Everlasting

InvoCare
Innovation Vocation Care

Annual Report 2007

Contents

A "Personal details guide" has been included in the back of this document to assist our stakeholders.

InvoCare services families in Australia and Sin with leading brands through a well establishe network of locations.

WHITE LADY FUNERALS
a woman's understanding

White Lady Funerals is a dedicated team of women offering a unique service for our client families. The life of the loved one is honoured with a special nurturing, sensitivity, warmth and care, with a woman's understanding.

There are 34 White Lady locations throughout Australia.

Traditional and Heritage Funerals

GUARDIAN FUNERALS
To embrace a lifetime, we give you time.

BLACKWELL FUNERALS

GEORGE HARTNETT FUNERALS

Le Pine FUNERAL SERVICES
To embrace a lifetime, we give you time.

PURSLOWE FUNERALS

InvoCare's traditional-style brands of funeral homes maintain the service approach respected by families over many generations. The service is personal and professional, gently guiding families through the arrangement process.

With one major brand in each state and a number of smaller heritage brands serving local communities, there are 85 InvoCare traditional-style and heritage brands of funeral homes in Australia.

Liberty Funerals in Sydney and Chippers Funerals in the Perth region were acquired during 2007, further strengthening InvoCare's presence in those markets.

Simplicity Funerals

Flexible and less traditional, Simplicity Funerals offers a practical, dignified, respectful and affordable funeral service.

Steadily expanding, there are 42 Simplicity Funeral locations throughout Australia.

Cemeteries and Crematoria

InvoCare operates 12 cemeteries and crematoria in New South Wales and Queensland. Many have a fine heritage and have been places of memories and tranquillity for generations of families.

The multi-cultural nature of Australia is recognised with burial, cremation and memorial options, including Asian sections designed by Feng Shui advisers, and the availability of architecturally designed crypts, vaults and family mausoleums preferred by many European communities.

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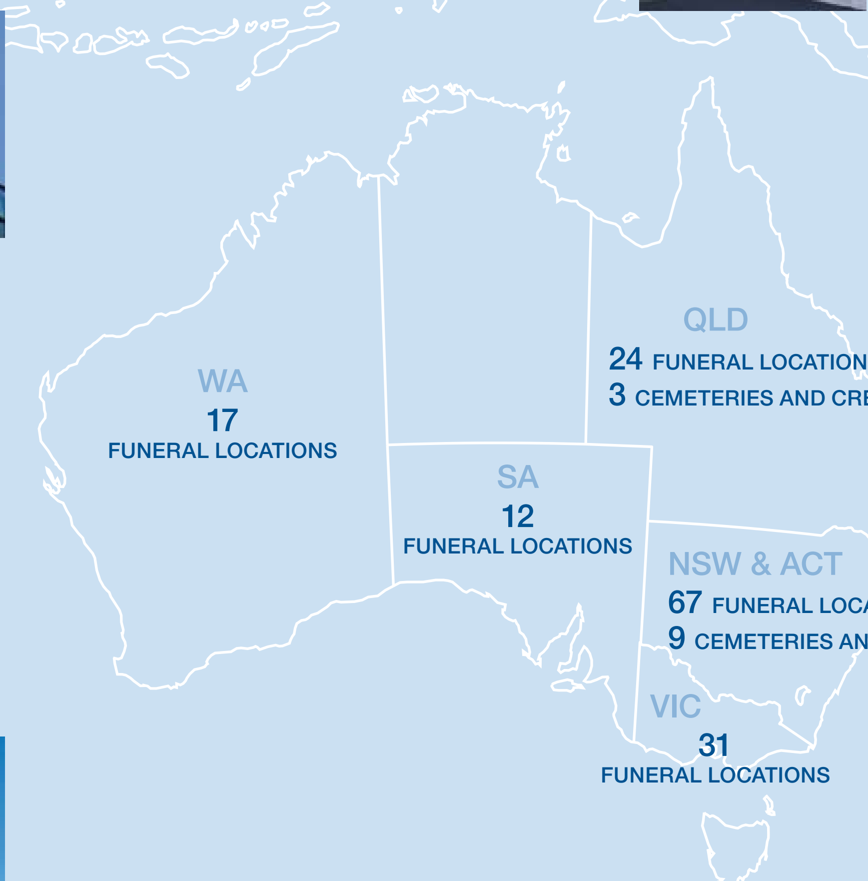
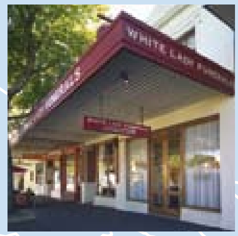
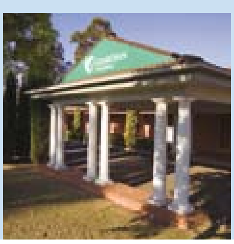

Singapore
WA
17
FUNERAL LOCATIONS
SA
12
FUNERAL LOCATIONS
QLD
24 FUNERAL LOCATIONS
3 CEMETERIES AND CREMATORIA
NSW & ACT
67 FUNERAL LOCATIONS
9 CEMETERIES AND CREMATORIA
VIC
31
FUNERAL LOCATIONS


SINGAPORE
CASKET




Simplicity Funerals



Since listing on the Australian Securities Exchange (ASX) in 2003, InvoCare has evolved through solid financial management and leadership.

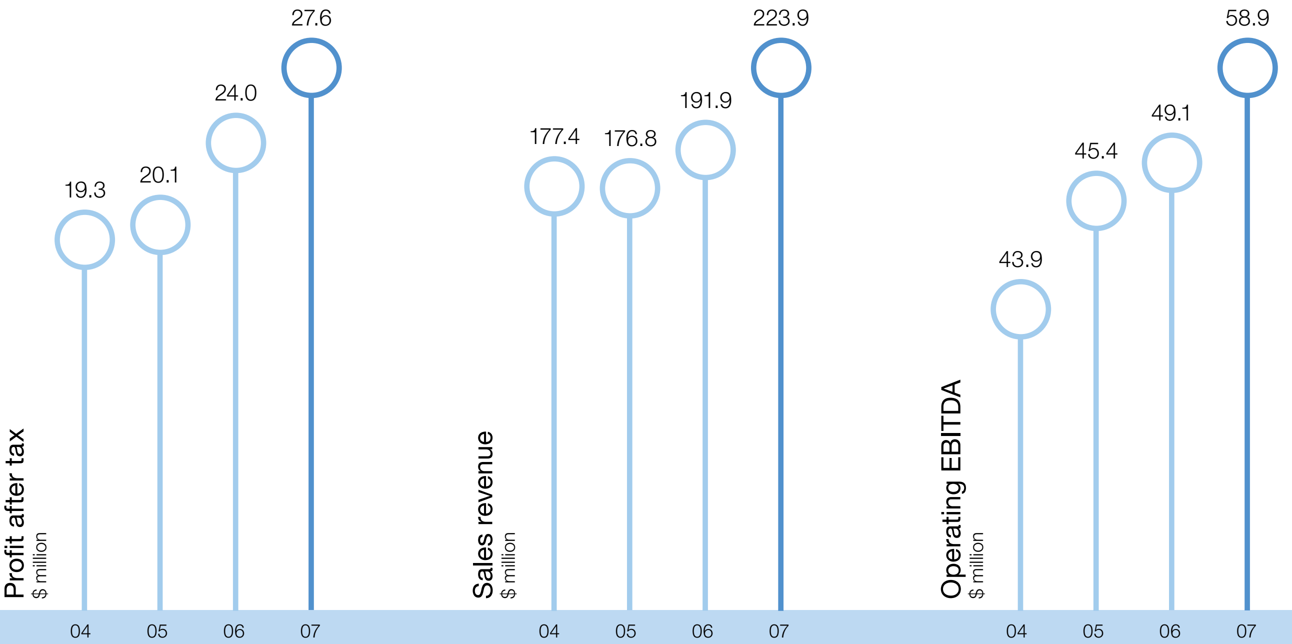
Delivering excellent service to our client families, with confidence and integrity, everlasting memories are preserved and investor value continues to grow.

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

InvoCare places great value on understanding and professionally servicing its client family needs. InvoCare exercises responsibility as an industry leader. It encourages supporting local communities and also actively works with industry and other stakeholder groups. Our mission to shareholders is to improve investor value. The development of our people, our brands and our facilities are the keys to achieving this objective.

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

2007 performance highlights



Profit After Tax ***$27.6 million***

Earnings per Share ***27.6 cents***

Fully Franked Ordinary Dividends ***22.5 cents***

Sales Revenues ***$223.9 million***

7 Acquired Funeral Locations
(Liberty Funerals in Sydney and Chippers in the Perth region)

9 New Funeral Locations Opened

164 Trading Locations – 94 Owned

Results at a Glance

	$ millions unless otherwise stated		
	2007	2006	Change
Sales revenue	**223.9**	191.9	+16.7%
Normalised operating EBITDA	**58.9**	49.1	+19.9%
Normalised operating EBITDA margin	**26.3%**	25.6%	+0.7%
Normalised profit after tax	**27.1**	21.6	+25.1%
Normalised basic earnings per share (EPS)	**27.2 cents**	22.2 cents	+22.5%
Profit after tax on sale of assets	**0.6**	4.9	
Profit after tax on net asset impairment	**0**	(2.4)	
Profit after tax	**27.6**	24.0	+14.6%
Basic EPS (cents per share)	**27.6 cents**	24.7 cents	+11.7%
Prepaid funeral funds under management	**272.0**	252.0	+7.9%
Funeral homes (number)	**152**	139	
Cemeteries and crematoria (number)	**12**	12	
Employees (full-time equivalents)	**923**	842	

Chairman's message

InvoCare's robust business model, a higher number of deaths, strong average sales performance and a positive contribution from acquisitions and new locations resulted in another solid year in 2007.

Ian Ferrier

Reported profit after tax of $27.6 million grew 14.6% or $3.5 million and resulted in a basic EPS of 27.6 cents per share. Following the strong overall financial performance, the Board declared a fully franked final dividend of 12.5 cents per share. The total fully franked ordinary dividends for the year increased 15.4% to 22.5 cents per share. Total shareholder returns (price movement plus cash dividends) for the year ended 31 December 2007 increased by a healthy 30%, taking total shareholder returns since the initial public offering in late 2003 to 318%.

The Chief Executive Officer review and the Group financial and operational review highlight the advancements made during 2007 and the strong position of the Company.

Two funeral business acquisitions were completed in 2007, in Sydney and Perth, taking to five the number of acquisitions since December 2005. In addition to these, InvoCare's penetration of the Australian funeral market was further assisted by opening nine new funeral homes in strategic locations.

The results in 2007 were positively impacted by a higher than expected number of deaths and solid contributions from funeral fund monies redeemed after prepaid funeral services were performed. The Company's future results will remain subject, as always, to the actual number of deaths. The Board and management are also closely monitoring the potential impact on InvoCare's financial results of emerging economic developments and the effect sharemarket volatility has on prepaid funeral fund returns.

I am particularly pleased that we have further increased the investment in our employees during the year. Focus has been given to numerous areas, including learning and development modules, management development, succession management, recruitment and retention strategies, workplace safety initiatives, updating operational uniforms, performance evaluation and remuneration reviews. The Board was also pleased to make another offer of participation in the InvoCare Exempt Employee Share Plan, which has approximately 250 employee members, and also extended to about 40 senior managers the offer of long-term incentive shares under the InvoCare Deferred Employee Share Plan. More than 25% of InvoCare's employees are shareholders, thus aligning their interests with those of investors.

The Board remains strongly committed to appropriate corporate governance best practice and we have embraced the ASX Corporate Governance Council's revised principles and recommendations and CLERP 9 reforms. Our Board Committees (Audit, Risk, Remuneration and Nomination) have all functioned effectively. Good corporate governance is definitely embedded into the culture and values at InvoCare.

