external auditors with clear lines of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the Board.

The Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Membership

The Audit Committee comprises three independent Non-Executive Directors. The Audit Committee members are all required to be financially literate or become financially literate within a reasonable period of time after appointment. At least one must have specific experience in financial or accounting matters and at least one must have an understanding of the Company's industry.

Currently, members of the Audit Committee are Roger Penman, Christine Clifton and Richard Fisher. The other directors, CFO and Company Secretary attend by invitation.

Chairman

The Audit Committee Chairman is appointed by the Board from the independent, Non-Executive Committee members.

The Audit Committee is currently chaired by Roger Penman.

Quorum

The Audit Committee quorum is two members, both of whom must be an independent, Non-Executive Director.

Audit Committee Meetings

The Audit Committee meets at least four times each year and more regularly as required.

Auditor Selection, Appointment and Lead Partner Rotation

The policy of InvoCare and the Audit Committee is to appoint an external auditor which clearly demonstrates quality and independence. The performance of the external auditor is reviewed and assessed annually.

PricewaterhouseCoopers was appointed as the external auditor in 1994. It is PricewaterhouseCoopers' policy to rotate audit engagement partners on listed companies at least every seven years, and in accordance with that policy a new audit engagement partner was introduced for the year ended 31 December 2000. This policy will be amended to a five year rotation to comply with the requirements of CLERP 9.

An analysis of fees paid to the external auditor, including a break-down of fees for non-audit services, is provided in the Financial Statements of the Company's Annual Report. It is the policy of the external auditor to provide an annual declaration of its independence to the Audit Committee.

Should a change in auditor be considered necessary a formal tendering process will be undertaken. The Audit Committee will identify the attributes required of an auditor and will ensure the selection process is sufficiently robust so as to ensure selection of an appropriate auditor.

The Audit Committee shall ensure that prospective auditors have been provided with a sufficiently detailed understanding of the company, its operations, its key personnel and any other information including group structures and financial statements that will have a direct bearing on each firm's ability to develop an appropriate proposal and fee estimate.

The Audit Committee shall consider the appointment in conjunction with the Board and senior management.

In selecting an external auditor, particular consideration shall be given to determining whether the fee quoted is sufficient for the work required, that the work is to be undertaken by people with an appropriate level of seniority, skill and knowledge and whether the work proposed is sufficient to meet the company's needs and expectations.

The Audit Committee shall annually discuss with the auditor the provisions the audit firm has in place for rotation of the lead engagement partner and the independent review partner and the overall succession plan in place regarding all professional staff assigned to the company's audit.

The Audit Committee shall satisfy itself on a regular, and at a minimum, on an annual basis, that the audit firm's procedures regarding succession planning and lead engagement partner rotation are appropriate and will ensure an on-going efficient and effective audit.

A summary of the Audit Committee's charter is available on the Company's website.

Principle 5 – Make timely and balanced disclosure

The continuous disclosure requirements of the ASX are contained in Chapter Three of the Listing Rules and have been adopted by the Company.

The Company has established policies and procedures on information disclosure to ensure all investors have equal and timely access to material information concerning the Company and to enable a normal investor to make an informed assessment of the Company's activities and trading results.

The Company Secretary is responsible for:

– making sure that the Company complies with the continuous disclosure requirements under the ASX Listing Rules;

– overseeing and co-ordinating disclosure of information to the ASX, analysts, brokers, shareholders, the media and the public; and

– educating directors and staff on the Company's disclosure policies and procedures and raising awareness of the principles underlying continuous disclosure.

Market sensitive and material information is publicly released through the Stock Exchange before disclosing it to analysts or others outside the Company. Further dissemination to investors is also managed through the stock exchange. Information is posted on the Company's website immediately after the stock exchange confirms an announcement has been made, with the aim of making the information accessible to the widest audience.

Where uncertainty arises as to the meeting of continuous disclosure obligations, the Company Secretary may seek external legal advice. The Board monitors the implementation and effectiveness of the continuous disclosure procedures and promotes the understanding of compliance.

The Company's designated media and analyst communications contacts are the Chairman. Chief Executive Officer, Chief Financial Officer and Company Secretary.

Principle 6 – Respect the rights of shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the Company's state of affairs.

The Chairman, Chief Executive Officer, Chief Financial Officer or Company Secretary have been nominated as responsible for communications with shareholders and the ASX as set out in Principle 5. This includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Information is communicated to shareholders as follows:

– The Notice of Annual General Meeting is distributed to all shareholders, while the Annual Report and half-yearly results are distributed to all shareholders who have requested a hard copy. The Annual Report includes relevant information about the operations and financial performance of the Company during the year, changes in the state of affairs of the Company and details of future developments in addition to other disclosures required by the Corporations Act 2001 and the Australian Stock Exchange Listing Rules.

– The Notice of Annual General Meeting and Annual Report along with Investor Presentations and Press releases can be found on the Company's website www.invocare.com.au.

– Announcements (which include media releases) are made to the Australian Stock Exchange in respect of half-yearly and annual results and on other occasions under the continuous disclosure requirements when the Company becomes aware of information that might materially affect the price of its shares. There is a link from the company website to the Australian Stock Exchange through which shareholders can access these announcements.

Where information or presentation material has been prepared for external promotional and communication purposes, especially for analysts, institutional and media markets, such material will be released to the Australian Stock Exchange and included on the Company's website so as to avoid premature disclosure and/or the emergence of a false market.

The Board encourages full participation of shareholders at the Annual General Meeting. It is Company policy for the external auditor to be requested to attend the Annual General Meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report. The Chairman of the meeting is to allow a reasonable opportunity for shareholders to ask questions of the auditor regarding the audit and auditor's report.

Shareholders are also able to direct any questions relating to the Company's securities to the share registry, Link Market Services Limited.

The Company disclosed its formal shareholder communication strategy on its website in March 2006.

Principle 7 – Recognise and manage risk

Risk Committee

The Risk Committee determines the Company's "risk profile" and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control.

The Risk Committee does not have responsibility in relation to strategic or financial (including information technology) risk management, which is the focus of InvoCare's Audit Committee.

The Risk Committee operates in accordance with a charter which is reviewed regularly. The charter is available on the Company's website.

Responsibilities

The main responsibilities of the Committee are:

- to establish a sound system of risk oversight and management and internal control under which InvoCare can identify, assess, monitor and manage risk;
- to inform the Board of material changes to the risk profile of InvoCare and maintain appropriate risk management practices and systems throughout the operations of InvoCare; and
- the management of operational and compliance risks, including but not limited to:
  - InvoCare's insurance program
  - environmental policy and issues
  - occupational health and safety
  - disaster recovery strategy
  - litigation against InvoCare
  - industry related regulatory compliance
  - compliance with the policy framework in place from time to time
  - internal controls over operational risks, and
  - InvoCare's overall operational risk management program.

Membership

The Risk Committee comprises three Non-Executive Directors, all of whom must be independent directors. The Risk Committee members are all required to possess sufficient technical expertise and industry knowledge to fulfil the functions of the Committee.

The Risk Committee members are Christine Clifton, Richard Fisher and Ian Ferrier.

Chairman

The Risk Committee Chairman, currently Christine Clifton, is appointed by the Board from the independent, Non-Executive Committee members.

Quorum

A quorum for Risk Committee meetings is two members.

Meetings

The Committee meets at least twice each year and more regularly as required.

Principle 8 – Encourage enhanced performance

The Board undertakes an annual performance review of the full Board and of the Chairman. The Chairman performs individual appraisals of each director.

The Board evaluation process involves a self assessment of Board and Committee performance by each director completing a confidential questionnaire. The questionnaire covers such matters as the role of the Board, the composition and structure of the Board and Committees, operation of the Board, group behaviours and protocols and performance of the Board and Committees and invites comments from each director.

The results of the questionnaire are aggregated and discussed by the Board as a basis for collegiate consideration of Board performance and opportunities for enhancement.

The individual appraisals between each director and the Chairman provide an opportunity for consideration of individual contributions, development plans and issues specific to the director.

The last full Board and individual performance evaluation reviews were conducted in August 2004. Partial performance evaluation reviews were performed in 2005 and complete performance evaluation reviews will be undertaken during 2006, following the formation of the Nominee Committee in March 2006.

Senior executive evaluations are performed by the Chief Executive Officer and the results reviewed annually with the Remuneration Committee with specific focus on performance against key performance indicators. Also at this time key performance indicators for the ensuing year are established. The Remuneration Committee also reviews remuneration recommendations proposed by the Chief Executive Officer for making recommendations to the Board.

The Remuneration Committee evaluates the performance of the Chief Executive Officer against key performance indicators and reports to the Board its recommendations on performance appraisal and remuneration.

Principle 9 – Remunerate fairly and responsibly

Remuneration Committee

InvoCare's remuneration policy ensures that remuneration packages properly reflect the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. This policy was disclosed on the Company's website in March 2006.

The Remuneration Committee reviews and makes recommendations to the Board (and in some instances only the Non-Executive Directors of the Board) on director and senior executive remuneration and overall staff remuneration and incentive policies.

The Remuneration Committee operates in accordance with a charter which is reviewed regularly. The charter is available on the Company's website.

When making recommendations, the Committee aims to design policies that attract and retain the executives needed to run the Company successfully and to motivate executives to pursue appropriate growth strategies while marrying performance with remuneration.

Remuneration for senior executives typically comprises a package of fixed and performance based components. The Committee may, from time to time, seek advice from special remuneration consulting groups so as to ensure that the Board remains informed of market trends and practices.

Non-Executive Directors are remunerated by way of directors fees and in certain circumstances superannuation. They do not participate in schemes designed for the remuneration of executives, and do not receive retirement benefits, bonus payments or incentive shares.

Executive remuneration and other terms of employment are reviewed annually by the Committee having regard to personal and corporate performance, contribution to long-term growth, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages include superannuation, performance-related bonuses and fringe benefits.

Responsibilities

The Committee is responsible for:

- reviewing and approving any long term incentive plans for the Company;
- reviewing any transactions between InvoCare and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction are in compliance with the Corporations Act 2001 and are appropriately disclosed;
- reviewing the disclosure of directors and senior executive remuneration in the financial statements; and
- management succession planning, including the implementation of appropriate Executive development programs and ensuring adequate arrangements are in place, so that appropriate candidates are recruited for later promotion to senior positions.

No individual is able to become directly involved or participate in the decision involving their own remuneration.

Membership

The committee is comprised of two Non-Executive Directors, both of whom must be an independent director. The other directors, CFO and Company Secretary attend by invitation.

The Remuneration Committee currently comprises the Chairman of the Board, Ian Ferrier, and one other Non-Executive Director, currently Roger Penman.

Chairman

The Remuneration Committee Chairman is appointed by the Board from the independent, Non-Executive Committee members.

Quorum

The Remuneration Committee quorum comprises two members, both of whom must be an independent Non-Executive Director.

Meetings

Meetings are held at least twice a year and more regularly as required.

Principle 10 – Recognise the legitimate interests of stakeholders

The Board and management of InvoCare Limited are committed to the Code of Conduct which is based on the Company's core values of ethical conduct, fairness and honesty along with legal and fiduciary obligations to all legitimate stakeholders including shareholders, customers , employees and the broader community.

The Company has well established policies and procedures which seek to promote a culture of compliance with legislation affecting its operations and ethical standards throughout the Company.

The Company's Code of Conduct is set out in detail in Principle 3 and is also on the Company's website.

The Directors' Report continues on the next page with the start of the Remuneration Report.

Remuneration report

The remuneration report summarises the key compensation policies for the year ended 31 December 2005, highlights the link between remuneration and corporate performance and provides detailed information on the compensation for directors and other key management personnel. The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Share-based compensation, and

E Additional information.

The information provided under sections A to D includes remuneration disclosures required under Accounting Standard AASB 124 Related Party Disclosures. These disclosures have been transferred from the Notes to the Financial Statements pursuant to ASIC Class Order 06/50 and have been audited. The information in section E is additional disclosure required by the Corporations Act 2001 and the Corporations Regulations 2001 which have not been audited.

A. 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; and

– 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 2005 financial year, annual fees for Non-Executive Directors were $100,000 for the Chairman of the Board and $65,000 for each of the other three Non-Executive Directors who held office for the full year. In addition, Mr Murphy was remunerated a total amount of $9,167 for the two months until his resignation on 28 February 2005. For the 2006 financial year, based upon an external review of Non-Executive Director compensation which was commissioned by the Board Remuneration Committee, the fees are $110,000 for the Chairman and $68,000 for each of the other three Non-Executive Directors.

The base fees exclude 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 years ended 31 December 2005 and 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 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; and
- total compensation should 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, remuneration of all other key management personnel executive remuneration within a defined budget, approved by the Board of Directors.

The key management personnel determine the remuneration of other senior management, within a defined budget approved by the Board of Directors.

Remuneration structure

InvoCare's compensation structure aims to provide a balance of fixed and variable remuneration components. Variable components are tied to the performance of the Group and the individual and are entirely at risk.

The compensation of the Chief Executive Officer and other key management personnel and other staff members is comprised of payments and/or allocations under the following categories:

- short term employee benefits which include cash salary (fixed), short term cash bonuses (variable), annual leave (fixed), non-monetary benefits (fixed) and other incidental benefits (fixed);
- post employment benefits comprising superannuation contributions (fixed);
- long term employee benefits including incentives (variable) and long service leave (fixed); and
- termination benefits as defined in individual employment contracts and as required by law (fixed).

Short term employee benefits

Short term employee benefits comprise:

- Cash salary – Executives are offered market competitive base cash salary. The cash 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 bonuses – short term incentives ("STI") are awarded for achievement of pre-determined financial and non-financial objectives. For key management personnel, the target criteria and possible bonus levels are defined each year by the Non-Executive Directors and the Remuneration Committee. For other executives, the key management personnel determine the objectives and reward levels within the constraints of a Board approved budget.

  Each executive has a target STI opportunity depending on the accountabilities of the role and impact on performance. For example, amongst the range of mainly quantitative financial performance measures are EBIT and EBITDA targets, income accretion targets, operating cost control targets, debt cost reduction targets, qualitative measures of customer satisfaction, debtor days outstanding targets and other key strategic non-financial measures linked to drivers of performance in future reporting periods.

  The target criteria for key management personnel are more heavily weighted to overall Group financial performance (eg. EBITDA). Thus the variable reward is only available when value has been created for shareholders and when profit is consistent with the business plan.

  The maximum target STI opportunity varies for each executive, but is generally no higher than 50% of base cash salary, except for certain sales related staff where a greater portion of their compensation is at risk being more weighted to achievement of sales targets.

  The bonuses are generally payable in the first quarter of each year based on performance for the previous year ended 31 December.
- Non-monetary benefits include provision of fully maintained cars and car parking spaces.
- Other incidental benefits include:
  - Payment of death and total and permanent disablement and salary continuance insurance premiums for senior executive staff; and
  - Modest discounts for funerals of immediate family members.

Post employment benefits

InvoCare provides retirement and superannuation benefits for its employees including senior executives through the InvoCare Australia Pty Limited Superannuation Fund or a complying superannuation plan at the choice of the employee. The InvoCare Australia Pty Limited Superannuation Fund provides accumulation benefits based on employer and employee contributions and plan earnings.

Long term employee benefits 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 are being reviewed in detail and proposed changes will strengthen the link between long term performance of the Group and employee reward.

All employees are entitled to statutory long service leave.

Termination benefits

Termination benefits are provided in the respective individual contracts of employment, details of which for key management personnel are set out in Section C – Service Agreements.

B. Details of remuneration

The key management personnel for the years ended 31 December 2005 and 31 December 2004 are the Executive Directors and Non-Executive Directors identified in the Directors' Report on page 24 and the following executives, who are also included in the category of the five highest paid executives:

Kenneth Mealey – Chief Financial Officer and Company Secretary (appointed 6 September 1994)

Phillip Friery – Group Finance Manager (appointed 12 December 1994)

Since the end of the financial year and before the financial report was approved for issue, Andrew Smith was appointed Chief Financial Officer with effect from 16 January 2006. Kenneth Mealey continues as Company Secretary.