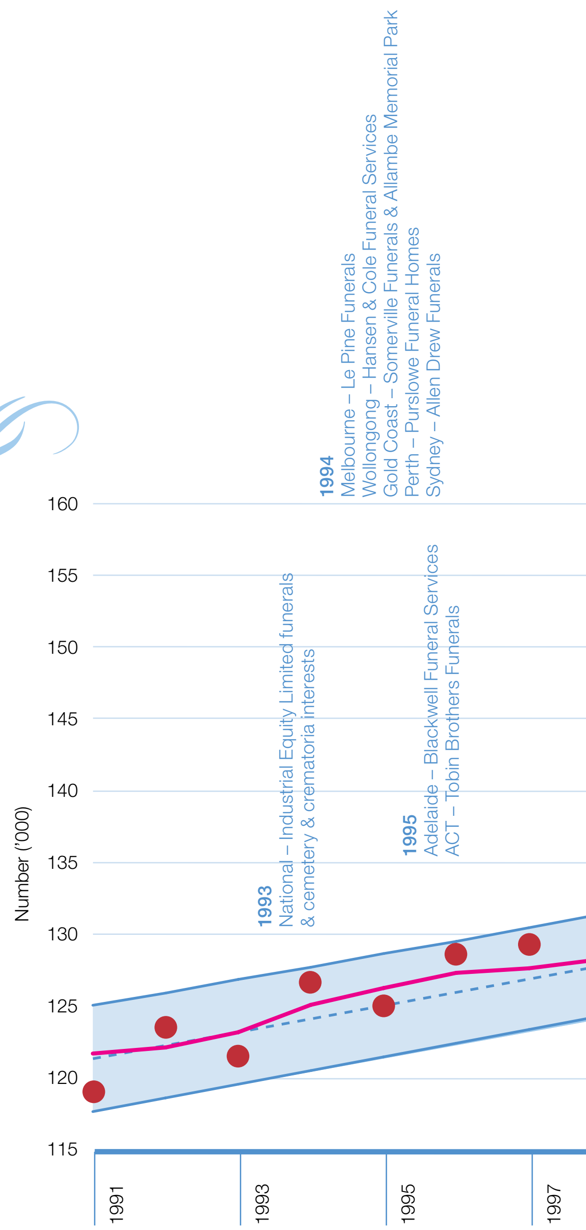
On behalf of the Board and all its shareholders, I commend management and employees across Australia and Singapore on the excellent results achieved and I thank them for all their hard efforts. Their commitment, dedication and high service ethics have particularly contributed to InvoCare's strong 2007 performance. The Board is confident that the Company is well positioned to deliver sustainable growth into the future.

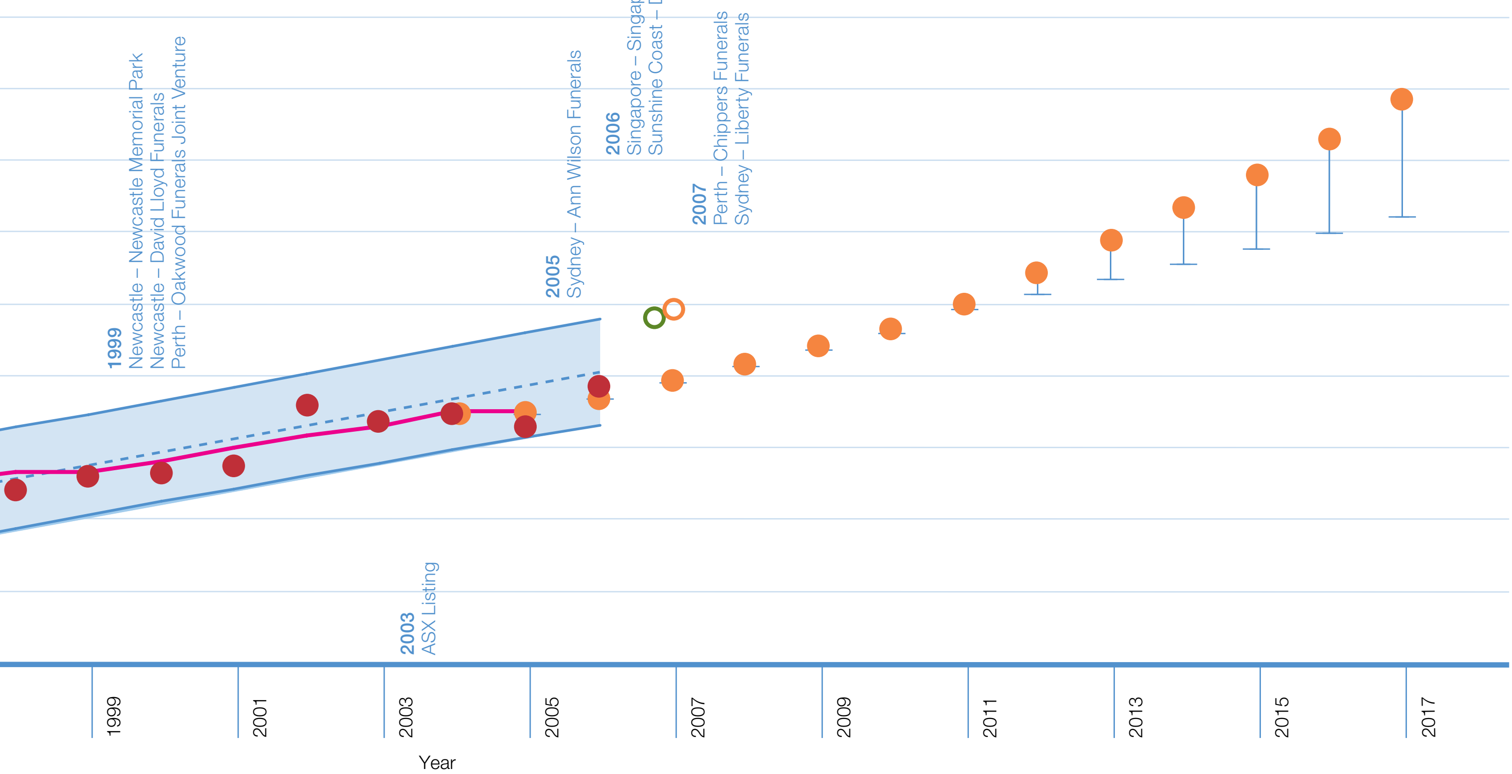
Ian Ferrier Chairman

Key Strategies of 2007

Organic growth and acquired opportunities, together with a robust business model, deliver a solid and predictable investment.

With a continued focus on key strategies, the Company is well positioned to deliver further sustainable growth. In 2007, strong progress has been made in all aspects of InvoCare's business.




1999
Newcastle – Newcastle Memorial Park
Newcastle – David Lloyd Funerals
Perth – Oakwood Funerals Joint Venture
2003
ASX Listing
2005
Sydney – Ann Wilson Funerals
2006
Singapore – Singapore Casket Company
Sunshine Coast – Drysdale Funerals
2007
Perth – Chippers Funerals
Sydney – Liberty Funerals
1999
2001
2003
2005
2007
2009
2011
2013
2015
2017
Year

Key Strategies of 2007

Increasing brand awareness and alignment to consumer needs

Sydney's traditional umbrella brand, Guardian, increased its total awareness to 46%, an increase of 32%, ranking it number three in Sydney behind InvoCare's White Lady and Simplicity brands.

Total brand awareness for InvoCare's other major brands in key markets was maintained at 75% or above.

InvoCare operates from 152 Australian funeral locations, of which 54% operate under a traditional or heritage brand, 25% under the Simplicity brand and 21% under the White Lady brand, compared to 55%, 23% and 22% respectively in the prior year. The representational shift has been achieved by the opening of new locations and the rebranding of several traditional or heritage brands to meet consumer needs.

The strategy, together with continued focus on service excellence, resulted in maintaining our overall market share in an increasingly competitive market.

Ian McKenzie
General Manager, Marketing
and Communications

Key Strategies of 2007

Opening new locations and acquiring successful businesses

9 locations were opened during 2007 following 8 in the prior year. Collectively, new locations opened over the last two years contributed $4 million to revenues in 2007 and $1.2 million in the prior year.

Two acquisitions were successfully completed in 2007, Liberty Funerals (Sydney) in March and Chippers Funerals (Perth) in December. Collectively, these businesses, together with acquisitions made in 2006, generated annual revenues and EBITDA of approximately $12.3 million and $5.4 million respectively.

All the Company's acquisitions continued to operate to plan and management remains confident that further small acquisitions can be completed in future.

Andrew Smith
Chief Operating Officer

Sam Koura
Founder of Liberty Funerals

Key Strategies of 2007

Investment in our people

The return on investment in personnel is reflected in the Company's strong financial results, customer satisfaction and equity participation by employees.

Overwhelmingly, the majority of InvoCare clients are prepared to recommend an InvoCare provider at a time of need. In 2007, the percentage of clients indicating a definite or probable willingness to recommend increased to 97%, with 99% indicating InvoCare services were in line with or above their expectations.

At the end of 2007, approximately 25% of InvoCare's employees had equity in the Company via the Company's Exempt Employee Share Plan or Deferred Employee Share Plan. InvoCare is in a unique position in being able to allow its employees to participate in equity with the majority of its competitors being family owned and operated business where equity is restricted to family.

Investment in learning and development continued, with approximately a third of the Company's structured training programmes being updated and introduced to the field. Over the next two years the remaining 24 operational programmes will be rewritten and rolled out.

The ongoing safety of our staff remained a focus with overall workers' compensation claims reducing 3% for the year.

Paul McMahon
General Manager, Human Resources

Key Strategies of 2007

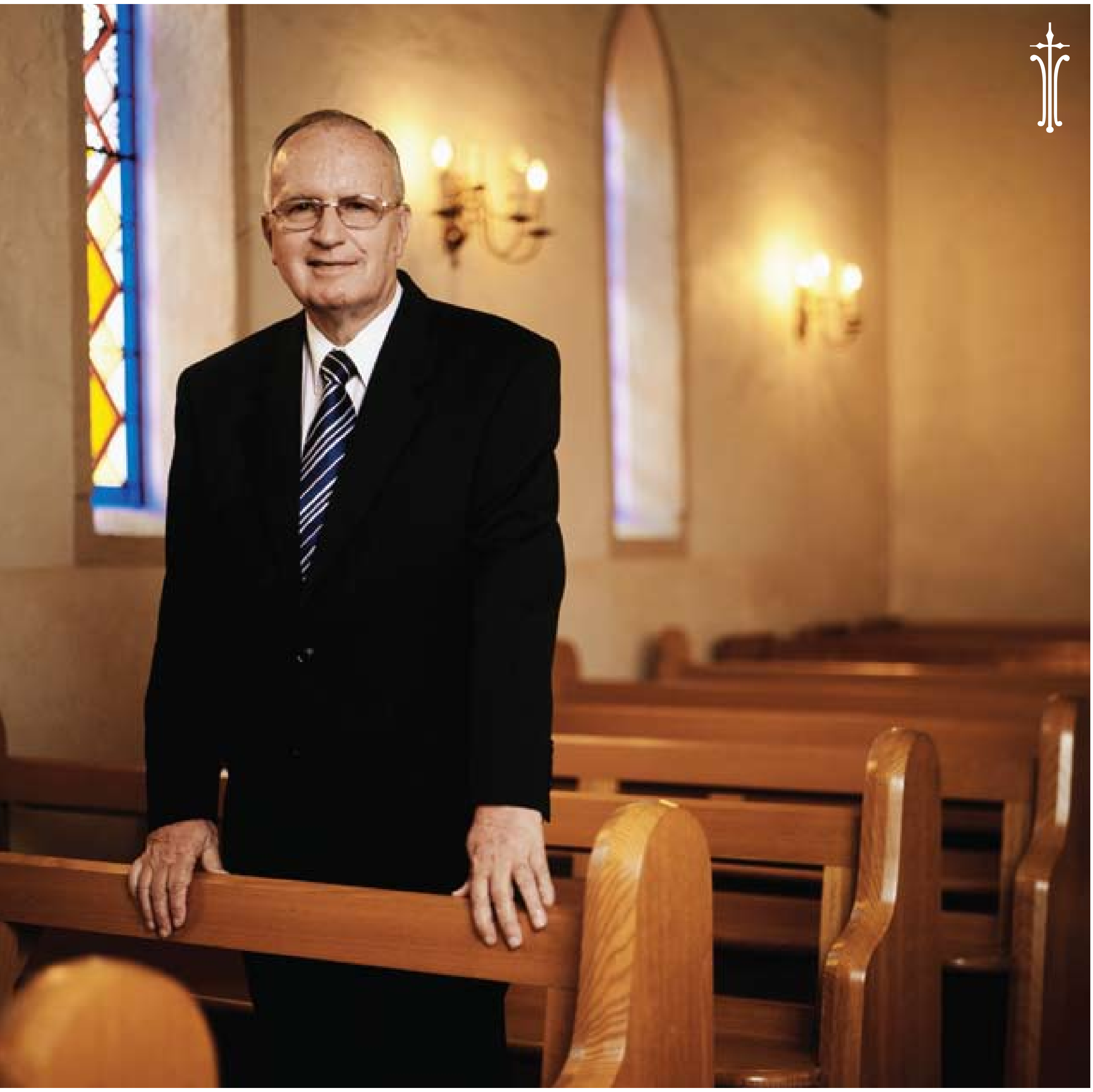
Improving our facilities and expanding memorialisation

2007 strategic expenditure increased by more than 70% to $11.1 million. Major facility upgrades occurred predominantly in our funeral operations in Melbourne and Perth and our cemeteries and crematoria.

The focus on improving facilities at InvoCare's cemeteries and crematoria has stabilised market share in an increasingly competitive market.

InvoCare increased its investment in memorialisation, including outlaying $1.8 million for crypts during the course of the year. This investment, together with the provision of other memorialisation options, resulted in cemetery and crematorium revenue increasing by 10.6% to $57.3 million.

Damien Fitzpatrick
General Manager,
Property & Facilities



Key Strategies of 2007

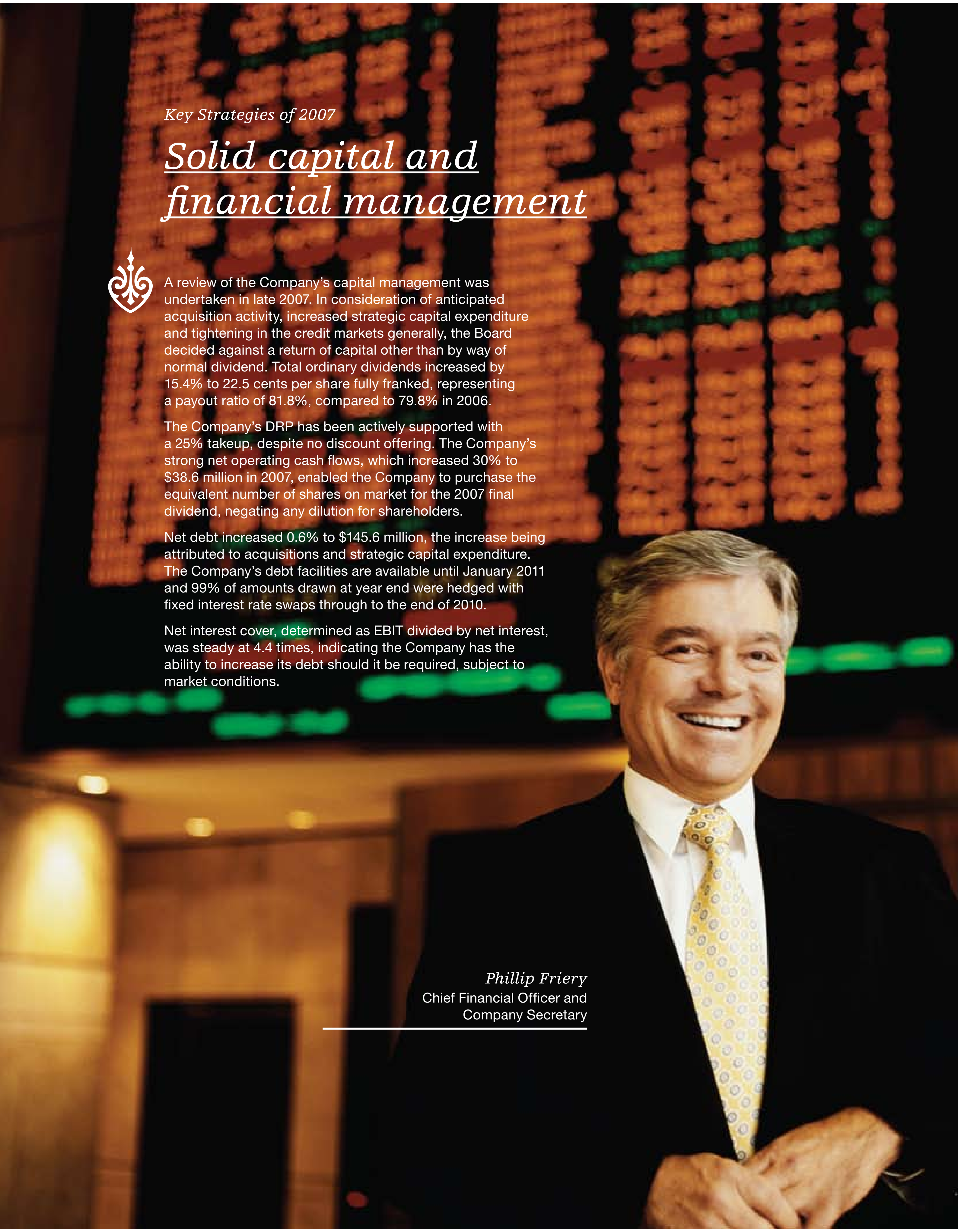
Valuable future income streams

Prepaid funeral funds under management increased 7.9% to $272 million. The estimated prepaid fund surplus increased 22% to $56 million. The redeemed surplus recognised in sales revenue in 2007 amounted to $3.2 million compared to $1.0 million in the prior year.

Prepaid contract redemptions exceeded new contracts by 2.1%, a significant improvement on the 19.1% experienced in the prior year. Continued management focus in 2008 is expected to result in new contracts exceeding redemptions.

Approximately 13% of funerals performed in 2007 were prepaid.

John Rawlings
Guardian Plan Consultant



Key Strategies of 2007

Solid capital and financial management

A review of the Company's capital management was undertaken in late 2007. In consideration of anticipated acquisition activity, increased strategic capital expenditure and tightening in the credit markets generally, the Board decided against a return of capital other than by way of normal dividend. Total ordinary dividends increased by 15.4% to 22.5 cents per share fully franked, representing a payout ratio of 81.8%, compared to 79.8% in 2006.

The Company's DRP has been actively supported with a 25% takeup, despite no discount offering. The Company's strong net operating cash flows, which increased 30% to $38.6 million in 2007, enabled the Company to purchase the equivalent number of shares on market for the 2007 final dividend, negating any dilution for shareholders.

Net debt increased 0.6% to $145.6 million, the increase being attributed to acquisitions and strategic capital expenditure. The Company's debt facilities are available until January 2011 and 99% of amounts drawn at year end were hedged with fixed interest rate swaps through to the end of 2010.

Net interest cover, determined as EBIT divided by net interest, was steady at 4.4 times, indicating the Company has the ability to increase its debt should it be required, subject to market conditions.

Phillip Friery
Chief Financial Officer and
Company Secretary

CEO review

Underpinning the 2007 result is the Company's strong, reliable business model and a committed, professional workforce focussed on service excellence.

Richard Davis

Overall, InvoCare performed strongly again in 2007 with profit after tax increasing 14.6% to $27.6 million. The performance reflected the increase in the number of deaths, strong average sales performance and the impact of acquisitions completed in 2006 and in early 2007. The financial highlights on page 2 summarise the financial performance across the key parameters.

Underpinning the 2007 result is the Company's strong, reliable business model and a committed, professional workforce focussed on service excellence.

Strategically, our focus remained unchanged, concentrating 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 2007, overall sales revenues increased 16.7% to $223.9 million. The estimated number of deaths was higher than expected, with Australian deaths increasing by an estimated 4.4% in the markets where InvoCare operates. As anticipated, overall average sale per service improved as mix reverted back to norm after a disappointing experience last year.

Operating margins (earnings before depreciation, amortisation and tax/sales revenues) increased to 26.3%, from 25.6% in 2006, largely as a consequence of the higher margins achieved from the Company's Singapore operations. Profit after tax generated from sale of non-core assets amounted to $0.6 million, compared to $4.9 million in the prior year. No assets were impaired, unlike the prior year where the Company's results were adversely affected by a $2.4 million after tax writedown.

Basic earnings per share amounted to 27.6 cents, representing an 11.7% improvement on the result achieved in 2006.

The strong financial performance enabled the Board to declare a final fully franked dividend of 12.5 cents per share. The total dividends paid or payable for the year amounted to 22.5 cents per share fully franked, representing an increase of 15.4% on these paid or declared in the prior year.

These dividends, together with the growth in the share price during the year, have delivered strong returns for shareholders, with total shareholder return for the year amounting to 30%.

Albany Creek Memorial Park, Brisbane

Funeral Homes

Sales revenues from InvoCare's 152 funeral homes amounted to $173.2 million, 18.4% above the result in 2006. Funeral services provided increased 11.7%, of which 6.9% related to acquisitions, whilst deaths in the Australian markets where InvoCare operates were estimated to have increased 4.4%.

Management estimates Australian overall market share to have increased from 30.1% to 30.7% in the markets where InvoCare operates, largely as a consequence of acquisitions. Funeral acquisitions have performed in line with or above expectations, resulting in additional purchase price proceeds being paid as a consequence of contractual "earn out" provisions.

Major brand awareness remained strong throughout the year, with the new Guardian umbrella brand in Sydney increasing its awareness by 32% to 46%. The alignment of InvoCare's major brands to different consumer segments continues as the Company endeavours to meet the needs of consumers.

Nine new funeral locations were opened during the year, with a further four to six scheduled for opening in 2008. Revenues generated from new locations opened in 2006 and 2007 amounted to $4.0 million, compared to $1.2 million in the prior year.

Client satisfaction remained high with 97% of InvoCare survey respondents indicating again a willingness to definitely or probably recommend an InvoCare provider to a third party if the need arose. Overall 99% of respondents continue to believe InvoCare meets or exceeds their expectations.

Cemeteries and Crematoria

Sales revenues from InvoCare's 12 cemeteries and crematoria amounted to $57.3 million, representing a 10.6% improvement on 2006. The improvement reflects the increase in the number of deaths in InvoCare markets together with improvements in average sale of product and services, as a consequence of mix.

Management estimates overall market share to be stable notwithstanding increased competition in the markets where InvoCare operates, due to the increased investment in facilities over the last few years.

From left to right, top to bottom: Lake Macquarie Memorial Park, Ryhope; Rookwood Memorial Gardens and Crematorium, Rookwood

Facility upgrades continue in the Company's cemeteries and crematoria. The Company's investment in major crypt and mausoleum developments continued with the Forest Lawn Memorial Gardens project at Leppington, NSW being completed and the projects at Lakeside Memorial Gardens, Dapto, NSW and Pinegrove Memorial Gardens, Eastern Creek, NSW nearing completion. In total, $1.8 million was invested into these crypt projects in 2007 with further funds committed in 2008.

Whilst there has been no shift in the rate of memorialisation for cremation in recent years, InvoCare maintains its community awareness programmes, educating the public on the benefits of having a memorial.