Other executives who are also included in the category of the five highest paid executives but who are not considered key management personnel (as the term is defined in the relevant legislative instrument governing remuneration disclosures in this report) are:

Armen Mikaelian – General Manager, Cemeteries and Crematoria

John Fowler – General Manager, Funerals Vic

Damian Hiser – General Manager, Funerals NSW

Armen Mikaelian was promoted to the above position on 1 January 2005, having been with InvoCare since 1990 in various capacities. This new role merged the previous Cemeteries and Crematoria roles of National Operations Manager (formerly held by Jacobus Adrichem who retired on 15 March 2005 after over 40 years in the industry) and National Sales Manager (which had been held by Armen Mikaelian).

John Fowler has held general manager positions with InvoCare since May 1995, having been employed in the industry for over 30 years and by InvoCare since 1994 when it acquired the Le Pine funeral businesses in Victoria.

Damian Hiser joined InvoCare in the above position on 13 December 2004. Prior to joining InvoCare, Damian held senior management positions within the healthcare industry.

All key management personnel (other than Non-Executive Directors), other executives and staff are employed by InvoCare Australia Pty Limited, a wholly owned controlled entity of InvoCare Limited.

Details of the remuneration of the directors of InvoCare Limited, other key management personnel of the consolidated entity and other executives in the category of the five highest paid executives but who are not other key management personnel of the Group are set out in the following tables.

The cash bonuses are dependent on the satisfaction of the performance conditions as set out in the information on short term employment benefits set out above. All other elements of remuneration are not directly related to performance.

2005		Short-term employee benefits		Post-employment benefits	Termination benefits	Share-based payments	
	Cash salary or fees $	Short-term cash bonus $	Non-monetary benefits $	Super -annuation $	Long service leave $	Options $	Total $
Non-Executive Directors							
Ian Ferrier (Chairman)	91,743	–	–	8,257	–	–	100,000
Richard Fisher	–	–	–	65,000	–	–	65,000
Christine Clifton	59,633	–	–	5,367	–	–	65,000
Roger Penman	65,000	–	–	–	–	–	65,000
John Murphy	9,167	–	–	–	–	–	9,167
Executive Directors							
Richard Davis	400,000	100,000	11,706	36,000	–	–	547,706
Michael Grehan	300,000	70,000	7,795	27,000	–	209,114	613,909
Other key management personnel							
Kenneth Mealey	220,000	50,000	15,871	19,800	–	80,993	386,664
Phillip Friery	180,000	50,000	17,242	16,200	–	26,916	290,358
Totals for each component	1,325,543	270,000	52,614	177,624	–	317,023	2,142,804
Totals by category		1,648,157		177,624	–	317,023	2,142,804
Other Executives in the category of five highest paid executives but who are not other key management personnel							
Armen Mikaelian	170,000	94,905	15,749	23,841	–	24,339	328,834
John Fowler	148,500	20,000	13,918	13,174	–	22,605	218,197
Damian Hiser	150,000	20,000	2,353	13,500	–	–	185,853

2004		Short-term employee benefits		Post-employment benefits	Termination benefits	Share-based payments	
	Cash salary or fees $	Short-term cash bonus $	Non-monetary benefits $	Super -annuation $	Long service leave $	Options $	Total $
Non-Executive Directors							
Ian Ferrier (Chairman)	95,872	–	–	4,128	–	–	100,000
Richard Fisher	–	–	–	55,000	–	–	55,000
Christine Clifton	50,459	–	–	4,541	–	–	55,000
John Murphy	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
Other key management personnel							
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
Totals for each component	1,251,331	490,000	97,850	158,845	–	1,668,454	3,666,480
Totals by category		1,839,181		158,845	–	1,668,454	3,666,480
Other Executives in the category of five highest paid executives but who are not other key management personnel							
Armen Mikaelian	168,294	110,775	19,516	30,367	–	37,144	366,096
Jacobus Adrichem	151,000	22,650	7,934	14,634	–	52,933	249,151
John Fowler	140,000	16,800	27,355	13,404	–	74,011	271,570
Colin Purslowe	148,000	–	41,892	19,598	41,343	74,011	324,844

Colin Purslowe, who previously held the position of General Manager Funerals WA, is included in the above table for the 2004 comparative year in order that the remuneration of the five most highly remunerated executives in the 2004 year is disclosed.

In accordance with AASB1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards, only the fair value of options issued after 7 November 2002 has been recognised in the income statement and the balance sheet, whilst the amounts disclosed above relate to all options granted to key management personnel.

C. Service agreements

Remuneration and other terms of employment for the Chief Executive Officer, Richard Davis, 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. The Remuneration Committee reviews the base salary and short term incentives 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 Section D Share-based compensation.

Remuneration and other terms of employment for each of the other key management personnel and other senior executives are formalised in letters of appointment as varied from time to time, including through annual review of the base salary and short term incentives. Each contract is for an indefinite term. One month's notice or payment in lieu of notice is required in the event of resignation. Termination benefits are limited to statutory leave entitlements. The key management personnel and certain other senior executives also participate in the Company's Employee Share Option Plan and options were granted to them in September 2003. Details of these options are set in Section D Share-based compensation.

D. 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

The above options were granted to certain senior executives of the consolidated entity for no consideration under the Employee Share Option Plan, which was established prior to the Initial Public Offering of InvoCare Limited. The option grants made were at the discretion of, and determined by, the directors of the Company at that time. Except for the Chief Executive Officer and the Non-Executive Directors, the key management personnel and selected other executives were granted options under the plan.

There have been no options granted under the plan since 22 September 2003.

The options granted carry no dividend or voting rights. When exercised, each option is convertible into one fully paid ordinary share of the Company. No amounts are unpaid on any shares issued on the exercise of options.

Options were granted for no consideration in the previous financial year (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. The exercise price was $1.51 per option and each option had a fair vale at the grant date of $0.73. Each option entitled Mr Davis to acquire one fully paid ordinary share of the Company.

On 8 May 2001 under a letter dated 1 May 2001, Ian Ferrier, the Chairman of the Board of Directors, was granted 302,401 options for no consideration. These options vested on 8 May 2002 and were exercised during 2004 at an exercise price of $0.50.

Details of options over unissued ordinary shares in InvoCare Limited provided as remuneration to each director, other key management personnel of the consolidated entity and other executives in the category of the five highest paid executives but who are not other key management personnel of the Group are set out below.

2005

	Balance at start of year	Vested start at of year	Granted during year	Vested during year	Total exercised during year	Balance at end of year	Vested and exercisable at end of year
Directors							
Richard Davis	988,565	988,565	–	–	988,565	–	–
Michael Grehan	827,624	–	–	407,445	407,445	420,179	–
Other key management personnel							
Kenneth Mealey	318,317	–	–	203,723	203,723	114,594	–
Phillip Friery	114,595	–	–	50,930	50,930	63,665	–
Other Executives in the category of five highest paid executives but who are not other key management personnel							
Armen Mikaelian	122,233	–	–	40,744	40,744	81,489	–
John Fowler	89,130	–	–	50,930	50,930	38,200	–
Damian Hiser	–	–	–	–	–	–	–

Damian Hiser has not been granted any options under the Employee Share option Plan.

2004

	Balance at start of year	Vested start at of year	Granted during year	Vested during year	Total exercised during year	Balance at end of year	Vested and exercisable at end of year
Directors							
Ian Ferrier	302,401	302,401	–	–	302,401	–	–
Richard Davis	–	–	988,565	988,565	–	988,565	988,565
Michael Grehan	1,222,336	127,326	–	267,386	394,712	827,624	–
Other key management personnel							
Kenneth Mealey	483,868	26	–	165,525	165,551	318,317	–
Phillip Friery	140,092	32	–	25,465	25,497	114,595	–
Other Executives in the category of five highest paid executives but who are not other key management personnel							
Armen Mikaelian	122,233	–	–	–	–	122,233	–
John Fowler	152,792	25,465	–	38,197	63,662	89,130	–
Jacobus Adrichem	81,494	5	–	30,558	30,563	50,931	–
Colin Purslowe	152,792	25,465	–	38,197	63,662	89,130	–

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.

The key inputs to the model for the options granted under the Employee Share Option Plan on 22 September 2003 were:

- Exercise prices: as set out above
- Grant date: 22 September 2003
- Expiry dates: as set out above
- Price at grant date: $1.88 has been assessed as a representative market value, being the closing price on the first day of trading (4 December 2003), because at the time of the grant the Company's shares were not listed and the All Ordinaries Index was nearly the same on both dates.
- Price volatility: 18%
- Dividend yield: 6.8%
- Risk free interest rate: 5.3%

The key inputs to the model for the options granted to the Chief Executive Officer on 8 May 2004 were:

- Exercise price: $1.51
- Grant date: 8 May 2004
- Expiry date: 8 May 2009
- Price at grant date: $2.24
- Price volatility: 16%
- Dividend yield: 5.5%
- Risk free interest rate: 5.3%

Shares provided on exercise of remuneration options

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to, and the amounts paid per ordinary share by, each director of InvoCare Limited, other key management personnel and other executives in the category of the five highest paid executives but who are not other key management personnel of the Group are set out below.

	Amount paid per share		Number of ordinary shares issued on exercise of options during the year	
	2005	2004	**2005**	2004
Directors				
Ian Ferrier	**–**	$0.50	**–**	302,401
Richard Davis	**$1.51**	–	**988,565**	–
Michael Grehan	**$0.50**	$0.50	**127,327**	254,653
Michael Grehan	**$0.59**	$0.59	**140,059**	140,059
Michael Grehan	**$1.07**	–	**140,059**	–
Other key management personnel				
Kenneth Mealey	**$0.50**	$0.50	**127,327**	127,353
Kenneth Mealey	**$0.59**	$0.59	**38,198**	38,198
Kenneth Mealey	**$1.07**	–	**38,198**	–
Phillip Friery	**$0.50**	$0.50	**12,733**	12,765
Phillip Friery	**$0.59**	$0.59	**12,732**	12,732
Phillip Friery	**$1.07**	–	**25,465**	–
Other Executives in the category of five highest paid executives but who are not other key management personnel				
Armen Mikaelian	**$1.07**	–	**40,744**	–
John Fowler	**$0.50**	$0.50	**25,466**	50,930
John Fowler	**$0.59**	$0.59	**12,732**	12,732
John Fowler	**$1.07**	–	**12,732**	–
Damian Hiser	**–**			
Jacobus Adrichem	**$0.50**	$0.50	**25,466**	25,470
Jacobus Adrichem	**$0.59**	$0.59	**5,093**	5,093
Jacobus Adrichem	**$1.07**	–	**5,093**	–
Colin Purslowe	**$0.50**	$0.50	**25,466**	50,930
Colin Purslowe	**$0.59**	$0.59	**12,732**	12,732
Colin Purslowe	**$1.07**	–	**12,732**	–

Damian Hiser has not been granted any options under the Employee Share Option Plan.
No amounts are unpaid on any shares issued on the exercise of options.

The numbers of ordinary shares in the Company held during the year by each director of InvoCare Limited, other key management personnel and other executives in the category of the five highest paid executives but who are not other key management personnel of the Group are set out below.

	Balance at start of year	Received during year on exercise of options	Other changes during year	Balance at end of year
Non-Executive Directors				
Ian Ferrier	152,401	–	–	152,401
Richard Fisher	5,000	–	–	5,000
Christine Clifton	100,000	–	–	100,000
Roger Penman	–	–	–	–
Executive Directors				
Richard Davis	611,168	988,565	–	1,599,733
Michael Grehan	394,712	407,445	–	802,157
Other key management personnel				
Kenneth Mealey	100,000	203,723	–	303,723
Phillip Friery	10,747	50,930	(20,000)	41,677
Other Executives in the category of five highest paid executives but who are not other key management personnel				
Armen Mikaelian	–	40,744	(10,744)	30,000
John Fowler	63,662	50,930	–	114,592
Damian Hiser	–	–	–	–

E. Additional information (unaudited)

Principles used to determine the nature and amount of remuneration: relationship between remuneration and Company performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year. Since listing in December 2003, the first two years' results of the Company and returns to shareholders are summarised below. The remuneration of executive key management personnel has not grown to the same extent as shareholder wealth.

	2005	2004
Earnings per share	**21.0**	20.4
Dividends paid in year (cents per share):		
– Interim for current year	**7.0**	6.4
– Final for previous year	**9.0**	–
– Special	**10.5**	–
– Total dividends paid in the year	**26.5**	6.4
Share price – 1 January	**$3.35**	$2.14
Share price – 31 December	**$4.19**	$3.35
Total shareholder return (price movement plus cash dividends)	**$1.11**	$1.27
TSR as percentage of opening share price	**33%**	59%

Cash bonuses

For each cash bonus included in the above remuneration tables, the percentage of the available bonus that was payable for the financial year and the percentage that was forfeited because the person or the consolidated entity did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years.

	Payable %	Forfeited %
Richard Davis	50	50
Michael Grehan	47	53
Kenneth Mealey	50	50
Phillip Friery	56	44
Armen Mikaelian	90	10
John Fowler	44	56
Damian Hiser	33	67

The lower than anticipated number of deaths in 2005 resulted in the Group not achieving business plan profit targets and consequently individual performance targets of the key management personnel which related to profitability were similarly not achieved.

Share-based compensation – Options

Further details relating to options are set out below:

Loans to directors and executives

There are no loans to directors and executives.

Share options granted to directors and the most highly remunerated officers

There were no options over unissued ordinary shares of InvoCare Limited granted during or since the end of the financial year.

Share-based compensation – Options

	A	B	C	D	E
	Remuneration consisting of options %	Value at grant date $	Value at exercise date $	Value at lapse date $	Total of columns B to D $
Richard Davis	0	–	2,580,155	–	2,580,155
Michael Grehan	34.1	–	1,382,512	–	1,382,512
Kenneth Mealey	20.9	–	712,267	–	712,267
Phillip Friery	9.3	–	168,706	–	168,706
Armen Mikaelian	7.4	–	124,677	–	124,677
John Fowler	10.4	–	171,889	–	171,889
Damian Hiser	0	–	–	–	–

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.
B = The value at grant date calculated in accordance with AASB 2 Share-based Payment of options granted during the year as part of remuneration.
C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.
D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Shares under option

Unissued ordinary shares of InvoCare Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
22 September 2003	1 May 2007	$0.59	234,287
22 September 2003	1 May 2008	$1.07	626,450
			860,737

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Shares issued on the exercise of options

The following ordinary shares of the Company were issued during the year ended 31 December 2005 on the exercise of options granted under the Employee Share Option Plan or the service agreement of the Chief Executive Officer. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
22 September 2003	$0.50	356,518
22 September 2003	$0.59	234,278
22 September 2003	$1.07	333,592
8 May 2004	$1.51	988,565
		1,912,953

The rest of this page does not form part of the Remuneration Report.

Indemnifying Officers or Auditor

During the financial year, InvoCare paid a premium to insure directors and officers of the consolidated entity. The insurance policy specifically prohibits disclosure of the nature and liability covered and the amount of the premium paid.

Proceedings On Behalf Of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings. The Company was not a party to any such proceedings during the year.

Non-Audit Services

The directors are satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

The following fees for non-audit services were paid/payable to the external auditors during the year ended 31 December 2005.

	$
Taxation services	153,530
Advisory Services	54,609
Legal services (PricewaterhouseCoopers Legal)	404,786
Total	612,925

Legal fees related to advice in respect of the employee related and other commercial matters required in the ordinary course of business.

Auditor's Independence Declaration

The copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 50.

Rounding of Amounts

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off to the nearest thousand dollars (where rounding is applicable) in accordance with that Class Order.

Signed in accordance with a resolution of the Board of Directors.

Ian Ferrier
Director

Richard Davis
Director

Dated this 31st day of March 2006.

Auditor's Independence Declaration

PricewaterhouseCoopers
ABN 52 780 433 757

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As lead auditor for the audit of InvoCare Limited for the year ended 31 December 2005,
I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of InvoCare Limited and the entities it controlled during the period.

John Gordon
Partner
PricewaterhouseCoopers

31 March 2006
Sydney

Financial report

Refer to page 96 for Independent Audit Report and page 98 for Shareholder Information

Notes to the Financial Statements

Income Statements

For the year ended 31 December 2005

	Note	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Revenue from continuing operations	3	**152,444**	151,527	**45,000**	23,754
Other income	4	**1,955**	1,958	**–**	–
Finished goods and consumables used		**(21,649)**	(22,468)	**–**	–
Employee benefits expense		**(42,836)**	(43,292)	**(304)**	(265)
Employee related and on-cost expenses		**(12,107)**	(12,131)	**–**	–
Advertising and public relations expenses		**(4,906)**	(5,180)	**–**	–
Depreciation and amortisation expenses	5	**(6,305)**	(6,375)	**–**	–
Occupancy and facilities expenses		**(10,418)**	(10,525)	**–**	–
Finance costs	5	**(12,814)**	(11,895)	**(12,114)**	(11,160)
Motor vehicle expenses		**(3,452)**	(3,343)	**–**	–
Other expenses		**(10,927)**	(10,192)	**(973)**	(1,356)
Profit before income tax		**28,985**	28,084	**31,609**	10,973
Income tax expense	6	**(8,797)**	(8,772)	**(1,420)**	(1,700)
Profit from continuing operations after income tax expense		**20,188**	19,312	**30,189**	9,273
Profit attributable to minority interest		**(47)**	(57)	**–**	–
Profit attributable to members of InvoCare Limited		**20,141**	19,255	**30,189**	9,273
Earnings per share for profit attributable to the ordinary equity holders of the company					
Basic earnings per share (cents per share)	10	**21.0**	20.4		
Diluted earnings per share (cents per share)	10	**20.8**	20.0		

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

Balance Sheets

As at 31 December 2005

	Note	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Current Assets					
Cash and cash equivalents	11	**4,000**	687	**155**	231
Trade and other receivables	12	**18,857**	17,371	**14**	92
Inventories	13	**11,081**	10,945	**–**	–
Property classified as held for sale	14	**3,083**	3,083	**–**	–
Deferred selling costs	15	**504**	478	**–**	–
Total Current Assets		**37,525**	32,564	**169**	323
Non-current Assets					
Trade and other receivables	12	**7,653**	7,325	**194,956**	173,929
Other financial assets	16	**–**	–	**15,641**	15,641
Property, plant and equipment	18	**190,795**	190,803	**–**	–
Deferred tax assets	23	**5,981**	5,343	**1,162**	615
Intangible assets	19	**30,289**	26,302	**–**	–
Deferred selling costs	15	**7,061**	6,687	**–**	–
Total Non-current Assets		**241,779**	236,460	**211,759**	190,185
Total Assets		**279,304**	269,024	**211,928**	190,508
Current Liabilities					
Trade and other payables	20	**17,095**	15,534	**668**	222
Short term borrowings	21	**–**	17	**–**	–
Derivative financial instruments	22	**3,511**	–	**3,511**	–
Current tax liabilities	23	**3,901**	3,763	**3,647**	450
Deferred revenue	25	**2,867**	2,773	**–**	–
Provisions for employee benefits	24	**7,471**	7,457	**–**	–
Total Current Liabilities		**34,845**	29,544	**7,826**	672
Non-current Liabilities					
Trade and other payables	20	**7**	29	**–**	–
Long term borrowings	21	**139,504**	131,532	**139,504**	131,500
Deferred tax liabilities	23	**36,357**	36,300	**–**	–
Deferred revenue	25	**40,138**	38,823	**–**	–
Provisions for employee benefits	24	**992**	952	**–**	–
Total Non-current Liabilities		**216,998**	207,636	**139,504**	131,500
Total Liabilities		**251,843**	237,180	**147,330**	132,172
Net Assets		**27,461**	31,844	**64,598**	58,336
Equity					
Contributed equity	26	**55,729**	52,589	**55,729**	52,589
Reserves	27	**(1,898)**	1,087	**(1,898)**	1,087
Retained profits/(Accumulated losses)	27	**(27,377)**	(22,876)	**10,767**	4,660
Parent entity interest		**26,454**	30,800	**64,598**	58,336
Minority interest	28	**1,007**	1,044	**–**	–
Total Equity		**27,461**	31,844	**64,598**	58,336

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

Statements of Changes in Equity

For the year ended 31 December 2005

	Note	Consolidated Entity **2005 $'000**	Consolidated Entity 2004 $'000	Parent Entity **2005 $'000**	Parent Entity 2004 $'000
Total equity at the beginning of the financial year		**31,844**	17,263	**58,336**	53,726
Adjustment on adoption of AASB 132, AASB 139, net of tax, to:					
Retained profits – loan establishment costs previously written off		**1,421**	–	**1,421**	–
Retained profits – discounting of receivables		**(560)**	–	**–**	–
Hedging reserve – cash flow hedges		**(1,721)**	–	**(1,721)**	–
Cash flow hedges, net of tax		**(737)**	–	**(737)**	–
Net income/(expense) recognised directly in equity		**(1,597)**	–	**(1,037)**	–
Profit after tax		**20,188**	19,312	**30,189**	9,273
Total recognised income and expense for the year		**18,591**	19,312	**29,152**	9,273
Transactions with equity holders in their capacity as equity holders:					
Shares issued during the year		**2,166**	563	**2,166**	563
Dividends paid	9	**(25,503)**	(6,080)	**(25,503)**	(6,080)
Employee share options		**447**	854	**447**	854
Dividends paid to minority interests in subsidiaries		**(84)**	(68)	**–**	–
		(22,974)	(4,731)	**(22,890)**	(4,663)
Total equity at the end of the financial year		**27,461**	31,844	**64,598**	58,336
Total recognised income and expense for the year is attributable to:					
Members of InvoCare Limited		**18,544**	19,255	**29,152**	9,273
Minority interest		**47**	57	**–**	–
		18,591	19,312	**29,152**	9,273

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

Cash Flow Statements

For the year ended 31 December 2005

	Note	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Cash Flow from Operating Activities					
Receipts from customers		**165,890**	168,824	**1,400**	960
Payments to suppliers and employees		**(123,545)**	(128,784)	**(365)**	(2,908)
Interest received		**256**	494	**16,278**	16,714
Other revenue		**2,714**	2,741	**–**	–
Dividends received		**–**	–	**27,323**	6,080
Finance costs		**(10,811)**	(12,007)	**(9,709)**	(11,160)
Income taxes paid		**(8,898)**	(8,357)	**–**	(1,270)
Net cash provided by operating activities	33	**25,606**	22,911	**34,927**	8,416
Cash Flow from Investing Activities					
Proceeds from sale of property, plant and equipment		**3,012**	3,744	**–**	–
Purchase of subsidiary, net of cash acquired		**(3,431)**	–	**–**	–
Purchase of property, plant and equipment		**(6,904)**	(4,011)	**–**	–
Net cash used in investing activities		**(7,323)**	(267)	**–**	–
Cash Flow from Financing Activities					
Proceeds from issue of ordinary shares		**2,166**	563	**2,166**	563
Proceeds from borrowings		**159,000**	2,000	**159,000**	2,000
Repayment of borrowings		**(150,500)**	(25,500)	**(150,500)**	(25,500)
Payment of dividends – InvoCare Limited shareholders		**(25,503)**	(6,080)	**(25,503)**	(6,080)
Payment of dividends – Minority interests		**(84)**	(68)	**–**	–
Repayment of finance lease principal		**(49)**	(15)	**–**	–
Proceeds from repayment by/(additional loan provided to) controlled entity		**–**	–	**(20,166)**	18,395
Net cash used in financing activities		**(14,970)**	(29,100)	**(35,003)**	(10,622)
Net increase/(decrease) in cash held		**3,313**	(6,456)	**(76)**	(2,206)
Cash and cash equivalents at the beginning of the year		**687**	7,143	**231**	2,437
Cash and cash equivalents at the end of the year	11	**4,000**	687	**155**	231

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

Note 1: Statement of Significant Accounting Policies

The following is a summary of the principal accounting policies adopted in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation

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

Compliance with AIFRSs

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the consolidated financial statements and notes of InvoCare Limited comply with International Financial Reporting Standards (IFRSs). The consolidated entity and parent entity financial statements and notes comply with IFRSs except for the election to apply the exemption available under AASB 1 to only apply AASB 132 and 139 from 1 January 2005.

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

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

The financial statements of InvoCare Limited until 31 December 2004 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the InvoCare Limited financial statements for the year ended 31 December 2005, management has amended certain accounting and valuation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2004 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and 139 from 1 January 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the parent entity's and the Group's equity and net profit are set out in Note 2.

Historical cost convention

These financial statements have been prepared on an accruals basis under the historical cost convention, as modified by the revaluation to fair value of financial assets and liabilities (including derivative instruments).

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed at Note 38.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of InvoCare Limited ("company" or "parent entity") as at 31 December 2005 and the results of all subsidiaries for the year then ended. InvoCare Limited and its subsidiaries are together referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(h)).

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

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

(c) Segment reporting

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

(d) 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 measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, allowances, duties and taxes paid. Revenue is recognised as set out below:

Funeral operations

Revenue is recognised when the funeral service is performed.

The Group 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 the Group's policy and, where relevant, state laws). The monies held in trust for individual prepaid funeral contracts are not controlled by the Group and are not recognised in the financial statements. The Group recognises revenue on prepaid funeral contracts when the prepaid funeral service is eventually performed and the amount held in trust, including any investment earnings, is receivable by the Group.

Cemeteries and crematoria operations

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

(e) Deferred selling costs

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

(f) Income tax

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

InvoCare Limited and its wholly owned subsidiaries formed a tax consolidated group with effect from 1 January 2004 and also entered into a tax sharing and funding agreement. Under the terms of this agreement, the wholly owned subsidiaries reimburse InvoCare Limited, as the head entity of the tax consolidated group, for any current income tax payable by InvoCare Limited arising in respect of their activities. There was no material impact arising from implementing tax consolidation.

(g) Leases

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

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

(h) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to Note 1(o)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(j) Cash and cash equivalents

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

(k) Receivables

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 January 2005. The Group has applied previous AGAAP in the comparative information on financial instruments, including receivables. For further information on previous AGAAP refer to the Group's annual report for the year ended 31 December 2004. The effect of the transition to AASB 132 and AASB 139 on 1 January 2005 is set out in Note 2(f).

From 1 January 2005, trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful receivables.

Trade receivables are usually due for settlement no more than 30 days from the date of recognition, except where extended payment terms (up to a maximum of 60 months) have been made available on cemetery or crematorium contracts for sale of interment or inurnment rights and associated memorials and other merchandise. Receivables arising from cemetery or crematorium contracts which are initially expected to be collected over a period exceeding 12 months are recognised at the net present value of estimated future cash receipts, discounted at an imputed effective interest rate. Upon initial recognition of the contract receivables, any undelivered portion of the contracts is included in deferred revenue until delivery.

A provision for doubtful receivables is made when collection of the full amount is no longer probable. Receivables which are known to be uncollectible are written off when identified.

(l) 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 overheads. Costs are assigned to individual items of inventory predominantly on the basis of weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(m) Property held for sale

Non-current assets are separately classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition.

Assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the asset continue to be recognised as an expense.

(n) Property, plant and equipment

Property, plant and equipment are carried at historical cost less depreciation or amortisation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(i)).

Cemetery land is carried at cost less accumulated amortisation and impairment writedowns. 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 or space 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. Other freehold land is not depreciated or amortised.

Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

– Buildings	40 years
– Plant and equipment	3 – 10 years

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. Gains and losses are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(o) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(ii) Trademarks and brand names

Trademarks and brand names have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and brand names over their estimated useful lives of 10 years.

(p) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which had not been settled at balance date. The amounts are unsecured and are usually paid within 60 days of recognition.

(q) Borrowings

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 January 2005. The Group has applied previous AGAAP in the comparative information on financial instruments, including borrowings. For further information on previous AGAAP refer to the Group's annual report for the year ended 31 December 2004. The effect of the transition to AASB 132 and AASB 139 on 1 January 2005 is set out in Note 2(f).

From 1 January 2005, borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest rate method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Refer to Note 21 for further information on borrowings.

(r) Derivative financial instruments – interest rate swaps

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

The following sets out how interest rate swaps were accounted for under previous AGAAP.

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.

Where an interest rate swap is terminated early and the underlying hedged transaction is:

- 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
- no longer expected to occur as designated: the gains or losses arising on the swap upon its early termination are recognised in the income statement at the date of termination.

From 1 January 2005, derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates its interest rate swaps as hedges of highly probable forecast transactions (cash flow hedges).

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

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

Amounts accumulated in equity are recognised in the income statement in the periods when the hedged item will affect profit or loss.

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

The fair value of interest rate swap contracts is calculated as the present value of the estimated future cash flows. The fair values of derivative financial instruments used for hedging purposes are disclosed in Note 22. Movements in the hedging reserve in shareholders' equity are shown in Note 27.

(s) Employee benefits

Wages and salaries, annual leave and sick leave

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

The liability for long service leave is recognised in the provision for employee benefits 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 periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Bonus plans

The Group recognises a liability in other payables and an expense for bonus plans 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 practices give clear evidence of a constructive obligation.

Retirement benefits

Employees of the Group are entitled to benefits on retirement, disability or death from the Group sponsored defined contribution superannuation plans. Fixed statutory contributions are made by the Group to these plans and are recognised as an expense as they become payable. The Group's liability is limited to these contributions.

Share based payments

The Group provides share based compensation benefits to employees, whereby employees render services in exchange for options over shares.

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

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

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

  The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity (share based payments reserve). The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

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

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

  Upon the exercise of options, the exercise proceeds received are allocated to share capital and the balance of the share based payments reserve relating to those options is transferred to share capital.

(t) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

(u) Dividends

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

(v) Earnings per share

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

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

(w) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are included in the Cash Flow Statements 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 Australian Taxation Office, are classified as operating cash flows.

(x) Rounding of amounts

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission (ASIC), relating to the 'Rounding Off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(y) Future Accounting Standards and UIG Interpretations

As at 31 December 2005, the following Accounting Standards and UIG Interpretations had been issued but are not yet mandatory: AASB 119, AASB 7, AASB 2005-1, AASB 2005-4, AASB 2005-6, AASB 2005-9, AASB 2005-10, AASB 2006-1, UIG 4 and UIG 5. The impact of the above Standards/ Interpretations are not yet fully known, however, based on the nature of these changes, the impacts on the future financial reports of InvoCare Limited are not expected to be material.

Note 2: Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

Introduction

From 1 January 2005, the Group prepared its financial statements in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS). Due to the requirement to publish comparative information for the previous corresponding period, the effective date for transition to AIFRS is 1 January 2004.

To explain how the Group's reported income statement and balance sheet have been affected by this change, information previously published under Australian Generally Accepted Accounting Principles (AGAAP) is restated under AIFRS in the tables below. These restatements include:

- Table 1 – Reconciliation of equity of the consolidated entity reported under previous AGAAP to that under AIFRS at the date of transition to AIFRS: 1 January 2004
- Table 2 – Reconciliation of equity of the consolidated entity reported under previous AGAAP to that under AIFRS as at the date of the last AGAAP reporting period: 31 December 2004 and showing transitional adjustments upon adoption of AASB 139 on 1 January 2005
- Table 3 – Reconciliation of equity of the parent company reported under previous AGAAP to that under AIFRS at the date of transition to AIFRS: 1 January 2004
- Table 4 – Reconciliation of equity of the parent entity reported under previous AGAAP to that under AIFRS at the date of the last AGAAP reporting period: 31 December 2004 and showing transitional adjustments upon adoption of AASB 139 on 1 January 2005
- Table 5 – Reconciliation of profit after tax of the consolidated entity reported under previous AGAAP to that under AIFRS for the year ended 31 December 2004
- Table 6 – Reconciliation of profit after tax of the parent entity reported under previous AGAAP to that under AIFRS for the year ended 31 December 2004

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

Further information about significant or material impacts is included in Notes 2(a) to 2(h) on pages 68-70.

Transitional arrangements

The rules for first time adoption of AIFRS are set out in AASB 1 First-Time Adoption of Australian Equivalents to International Reporting Standards. In general, a company is required to determine its AIFRS accounting policies and apply these retrospectively to determine its opening balance sheet at 1 January 2004 (Transitional Balance Sheet), under AIFRS. The standard allows a number of exemptions to this general principle to assist companies as they transition to reporting under AIFRS. Where the Group has taken advantage of these exemptions they are noted on pages 68-70.