Pleasingly, 94% of InvoCare survey respondents indicated again a willingness to definitely or probably recommend an InvoCare provider to a third party if the need arose.

Prepaid Funeral Funds

13% of the Australian funerals InvoCare conducted in 2007 were prepaid, largely consistent with 2006. Whilst prepaid funeral redemptions exceeded new contracts by 2.1% it was a substantial improvement on the 19.1% deficit experienced in 2006. The improved performance is attributed to an increased focus on this aspect of the business with an expectation that new contracts will exceed redemptions in 2008.

As at 31 December 2007, $272 million was independently managed in trust funds, an increase of 7.9% on that held at the end of 2006. Gross returns for funds under management for the past year amounted to 11.9%, in line with general market conditions. Management and administration fees for funds under management reduced 0.3% to 1.6% p.a.

Management estimates the surplus of the prepaid funeral funds under management amounted to $56 million, where the surplus relates to the difference between the funds under management as at year end and the retail price that InvoCare would charge to provide those services at normal retail prices. This surplus will be realised over time as the prepaid funerals are delivered. The actual surplus realised will be dependent upon future investment returns until service delivery occurs.

Acquisitions, Net Debt and Cash Flows

Revenues attributable to acquisitions completed in 2006 and 2007 amounted to $12.3 million, compared to $2.5 million in the prior year.

Acquisitions completed during the year included Liberty Funerals (Sydney, NSW) in March and Chippers Funerals (Perth, WA) in December. Chippers is the third largest operator in the Perth region, operating from five locations.

Overall, net debt decreased 0.6% to $145.6 million. Outlays for acquisitions amounting to $8.5 million and capital expenditure of $17.4 million were partially funded by the activation of the Company's Dividend Reinvestment Plan (DRP) that raised $5.7 million, the exercise of employee options amounting to $0.3 million and the proceeds from the sale of assets of $4.6 million, of which $3.2 million related to a deferred settlement on a property sold last year.

Operating cash flows before interest, financing costs and taxation improved 22.5% to $62.0 million following an improvement in operating EBITDA of 19.9%.

In total, dividends amounting to $15.7 million (excluding DRP proceeds) were paid during the year, compared to $13.8 million in the prior year.

Overview of Operations

The Company continues its focus on the strategic importance and effective returns from its locations. No non-performing or non-strategic property assets were sold in 2007. However, InvoCare relocated a funeral home to leased premises from a property compulsorily acquired by a government agency. Sale of this property together with other assets generated an after tax profit of $0.6 million, compared to $4.9 million in the prior year. The revenues and profit contribution from these assets was not material. A property previously identified as being non-strategic and identified for sale has been retained and will be rebranded as a flagship location for Guardian in Sydney.

Capital expenditure for the next five years is expected to average $12 million per annum, net of divestitures of non-strategic non-performing assets. However, the actual expenditure in any one year may materially differ from this amount due to the timing of development approvals. In 2008, capital expenditure of $22.0 million is anticipated.

InvoCare continues working with the industry and other stakeholder groups as various state governments review their legislation in respect of the industry. As previously reported, the majority of the focus continues to be on protecting consumers.

From left to right, top to bottom:
Tweed Heads Memorial Gardens, Tweed Heads;
Forest Lawn Memorial Park, Leppington

From left to right, top to bottom: Tweed Heads Memorial Gardens, Tweed Heads; Lakeside Memorial Park, Dapto; Pinegrove Memorial Park, Eastern Creek

Local community support continued throughout the year with both the Company and its staff actively participating. Support included financial assistance, provision of facilities and equipment, as well as staff volunteering their valuable personal time.

InvoCare continues to be committed to training and developing its employees with extensive "learning and development" programmes focussing on the key areas of the business. In 2007, the Company continued to upgrade its core training modules.

During the year, the Company introduced a Deferred Employee Share Plan, an important initiative aimed at aligning management interests to those of shareholders and the retention of key personnel. The offer was made to all regional managers and above. This initiative, together with the Exempt Employee Share Plan offered again in 2007, has enabled over 25% of InvoCare's personnel to have equity in the business.

Looking Ahead

The Company's ongoing commitment to service, its strong brands, its network of locations, its valuable prepaid funeral fund and its operating leverage position the Company well for sustainable growth.

As evidenced in recent years, the Company is well positioned to grow by way of acquisition both in this country and now internationally.

Whilst InvoCare's results will continue to be affected by the number of deaths in any given period, InvoCare's positioning in the markets where it operates, together with its strategic initiatives, place the Company well for the future.

Finally I would like to take this opportunity to thank my 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

Collectively, the management personnel below have in excess of 100 years of management experience with the Company, of which the Executive have approximately 35 years. In addition, the management personnel below have held various senior management positions with other companies prior to joining InvoCare.

Board of Directors

Chief Executive Officer

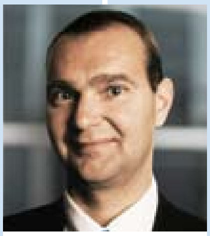
Richard Davis BEc
Industry experience 19 years

Chief Financial Officer and Company Secretary

Phillip Friery BBus CA
Industry experience 13 years

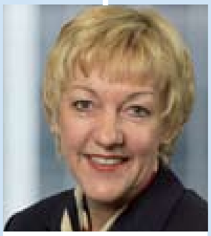
Chief Operating Officer

Andrew Smith JP BCom MBA CA
Industry experience 2 years



New South Wales Funerals

Greg Bissett
Joined January 2008



Queensland Funerals

Doris Zagdanski
Industry experience 24 years

Victorian Funerals

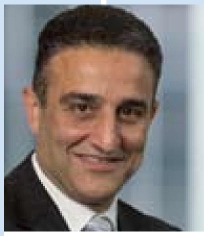
John Fowler
Industry experience 32 years

South Australian Funerals

Jason Maher
Industry experience 12 years

Western Australian Funerals

Andrew Hogan
Industry experience 14 years



Cemeteries and Crematoria

Armen Mikaelian
Industry experience 18 years

Singapore Casket Company

Chief Executive Officer
Goh Wee Leng

Richard Davis and Andrew Smith are directors of InvoCare's Singapore subsidiary

Operations are supported by the following back office functions and management

- Marketing & Communications – Ian McKenzie
- Prepaid Funerals Administration – Sasha Moore-Shupick
- Human Resources – Paul McMahon
- Information & Technology – John Brennan
- Property & Facilities – Damien Fitzpatrick
- Finance – Nailesh Shah and Chris Mooney

Environment, safety, people and community

InvoCare is committed to achieving long-term, sustainable returns for its shareholders whilst recognising the importance of also adding value for its client families, employees and the communities in which it operates.

Top to bottom: Hansen and Cole Catholic Mission donation; All Souls Day at Lakeside Memorial Park, Dapto

The Company aims to achieve its business objectives in a caring and responsible manner, recognising the economic, social and environmental impact of its activities.

Community

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

The Company's memorial parks provide a tranquil environment for people to reflect and remember family and friends as well as being places of heritage.

During 2007, InvoCare and its personnel were involved in hundreds of activities at a local, state or national level.

Supporting Charities

As part of its commitment to local communities, the Company contributed more than $0.4 million in donations and sponsorships to various charities and local community groups during 2007.

In addition to the Company's direct contributions, many of InvoCare's employees were involved in raising thousands of dollars via their involvement in charity fund raising activities and service clubs such as Rotary and Lions. The Company encourages employee participation in these activities.

Environment

As in the past, InvoCare's impact on the environment has been relatively low and this position is unlikely to change in the near future.

The Company recognises the impact of its operations on the environment and endeavours to reduce its impact where practicable in an environmentally responsible manner.

The Company is currently assessing its carbon emissions. In 2007, the Company commenced the replacement of all its cremators, an initiative that is anticipated to reduce its already low carbon emissions by half. Currently, it is looking at energy consumption both in terms of motor vehicle fuel usage and electricity usage at its major facilities.

The Company's 12 cemeteries and crematoria continue to provide over 660 acres of 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.

Health and Safety

Health and safety management is a key priority of the directors and in particular the Company's Risk Committee, the latter receiving regular reports on incidents that occur during the course of the year and the actions being taken by management to ensure health and safety risk exposure is minimised where practicable.

In 2007, there was continued focus on delivering training programmes on manual handling and infection control. During 2007, the number of manual handling and infection control incidents reduced by 11 to 40, a decrease of 21%. The costs of workers' compensation claims, in relation to manual handling and infection control, were reduced by 62% or $94,000.

The Lost Time Injury Frequency Rate remained relatively stable, notwithstanding the increase in employees as a consequence of the Company's growth via acquisitions and new locations.

The Company continued its internal OH&S audits with all locations passing satisfactorily.

Supporting Employees

InvoCare's 1,097 employees are critical to the continued success of the Company.

InvoCare endeavours to recruit, retain and suitably reward the best people in the industry, and in this regard uses a comprehensive recruiting, performance management and learning and development system.

The Company provides direct support to its employees through in-house and external training courses. In 2007, one of the courses introduced was the Future Leaders Programme, designed to mentor and develop staff for management challenges.

In prior years, the Company introduced an Employee Assistance Programme as part of a commitment to the wellbeing of its employees. This programme offers confidential counselling to employees suffering trauma, stress or conflict.

Free and confidential health assessments were offered in 2007 to 43 senior employees, 22 of whom took advantage of this offer.

During 2007, the Company repeated its Exempt Employee Share Plan offering as well as introducing a Deferred Employee Share Plan offering for regional management and above. The Deferred Employee Share Plan provides longer-term incentives to key managers having an important strategic role in the growth and performance of the Company. Today, over 25% of InvoCare's full-time employees have equity in the Company.

The Company supports Equal Employment Opportunity with over 54% of the Company's workforce being female, unchanged from the prior year.

Group financial and operational review

Financial Highlights

	2007 $m	2006 $m	Change %	1st half 2007 $m	1st half 2006 $m	Change %	2nd half 2007 $m	2nd half 2006 $m	Change %
Sales revenues	**223.9**	191.9	16.7	**105.4**	91.0	15.9	**118.5**	101.0	17.4
Normalised operating EBITDA (i)	**58.9**	49.1	19.9	**26.7**	22.0	21.5	**32.2**	27.1	18.7
Normalised operating EBITDA margin (ii)	***26.3%***	*25.6%*	*0.7*	***25.4%***	*24.2%*	*1.2*	***27.2%***	*26.9%*	*0.3*
Depreciation and amortisation	**(8.9)**	(7.9)	13.8	**(4.3)**	(3.8)	12.4	**(4.7)**	(4.0)	15.2
Finance costs	**(12.1)**	(11.3)	7.4	**(6.1)**	(5.4)	12.6	**(6.0)**	(5.8)	2.7
Interest income	**0.7**	1.0	(33.1)	**0.3**	0.5	(32.5)	**0.3**	0.5	(33.7)
Income tax expense	**(11.5)**	(9.4)	22.6	**(5.3)**	(4.2)	26.8	**(6.2)**	(5.2)	19.2
Effective tax rate	***29.8%***	*30.2%*	*(1.4)*	***31.7%***	*31.4%*	*0.7*	***28.3%***	*29.3%*	*(3.3)*
Normalised profit after tax	**27.1**	21.6	25.1	**11.4**	9.1	25.4	**15.7**	12.6	24.9
Normalised basic earnings per share	***27.2 cents***	*22.2 cents*	*22.5*	***11.4 cents***	*9.4 cents*	*21.3*	***15.7 cents***	*12.9 cents*	*21.7*
Profit after tax on sale of assets	**0.6**	4.9	(88.3)	**0.1**	0.1	81.2	**0.5**	4.8	(91.0)
Profit after tax on net asset impairment	**–**	(2.4)	100.0	**–**	–		**–**	(2.4)	(100.0)
Minority interest	**(0.1)**	(0.1)	7.8	**–**	–	(21.4)	**(0.1)**	–	33.3
Profit after tax	**27.6**	24.0	14.6	**11.5**	9.1	26.1	**16.1**	14.9	7.5
Basic earnings per share	**27.6 cents**	24.7 cents	11.7	**11.6 cents**	9.4 cents	23.4	**16.1 cents**	15.3 cents	5.2

(i) EBITDA excluding asset sales and impairment.
(ii) EBITDA excluding asset sales and impairment/sales revenues.