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

Table 1: Consolidated Entity Reconciliation of Equity at 1 January 2004

	Note	Previous AGAAP at 1 January 2004 $'000	Adjustments on introduction of AIFRS $'000	AIFRS at 1 January 2004 $'000
Current Assets				
Cash and cash equivalents		7,143	–	7,143
Trade and other receivables	2(h)	14,567	2,276	16,843
Inventories		9,962	–	9,962
Property classified as held for sale	2(a)	4,313	(294)	4,019
Other assets	2(h)	2,718	(2,276)	442
Total Current Assets		38,703	(294)	38,409
Non-current Assets				
Trade and other receivables		7,306	–	7,306
Property, plant and equipment	2(c)	206,539	(12,520)	194,019
Deferred tax assets	2(b)	6,022	(164)	5,858
Intangible assets		26,302	–	26,302
Other assets		6,195	–	6,195
Total Non-current Assets		252,364	(12,684)	239,680
Total Assets		291,067	(12,978)	278,089
Current Liabilities				
Trade and other payables		18,380	–	18,380
Interest bearing liabilities		2,515	–	2,515
Current tax liabilities		3,962	–	3,962
Deferred revenue		2,619	–	2,619
Provisions for employee benefits	2(h)	4,563	2,256	6,819
Total Current Liabilities		32,039	2,256	34,295
Non-current Liabilities				
Trade and other payables		365	–	365
Interest bearing liabilities		152,549	–	152,549
Deferred tax liabilities	2(b)	2,328	33,873	36,201
Deferred revenue		36,664	–	36,664
Provisions for employee benefits	2(h)	3,008	(2,256)	752
Total Non-current Liabilities		194,914	31,617	226,531
Total Liabilities		226,953	33,873	260,826
Net Assets		64,114	(46,851)	17,263
Equity				
Contributed equity		52,026	–	52,026
Share based payments reserve	2(d)	–	233	233
Retained earnings/(Accumulated losses)	2(a) – (d)	11,033	(47,084)	(36,051)
Parent entity interest		63,059	(46,851)	16,208
Minority interest		1,055	–	1,055
Total Equity		64,114	(46,851)	17,263

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

Table 2: Consolidated Entity Reconciliation of Equity at 31 December 2004 and 1 January 2005

	Note	Previous AGAAP at 31 December 2004 $'000	Adjustments on introduction of AIFRS $'000	AIFRS at 31 December 2004 $'000	Effect of adoption of AASB 139 on 1 January 2005 $'000	AIFRS at 1 January 2005 $'000
Current Assets						
Cash and cash equivalents		687	–	687	–	687
Trade and other receivables	2(h)	15,040	2,331	17,371	–	17,371
Inventories		10,945	–	10,945	–	10,945
Property classified as held for sale	2(a)	2,990	93	3,083	–	3,083
Other assets	2(h)	2,809	(2,331)	478	–	478
Total Current Assets		32,471	93	32,564	–	32,564
Non-current Assets						
Trade and other receivables	2(f)	7,325	–	7,325	(800)	6,525
Property, plant and equipment	2(c)	203,323	(12,520)	190,803	–	190,803
Deferred tax assets	2(b),(f)	5,422	(79)	5,343	369	5,712
Intangible assets	2(e)	23,805	2,497	26,302	–	26,302
Other assets		6,687	–	6,687	–	6,687
Total Non-current Assets		246,562	(10,102)	236,460	(431)	236,029
Total Assets		279,033	(10,009)	269,024	(431)	268,593
Current Liabilities						
Trade and other payables		15,534	–	15,534	–	15,534
Interest bearing liabilities		17	–	17	–	17
Derivative financial instruments	2(f)	–	–	–	2,459	2,459
Current tax liabilities		3,763	–	3,763	–	3,763
Deferred revenue		2,773	–	2,773	–	2,773
Provisions for employee benefits	2(h)	4,978	2,479	7,457	–	7,457
Total Current Liabilities		27,065	2,479	29,544	2,459	32,003
Non-current Liabilities						
Trade and other payables		29	–	29	–	29
Interest bearing liabilities	2(f)	131,532	–	131,532	(2,030)	129,502
Deferred tax liabilities	2(b)	2,479	33,821	36,300	–	36,300
Deferred revenue		38,823	–	38,823	–	38,823
Provisions for employee benefits	2(h)	3,431	(2,479)	952	–	952
Total Non-current Liabilities		176,294	31,342	207,636	(2,030)	205,606
Total Liabilities		203,359	33,821	237,180	429	237,609
Net Assets		75,674	(43,830)	31,844	(860)	30,984
Equity						
Contributed equity		52,589	–	52,589	–	52,589
Share based payments reserve	2(d)	–	1,087	1,087	–	1,087
Hedging reserve	2(f)	–	–	–	(1,721)	(1,721)
Retained earnings/ (Accumulated losses)	2(a) – (f)	22,041	(44,917)	(22,876)	861	(22,015)
Parent entity interest		74,630	(43,830)	30,800	(860)	29,940
Minority interest		1,044	–	1,044	–	1,044
Total Equity		75,674	(43,830)	31,844	(860)	30,984

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

Table 3: Parent Entity Reconciliation of Equity at 1 January 2004

	Note	Previous AGAAP at 1 January 2004 $'000	Adjustments on introduction of AIFRS $'000	AIFRS at 1 January 2004 $'000
Current Assets				
Cash and cash equivalents		2,437	–	2,437
Trade and other receivables	2(h)	2,542	92	2,634
Other assets	2(h)	92	(92)	–
Total Current Assets		5,071	–	5,071
Non-current Assets				
Trade and other receivables		189,782	–	189,782
Other financial assets		15,641	–	15,641
Deferred tax assets		637	–	637
Total Non-current Assets		206,060	–	206,060
Total Assets		211,131	–	211,131
Current Liabilities				
Trade and other payables		2,363	–	2,363
Interest bearing liabilities		2,500	–	2,500
Current tax liabilities		42	–	42
Total Current Liabilities		4,905	–	4,905
Non-current Liabilities				
Interest bearing liabilities		152,500	–	152,500
Total Non-current Liabilities		152,500	–	152,500
Total Liabilities		157,405	–	157,405
Net Assets		53,726	–	53,726
Equity				
Contributed equity		52,026	–	52,026
Share based payments reserve	2(d)	–	233	233
Retained earnings	2(d)	1,700	(233)	1,467
Total Equity		53,726	–	53,726

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

Table 4: Parent Entity Reconciliation of Equity at 31 December 2004 and 1 January 2005

	Note	Previous AGAAP at 31 December 2004 $'000	Adjustments on introduction of AIFRS $'000	AIFRS at 31 December 2004 $'000	Effect of adoption of AASB 139 on 1 January 2005 $'000	AIFRS at 1 January 2005 $'000
Current Assets						
Cash and cash equivalents		231	–	231	–	231
Trade and other receivables	2(h)	–	92	92	–	92
Other assets	2(h)	92	(92)	–	–	–
Total Current Assets		323	–	323	–	323
Non-current Assets						
Trade and other receivables		173,929	–	173,929	–	173,929
Other financial assets		15,641	–	15,641	–	15,641
Deferred tax assets	2(f)	615	–	615	129	744
Total Non-current Assets		190,185	–	190,185	129	190,314
Total Assets		190,508	–	190,508	129	190,637
Current Liabilities						
Trade and other payables		222	–	222	–	222
Current tax liabilities		450	–	450	–	450
Derivative financial instruments	2(f)	–	–	–	2,459	2,459
Total Current Liabilities		672	–	672	2,459	3,131
Non-current Liabilities						
Interest bearing liabilities	2(f)	131,500	–	131,500	(2,030)	129,470
Total Non-current Liabilities		131,500	–	131,500	(2,030)	129,470
Total Liabilities		132,172	–	132,172	429	132,601
Net Assets		58,336	–	58,336	(300)	58,036
Equity						
Contributed equity		52,589	–	52,589	–	52,589
Share based payments reserve	2(d)	–	1,087	1,087	–	1,087
Hedging reserve	2(f)	–	–	–	(1,721)	(1,721)
Retained earnings	2(d), 2(f)	5,747	(1,087)	4,660	1,421	6,081
Total Equity		58,336	–	58,336	(300)	58,036

Note 2: First-time Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

	Note	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Table 5: Consolidated Entity				
Reconciliation of Profit or Loss for the year ended 31 December 2004				
Revenue from continuing operations		151,527	–	151,527
Other income	2(a),(g)	3,744	(1,786)	1,958
Finished goods and consumables used		(22,468)	–	(22,468)
Employee benefits expense	2(d)	(42,438)	(854)	(43,292)
Employee related and on-cost expenses		(12,131)	–	(12,131)
Advertising and public relations expense		(5,180)	–	(5,180)
Depreciation and amortisation expense	2(a),(e)	(8,965)	2,590	(6,375)
Occupancy and facilities expense		(10,525)	–	(10,525)
Finance costs		(11,895)	–	(11,895)
Motor vehicle expense		(3,343)	–	(3,343)
Written down value of assets sold or disposed	2(g)	(2,080)	2,080	–
Other expenses		(10,192)	–	(10,192)
Profit before income tax		26,054	2,030	28,084
Income tax expense	2(b)	(8,909)	137	(8,772)
Profit from continuing operations after income tax expense		17,145	2,167	19,312
Profit attributable to minority interest		(57)	–	(57)
Profit attributable to members of InvoCare Limited		17,088	2,167	19,255
Table 6: Parent Entity				
Reconciliation of Profit or Loss for year ended 31 December 2004				
Revenue from continuing operations		23,754	–	23,754
Employee benefits expense		(265)	–	(265)
Finance costs		(11,160)	–	(11,160)
Other expenses	2(d)	(502)	(854)	(1,356)
Profit before income tax		11,827	(854)	10,973
Income tax expense		(1,700)	–	(1,700)
Profit from continuing operations after income tax expense		10,127	(854)	9,273

Note 2: Impact of Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

(a) Assets held for sale

The Group has an intention to sell certain land and buildings and has initiated action to locate buyers and complete the sales. Under previous AGAAP, these property assets were classified under current assets in the balance sheet and continued to be depreciated. AIFRS requires these assets to be measured at the lower of carrying amount or fair value less costs to sell, be reclassified as held for sale in the balance sheet and not be depreciated from the date of classification as 'held for sale'. The effect of these changes is set out below.

At 1 January 2004, for the Group, land and buildings held for sale have been reclassified and restated to fair value, less selling costs, of $4,019,000. As a result retained earnings decreased by $294,000. There is no effect on the parent entity.

At 31 December 2004, for the Group, land and buildings held for sale have been reclassified and restated to fair value, less selling costs, of $3,083,000. There is no effect on the parent entity.

For the year ended 31 December 2004, for the Group, there has been a decrease in depreciation expense by $93,000 and a decrease in loss on sale of land and buildings by $294,000. There is no effect on the parent entity.

Note 2(g) below contains more information in relation to disposals of property, plant and equipment.

(b) Income tax

Under previous AGAAP, an 'income statement' approach was used to calculate income tax expense and deferred taxes. Under AIFRS, a 'balance sheet' approach has been adopted, whereby income tax expense comprises current and deferred tax, and deferred tax balances are recognised for all temporary differences between the carrying value of an asset or liability and its tax base, subject to limited exceptions. The effect of this change is set out below.

At 1 January 2004, for the Group, there has been an increase in deferred tax liabilities of $33,873,000, a decrease in deferred tax assets of $164,000 and a decrease in retained earnings of $34,037,000. This is primarily in respect of temporary differences arising from cemetery land ($27,138,000) and non-tax depreciable buildings ($7,667,000). Under current AIFRS interpretations, the capital gains tax cost base of these assets is not used to calculate the temporary difference. Under AIFRS these assets are deemed to have a nil tax base because their value is being recovered by the Group through use, rather than sale, and an income tax deduction is not available for the use of the assets under current Australian income tax law. There is no effect on the parent entity.

The directors note that there is current debate in accounting circles about recognising the capital gains tax cost base as the tax base of assets with long and indefinite lives, irrespective of management's intention regarding recovery of assets through use or sale. In particular, in July 2005, the International Accounting Standards Board (IASB) produced an agenda paper recommending changes to the existing international accounting standard IAS 12 Income Taxes whereby management's intent as to the manner of recovery of an asset will no longer be relevant in determining the tax base. This potential change is still under review by the standard setting authorities.

If these changes to IAS 12 are adopted and incorporated into the Australian equivalent AASB 112, the Group would be able to derecognise, at the time and in accordance with the manner prescribed by AIFRS, the deferred tax liabilities relating to temporary differences caused by the non-recognition of the capital gains tax cost base of assets.

At 31 December 2004, for the Group, the impact is similar to that on 1 January 2004. There is no effect on the parent entity.

For the year ended 31 December 2004, for the Group, there has been a decrease in tax expense of $137,000. There is no effect on the parent entity.

(c) Asset impairment

Under both previous AGAAP and AIFRS, assets are required to be carried at amounts not exceeding recoverable amount. However, AASB 136 Impairment of Assets is more detailed and restrictive than previous AGAAP in respect of the recognition and measurement of asset impairment.

In particular, the lowest level of aggregation of assets at which impairment is assessed under AASB 136 is identified as a cash-generating unit, whereas previous AGAAP used a 'class of assets' which comprised a group of assets having a similar nature or function. In addition, in assessing recoverable amount, AASB 136 requires the calculation of the present value of the future cash flows associated with the asset whereas previous AGAAP permitted, but did not require, discounting.

The more restrictive approach of AASB 136 has resulted in identification of impairment for certain individual cemetery and crematorium properties. Under previous AGAAP these properties were part of a class of assets that was not impaired because the recoverable amount of that class of assets exceeded the carrying amount. If AGAAP continued to apply, the recoverable amount of that class of assets still exceeds the carrying value and no impairment would have been recognised.

The Group has no impairment in respect of other land and buildings based upon impairment testing. In fact, compared to estimated market valuations disclosed in the Group's annual report for the year ended 31 December 2004, these other properties had a fair value approximately $36 million in excess of carrying value at that date. The effect of AIFRS is set out below.

As a result of the impairment review, at 1 January 2004 and 31 December 2004, for the Group, there has been a decrease of $12,520,000 in cemetery and crematorium land assets included in property, plant and equipment and a corresponding decrease in retained earnings. There is no effect on the parent entity.

For the year ended 31 December 2004 there has been no further material financial impact for the Group or the parent entity.

(d) Employee Share Option Plan

Under AASB 2 Share-based Payments, from 1 January 2004 the Group is required to recognise an expense for share options issued to employees after 7 November 2002 but that had not vested by 1 January 2005. The effect of this change is set out below.

At 1 January 2004 for the Group and the parent entity there has been a decrease in retained earnings of $233,000 and a corresponding increase in reserves.

At 31 December 2004 for the Group and the parent entity there has been a decrease in retained earnings of the consolidated entity and the parent entity of $1,087,000 and a corresponding increase in reserves.

For the year ended 31 December 2004 there has been an increase in expenses of the consolidated entity and the parent entity of $854,000.

(e) Goodwill

Under previous AGAAP goodwill was amortised over a period not exceeding 20 years. AASB 3 Business Combinations does not permit amortisation of goodwill and requires annual impairment testing. The Group has elected to adopt the exemption available to it under AASB 1 not to apply AASB 3 to past business combinations. The effect of this change is set out below.

At 1 January 2004 there has been no financial impact for the Group or the parent entity.

At 31 December 2004 for the Group there has been an increase in goodwill of $2,497,000 and a corresponding increase in retained earnings. There is no effect on the parent entity.

For the year ended 31 December 2004 for the Group there has been a decrease in goodwill amortisation expense of $2,497,000. There is no effect on the parent entity.

(f) Financial instruments

The Group has elected to apply AASB 139 Financial Instruments: Recognition and Measurement and AASB 132 Financial Instruments: Disclosure and Presentation from 1 January 2005 and not restate comparatives. The effect of this is set out below.

Trade receivables

Under AASB 139, on initial recognition, trade receivables are measured at fair value. Generally fair value will approximate nominal (invoice) value. However, where certain cemetery or crematorium sale contract amounts are due to be paid over an extended instalment period of more than 12 months it is possible that fair value will not equate to the nominal contract value. In this instance, the fair value of the instalment trade receivables is determined by discounting expected future receipts using an imputed rate of interest.

Compared to amounts recognised under previous AGAAP, the change decreases the amount of sales revenue recognised and increases the amount of interest income over the period the receivable is collected.

At 1 January 2005, for the Group, the amount of trade receivables has been decreased by $800,000 and retained earnings decreased by $800,000. There is no effect on the parent entity.

For the year ended 31 December 2005, for the Group, there has been a decrease in sales revenue of $472,000 and an increase in interest income of $523,000 compared to what would have been reported under previous AGAAP. There is no effect on the parent entity.

Cash flow hedge – interest rate swaps

Under previous AGAAP the Group did not recognise derivatives at fair value on the balance sheet. The adoption of AASB 139 has resulted in the Group recognising interest rate swaps at fair value and applying hedge accounting.

At 1 January 2005 the effect for both the Group and the parent entity has been to increase derivative financial instrument liabilities by $2,459,000, increase deferred tax assets by $738,000 and establish a hedging reserve of $1,721,000.

Interest bearing liabilities

Under previous AGAAP, the Group recorded interest bearing liabilities at their principal amounts which represented the present value of future cash flows associated with servicing the debt. Interest was accrued over the period it became due and was recorded as part of other creditors. Additionally costs associated with establishing or refinancing the borrowing facilities were recognised as expenses in the period in which they were incurred.

Under AASB 139 interest bearing liabilities are recognised initially at fair value plus transaction costs that are directly attributable to the issue of the financial liability. After initial recognition interest

Note 2: Impact of Adoption of Australian Equivalents to International Financial Reporting Standards (continued)

bearing liabilities are carried at amortised cost using the effective interest method.

At 1 January 2005 the amount of interest bearing liabilities of the Group and the parent entity decreased by $2,030,000 with a corresponding increase in retained earnings. This amount represents establishment and refinancing costs incurred in previous years relating to the Group's financing facilities, net of amounts that would have been amortised under AIFRS to the transition date of 1 January 2005 had AIFRS been applied from the time of establishment of the borrowing facilities.

(g) Gains and losses on disposal of property, plant and equipment

Previous AGAAP required the amount of proceeds on disposal of property, plant and equipment to be recognised as revenue, with the carrying amount of the assets sold recognised as an expense. Under AIFRS gains and losses on disposal of property, plant and equipment are recognised on a net basis as other income or expense. The effect of this is set out below.

For the year ended 31 December 2004, for the Group, the carrying value of assets disposed of $2,080,000 has been netted off against the disposal proceeds of $3,744,000, resulting in a decrease in other income of $1,664,000. There is no effect on the parent entity.

Note 2(a) above contains more information in relation to assets classified as held for sale.

(h) Balance sheet reclassifications

Under AIFRS certain balance sheet classifications are different to previous AGAAP. The effects of these classification changes are set out below.

Prepayments

Prepayments are recorded as receivables under AIFRS whereas under previous AGAAP they were included in other current assets.

At 1 January 2004, there has been an increase in receivables of $2,276,000 for the Group and $92,000 for the parent entity with corresponding decreases in other current assets.

At 31 December 2004, there have been increases in receivables of $2,331,000 for the Group and for the parent entity $92,000 with corresponding decreases in other current assets.

Provision for employee benefits – long service leave

Under previous AGAAP, amounts provided for accrued employee leave entitlements, such as annual leave and long service leave, expected to be paid within 12 months after the reporting date were classified as current liabilities. Payments expected to be made beyond that 12 month period were classified as non-current liabilities. AIFRS has a similar classification requirement relating to the expected timing of liability settlement, but also requires long service leave to which an employee is unconditionally entitled be classified as a current liability, irrespective of whether this will be settled within 12 months of the reporting date. The provision for employee benefits included in non-current liabilities at reporting date relates to amounts of long service leave to which employees are not unconditionally entitled.

At 1 January 2004, for the Group, there has been an increase in current provisions of $2,256,000 and a corresponding decrease in non-current provisions. There is no effect on the parent entity.

At 31 December 2004, for the Group, there has been an increase in current provisions of $2,479,000 and a corresponding decrease in non-current provisions. There is no effect on the parent entity.

	Consolidated Entity 2005 $'000	2004 $'000	Parent Entity 2005 $'000	2004 $'000
Note 3: Revenue from Continuing Operations				
Sales revenue				
Sale of goods	**77,561**	77,847	**–**	–
Services revenue	**70,639**	70,445	**–**	–
Management fees	**–**	–	**1,400**	960
	148,200	148,292	**1,400**	960
Other revenue				
Rent	**229**	187	**–**	–
Administration fees	**2,042**	1,441	**–**	–
Sundry revenue	**1,193**	1,113	**–**	–
Dividend income:				
Wholly owned group – controlled entities	**–**	–	**27,323**	6,080
Interest revenues:				
Other persons/corporations	**780**	494	**9**	–
Wholly owned group – controlled entities	**–**	–	**16,268**	16,714
	4,244	3,235	**43,600**	22,794
Total revenue from continuing operations	**152,444**	151,527	**45,000**	23,754

Note 4: Other Income				
Net gain on disposal of non-current assets	**1,955**	1,958	**–**	–

Note 5: Expenses				
Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	**2,034**	1,994	**–**	–
Property, plant and equipment	**3,682**	3,700	**–**	–
Total depreciation	**5,716**	5,694	**–**	–
Amortisation of non-current assets				
Cemetery land	**350**	400	**–**	–
Leasehold land and buildings	**129**	128	**–**	–
Leasehold improvements	**110**	130	**–**	–
Plant and equipment under lease	**–**	23	**–**	–
Total amortisation	**589**	681	**–**	–
Total depreciation and amortisation	**6,305**	6,375	**–**	–
Finance costs				
Interest paid and payable	**10,779**	11,895	**10,079**	11,160
Amortisation of loan establishment costs (refer Note 21(a))	**2,035**	–	**2,035**	–
Total finance costs	**12,814**	11,895	**12,114**	11,160
Rental expense				
Operating lease rental – minimum lease payments	**3,737**	3,494	**–**	–
Defined contribution superannuation expense	**3,249**	3,252	**–**	–

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Note 6: Income Tax				
Income tax expense				
Current tax	**9,230**	8,201	**873**	1,085
Deferred tax	**(112)**	614	**547**	615
Under/(Over) provision in prior years	**(321)**	(43)	**–**	–
Income tax expense attributable to continuing operations	**8,797**	8,772	**1,420**	1,700
Deferred income tax expense included in income tax expense comprises:				
Decrease/(Increase) in deferred tax assets	**59**	515	**547**	615
(Decrease)/Increase in deferred tax liabilities	**(171)**	99	**–**	–
	(112)	614	**547**	615
Reconciliation of income tax expense to prima facie tax payable				
Prima facie tax at 30% (2004: 30%) on profit from continuing operations	**8,696**	8,425	**9,483**	3,292
Tax effect of amounts which are not deductible/(taxable) in calculation of taxable income				
Share based payments expense	**134**	–	**134**	256
Non-assessable dividend	**–**	–	**(8,197)**	(1,824)
Under/(Over) provision in prior years	**(324)**	(43)	**–**	–
Other items (net)	**291**	390	**–**	(24)
Income tax expense attributable to continuing operations	**8,797**	8,772	**1,420**	1,700

Note 7: Key Management Personnel Disclosures

(a) Directors

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

Non-Executive Directors

Ian Ferrier (Chairman)
Richard Fisher
Christine (Tina) Clifton
Roger Penman (from 1 January 2005)
John Murphy (resigned 28 February 2005)

Executive Directors

Richard Davis – Chief Executive Officer
Michael Grehan – Chief Operating Officer

(b) Other key management personnel

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

Kenneth Mealey – Chief Financial Officer and Company Secretary
Phillip Friery – Group Finance Manager

All of the above persons were also key management personnel during the year ended 31 December 2004.

With effect from 16 January 2006, Mr Andrew Smith was appointed Chief Financial Officer.
Mr Kenneth Mealey continues as Company Secretary.

	Consolidated Entity 2005 $	Consolidated Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $

Note 7: Key Management Personnel Disclosures (continued)

(c) Key management personnel compensation

	Consolidated Entity 2005 $	Consolidated Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
Short term employee benefits	**1,648,157**	1,839,181	**225,543**	201,331
Post-employment benefits	**177,624**	158,845	**78,624**	63,669
Share based payments	**317,023**	1,668,454	**–**	–
	2,142,804	3,666,480	**304,167**	265,000

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' Report. The relevant information can be found in sections A, B and C of the remuneration report on pages 40 to 44.

(d) Equity instrument disclosures relating to key management personnel

Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 44 to 47.

Option holdings

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

2005	Number at start of year	Number vested at start of year	Number granted during year	Number vested during year	Total number exercised during year	Number end of year	Number vested exercisable at end of year
Directors							
Richard Davis	**988,565**	**988,565**	**–**	**–**	**988,565**	**–**	**–**
Michael Grehan	**827,624**	**–**	**–**	**407,445**	**407,445**	**420,179**	**–**
Other key management personnel							
Kenneth Mealey	**318,317**	**–**	**–**	**203,723**	**203,723**	**114,594**	**–**
Phillip Friery	**114,595**	**–**	**–**	**50,930**	**50,930**	**63,665**	**–**

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

2004	Number at start of year	Number vested at start of year	Number granted during year	Number vested during year	Total number exercised during year	Number end of year	Number vested exercisable at end of year
Directors							
Ian Ferrier	302,401	302,401	–	–	302,401	–	–
Richard Davis	–	–	988,565	988,565	–	988,565	988,565
Michael Grehan	1,222,336	127,326	–	267,386	394,712	827,624	–
Other key management personnel							
Kenneth Mealey	483,868	26	–	165,525	165,551	318,317	–
Phillip Friery	140,092	32	–	25,465	25,497	114,595	–

Note 7: Key Management Personnel Disclosures (continued)

Shareholdings

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

	Number at start of year	Number received during year on exercise of options	Other changes during year	Number at end of year
Non-Executive Directors				
Ian Ferrier	152,401	–	–	152,401
Richard Fisher	5,000	–	–	5,000
Christine Clifton	100,000	–	–	100,000
Roger Penman	–	–	–	–
Executive Directors				
Richard Davis	611,168	988,565	–	1,599,733
Michael Grehan	394,712	407,445	–	802,157
Other key management personnel				
Kenneth Mealey	100,000	203,723	–	303,723
Phillip Friery	10,747	50,930	(20,000)	41,677

(e) Loans to key management personnel

There were no loans to directors of the company and other key management personnel.

(f) Other transactions with key management personnel

A director, Richard Fisher, is a partner in Blake Dawson Waldron which has provided trade practices legal advisory services to the consolidated entity for several years on normal commercial terms and conditions. The services during the year amounted to $nil (2004: $31,097).

A director, Roger Penman, is a principal in WHK Greenwoods which has provided professional accounting and tax advisory services to the consolidated entity during the year on normal commercial terms and conditions amounting to $83,335 (2004: $nil).

The brother of Michael Grehan, a director and the Chief Operating Officer, has the capacity to significantly influence decision making of Hillmir Pty Ltd (trading as J B Goodwin Midson & Partners) which has provided surveying and town planning services to the consolidated entity for several years on normal commercial terms and conditions. The services during the year amounted to $54,927 (2004: $42,214).

The Group Finance Manager, Phillip Friery, is a director and shareholder of Laurach Pty Limited (trading as Friery Accounting Services) and has the capacity to significantly influence decision making of that company which has provided professional accounting and taxation services to the consolidated entity for several years on normal commercial terms and conditions. The services during the year amounted to $32,595 (2004: $7,750).

A former director, John Murphy, is a director of Investec Wentworth Pty Limited which provided corporate advisory services to the consolidated entity for several years on normal commercial terms and conditions. The services during the year amounted to $nil (2004: $103,148).

Aggregate amounts of each of the above types of other transactions with key management personnel of the consolidated entity, including their personally related parties:

	2005 $	2004 $
Amounts recognised as expense		
Legal fees	**–**	31,097
Accounting and tax advisory fees	**115,930**	7,750
Other advisory fees	**34,377**	133,285
	150,307	172,132
Amounts recognised as property, plant and equipment		
Construction of building	**20,550**	12,077

	2005 $	2004 $

Note 7: Key Management Personnel Disclosures (continued)

Aggregate amounts payable at balance date to key management personnel of the Group, including their personally related parties, relating to the above types of other transactions:

	2005 $	2004 $
Current liabilities	**20,550**	–

	Consolidated Entity 2005 $	Consolidated Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $

Note 8: Auditors' Remuneration

Remuneration of the auditor of the parent entity for:

	Consolidated Entity 2005 $	Consolidated Entity 2004 $	Parent Entity 2005 $	Parent Entity 2004 $
PricewaterhouseCoopers – Australian firm				
Audit of the financial report	**156,400**	124,000	**–**	–
Review of the financial report	**80,700**	40,000	**–**	–
Other audit related	**70,700**	92,900	**–**	–
Total audit and other assurance services	**307,800**	256,900	**–**	–
Advisory services	**54,609**	23,187	**–**	–
Taxation	**153,530**	152,500	**–**	–
Total other services	**208,139**	175,687	**–**	–
Total remuneration to PricewaterhouseCoopers	**515,939**	432,587	**–**	–
Related practices of PricewaterhouseCoopers				
PricewaterhouseCoopers Legal	**404,786**	335,673	**–**	–
PricewaterhouseCoopers Securities	**–**	45,000	**–**	–
Total remuneration to related practices	**404,786**	380,673	**–**	–
Total remuneration to auditor and its related practices	**920,725**	813,260	**–**	–

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 project. PricewaterhouseCoopers Legal provided legal advice in respect of employee related and other commercial matters required in the ordinary course of business.

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Note 9: Dividends				
Dividends paid				
Payment of 2004 final ordinary dividend of 9.0 cents per fully paid share fully franked on tax paid @ 30% (2004: 30%)	**8,550**	–	**8,550**	–
Interim ordinary dividend of 7.0 cents (2004: 6.4 cents) per share fully franked on tax paid @ 30% (2004: 30%)	**6,785**	6,080	**6,785**	6,080
Special dividend of 10.5 cents (2004: nil) per share fully franked on tax paid @ 30% (2004: nil)	**10,168**	–	**10,168**	–
Dividends paid to members of InvoCare Limited	**25,503**	6,080	**25,503**	6,080
Dividends paid to minority interest of 10.5 cents (2004: 8.4 cents) per fully paid share fully franked on tax paid @ 30% (2004: 30%)	**84**	68	–	–
	25,587	6,148	**25,503**	6,080
Dividends not recognised at year end				
In addition to the above dividends, since the year end, the directors recommended the payment of a final dividend to InvoCare Limited shareholders of 9.5 cents (2004: 9.0 cents) per fully paid ordinary share, fully franked on tax paid @ 30%. The aggregate amount of the proposed dividend, expected to be paid on 12 April 2006 out of 2005 profits, but not recognised as a liability at year end is	**9,207**	8,550	**9,207**	8,550
Franking credit balance				
The amounts of franking credits available for subsequent financial years are:				
Franking account balance at the end of the financial year	**8,506**	10,722	**8,506**	10,722
Franking credits that will arise from the payment of income tax payable at the end of the financial year	**3,901**	3,763	**3,901**	3,763
Reduction in franking account resulting from payment of proposed final dividend of 9.5 cents (2004: 9.0 cents)	**(3,946)**	(3,664)	**(3,946)**	(3,664)
	8,461	10,821	**8,461**	10,821

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000
Note 10: Earnings per Share		
Reconciliation of earnings to profit and loss		
Profit from continuing operations after income tax expense	**20,188**	19,312
Less profit attributable to minority interests	**(47)**	(57)
Profit used to calculate basic and diluted EPS	**20,141**	19,255

	Consolidated Entity 2005 Number	2004 Number

Note 10: Earnings per Share (continued)

	Consolidated Entity 2005 Number	2004 Number
Weighted average number of shares used as a denominator		
Weighted average number of ordinary shares used as a denominator in calculating basic earnings per share	**96,086,636**	94,399,665
Adjustments for calculation of diluted earnings per share relating to options	**773,676**	1,835,455
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**96,860,312**	96,235,120

Options

Options granted to employees under the Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to options are set out in Note 24.