Summary of Financial Performance

The Company increased normalised profit after tax for the year ended 31 December 2007 by 25.1% to $27.1 million. Normalised basic EPS increased 22.5% to 27.2 cents per share. These results were underpinned by:

- a higher number of deaths in InvoCare's Australian markets;
- the contribution from funeral business acquisitions;
- average selling price improvements, including a greater contribution from prepaid funds under management;
- the opening of new funeral home locations; and
- continued focus on managing costs.

InvoCare's robust business model of pursuing organic and acquisition growth, service level improvements, operational efficiencies, favourable demographic changes and prudent capital management was once again proved in 2007.

With the solid 2007 results, the opportunity was taken to further invest in InvoCare's major assets, being its people, facilities and brands. The business model enables effective management of InvoCare's position and performance through variations and fluctuations in external and internal drivers.

Sales Revenue

Sales revenue for the full year increased by $32.0 million, or 16.7%, to $223.9 million.

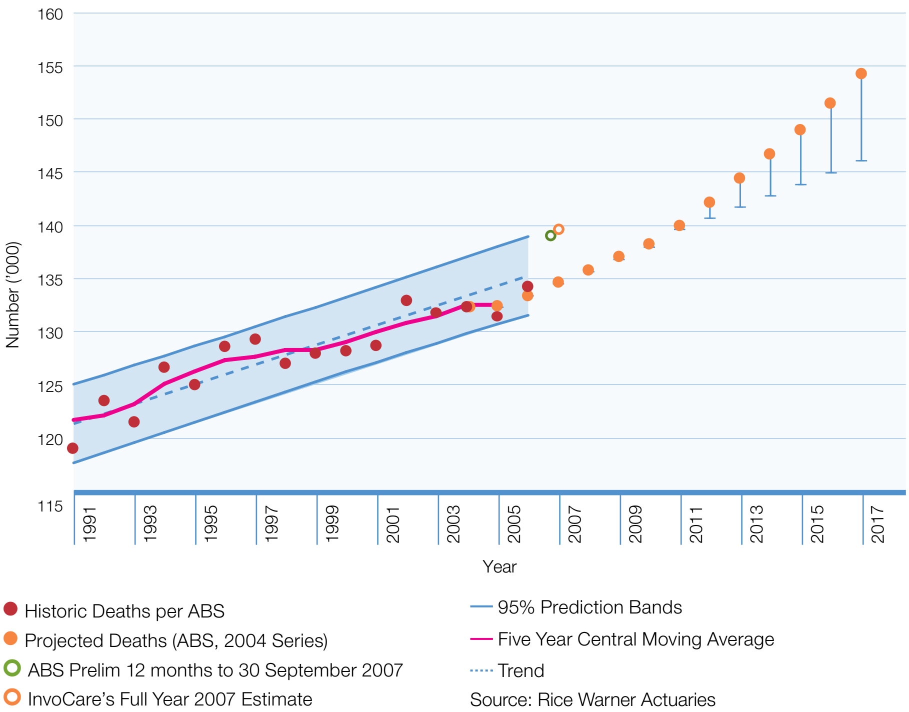
For both 2007 and the 2006 comparatives, sales have been presented inclusive of funeral disbursements, such as press notices, cemetery and crematorium fees, clergy offerings and doctors' fees, which are invoiced to funeral customers. In previous periods, funeral disbursements were netted against invoiced sales with the result that sales were reported net of disbursements. There has been no change in revenue recognition policies and funeral sales revenue is still recorded only when a service is performed. However, the change in presentation better reflects the commercial substance of sales to funeral customers.

Funeral sales revenue increased by $28.9 million, or 18.4%, to $173.2 million. Comparable funeral operations, which include new locations, generated an additional $17.1 million or 11.9%, increasing comparable sales revenue to $160.9 million for the year. The number of funeral services performed increased by 4.8%, contributing $7.3 million to the sales increase.

At the time of announcing InvoCare's full-year results on 21 February 2008, management estimated the number of deaths in 2007 in InvoCare's markets increased by 4.4%, suggesting InvoCare's market share attributable to comparable operations was at least steady, if not marginally improved. On 19 March 2008, the Australian Bureau of Statistics (ABS) released preliminary Australian death numbers for the third quarter of 2007. The latest data released by ABS is not in sufficient detail to determine deaths in each InvoCare market. However, the preliminary ABS data for Australia shows an increasing trend in the number of deaths during 2007 compared to 2006, which is not inconsistent with InvoCare's estimates. ABS has reported a preliminary 139,152 deaths across Australia in the 12 months to 30 September 2007, an increase of 4.3% on the reported 133,380 deaths in the corresponding year to 30 September 2006.

InvoCare's experience is that the increase in the number of deaths was more pronounced in the second half of 2007, when there was an estimated 7.0% increase in InvoCare's markets over the corresponding second half of 2006. The actual and predicted deaths are shown in the attached graph.

Actual and Projected Deaths



Source: Rice Warner Actuaries

Average funeral sale price increases contributed $9.7 million to the sales revenue increase, including an additional $2.2 million upon redemption of prepaid funeral fund surpluses.

New funeral locations, eight opened in 2006 and nine in 2007, contributed $4.0 million to funeral sales revenue. New locations are considered "comparable" because they may be opened in areas already serviced by an existing InvoCare funeral home, albeit trading under a different brand, and may service customers who might otherwise have used an existing nearby InvoCare location. Until such time as the incremental impact of new locations can be determined, new locations will be classified as comparable.

Acquired funeral businesses generated $12.3 million sales revenue in 2007, contributing $9.8 million to the funeral sales increase. The businesses acquired were Drysdale Funerals on the Queensland Sunshine Coast (July 2006), Singapore Casket Company (October 2006), Liberty Funerals in Sydney (March 2007) and Chippers Funerals with five locations in and near Perth in Western Australia (December 2007).

InvoCare's cemeteries and crematoria, which operate in New South Wales and Queensland, increased sales revenue by $5.5 million, or 10.6%, to $57.3 million. The higher sales were due to a combination of a 3.5% increase in the number of services, price increases, favourable product mix and the recognition of previously deferred revenue (for example, upon construction of crypts). The number of deaths in InvoCare's markets was estimated to have increased by 3.8%, indicating InvoCare's market share remained relatively stable.

Normalised Operating EBITDA

Normalised operating EBITDA increased by $9.8 million, or 19.9%, to $58.9 million. Normalised operating EBITDA margin also improved to 26.3% from 25.6% in the previous year.

In the first half of 2007, improved funeral average sales prices, the control of operating costs and the impact of Singapore Casket Company resulted in an improvement in operating EBITDA margins to 25.4%, compared to 24.2% in the corresponding first half of 2006.

Second half margins improved to 27.2% from 26.9% in the corresponding 2006 period. Costs continued to be well managed in the second half, although there were notable increases in human resource and marketing costs. In particular, personnel related costs increased due to additional headcount to support growth, increased investment in learning and development programmes, new operational staff uniforms and higher incentives (including through a deferred employee share plan) consistent with the strong financial performance. Advertising and marketing expenses were also increased to promote brands and prepaid funerals.

As mentioned above, to more closely align senior management and shareholder interests, during 2007 the Board offered long-term incentive (LTI) shares under the InvoCare Deferred Employee Share Plan to selected senior managers who have an important strategic role impacting InvoCare's financial performance. The shares are subject to continuous service conditions and for approximately 12 senior managers also performance conditions. To receive 100% of the LTI shares allocated, the manager must remain employed for four years to February 2011, and if subject to performance conditions, InvoCare's compound EPS growth must exceed 12% per annum.

Employee related costs, which represent approximately 40% of all operating costs, increased 15.0% to $66.7 million. The ratio of these costs to sales was 29.8%, compared to 30.2% in 2006. Comparable employment costs (that is, excluding the impact of acquisitions) increased 12.2% to $64.5 million. The ratio of comparable employment costs to sales revenue remained fairly constant with a small decline to 30.5%, from 30.4% in 2006.

Finished goods and consumables used in 2007, which represent approximately 17% of all operating costs, increased 18.9% to $28.0 million. The finished goods and consumables expense to sales revenue ratio was 12.5%, compared to 12.3% in 2006. On a comparable business basis, the ratio was 12.4%, compared to 12.2% in 2006. The ratio movements are due primarily to sales mix.

Occupancy costs for 2007, which represent approximately 8% of all operating costs, increased 12.4% to $13.3 million. The increase was primarily due to acquisitions and newly opened leased funeral locations. Comparable business occupancy costs increased 9.0% to $12.8 million. Despite the time lag required to establish new locations and achieve volume potential, the ratio of occupancy costs to sales declined only marginally to 6.1% from 6.2% in 2006.

Advertising and promotion expenses for 2007, which represent approximately 4% of all operating costs, increased $1.6 million, or 29.6%, to $6.9 million. Comparable business advertising and promotion expenses increased $1.3 million, or 24.1%, to $6.5 million. The ratio of these expenses to sales revenue increased to 3.1%, from 2.8% in 2006. As explained above, the increased expenditure was incurred to continue the development of InvoCare's brands and promote prepaid funerals. The Guardian brand in the Sydney market now ranks third in consumer awareness research, behind InvoCare's White Lady and Simplicity brands.

Motor vehicle costs for 2007, which represent approximately 3% of all operating costs, increased 15.5% to $5.0 million. Business growth and increased service numbers were the main reasons for the increase. In comparable businesses, the increase was 12.1% to $4.9 million and the ratio of motor vehicle costs to sales was maintained at 2.3%.

Other operating expenses for 2007, which represent approximately 7% of all operating costs, increased 9.0% overall and 4.6% in comparable operations.

Acquisitions and New Locations

Overall, business acquisitions made since ASX listing in December 2003, including Ann Wilson Funerals which was acquired in December 2005, have performed well and at least according to plan. The 2007 results, in particular the first half results, were favourably impacted by acquisitions made in 2006 and 2007. These new acquisitions contributed $12.3 million to sales revenue and $5.4 million to EBITDA.

The main contributor was Singapore Casket Company, Singapore's leading funeral provider, which has an estimated 10% market share, strong brand awareness and good margins secured by a substantial freehold property. Sales revenue in 2007 was $7.4 million and EBITDA $3.7 million.

Drysdale Funerals contributed $2.5 million to 2007 sales revenue. Liberty Funerals generated sales of $2.3 million since acquisition at the beginning of March 2007. These acquisitions contributed EBITDA of $1.6 million in 2007.

InvoCare announced when releasing its 2007 results that it had successfully completed the purchase of the Chippers funeral business, the third largest funeral operator in the Perth region of Western Australia. Chippers operates from five locations. Its 2007 sales revenue and EBITDA were estimated at $5.0 million and $0.6 million respectively. From the effective acquisition date in mid December 2007, Chippers contributed $0.2 million to InvoCare's 2007 sales revenue. In a related transaction, InvoCare also secured the balance of shares not already owned in Oakwood Funerals and negotiated a service agreement with Don Chipper to manage the combined Chipper and Oakwood funeral operations. Don Chipper has been managing InvoCare's Oakwood Funerals since 1998 and had previously been part owner and operator of Chippers.

Nine new Australian funeral locations (leased shop fronts) were opened in 2007, adding to the eight opened in 2006, strategically located in markets where InvoCare is currently under-represented. A further two locations were opened in January 2008 and more are planned for 2008, consistent with the stated objective of opening four to six new locations each year over the next few years. It can take several years for a new location to achieve InvoCare's operating margin. In addition, as more new locations are opened, including by expansion of InvoCare's funeral brands into pre-existing markets, the contribution made by these new locations may not be as high as in new markets. However, this new location and branding strategy is expected to create economies of scale in supporting and promoting the brands, increase brand awareness in the communities and generate increased sales by those brands.