Note 11: Cash and Cash Equivalents

	Consolidated Entity		Parent Entity	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Cash on hand	**46**	47	**–**	–
Cash at bank	**3,954**	640	**155**	231
	4,000	687	**155**	231

Cash at bank attracts floating interest rates between 4.8% and 5.4% (2004: 4.4%).

Note 12: Trade and Other Receivables

	Consolidated Entity		Parent Entity	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Current				
Trade receivables	**16,961**	15,941	**–**	–
Provision for doubtful receivables	**(1,183)**	(1,366)	**–**	–
Prepayments	**2,493**	2,331	**14**	92
Other receivables	**586**	465	**–**	–
	18,857	17,371	**14**	92
Non-current				
Trade receivables	**8,214**	7,357	**–**	–
Discounting of receivables (refer Note 1(k))	**(749)**	–	**–**	–
Provision for doubtful receivables	**(312)**	(490)	**–**	–
Security deposits	**100**	58	**–**	–
Other receivables	**400**	400	**–**	–
Loan to controlled entity	**–**	–	**194,956**	173,929
	7,653	7,325	**194,956**	173,929

Interest rate risks

The Group has no exposure to interest rate risk in respect of the above receivables as they are non-interest bearing. Interest earned by the parent entity on the fixed rate loan to its controlled entity is set out at Note 35.

Credit risk

Except for the loan from the parent entity to its controlled entity, there is no concentration of credit risk with respect to current and non-current receivables as the Group has a large number of customers dispersed across Australia.

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000

Note 13: Inventories

	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Current				
Work in progress – at cost	**–**	823	**–**	–
Finished goods – at cost	**11,081**	10,122	**–**	–
	11,081	10,945	**–**	–

Note 14: Property Classified as Held for Sale

	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Land and buildings held for sale	**3,083**	3,083	**–**	–

Note 15: Other Assets

	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Current				
Deferred selling costs (refer Note 1(e))	**504**	478	**–**	–
Non-Current				
Deferred selling costs (refer Note 1(e))	**7,061**	6,687	**–**	–

Note 16: Other Financial Assets

	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Shares in subsidiaries	**–**	–	**15,641**	15,641

Shares in subsidiaries are carried at cost and relate to InvoCare Limited's 100% (2004: 100%) ownership interest in InvoCare Australia Pty Limited. All shares held are ordinary shares. Refer to Note 17 – Subsidiaries for details of controlled entities.

Note 17: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy in Note 1(b). All entities are incorporated and domiciled in Australia. The proportion of ownership interest is equal to the proportion of voting power held.

Name of entity	Equity holding 2005 %	Equity holding 2004 %
InvoCare Australia Pty Limited	**100**	100
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**	83
Macquarie Funeral Service Pty Limited	**83**	83
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
Restbind Pty Limited	**100**	–

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000

Note 18: Property, Plant and Equipment

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Land and buildings				
Cemetery land at cost	**106,158**	106,022	**–**	–
Accumulated amortisation	**(3,787)**	(3,436)	**–**	–
Impairment writedowns	**(12,520)**	(12,520)	**–**	–
	89,851	90,066	**–**	–
Freehold land at cost	**32,683**	32,976	**–**	–
Buildings at cost	**68,629**	66,980	**–**	–
Accumulated depreciation	**(18,493)**	(16,564)	**–**	–
	50,136	50,416	**–**	–
Leasehold land and buildings at cost	**4,470**	4,470	**–**	–
Accumulated amortisation	**(1,582)**	(1,454)	**–**	–
	2,888	3,016	**–**	–
Leasehold improvements at cost	**1,493**	1,406	**–**	–
Accumulated amortisation	**(951)**	(842)	**–**	–
	542	564	**–**	–
Total land and buildings	**176,100**	177,038	**–**	–
Plant and equipment				
Plant and equipment at cost	**51,326**	50,551	**–**	–
Accumulated depreciation	**(36,631)**	(36,828)	**–**	–
	14,695	13,723	**–**	–
Leased plant and equipment	**–**	73	**–**	–
Accumulated amortisation	**–**	(31)	**–**	–
	–	42	**–**	–
Total plant and equipment	**14,695**	13,765	**–**	–
Total property, plant and equipment	**190,795**	190,803	**–**	–

Note 18: Property, Plant and Equipment (continued)

Movements in carrying amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year are reconciled as follows:

	Cemetery land $'000	Freehold land $'000	Buildings $'000	Leasehold land and buildings $'000	Leasehold improvement $'000	Plant and equipment $'000	Leased plant and equipment $'000	Total $'000
Consolidated entity:								
Balance at the beginning of year	90,066	32,976	50,416	3,016	564	13,723	42	190,803
Assets purchased during the year	173	3	2,105	–	88	4,535	–	6,904
Assets acquired on acquisition of subsidiary	–	–	–	–	–	450	–	450
Disposals during the year	(38)	(350)	(297)	–	–	(337)	(35)	(1,057)
Depreciation and amortisation expense	(350)	–	(2,034)	(128)	(110)	(3,676)	(7)	(6,305)
Transfers/Reclassifications	–	54	(54)	–	–	–	–	–
Carrying amount at the end of year	89,851	32,683	50,136	2,888	542	14,695	–	190,795

Included in the above carrying amounts are expenditures amounting to $845,000 (2004: $875,000) for property, plant and equipment in the course of construction.

Note 19: Intangible Assets

	Consolidated Entity **2005 $'000**	Consolidated Entity 2004 $'000	Parent Entity **2005 $'000**	Parent Entity 2004 $'000
Goodwill	**29,539**	26,302	**–**	–
Brand name	**750**	–	**–**	–
	30,289	26,302	**–**	–

	Goodwill $'000	Brand name $'000	Total $'000
Consolidated movements in intangible assets during the year			
Cost at 1 January 2004	49,976	–	49,976
Accumulated amortisation	(23,674)	–	(23,674)
Net carrying value at 1 January 2004	26,302	–	26,302
For the year ended 31 December 2005			
Balance at the beginning of the year	26,302	–	26,302
Acquisition of subsidiary	3,237	750	3,987
Balance at the end of the year	29,539	750	30,289

(a) Impairment test for goodwill

Goodwill cannot be allocated on a non-arbitrary basis to individual cash-generating units (CGUs) due to the significant history of numerous acquisitions, especially during the years 1993 to 1999, and resulting post-acquisition business integration activities and operational changes over many years. As a result, the lowest level within the Group at which goodwill is monitored for internal management purposes comprises the grouping of all CGUs within the consolidated entity. The recoverable amount of the total of CGUs is based on value-in-use calculations. These calculations use cash flow projections based on financial estimates approved by management covering a five year period. Cash flows beyond the five-year period have been extrapolated using estimated growth rates.

Note 19: Intangible Assets (continued)

(b) Key assumptions used for value-in-use calculations

Management determined budgeted cash flows based on past performance and its expectations for the future. The growth rates used for revenue and expenses projections are not inconsistent with historical trends and forecasts included in reports prepared by market analysts. The pre-tax discount rate used is 9.9% reflecting the risk estimates for the business as a whole. Sensitivity analysis indicates significant headroom exists in the value-in-use calculations compared to the carrying value of goodwill.

	Consolidated Entity		Parent Entity	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Note 20: Trade and Other Payables				
Current				
Trade payables	**4,885**	3,089	**–**	–
Sundry payables and accrued expenses	**11,488**	12,145	**668**	222
Deferred cash settlement for business interests acquired	**722**	300	**–**	–
	17,095	15,534	**668**	222
Non-current				
Deferred cash settlement for business interests acquired	**7**	29	**–**	–
	7	29	**–**	–

Trade and other payables are unsecured, non-interest bearing and are normally settled within 60 day terms.

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Note 21: Borrowings				
Short term borrowings				
Lease liability secured by charge over assets	**–**	17	**–**	–
Long term borrowings				
Borrowings are represented by:				
Principal amount of bank loans – unsecured	**140,000**	–	**140,000**	–
Loan establishment costs	**(496)**	–	**(496)**	–
Principal amount of secured borrowings:				
Debenture facility	**–**	109,000	**–**	109,000
Cash advance facilities	**–**	22,500	**–**	22,500
Lease liability – secured	**–**	32	**–**	–
	139,504	131,532	**139,504**	131,500

InvoCare executed new bilateral financing agreements on 16 December 2005 providing total borrowing facilities of $165.0 million, including a working capital facility of $5.0 million, through to January 2011. At 31 December 2005 a total of $140.0 million had been drawn.

The new facilities are non-amortising and are unsecured, unlike the previous syndicated facilities which were partly amortising and were secured by fixed and floating charges over all the assets and undertakings of wholly owned entities in the Group. The interest rate margins on the new facilities are more favourable and there are less onerous financial covenants than the replaced facilities.

Loan establishment costs are taken to profit and loss in accordance with the effective interest method. Upon implementation of AASB 132 and AASB 139 on 1 January 2005, costs amounting to $2,030,000 of establishing the borrowings in existence at that date, which had previously been expensed as incurred under AGAAP, were reinstated by adjustment net of tax to retained earnings. Further details are set out in Note 2. As a consequence of the refinancing of the previous borrowings in mid December 2005, these costs were fully expensed in the year ended 31 December 2005. The costs of establishing the new financing facility amounted to $500,000 and $5,000 was expensed in 2005.

The Group continues its policy of protecting at least 75% of the loans from exposure to variable interest rates by entering into interest rate swap contracts under which it is obliged to pay interest at fixed rates and receive interest at variable rates. At 31 December 2005, contracts in place cover $130.0 million of loan principal through to December 2010 at a fixed rate of 6.3% and require quarterly settlements of net interest receivable or payable to coincide with payments of interest on the underlying debt. The fair value of interest rate swap contracts at the end of the financial year was a liability of $3,511,000. (Refer to Note 22.)

The Group has complied with its covenants throughout and at the end of the year.

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000

Note 21: Borrowings (continued)

Finance facilities available

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Unrestricted access was available at balance date to the following lines of credit:				
Total facilities				
– unsecured loan facility	**160,000**	–	**160,000**	–
– working capital facility	**5,000**	5,000	**5,000**	5,000
– debenture stock facility	**–**	125,000	**–**	125,000
– cash advance facilities	**–**	27,500	**–**	27,500
	165,000	157,500	**165,000**	157,500
Used at balance date				
– unsecured loan facility	**140,000**	–	**140,000**	–
– working capital facility	**269**	319	**269**	319
– debenture stock facility	**–**	109,000	**–**	109,000
– cash advance facilities	**–**	22,500	**–**	22,500
	140,269	131,819	**140,269**	131,819
Unused at balance date				
– unsecured loan facility	**20,000**	–	**20,000**	–
– working capital facility	**4,731**	4,681	**4,731**	4,681
– debenture stock facility	**–**	16,000	**–**	16,000
– cash advance facilities	**–**	5,000	**–**	5,000
	24,731	25,681	**24,731**	25,681

Interest rate risk exposures

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

		Fixed interest rate						
2005	Floating interest rate $'000	1 year or less years $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Over 5 years $'000	Total $'000
Bank loans	**139,504**	**–**	**–**	**–**	**–**	**–**	**–**	**139,504**
Interest rate swaps (notional principal)	**(130,000)**	**–**	**–**	**–**	**–**	**130,000**	**–**	**–**
	9,504	**–**	**–**	**–**	**–**	**130,000**	**–**	**139,504**
Weighted average interest rate	**6.39%**	**–**	**–**	**–**	**–**	**6.28%**	**–**	

Note 21: Borrowings (continued)

2004	Floating interest rate $'000	Fixed interest rate 1 year or less $'000	Over 1 to 2 years $'000	Over 2 to 3 years $'000	Over 3 to 4 years $'000	Over 4 to 5 years $'000	Over 5 years $'000	Total $'000
Cash advance facility	22,500	–	–	–	–	–	–	22,500
Debentures	109,000	–	–	–	–	–	–	109,000
Lease liabilities	–	17	32	–	–	–	–	49
Interest rate swaps (notional principal)	(119,425)	8,500	8,925	10,200	10,200	81,600	–	–
	12,075	8,517	8,957	10,200	10,200	81,600	–	131,549
Weighted average interest rate	7.52%	5.96%	6.53%	6.53%	6.53%	6.53%	–	

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

	2005 Carrying amount $'000	2005 Fair value $'000	2004 Carrying amount $'000	2004 Fair value $'000
Bank loans	**139,504**	**139,504**	–	–
Debenture stock	**–**	**–**	109,000	109,000
Other loans	**–**	**–**	22,500	22,500
Lease liabilities	**–**	**–**	49	49
	139,504	**139,504**	131,549	131,549

Note 22: Derivative Financial Instruments

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Current liabilities				
Interest rate swap contracts – cash flow hedges	**3,511**	–	**3,511**	–

The Group has taken the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement from 1 January 2005.

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in interest rates in accordance with the Group's financial risk management policies.

Bank loans of the Group currently bear an average variable interest rate of 6.39%. It is policy to protect part of the loans from exposure to increasing interest rates. Accordingly, the Group has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates.

Interest rate swaps currently in place cover approximately 93% (2004: 91%) of the loan principal outstanding and are timed to expire when the loan matures. As at 31 December 2005 the fixed interest rate payable on the interest rate swap is 6.268% (2004: 5.757%) and the variable rate receivable based on BBSW as at 31 December 2005 is 5.647% (2004: 5.600%).

The contracts require settlement of net interest receivable or payable each 90 days. The settlement dates coincide with the dates on which interest is payable on the underlying debt.

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000

Note 22: Derivative Financial Instruments (continued)

At 31 December 2005 the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Less than 1 year	**–**	8,500	**–**	8,500
1 – 2 years	**–**	8,925	**–**	8,925
2 – 3 years	**–**	10,200	**–**	10,200
3 – 4 years	**–**	10,200	**–**	10,200
4 – 5 years	**130,000**	81,600	**130,000**	81,600
More than 5 years	**–**	–	**–**	–
	130,000	119,425	**130,000**	119,425

Note 23: Tax

(a) Liabilities

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Current				
Income tax liabilities	**3,901**	3,763	**3,647**	450
Non-current				
Deferred tax liabilities	**36,357**	36,300	**–**	–
Deferred tax liability comprises temporary differences attributable to:				
Amounts recognised in profit or loss:				
Cemetery land	**26,955**	27,020	**–**	–
Property, plant and equipment	**6,281**	6,481	**–**	–
Leasehold land and buildings	**477**	527	**–**	–
Deferred selling costs	**2,269**	2,142	**–**	–
Prepayment and other	**147**	130	**–**	–
Amounts recognised upon acquisition of subsidiary:				
Brand names	**225**	–	**–**	–
Other	**3**	–	**–**	–
Total	**36,357**	36,300	**–**	–

(b) Assets

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Deferred tax assets	**5,981**	5,343	**1,162**	615
Deferred tax assets comprise temporary differences attributable to:				
Amounts recognised in profit or loss:				
Provisions	**2,974**	3,079	**–**	–
Receivables	**225**	–	**–**	–
Accruals and other	**1,677**	1,456	**70**	(9)
Loan establishment costs	**39**	808	**39**	624
Amounts recognised upon acquisition of subsidiary:				
Provisions	**13**	–	**–**	–
Amounts recognised directly in equity:				
Cash flow hedges	**1,053**	–	**1,053**	–
	5,981	5,343	**1,162**	615

(c) Movements in deferred tax balances

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
The net movement in deferred taxes is as follows:				
Opening balance	**30,957**	30,343	**615**	–
Net charge/(credit) to income statement	**(112)**	614	**547**	615
Amounts recognised upon acquisition of subsidiary	**215**	–	**–**	–
Amounts recognised directly in equity	**(684)**	–	**–**	–
Closing balance	**30,376**	30,957	**1,162**	615

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Note 24: Provisions for Employee Benefits				
Current				
Employee benefits	**7,471**	7,457	**–**	–
Non-current				
Employee benefits	**992**	952	**–**	–

(a) Employee share options

InvoCare Limited has options over unissued shares granted to 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 established prior to the initial public offering.

There were no options granted under the Employee Share Option Plan during the years ended 31 December 2005 and 31 December 2004.

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.

Details of the movements in the numbers of options over ordinary shares in InvoCare Limited held by each director and other key management personnel are set out in Note 7.

The options granted to a participant in the Employee Share Option Plan vest as follows:

(i) 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 vested on 1 May 2005;

(ii) 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 vested on 1 May 2005 and the final one third will vest on 1 May 2006; and

(iii) for options with an exercise price of $1.07, one third of the number of options granted vested 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:

- 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.

In addition to options issued pursuant to the Employee Share Option Plan, options were granted for no consideration in the previous financial year (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. The exercise price was $1.51 per option and each option had a fair value at the grant date of $0.73. Each option entitled Mr Davis to acquire one fully paid ordinary share of the company.

Set out below is a summary of the movement in options during the year, including those held by directors and other key management personnel.

Note 24: Provisions for Employee Benefits (continued)

2005 – Consolidated and parent entity

Grant date	Expiry date	Exercise price per option	Number at start of year	Number issued during year	Number exercised during year	Number lapsed during year	Number at end of year
22 Sept 2003*	1 May 06	$0.50	356,518	–	356,518	–	–
22 Sept 2003*	1 May 07	$0.59	468,565	–	234,278	–	234,287
22 Sept 2003*	1 May 08	$1.07	1,000,786	–	333,592	40,744	626,450
8 May 2004**	8 May 09	$1.51	988,565	–	988,565	–	–
			2,814,434	–	1,912,953	40,744	860,737
Weighted average exercise price			1.07	–	1.13	1.07	0.94

* Options issued under the Employee Share Option Plan
** Options issued to Chief Executive Officer, Richard Davis, under a Service Agreement dated 8 May 2001

2004 – Consolidated and parent entity

Grant date	Expiry date	Exercise price per option	Number at start of year	Number issued during year	Number exercised during year	Number lapsed during year	Number at end of year
8 May 2001*	1 May 06	$0.50	302,401	–	302,401	–	–
22 Sept 2003**	1 May 06	$0.50	904,084	–	547,566	–	356,518
22 Sept 2003**	1 May 07	$0.59	702,843	–	234,278	–	468,565
22 Sept 2003**	1 May 08	$1.07	1,123,019	–	–	122,233	1,000,786
8 May 2004***	8 May 09	$1.51	–	988,565	–	–	988,565
			3,032,347	988,565	1,084,245	122,233	2,814,434
Weighted average exercise price			0.73	1.51	0.52	1.07	1.07

* Options issued under a letter dated 8 May 2001 to a director, Ian Ferrier
** Options issued under the Employee Share Option Plan
*** Options issued to Chief Executive Officer, Richard Davis, under a Service Agreement dated 8 May 2001

For share options exercised during the year, the weighted average share prices at the date of exercise are set out below.

2005 Exercise date	Exercise price per option $	Weighted average value of each share issued $	Number of options exercised	Proceeds from shares issued $
1 May 2005	**1.07**	**4.08**	**20,372**	**21,798**
19 May 2005	**0.50**	**3.94**	**12,733**	**6,366**
19 May 2005	**0.59**	**3.94**	**12,732**	**7,512**
19 May 2005	**1.07**	**3.94**	**25,465**	**27,248**
20 May 2005	**1.07**	**3.95**	**12,732**	**13,623**
27 May 2005	**0.50**	**4.03**	**25,466**	**12,733**
27 May 2005	**0.59**	**4.03**	**12,732**	**7,512**
27 May 2005	**1.07**	**4.03**	**12,732**	**13,623**
30 May 2005	**0.50**	**4.04**	**25,466**	**12,733**
30 May 2005	**0.59**	**4.04**	**12,732**	**7,512**
30 May 2005	**1.07**	**4.04**	**12,732**	**13,623**
9 June 2005	**1.51**	**4.12**	**988,565**	**1,492,733**
9 June 2005	**0.50**	**4.12**	**267,387**	**133,694**
9 June 2005	**0.59**	**4.12**	**190,989**	**112,684**
9 June 2005	**1.07**	**4.12**	**203,722**	**217,982**
1 July 2005	**1.07**	**4.13**	**40,744**	**43,596**
4 July 2005	**0.50**	**4.17**	**25,466**	**12,733**
4 July 2005	**0.59**	**4.17**	**5,093**	**3,005**
4 July 2005	**1.07**	**4.17**	**5,093**	**5,449**
Total			**1,912,953**	**$2,166,159**

Note 24: Provisions for Employee Benefits (continued)

2004 Exercise date	Exercise price per option $	Weighted average value of each share issued $	Number of options exercised	Proceeds from shares issued $
29 June 2004	0.50	2.38	254,653	127,327
29 June 2004	0.59	2.38	140,059	82,636
30 August 2004	0.50	2.67	302,401	151,201
31 August 2004	0.50	2.73	101,860	50,930
31 August 2004	0.59	2.73	25,464	15,024
1 September 2004	0.50	2.78	191,053	95,526
1 September 2004	0.59	2.78	68,755	40,566
Total			1,084,245	$563,210

The weighted value of shares issued on the exercise of options is based upon ASX daily closing prices and trading volumes of the company's shares on each of the five days up to and including the date of exercise.

The weighted average remaining contractual life of share options outstanding at the end of the year was 2.06 years (2004: 3.27 years).

(b) Employee shares

The company does not currently have an employee share scheme in operation.

	Consolidated Entity **2005**	2004	Parent Entity **2005**	2004
(c) Employee numbers				
Number of full-time equivalent employees	**792**	809	**–**	–
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
(d) Superannuation plan				
The company contributes to accumulation type employee superannuation plans in accordance with statutory requirements				
(e) Expenses arising from share based payment transactions				
Total expenses arising from share based payment transactions recognised during the period as part of employee benefits expense were as follows:				
Options issued under employee share option plan	**448**	854	**448**	854

Note 25: Deferred Revenue

Current				
Prepaid crematorium and cemetery deferred income	**2,867**	2,773	**–**	–
Non-current				
Prepaid crematorium and cemetery deferred income	**40,138**	38,823	**–**	–

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 $220.9 million (2004: $198.6 million). The monies held in trust will only be recognised as revenue when the services are performed (refer "Revenue recognition" in Note 1(d)).

	Consolidated Entity 2005 $'000	2004 $'000	Parent Entity 2005 $'000	2004 $'000
Note 26: Contributed Equity				
Fully paid ordinary shares	**55,729**	52,589	**55,729**	52,589

Ordinary shares:	**2005 Number**	**2005 $'000**	2004 Number	2004 $'000
Balance at the beginning of the financial year	**95,002,978**	**52,589**	93,918,733	52,026
Issued pursuant to exercise of share options	**1,912,953**	**2,166**	1,084,245	563
Transferred from share based payments reserve	**–**	**974**	–	–
Balance at the end of the financial year	**96,915,931**	**55,729**	95,002,978	52,589

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(b) Employee Share Option Plan

Information relating to the employee share options, including details of shares issued under the Plan, is set out in Note 24.

	Consolidated Entity 2005 $'000	2004 $'000	Parent Entity 2005 $'000	2004 $'000
Note 27: Reserves and Retained Profits				
(a) Reserves				
Share based payments reserve	**560**	1,087	**560**	1,087
Hedging reserve – cash flow hedge reserve	**(2,458)**	–	**(2,458)**	–
	(1,898)	1,087	**(1,898)**	1,087
Movements:				
Share based payments reserve				
Balance at the beginning of the year	**1,087**	233	**1,087**	233
Options expense	**447**	854	**447**	854
Transfer to share capital upon exercise of options	**(974)**	–	**(974)**	–
Balance at the end of the year	**560**	1,087	**560**	1,087
Hedging reserve				
Balance at the beginning of the year	**–**	–	**–**	–
Adjustment on adoption of AASB 132 and AASB 139	**(2,459)**	–	**(2,459)**	–
Revaluation to fair value – gross	**(1,052)**	–	**(1,052)**	–
Deferred tax	**1,053**	–	**1,053**	–
Balance at the end of the year	**(2,458)**	–	**(2,458)**	–

Nature and purpose of reserves

Share based payments reserve

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

Hedging reserve – cash flow hedge reserve

The hedging reserve is used to record gains or losses on hedging instruments that are cash flow hedges which are recognised directly in equity. Amounts are recognised in profit and loss when the associated hedged transaction affects the profit and loss.

	Consolidated Entity 2005 $'000	2004 $'000	Parent Entity 2005 $'000	2004 $'000

Note 27: Reserves and Retained Profits (continued)

(b) Retained profits/(accumulated Losses)

Movements in retained profits/(accumulated losses) were as follows:

	Consolidated 2005 $'000	Consolidated 2004 $'000	Parent 2005 $'000	Parent 2004 $'000
Balance at the beginning of the year	**(22,876)**	(36,051)	**4,660**	1,467
Effect of change in accounting policy from 1 January 2005 relating to AASB 132, AASB 139	**861**	–	**1,421**	–
Net profit for the year	**20,141**	19,255	**30,189**	9,273
Dividends paid during the year	**(25,503)**	(6,080)	**(25,503)**	(6,080)
Balance at the end of the year	**(27,377)**	(22,876)	**10,767**	4,660

The transition to AIFRS resulted in $47,084,000 being charged against retained earnings of the consolidated entity at 1 January 2004. This gave rise to consolidated net accumulated losses. Details of the AIFRS adjustments, which primarily relate to the recognition of deferred tax liabilities and impairment losses on cemetery and crematorium land, are set out in Note 2. There is a possibility the deferred tax liability may be reversed in a future reporting period if a change to AIFRS currently under consideration by the standard setting authorities is adopted.

The AIFRS transitional adjustments will not materially adversely impact or restrict the Group's current and future profitability, cash flows or dividend capability. The 2005 net profit of the parent entity, InvoCare Limited, includes dividends declared and paid by subsidiaries out of profits for the year ended 31 December 2004. Hence, dividends paid during the 2005 year to InvoCare Limited shareholders included distributions from 2005 profits of the parent entity which were actually included in consolidated profits of the previous year.

The following table shows the movements in the consolidated entity's retained earnings/(accumulated losses) since 1 January 2004, set out in separate sub-account components relating to, firstly, previously reported AGAAP retained earnings, secondly, the AIFRS transitional adjustments to retained earnings and, finally, AIFRS determined profits. The amounts of retained earnings transitional adjustments which have reversed into profits are shown as transfers. The transfers totalling $284,000 represent the combined impact of the following reversals into AIFRS profits:

- amounts credited to income tax expense during 2005 ($413,000) and the AIFRS reported 2004 comparatives ($444,000) which have arisen from the reversal of temporary differences relating to the deferred income tax liability established upon transition to AIFRS;
- income upon release of receivables discounting ($280,000, net of tax); and
- expensing of loan establishment costs upon debt refinancing ($1,421,000, net of tax).

	Previously reported AGAAP earnings $'000	Transitional AIFRS adjustments to retained earnings $'000	Post-AIFRS adoption reported earnings $'000	Total $'000
Balance of retained earnings/(accumulated losses) as at 1 January 2004	11,033	(47,084)	–	(36,051)
Profit for the 2004 year	17,088	–	2,167	19,255
Dividends paid from Group profits	(6,080)	–	–	(6,080)
Balance of retained earnings/(accumulated losses) as at 31 December 2004	22,041	(47,084)	2,167	(22,876)
Transitional AIFRS adjustments on 1 January 2005 relating to adoption of AASB 132 and AASB 139	–	861	–	861
Profit after tax for 2005 year	–	–	20,141	20,141
Dividends paid from Group profits	(22,041)	–	(3,462)	(25,503)
Transfer between sub-accounts	–	(284)	284	–
Balance of retained earnings/(accumulated losses) as at 31 December 2005	–	(46,507)	19,130	(27,377)

	Consolidated Entity 2005 $'000	2004 $'000	Parent Entity 2005 $'000	2004 $'000

Note 28: Minority Interest

Reconciliation of minority interest in controlled entities:

Share capital	**800**	800	**–**	–
Retained earnings				
Balance at the beginning of the year	**145**	156	**–**	–
Add share of operating profit	**47**	57	**–**	–
Less dividends paid	**(84)**	(68)	**–**	**–**
Closing balance of retained earnings	**108**	145	**–**	–
Reserves	**99**	99	**–**	–
Balance at the end of the year	**1,007**	1,044	**–**	–

Note 29: Capital and Leasing Commitments

(a) Operating lease commitments

Non-cancellable operating leases contracted for at the reporting date but not capitalised in the financial statements:

Payable — minimum lease payments				
Not later than 12 months	**5,257**	2,878	**–**	–
Between 12 months and five years	**10,452**	6,781	**–**	–
Greater than five years	**14,725**	13,633	**–**	–
	30,434	23,292	**–**	–

Non-cancellable operating leases contracted for at the reporting date but not capitalised in the financial statements include the following:

	Property $'000	Equipment $'000	Motor vehicles $'000	Total $'000
Not later than 12 months	4,364	63	830	5,257
Between 12 months and five years	7,831	163	2,458	10,452
Greater than five years	14,725	–	–	14,725
	26,920	226	3,288	30,434

The Group leases premises, motor vehicles and sundry office equipment under non-cancellable operating leases with terms generally from one to five years. The Rookwood Crematorium lease expires in 2025.

	Consolidated Entity 2005 $'000	2004 $'000	Parent Entity 2005 $'000	2004 $'000
(b) Capital expenditure commitments				
Capital expenditure commitments contracted for at the reporting date but not recognised as liabilities payable				
Plant and equipment purchases				
– within one year	**2,336**	1,803	**–**	–
(c) Other expenditure commitments				
Commitments for the construction of crypts, contracted for at the reporting date but not recognised as liabilities payable:				
– within one year	**793**	788	**–**	–

Note 30: Business Combination

(a) Summary of acquisition

On 22 December 2005 InvoCare Australia Pty Limited, a wholly owned subsidiary of InvoCare Limited, acquired 100% of the issued share capital of Restbind Pty Limited which trades as Ann Wilson Funerals, servicing the northern beaches area of Sydney from two locations.

The revenues and profit of the acquired entity for the one week of trading from the date of acquisition until 31 December 2005 have not been included in the consolidated revenue and profit for the financial year as the amounts were not material. The business of Restbind Pty Limited will be integrated into existing InvoCare businesses and it is not possible to reliably estimate the impact the acquisition would have had on the full year results if it had occurred at the beginning of 2005.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	$'000
Purchase consideration (refer to (b) below):	
Cash paid	3,785
Direct costs relating to the acquisition	82
Sub-total	3,867
Anticipated additional consideration (refer to (b) below)	699
Total purchase consideration	4,566
Fair value of net identifiable assets acquired (refer to (c) below):	1,329
Goodwill (refer to (c) below and Note 19)	3,237

There were no acquisitions in 2004.
There were no disposals of controlled entities during the financial years ended 31 December 2005 and 2004.

(b) Purchase consideration

	Consolidated Entity		Parent Entity	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
Outflow of cash to acquire subsidiary, net of cash acquired				
Cash consideration	**3,867**	–	**–**	–
Less: Cash balances acquired	**436**	–	**–**	–
Outflow of cash	**3,431**	–	**–**	–

In the event that certain pre-determined sales volumes are achieved by the acquired entity during 2006, additional consideration of up to $195,000 will be payable in cash. At the date of this financial report, it is considered likely that this additional payment will be made. In addition, under the purchase agreement, an additional amount for working capital will be payable upon finalisation of the settlement statement. This amount has been estimated at $504,000. Therefore, additional consideration of $699,000 has been brought to account as a component of the goodwill arising on the acquisition.

The purchase price of the business of Restbind Pty Limited was determined using expected future maintainable earnings. This has resulted in the recognition of goodwill (refer (c) below).

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount $'000	Fair value $'000
Cash	436	436
Trade and other receivables	113	113
Inventories	9	9
Plant and equipment	450	450
Deferred tax asset	–	13
Intangible assets: Brand name	–	750
Trade payables	(43)	(43)
Provision for current income tax	(129)	(129)

Note 30: Business Combination (continued)

The assets and liabilities arising from the acquisition are as follows: (continued)

	Acquiree's carrying amount $'000	Fair value $'000
Provision for employee benefits	(42)	(42)
Deferred tax liability	(3)	(228)
Net assets	791	1,329
Minority interests		–
Net identifiable assets acquired		1,329

The goodwill recognised relates to synergies expected to be achieved as a result of combining Restbind Pty Limited with the rest of the Group.