Asset Sales

Unlike 2006, there were no major asset sales in 2007. Gains on asset sales in 2007, before income tax, were $0.8 million, compared to $7.0 million in 2006. However, sales proceeds received during the year included deferred consideration of $3.2 million in accordance with a 2006 property sale agreement. The performance of individual property assets is monitored and if hurdle rates are not achieved, from time to time property sales may occur or leases may not be extended.

After reassessment of markets and business priorities, two leased locations were closed during the year and a funeral home property, previously identified for sale, was retained and will, after rebranding, become a flagship for Guardian Funerals in Sydney.

Asset Impairments, Depreciation and Amortisation

No non-current asset impairment writedowns were required in 2007, unlike the $3.5 million net impairment loss in 2006. On transition to AIFRS, InvoCare impaired four Cash Generating Units (CGU), being cemetery and/or crematorium locations. The performance of these CGUs was reassessed as at 31 December 2006, resulting in reversal in 2006 of previous impairment losses at two sites, totalling $2.4 million, and further impairment of $5.9 million at two other sites. Using prudent assumptions, the two impaired sites were again reassessed at 31 December 2007, and no further impairment writedown was required in 2007. Reversal of previous impairment losses on these two sites may occur if results continue to improve.

Importantly, no other CGU, goodwill or other non-current asset impairment indicators existed at 31 December 2007.

Depreciation expense increased by $1.0 million to $8.1 million in 2007. Depreciation expense in comparable businesses increased by $0.5 million to $7.4 million, which reflects increased investment in property, plant and equipment.

Amortisation expense increased by $0.1 million to $0.9 million, primarily relating to the amortisation of acquired business brand names.

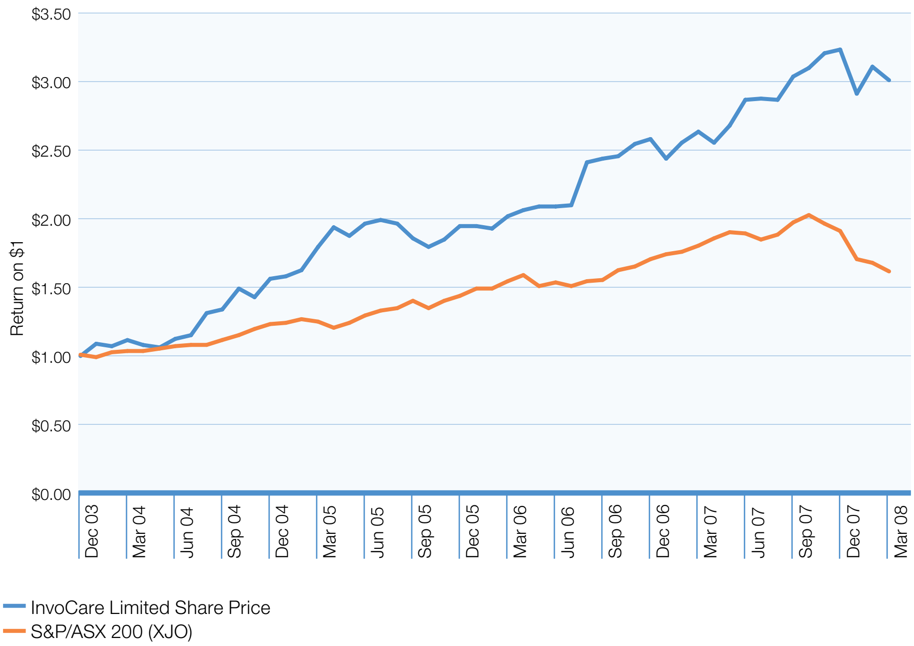
Capital Management

InvoCare's capital management objectives and strategies seek to maximise total shareholder returns, in terms of earnings per share, distributions and share price, while maintaining a capital structure with acceptable debt and financial risk.

Basic earnings per share since listing has increased from 18.1 cents in 2004, the first full year as a listed company, to 27.6 cents in 2007. This represents a compound annual growth rate of 15.1%.

An investment of $1.00 in InvoCare at 31 December 2003 would have increased in value, excluding dividends, against the ASX/S&P index as shown in the following graph.

Return on $1 – InvoCare Limited against S&P/ASX 200 Index



Since InvoCare's initial public offering in late 2003, the total shareholder return to 31 December 2007 was 318%, comprising share price growth of $5.16, from the application price of $1.85, and fully franked dividends paid amounting to 71.9 cents per share, excluding the final 2007 dividend of 12.5 cents payable on 11 April 2008.

During the 2007 year, InvoCare continued active capital management, which allowed it to again reward shareholders with respectable dividends. Basic earnings per share increased 11.7% to 27.6 cents per share. Total ordinary dividends for the 2007 year increased by 15.4% to 22.5 cents per share (2006: 19.5 cents per share) with the Directors declaring a final, fully franked, dividend of 12.5 cents per share (2005: 11.5 cents per share). The 2007 dividend payout ratio was 81.8% (2006: 79.8%), exceeding the minimum 75% target ratio.

InvoCare's Dividend Reinvestment Plan (DRP), which was first activated for the 2006 interim dividend paid in October 2006, remains active for the 2007 final dividend. Approximately 25% of InvoCare investors have elected to participate in the DRP. To avoid the dilution of non-participating investor holdings, the required DRP shares for the 2007 final dividend will be purchased on market.

Maintaining an optimal leverage ratio is a key capital management objective. Based on a capital management review in late 2007, the optimal capital structure, which has the lowest cost of capital, is indicatively at a leverage ratio (i.e. Net Debt/EBITDA) of between 3:1 and 5:1. At 31 December 2007 the leverage ratio was 2.5:1 and net debt was $145.9 million, compared to 3.0:1 and $146.8 million at the end of 2006. InvoCare can sustain and service higher levels of debt and, based on current circumstances, has a longer-term net debt target of 3.5x EBITDA. To achieve this target, where the capacity exists, debt financing will be used for small acquisitions and capital expenditure. In the absence of opportunities to invest in growing the business, excess debt capacity may be applied to make returns to shareholders (e.g. special dividends, share buy-backs). In the context of potential business acquisition opportunities, an acceleration of capital expenditure and the current credit market climate, no major capital management initiatives involving a return to shareholders in excess of normal dividends are anticipated during 2008.

InvoCare has complied with its debt covenants for unsecured facilities that are in place until January 2011. These facilities provide up to $180 million in debt finance, plus $5 million in working capital. The covenant ratios, as defined in the debt facility agreements, were as follows:

– interest cover (EBITDA/Net Interest Expense) must be greater than 3.00:1. At 31 December 2007 this ratio was 5.40:1 (2006: 5.06:1).
– leverage ratio (Net Debt/Adjusted EBITDA) must not be greater than 3.75:1. At 31 December 2007 this ratio was 2.47:1 (2006: 2.81:1).

An important capital management objective is to avoid excessive exposure to interest rate fluctuations and debt refinancing risk. InvoCare's policy to maintain floating to fixed base interest rate swaps for at least 75% of debt principal was again achieved in 2007. At 31 December 2007, the proportion of debt hedged was 99% (2006: 99%). The hedge contracts extend to the end of 2010. As a result of these contracts, InvoCare's effective interest rate, including margin, on borrowings at 31 December 2007 was 6.6% (2006: 6.6%). Interest expense on borrowings for the 2007 year increased by $0.3 million, or 2.6%, to $10.4 million.

In terms of refinancing risk, InvoCare's existing debt facilities expire in January 2011, when all the borrowings under the facilities become due and payable. Whilst there is no significant refinancing risk in the normal course of business, InvoCare is exposed to risks of refinancing all the amounts drawn (up to $180 million) at the one time. Accordingly, it is proposed future financing facilities will have a staggered maturity profile to reduce the risk of refinancing on one maturity date. Acquisition and capital expenditure payments resulted in an increase of $2.4 million in bank borrowings to $154.9 million at 31 December 2007, compared to $152.5 million at the end of 2006.

Taxation

InvoCare's 2007 tax expense was $11.7 million (2006: $10.4 million) with a reduction in the overall effective rate to 29.8% (2006: 30.2%). The reduction is primarily attributable to the impact of a full-year profit from Singapore Casket Company. The Republic of Singapore has a corporate income tax rate of 18% compared to 30% in Australia.

The Company has $13.4 million in available franking credits (2006: $10.9 million).

Cash Flow Highlights

	2007 $m	2006 $m
Net cash provided by operating activities	**38.6**	29.6
Proceeds from sale of property, plant and equipment	**4.6**	5.1
Purchase of subsidiaries and other businesses, net of cash acquired	**(8.5)**	(25.2)
Purchase of property, plant and equipment	**(17.4)**	(9.8)
Other	**–**	(1.7)
Net cash used in investing activities	**(21.3)**	(31.6)
Proceeds from issue of ordinary shares	**0.3**	5.1
Payment for shares acquired by deferred employee share plan	**(0.8)**	–
Net increase in borrowings	**2.4**	12.5
Payment of dividends – InvoCare Limited shareholders	**(15.7)**	(13.8)
Other	**(0.1)**	(0.1)
Net cash (used in) / provided by financing activities	**(13.9)**	3.7
Net increase in cash held	**3.4**	1.7
Cash and cash equivalents at the beginning of the year	**5.7**	4.0
Effect of exchange rate change	**(0.1)**	–
Cash and cash equivalents at the end of the year	**9.0**	5.7

Cash and cash equivalents at 31 December 2007 were $9.0 million, representing an increase of $3.3 million for the 2007 year. Operating cash flows remained strong and increased by $9.0 million (or 30.3%) to $38.6 million for the year, largely as a result of the good trading result and continued focus on working capital management.

Consistent with previous years, operating EBITDA was fully converted to cash as shown below:

	2007 $m	2006 $m
Operating EBITDA	**58.9**	49.1
Cash flow		
Cash provided by operating activities	**38.6**	29.6
Add/(Less):		
Finance costs	**11.1**	11.0
Income tax paid	**12.6**	10.3
Interest received	**(0.3)**	(0.3)
Ungeared, tax free operating cash flow	**62.0**	50.6
Proportion of EBITDA converted to cash	**105%**	103%

Income tax payments increased $2.3 million to $12.6 million, reflecting higher profits and the timing and amount of instalments.

Asset sale proceeds in 2007 included $3.2 million deferred consideration from the sale of a non-strategic property in late 2006.

Payments for property, plant and equipment increased by $7.5 million to $17.4 million due to increased strategic capital expenditure in 2007. The total expenditure comprises:

	2007 $m	2006 $m
Property purchases	**3.4**	1.2
Refurbishments and facility upgrades	**6.9**	6.0
Motor vehicles	**3.9**	1.6
Cremators	**1.8**	0.1
Other assets	**1.4**	0.9
Total capital expenditure	**17.4**	9.8

The strategic capital expenditure was $11.1 million, including the purchase of a previously leased funeral home property in Sydney, facility upgrades and refurbishments.

Payments for business acquisitions in the year related to the initial consideration paid for the purchase in March 2007 of Liberty Funerals in Sydney ($3.2 million, net of cash acquired), deferred consideration paid in March 2007 for Singapore Casket Company (A$2.4 million) and the purchase in December 2007 of Chippers in Western Australia ($3.1 million).

Proceeds from share issues amounted to $0.3 million during 2007 which related to the exercise of the remaining outstanding employee share options. At 31 December 2007 or since, there are no options over unissued InvoCare shares. In the previous year, share issues and exercise of options raised $5.1 million, including $4.6 million from underwriting the DRP shortfall for the 2006 interim dividend in October 2006 to help fund the Singapore acquisition.