As a result of time constraints, the initial accounting for the above business combination has been determined provisionally as at the acquisition date. The fair values assigned to the identifiable assets, liabilities or contingent liabilities may require adjustment as at acquisition date. Under AASB 3 Business Combinations any adjustments to those provisional values as a result of completing the initial accounting may be recognised within 12 months of the acquisition date.

Note 31: Contingent Liabilities and Contingent Assets

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
The parent entity and consolidated entity had contingent liabilities at 31 December 2005 in respect of bank guarantees given for leased premises of controlled entities to a maximum of:	**135**	143	**135**	143

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

Note 32: Segment Reporting

The consolidated entity operates in one industry, being the funeral industry, and in one geographical location, being Australia.

Note 33: Cash Flow Information

	Consolidated Entity 2005 $'000	Consolidated Entity 2004 $'000	Parent Entity 2005 $'000	Parent Entity 2004 $'000
Reconciliation of Cash Flow from Operations with Profit from Continuing operations after Income Tax Expense				
Profit from continuing operations after income tax expense	**20,188**	19,312	**30,189**	9,273
Non-cash flows in profit from continuing operations				
Depreciation and amortisation	**6,305**	6,375	**–**	–
Bad debts recovered	**(85)**	–	**–**	–
Share options expense	**447**	854	**447**	854
Loan establishment costs	**2,034**	–	**2,034**	–
AIFRS adjustments relating to:				
Debtors discounting – sales revenue	**472**	–	**–**	–
Debtors discounting – interest revenue	**(523)**	–	**–**	–
Net gain on disposal of property, plant and equipment	**(1,955)**	(1,958)	**–**	–
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/Decrease in trade and other debtors	**(3,153)**	(1,075)	**79**	(2,141)
(Increase)/Decrease in inventories	**(136)**	(983)	**–**	–
(Increase)/Decrease in deferred tax assets	**(297)**	515	**(547)**	22
Increase/(Decrease) in payables	**1,607**	(3,174)	**(1,641)**	–
Increase/(Decrease) in deferred revenue	**1,409**	2,313	**–**	–
Increase/(Decrease) in income taxes payable	**139**	(199)	**3,198**	408
Increase/(Decrease) in deferred taxes payable	**58**	99	**–**	–
Increase/(Decrease) in derivative liabilities	**(958)**	–	**2,029**	–
Loan account movement affecting cash flows from continuing operations	**–**	–	**(861)**	–
Increase/(Decrease) in provisions	**54**	832	**–**	–
	25,606	22,911	**34,927**	8,416

Note 34: Events After the Balance Sheet Date

There have been no significant events that have occurred subsequent to 31 December 2005.

Note 35: Related Party Transactions

(a) Parent entity

The ultimate parent entity within and for the Group is InvoCare Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in Note 17.

(c) Directors and key management personnel

Disclosures relating to directors and key management personnel are set out in Note 7.

	Consolidated Entity		Parent Entity	
	2005 $'000	2004 $'000	**2005 $'000**	2004 $'000
(d) Transactions with related parties				
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.				
Transactions between InvoCare Limited and its controlled entities				
Management fee charged by the parent entity			**1,400**	960
Loans advanced by the parent entity			**20,166**	–
Loans repaid to the parent entity			**–**	18,395
Interest charged by the parent entity			**16,268**	16,714
Dividend paid to the parent entity			**27,323**	6,080
Amounts receivable by the parent entity from controlled entities				
Loan by parent entity to a subsidiary			**194,956**	173,929
The loan made by InvoCare Limited to a controlled entity is unsecured and has no fixed terms of repayment. Interest on the loan is charged at 9% (2004: 9%).				
Transactions with other related parties				
Contributions to superannuation funds on behalf of employees	**3,249**	3,252	**–**	–

(e) Guarantees and other matters

Under the terms of loan facility agreements executed on 16 December 2005, InvoCare Limited and each of its wholly owned entities except Restbind Pty Limited, (the Guarantors) has individually guaranteed to the financiers the due and punctual payment in full of any liabilities or obligations under the facilities. The Guarantors have also indemnified the financiers against any loss or damage suffered by the financiers arising from any failure by a borrower or any Guarantor to satisfy the obligations.

Under income tax consolidation legislation, InvoCare Limited assumes responsibility for the income tax payable by the consolidated tax group comprising InvoCare Limited and its wholly owned entities. A tax sharing and funding agreement (TSA) between InvoCare Limited and its wholly owned entities covers the funding, accounting and calculation of the tax liability for each individual entity, and also caters for entities joining and exiting the group. Under the terms of the TSA, InvoCare Limited has appointed InvoCare Australia Pty Limited as its agent for the purpose of making tax payments and will reimburse that entity through the intercompany loan account for amounts paid except for the tax allocated to that entity.

Note 36: Economic Dependence

The parent entity depends on dividend and interest income from, and management fees charged to, its controlled entities to source the payment of future dividends and fund its operating costs and debt service obligations as borrower under the bank loan facility agreements. The parent entity's financial position is sound, notwithstanding a net current liability situation being shown in the balance sheet. Adequate cash resources are available to enable it to meet its obligations as and when they fall due, through either drawing on unused loan facilities, which at the reporting date amounted to $24.7 million, or by on-demand repayment of inter-company advances.

Note 37: Financial Instruments

(a) Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, bank borrowings, loans to and from subsidiaries and interest rate swap contracts. The main purpose of non-derivative financial instruments is to raise funds for Group operations. Senior executives of the Group meet on a regular basis to analyse interest rate exposure and to evaluate treasury management strategies in the context of economic conditions and forecasts.

The main risks the Group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Note 37: Financial Instruments (continued)

Interest rate risk

The Group's borrowings bear interest at variable rates. Interest rate risk is managed using interest rate swap contracts for at least 75% of the borrowings.

Liquidity risk

The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. The consolidated entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

Other risks

The Group is not materially exposed to fluctuations in foreign currencies nor to any material commodity price risk.

(b) Net fair values

The net fair values of assets and liabilities approximates their carrying value. No financial assets or financial liabilities are readily traded on organised markets in standardised form. The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes to the financial statements. The carrying amount of financial assets and liabilities approximate their fair value.

Note 38: Critical Accounting Estimates and Judgements

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

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

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(o). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 19 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Timing of recognition of deferred cemetery/crematorium merchandise revenue

Pre-need cemetery/crematorium merchandise sales are currently brought to account over an assumed 15 year period. Unredeemed merchandise sales (included within deferred revenue on the balance sheet) total $27.7 million at 31 December 2005.

The 15 year period is based on the actuarially assessed average period between a customer entering into a pre-need funeral plan and the contract becoming at-need. The actual history of a pre-need cemetery/crematorium contract may differ from the profile of a pre-need funeral plan, however, in the absence of more specific data being available, the funeral data has been applied.

The average 15 year period is an assumption only and therefore subject to uncertainty. It is possible that there will remain unperformed contracts at the end of the 15 year amortisation period, yet all revenue will have been recognised. Offsetting this is the likelihood that contracts performed during the 15 year period will have unrecognised revenue.

During the year management has been collating actual redemptions information for a sample of sites in order to determine a more accurate history for cemetery/crematorium pre-need sale redemptions. At this early stage, the information supports the current recognition period. Management will continue to build more accurate history and reassess the assumed 15 year period.

The impact of recognising revenue over 20 years instead of the current 15 years would be approximately $0.5 million per annum in revenue.

Note 39: Company Details

InvoCare Limited is a company limited by shares, incorporated and domiciled in Australia.
The registered office and principal place of business of the company is:
Level 4, 153 Walker Street, North Sydney NSW 2060

Note 40: Authorisation of the Financial Report

This financial report was authorised for issue by the directors on 31 March 2006. The company has the power to amend and reissue this report.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 52 to 94 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 2005 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out on pages 40 to 47 of the directors' report comply with Accounting Standards AASB 124 Related Party Disclosures and Class Order 06/50 issued by ASIC; and

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

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

Ian Ferrier
Director

Richard Davis
Director

Dated this 31st day of March 2006

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Independent Audit Report
to the members of InvoCare Limited

Audit opinion

In our opinion:

1. the financial report of InvoCare Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of InvoCare Limited and the InvoCare Group (defined below) as at 31 December 2005, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*; and

2. the remuneration disclosures that are contained in pages 40 to 47 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and Class Order 06/50 issued by the Australian Securities and Investments Commission.

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

Scope

The financial report, remuneration disclosures and directors' responsibility

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

The company has disclosed information about the remuneration of directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration report" on pages 40 to 47 of the directors' report, as permitted by Class Order 06/50.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with AASB 124 and Class Order 06/50. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows. We also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and Class Order 06/50.

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

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

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

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

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

Independence

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

PricewaterhouseCoopers

John Gordon
Partner

Sydney 31 March 2006

Shareholder information

Shares and Options as at 15 March 2006

	Number
Shares on issue	96,915,931
Options on issue	860,737

Distribution of Shareholdings as at 15 March 2006

	Number of share holders	Number of shares	Percentage %
1 – 1,000	1,344	893,083	0.92
1,001 – 5,000	3,953	12,158,293	12.55
5,001 – 10,000	1,252	10,087,531	10.41
10,001 – 100,000	716	15,104,707	15.59
100,001 and over	45	58,672,317	60.54
	7,310	96,915,931	100.00

There were 17 holders of less than a marketable parcel of ordinary shares (being 114 based on a market price of $4.42 on 15 March 2006) who hold a total of 1005 ordinary shares.

Equity Security Holders

Largest 20 holders of ordinary shares at 15 March 2006

		Number of shares	Percentage %
1	JP Morgan Nominees Australia Limited	10,634,516	10.97
2	National Nominees Limited	9,380,667	9.68
3	Westpac Custodian Nominees Ltd	8,881,301	9.16
4	Citicorp Nominees Pty Limited	5,156,868	5.32
5	RBC Global Services Australia	5,044,292	5.20
6	ANZ Nominees Limited	3,938,814	4.06
7	Bond Street Custodians Limited	2,875,399	2.97
8	Queensland Investment Corporation	1,983,063	2.05
9	Victorian Workcover Authority	1,933,150	1.99
10	Richard Hugh Davis	1,599,733	1.65
11	Transport Accident Commission	1,128,296	1.16
12	UBS Wealth Management Australia Nominees Pty Ltd	931,521	0.96
13	Michael James Grehan	802,157	0.83
14	PSS Board	793,300	0.82
15	Argo Investments Limited	685,000	0.71
16	CSS Board	654,673	0.68
17	The University of Melbourne	590,249	0.61
18	Cogent Nominees Pty Limited	533,606	0.55
19	Milton Corporation Limited	495,000	0.51
20	Australian Executor Trustees Limited	469,455	0.48
	Total for top 20	58,511,060	60.37

Unquoted equity securities

	Number on issue	Number of holders
Options issued under the Employee Share Option Plan to take up ordinary shares	860,737	9

Equity Security Holders (continued)

Substantial holders

Substantial holders in the company as at 15 March 2006 are set out below:

	Number on issue	%
JP Morgan Nominees Australia Limited	9,444,268	9.74
Barclays Global Investors Australia Limited	7,927,286	8.18
National Australia Bank Limited Group	6,573,630	6.78
Deutsche Bank AG	5,551,600	5.73
Goldman Sachs JBWere Group	4,999,238	5.16

Voting Rights

The voting rights attaching to each class of security are set out below:

Ordinary shares

On a show of hands, each member present in person and each other person present as a proxy of a member, has one vote. On a poll each member present in person has one vote for each fully paid share held by the member and each person present as a proxy of a member has one vote for each fully paid share held by the member that the proxy represents.

Options

Options have no voting rights.

Shareholder and consumer funeral assistance information

All InvoCare funeral homes have a booklet available 'All you need to know about funerals' which explains such matters as:

- Arranging a funeral, the role of the funeral director and the services available.
- Explanations of the cost elements of a funeral and the choices available.
- Burial or cremation decisions and choice of memorials.
- Catering for different cultures, traditions, etc.
- Who should be notified, guidelines on writing a eulogy and coping with grief.
- InvoCare has a Funeral Advice Line 1300 363 350 which can provide immediate advice to consumers or the website www.funeraladvice.com.au.

Necessary information is available on the company website www.invocare.com.au.

InvoCare funeral homes can assist in providing details on prepaid funerals through the company's Guardian Plan, where a future funeral can be pre-arranged and prepaid at current prices, providing emotional and financial peace of mind that your personal are in order and the family is relieved of a financial burden. To receive a free copy of the 'Personal Information Guide' (to record details for the family to use later) contact an InvoCare funeral home who can arrange for a consultant to provide guidance on the options of pre-planning – without obligation.

Memorials are an important part of remembering and providing a focus for reflection and a permanent marker for a life lived where family, friends and future generations can come to remember and pay their respects to their heritage. Memorials at InvoCare's memorial parks or gardens are showcased in the parks' peaceful, natural beauty.

For the location of the nearest InvoCare funeral home or memorial park or garden (cemetery or crematorium), please refer to pages 18 and 19 in this Annual Report or access the company's website www.invocare.com.au.

Glossary

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
AGAAP	Australian Generally Accepted Accounting Principles
ASX	Australian Stock Exchange Limited
ASX Corporate Governance Guidelines	The 10 essential corporate governance principles and best practice recommendations of the ASX Corporate Governance Council March 2003
Cemetery	A place for burials and memorialisation
CLERP 9	Latest round of reforms of the Corporate Law economic reform program, which amends the Corporations Act 2001 primarily relating to corporate governance and auditor independence
Condolence lounge	A facility for family and friends to gather after the funeral service – usually offering a catering service
Constitution	The Constitution of the Company
Crematorium	A place which performs cremation services and for memorialisation
Crypts	Above ground burial facilities
DRP	Dividend reinvestment plan
EBITDA	Earnings before interest, tax, depreciation and amortisation
EEO	Equal Employment Opportunity and Anti Discrimination
EPS	Earnings per share
Funeral Arrangement	The process in which the funeral service is planned and necessary documentation prepared
Funeral Home	The InvoCare location where a funeral can be arranged and where some services can be conducted
IFRS or AIFRS	The Australian equivalents to International Reporting Standards for annual reporting periods beginning on or after 1 January 2005. These were issued in final form by the AASB in July 2004
Memorial or Memorialisation	The physical marker or tribute to the life of the deceased
Memorial Park	An InvoCare location offering cremation, burial and memorialisation services
Operating EBITDA	EBITDA excluding asset sale gains or losses
Prepaid Funeral Fund	The fund where prepaid funeral monies are held in trust until the funeral service is provided
Prepaid Cemetery and Crematoria services	Cemetery and crematoria services that have been arranged and paid for in advance
OH&S	Occupational Health and Safety
Volume	A term that refers to the number of funeral services, burials and cremations performed

Corporate directory

InvoCare Limited
ABN 42 096 437 393

Directors

Independent Directors
Ian Ferrier (Chairman)
Roger Penman (Non-Executive Director)
Christine Clifton (Non-Executive Director)
Richard Fisher (Non-Executive Director)

Executive Directors
Richard Davis (Managing Director and Chief Executive Officer)
Michael Grehan (Chief Operating Officer)

Company Secretary

Kenneth Mealey

Annual General Meeting

The Annual General Meeting of InvoCare Limited will be held at The Westin Sydney, 1 Martin Place, Sydney at 11am on 25 May 2006

Registered Office

Level 4, 153 Walker Street
North Sydney NSW 2060
Telephone: 02 9978 5200
Facsimile: 02 9978 5299
Website: www.invocare.com.au

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Toll free: 1300 854 911
Facsimile: 02 9287 0309

Stock Exchange Listing

InvoCare Limited is a company limited by shares that is incorporated and domiciled in Australia.

InvoCare Limited's shares are listed on the Australian Stock Exchange only. ASX code is IVC.

Auditor

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street
Sydney NSW 1171

Solicitors

Addisons Lawyers
Level 12
60 Carrington Street
Sydney NSW 2000

Bankers

Australia and New Zealand Banking Group Limited
20 Martin Place
Sydney NSW 2000

National Australia Bank Limited
255 George Street
Sydney NSW 2000

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