Following the establishment of the InvoCare Deferred Employee Share Plan, shares to the value of $0.8 million were acquired during 2007.

Additional net borrowings of $2.4 million provided funds needed for acquisition payments and increased capital expenditure.

Dividends paid to InvoCare shareholders during the year amounted to $15.7 million (2006: $13.8 million), net of dividend reinvestment $5.7 million (2006: $3.2 million).

Prepaid Funerals

At 31 December 2007, prepaid funds under management for funeral, cremation and burial services, including customer instalment amounts receivable, not recorded as an asset on InvoCare's balance sheet, amounted to $272 million, an increase of 7.9% on 2006. The asset allocation and annual gross investment returns of these funds are set out below:

	2007	2006	Movement %
Total prepaid funds	**$272m**	$252m	7.9
Asset allocation:			
Australian equities	**57%**	57%	
International equities	**2%**	2%	
Property	**5%**	5%	
Cash and/or fixed interest	**36%**	36%	
Gross returns:			
12 months ended	**11.9%**	17.2%	(5.3)
3 years ended	**14.4%**	16.2%	(1.8)
5 years ended	**13.5%**	10.7%	2.8
7 years ended	**10.1%**	10.0%	0.1

Gross returns exclude investment management fees and administration fees (currently 1.6%).

During the year, the number of contracts redeemed exceeded new prepaid contracts written by only 2.1% (2006: 19.1%), a significant improvement on the previous year following renewed focus on selling prepaid funeral contracts. Approximately 13% of InvoCare's Australian funeral services performed had been prepaid (2006: 14%).

The estimated prepaid funeral fund surplus, being the excess of funds invested over the retail price of funerals if all services had been performed on 31 December 2007, increased during the year by $10 million to $56 million. The surplus amount did not change from the amount estimated at 30 June 2007.

The surplus is sensitive to the amount of assets and investment returns. In particular, the funds have a significant bias to equity markets with approximately 59% of the funds invested in shares. Long-term gross returns on the funds invested remained above 10%, although 12 month returns dropped, primarily due to equity market movements since July 2007.

Sharemarket declines and continued volatility since 31 December 2007 would have impacted the above surplus. It has been estimated that each 1% change in equity markets would alter the surplus by 3%. For example, if the values of equities fell by 15.0%, the estimated surplus would decline to $31 million. A movement in the surplus would impact InvoCare's future earnings. However, the impact in any one year is unlikely to be material as approximately 50% of the surplus is expected to be released over the next 10 years, and 90% over about 28 years.

As previously reported, the prepaid funeral funds have no direct exposure to collateralised debt obligations or United States sub-prime debt.

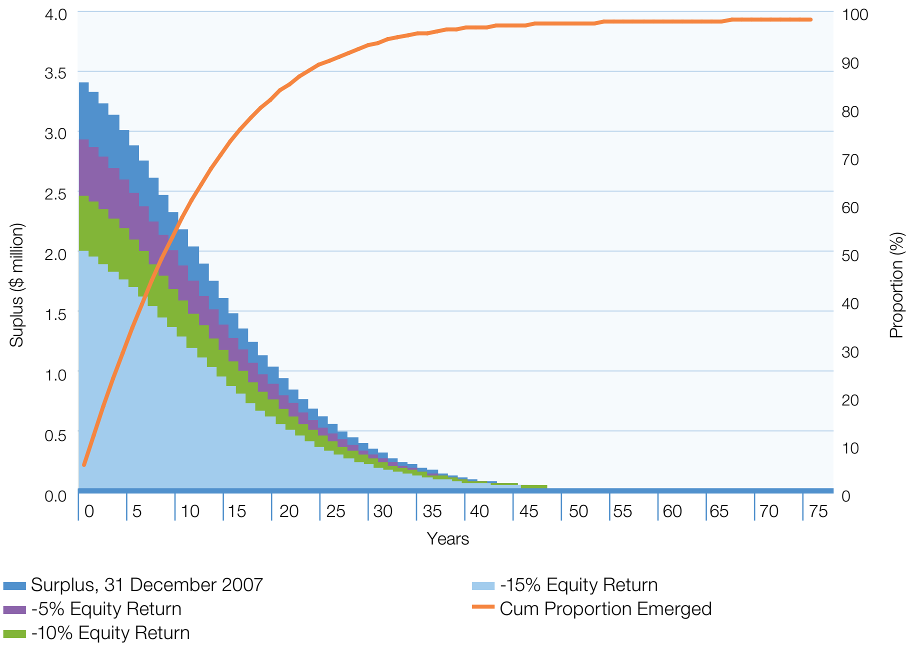
Other Ratio Analysis for Information

InvoCare's management across all operations uses various financial and non-financial key performance indicators in monitoring the results and position of the Group and its various businesses. These measures may include, but are not limited to, areas such as the following:

- customer surveys
- numbers of services performed
- market share
- average selling prices
- delivery timeframes of preneed memorials
- ratio of prepaid contracts sold to contracts redeemed
- prepaid fund asset allocations and investment returns
- brand awareness surveys
- days sales in accounts receivable
- cash flows
- debt service costs and covenant ratios
- operating margin percentages
- effective income tax rates
- employee learning and development
- workers' compensation claims and costs
- lost time injury rates and return to work statistics

Several key financial ratios relating to the Group as a whole which may be useful to investors are presented in the table opposite. The adoption of AIFRS resulted in some transitional accounting adjustments which precludes meaningful calculations for some of these ratios for the 2004 year.

Maturity Profile of Surplus



2008 Outlook and Beyond

Preliminary sales for the first quarter of 2008 were approximately 7% above the corresponding first quarter of 2007. Excluding the impact of new acquisitions, that is Liberty Funerals and Chippers, on a comparable basis 2008 first quarter sales have increased approximately 4%. It is not necessarily appropriate to extrapolate this result for the balance of 2008. The Group's performance is significantly dependent upon the number of deaths increasing in line with actuarial trend predictions in the markets in which InvoCare operates. In addition, results are impacted when monies are received from off balance sheet trusts upon delivery of prepaid services, in particular where the values of the assets in those trusts fluctuate and there is an investment bias to equities.

With the prevailing economic climate, plans for continued capital expenditure and the potential opportunities for further business acquisitions, no major capital management initiatives are planned for 2008.

Ratio	Calculation		2007	2006	2005	2004
Operating margin on sales	EBITDA/Sales	%	**26.3**	25.6	25.7	24.8
Income tax rate	Tax expense/PBT	%	**29.8**	30.2	30.4	31.2
Dividend payout ratios:	Dividend/PAT					
– Ordinary dividends		%	**81.8**	79.8	79.4	76.0
– Special dividend		%	**–**	–	50.5	–
– Total dividend payout ratio		%	**81.8**	79.8	129.9	76.0
Return on equity	PAT/Average Equity	%	**51.8**	65.4	68.1	n/a
Return on assets	EBIT/Average Total Assets	%	**15.8**	15.4	15.3	n/a
Gearing	Net Debt/Equity	%	**240.7**	315.7	493.4	410.3
Leverage	Net Debt/EBITDA	x	**2.5**	3.0	3.0	3.0
Net interest cover	EBIT/Net interest	x	**4.4**	4.4	3.4	3.5
Asset replacement	Capital expenditure/depreciation and amortisation	x	**1.9**	1.2	1.1	0.6

InvoCare is well positioned, being the market leader in Australia and Singapore. With a solid and proven business model and with solid financial fundamentals supporting it, InvoCare can continue to grow from four drivers of profit:

1. Organically:

- investing in our people and their development;
- enhancing service offerings to our client families;
- annually increasing prices at least equal to CPI;
- increasing number of deaths, which the ABS has estimated to increase 0.9% p.a. until 2011, when it will increase to 1.2%, then to 1.6% from 2012, increasing to 1.9% in 2017;
- opening new locations and leveraging brands to grow market share;
- monitoring asset performance, including investing in facility upgrades and refurbishments or divesting non-performing/non-strategic assets;
- increasing the memorialisation rate in the cemeteries and crematoria by focussing on service and product offerings; and
- focussing on capital management, which is dependent upon trading and economic conditions, as well as acquisition/expansion opportunities and capital expenditure.

2. Acquisitions:

- pursuing small bolt-on acquisition opportunities to improve market share; and
- entering new markets, subject to sound business cases, which do not materially affecting our overall low risk profile.

3. Prepaid funds:

- growing the value of prepaid funds under management;
- writing more new prepaid contracts than contract redemptions;
- optimising fund asset allocations and returns; and
- ensuring that the annual net return on invested funds is greater than annual price increases; which should deliver incremental margin expansion, provided increases in costs for delivering funerals are contained to approximately CPI levels.

4. Operating leverage:

- InvoCare believes it has excess capacity in its operations to absorb the immediate demands from increased volumes;
- operating expenses will continue to be well managed and annual increases restricted to approximately CPI levels, or in the case of personnel costs, general wage cost increases in InvoCare's markets; and
- efficiencies can continue to be achieved through the pooling of labour, vehicles and back office functions.


Phillip Friery


Andrew Smith

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 2007. InvoCare Limited and its controlled entities together are referred to as "InvoCare", the "Group" or the "consolidated entity" in this Directors' 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

Christine Clifton

Roger Penman

Benjamin Chow
(appointed 22 February 2007)

Richard Fisher

Michael Grehan
(resigned 15 February 2007)

Principal Activities

The Group is a leading private provider of services to the funeral industry in Australia and Singapore. 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 Group's affairs during the financial year.

Operating Results

The consolidated profit of the consolidated entity after providing income tax and eliminating minority interest was $27,554,000 (2006: $24,047,000).

Dividends

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

	2007 $'000	2006 $'000
Interim ordinary dividend of 10.0 cents (2006: 8.0 cents) per fully paid share paid on 12 October 2007	**9,991**	7,797
Final ordinary dividend of 12.5 cents (2006: 11.5 cents) per fully paid share declared by directors on 21 February 2008 to be paid on 11 April 2008	**12,536**	11,404
Total ordinary dividends of 22.5 cents (2006: 19.5 cents)	**22,527**	19,201

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

The Dividend Reinvestment Plan (DRP), first activated for the 2006 interim dividend, was available for the 2007 interim dividend and $7,535,955 (2006: $4,603,879) was paid in cash and $2,454,864 (2006: $3,194,196) through issue of 379,139 (2006: 639,687) shares at $6.47 (2006: $4.99) per share via the DRP. The shortfall in the DRP take-up was not underwritten nor were DRP shares issued at a discount to the market price for dividends paid in 2007. The 2006 interim dividend was 100% underwritten and 922,421 shares at $4.99 per share, a 2% discount to the market price, were issued to the underwriter.

The Dividend Reinvestment Plan will apply to the final 2007 dividend which is not being underwritten and no discount to the market price will apply. A broker has been appointed to acquire the DRP shares on market for transfer to shareholders electing to participate in the DRP.

Review of Operations

Results highlights:

	2007 $'000	2006 $'000	Change $'000	
Sales revenue				
Funerals	**173,235**	146,357	26,878	18.4%
Cemeteries and crematoria	**57,295**	51,785	5,510	10.6%
Intra-group sales	**(6,612)**	(6,210)	(402)	
Total sales revenue	**223,918**	191,932	31,986	16.7%
Operating EBITDA				
(excluding net asset sale gains and net impairment of non-current assets)	**58,935**	49,140	9,795	19.9%
Operating margin	**26.3%**	25.6%		0.7%
Net profit after tax attributable to InvoCare Limited shareholders	**27,554**	24,047	3,507	14.6%
EPS				
Basic earnings per share	**27.6 cents**	24.7 cents	2.9 cents	11.7%

Sales revenue increased 16.7% to $223.9 million due to a higher number of deaths, higher average selling prices, new acquisitions and new locations.

The number of deaths in InvoCare's Australian funeral markets during 2007 was estimated to have increased by 4.4% on 2006, higher than the long-term annual growth trend of approximately 1% per annum.

Average selling prices increased by more than 6%, including an estimated 1.5% from the redemption of prepaid contract funds.

The 2007 results were favourably impacted by the full-year benefit of business acquisitions made in the second half of 2006, Drysdale Funerals in Queensland and Singapore Casket Company, and the acquisition of Liberty Funerals in Sydney in March 2007. In mid December 2007, InvoCare acquired Chippers funeral operations, the third largest funeral business in the Perth region of Western Australia. Together, these acquisitions contributed $12.3 million in sales revenue and $5.4 million in EBITDA to the Group's 2007 result.

Nine new funeral home locations were opened in 2007, adding to the eight opened in 2006, taking the total number of InvoCare funeral home locations across Australia to 151. The new location strategy continues to improve the penetration of InvoCare's key brands in existing and new markets.

InvoCare's share of the Australian markets in which it operates increased from approximately 30.1% to 30.7% in funerals, due to the impact of acquisitions, and was stable for cemeteries and crematoria. There was minor market share erosion in Singapore.

Operating costs generally increased in line with the growth in revenues.

Operating EBITDA improved 19.9% to $58.9 million. The operating EBITDA margin on sales increased by 0.7% to 26.3%.

Operating cash flows increased by 30.3% to $38.6 million, reflecting the good trading result and continued focus on working capital management. Capital expenditure during 2007 increased to $17.4 million from $9.8 million in 2006, representing the acceleration of strategic expenditure including facility upgrades and refurbishments.

Normalised profit after tax (that is, excluding the impact of net after tax gains and losses on sale or impairment of non-current assets) increased by 25.1% to $27.1 million; a significant improvement on the $21.6 million of the previous year.

Profit after tax attributable to InvoCare Limited shareholders increased by 14.6% to $27.6 million. This increase was lower than achieved for normalised profit due to the significant impact of non-current asset sale gains and net impairment on the 2006 profit.

Following the good result, a fully franked final dividend of 12.5 cents per share (2006: 11.5 cents per share) has been declared taking the total ordinary dividends for 2007 to 22.5 cents, a 15.4% increase on 2006 (19.5 cents). The dividend payout ratio for the year was 81.8% (2006: 79.8%).

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 the results of those operations or InvoCare's state of affairs in future financial years.

Future Developments and Results

InvoCare continues to pursue growth through acquisitions, new locations, investing in existing locations, ongoing operational improvements and favourable demographic changes.

The Group's performance is significantly dependent upon the number of deaths increasing in line with actuarial trend predictions in the markets in which InvoCare operates. In addition, results are impacted when monies are received from off balance sheet trusts upon delivery of prepaid services, in particular where the values of the assets in those trusts fluctuate and there is an investment bias to equities.

With the prevailing economic climate, plans for continued capital expenditure and the potential opportunities for further business acquisitions, no major capital management initiatives are planned for 2008.

Further 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 appropriate risk management systems in place at its 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 *AM FCA*

Chairman of the Board
Chairman of Remuneration Committee
Chairman of Nomination Committee
Member of Risk Committee

Ian has held the position of Chairman of InvoCare Limited since 2001. He was the founder of Ferrier Hodgson and now is Chairman of Ferrier Green Krejci & Silvia. 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, Energy One Limited and Australian Oil Company Limited and a director of Australian Vintage Limited, Goodman International 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.

Dr Christine (Tina) Clifton

MB BS (Hons) BHA
Non-executive Director
Chairman of Risk Committee
Member of Audit Committee
Member of Nomination Committee

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 The Hospitals Contribution Fund of Australia Limited (HCF) and Healthcare Australia. She is also a Councillor of the University of New South Wales. 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 obtained a specialist qualification in medical administration.

Mr Richard Davis *BEc*

Chief Executive Officer

Since 1995, Richard has held the position of Chief Executive Officer of InvoCare Limited. He is a director of Over Fifty Guardian Friendly Society Limited. In 1989, Richard was recruited to the position of Chief Financial Officer of Chase Corporation's funeral business 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.

Mr Roger Penman *BEc FCA FTIA*

Non-executive Director
Chairman of Audit Committee
Member of Remuneration Committee
Member of Nomination Committee

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 Principal of WHK Horwath Sydney 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.

Top, left to right: Ian Ferrier, Richard Davis, Tina Clifton
Bottom, left to right: Roger Penman, Benjamin Chow, Richard Fisher

Mr Benjamin Chow AO BE

Non-executive Director
Member of Risk Committee (from 22 February 2007)
Member of Nomination Committee (from 22 February 2007)

Benjamin Chow was appointed as a director of InvoCare Limited on 22 February 2007 and also became a member of the Risk Committee and the Nomination Committee on that date. Benjamin has worked continuously in the land development industry both in Australia and South East Asia since 1968, having immigrated to Australia in 1962. He chaired the Council for Multicultural Australia which assists the Australian Government implement its multicultural policies. He has previously served as President of the Australian Chinese Community Association of NSW, President of the Chinese Australian Forum of NSW and Vice-President of the Ethnic Communities Council of NSW. He is a member of the Council of the National Museum of Australia, a member of the Bond University Council, President of the Sydney University Nerve Research Foundation, a trustee of the Australian Chinese Charity Foundation and a director of Chain Reaction Foundation Ltd.

In January 2007, Benjamin was awarded an Officer of the Order of Australia for service to the community through intercultural activities to promote economic and employment opportunities and social interaction, including the establishment of Harmony Day.

Mr Richard Fisher AM MEc LLB

Non-executive Director
Member of Risk Committee
Member of Audit Committee
Member of Nomination Committee

Richard Fisher is General Counsel to The University of Sydney and is an Adjunct Professor in its Graduate School of Government. Richard is the immediate past Chairman of Partners at Blake Dawson Waldron and specialised 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 Michael Grehan resigned as a director of InvoCare Limited on 15 February 2007, having been appointed on 24 October 2003. He also resigned as Chief Operating Officer of InvoCare on 15 February 2007, having held that position since March 2000. In announcing his resignation, the Chairman acknowledged Mr Grehan's significant contribution to the business.

Company Secretary

Mr Phillip Friery *BBus CA*

Phillip Friery was appointed Company Secretary on 12 January 2007. He joined the consolidated entity in 1994 as Accounting Manager responsible for financial reporting and taxation.
Over subsequent years he has assumed greater responsibilities, including information systems and treasury, and was appointed Chief Financial Officer on 28 March 2007. Prior to joining the consolidated entity, Phillip spent approximately 19 years with Coopers & Lybrand (before its merger with Price Waterhouse) in external audit, technical advisory and financial management consulting roles. Phillip holds a Bachelor of Business from the New South Wales Institute of Technology (now University of Technology Sydney) and is a member of the Institute of Chartered Accountants in Australia.

Mr Kenneth Mealey retired as Company Secretary on 12 January 2007. In making the announcement of Mr Mealey's retirement, the directors acknowledged and thanked Mr Mealey for his contribution since 1994 to the Company's success.

Meetings of Directors

Details of the meetings attended by each director during the year ended 31 December 2007 are set out in the Corporate Governance Statement on page 34.

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.

Christine Clifton and Roger Penman 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.

Corporate governance statement

InvoCare Limited (the "Company") and the Board of Directors (the "Board") are committed to achieving and demonstrating the highest standards of corporate governance. The Company and its controlled entities together are referred to as "InvoCare" or the "Group" in this statement.

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 the Company's website: **www.invocare.com.au**

InvoCare elected to adopt the updated Corporate Governance Principles and Recommendations issued by the ASX Corporate Governance Council in August 2007. As a consequence, while the underlying intent of the principles and recommendations were in place for the whole financial year ended 31 December 2007, a number of modifications and enhancements were made upon adoption.

Principle 1 – Lay Solid Foundations for Management and Oversight

Functions of the Board and Senior Executives

The Board of InvoCare Limited is responsible for guiding and monitoring the Group 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 Group, including day to day management of the Group'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 senior executives, being the Chief Operating Officer (the "COO") and the Chief Financial Officer (the "CFO"), and other management. Delegations are set out in the Group's delegations policy and are reviewed regularly. Delegations, within defined authority limits, relate to various operational functions including areas such as expenditure and commitments, employee matters (e.g. recruitment, termination, remuneration, discipline, training, development, health and safety), pricing, branding, investor and media communications. The Board ensures that the senior executives and the management team are appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the CEO and the senior executives.

In deciding which functions and activities the Board reserves to itself it is guided by the overarching principle that the Board is charged with strategic responsibility, along with a management oversight function, and that the executive management have an implementation function. In fulfilling these functions, the directors seek to enhance shareholder value and protect the interests of stakeholders.

All Board members have formal letters of appointment which clearly articulate the roles, responsibilities, expectations and remuneration of directors.

All employees, including the CEO and senior executives, have formal job descriptions. The level of seniority of the role determines whether a formally drafted contract of employment or a less complex letter of appointment is used to confirm employment. Regardless of type, all employment agreements clearly articulate duties and responsibilities but also rights and expectations. Standard letters of appointment were reviewed and updated during 2007 for all future appointments.

The Board Charter is available on the Company's website: **www.invocare.com.au**

Senior Executive Evaluation

After the conclusion of each financial year the CEO evaluates and documents the performance of his direct reports, being the COO and CFO. The results of this evaluation are reviewed by the Remuneration Committee with specific focus on achievements against targeted key performance indicators. Also at this time, key performance indicator targets for the ensuing year are established. The Remuneration Committee and the Board also review and determine the COO and CFO remuneration for the ensuing year.

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

In addition to a review of monthly financial results, at least quarterly the Board monitors the key performance indicators for the Group which provides the opportunity to more regularly evaluate the performance of senior executives outside the annual review process.

When appointed, all new senior executives receive an induction appropriate to their experience, which is designed to ensure they can quickly and effectively participate in decision-making. The programme is also designed to ensure that the executive gains a good working knowledge of both the industry and the Group covering the financial position, strategies and operations. This induction programme also focusses on the internal policies and procedures with a particular emphasis on the respective roles of the Board and its committees and those functions delegated to management.

Principle 2 – Structure the Board to Add Value

Board Composition

The Board currently comprises six directors, being five non-executive directors (including the Chairman) and one executive director, being the CEO. 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, may 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. A director is deemed to be "independent" if 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 unfettered and independent judgement.

The Board has assessed, using the criteria set out in the ASX Corporate Governance Principles and Recommendations, the independence of non-executive directors in light of their interests and relationships and considers them all to be independent. The Company will provide immediate notification to the market where the independence status of a director changes.

Corporate governance statement continued

The skills, experience and expertise relevant to the position of each director and their term of office are set out starting on page 30 of the Directors' Report.

Meetings of Directors

During the year ended 31 December 2007, 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		Nomination Committee	
	A	B	A	B	A	B	A	B	A	B
Independent										
Ian Ferrier	9	9	2*	–	1	1	4	4	1	1
	Chair				Chair		Member		Chair	
Christine Clifton	9	9	5	5	1*	–	4	4	1	1
			Member				Chair		Member	
Roger Penman	8	9	5	5	1	1	1*	–	1	1
			Chair		Member				Member	
Benjamin Chow	7	8	1*	–	–	–	3	3	–	–
							Member		Member	
Richard Fisher	9	9	4	5	1*	–	3	4	1	1
			Member				Member		Member	
Executive										
Richard Davis	9	9	5*	–	1*	–	4*	–	1*	–
Michael Grehan	–	–	–	–	–	–	–	–	–	–

A = number of meetings attended.
B = number of meetings held during the time the director held office or was a member of the committee during the year.
** = includes meetings attended as an invited guest of the committee where the director was not a member of the relevant committee.*

The quorum for the Board and Board Committees is two, both of whom must be independent directors. Board Committees consist entirely of independent non-executive directors. The CEO may attend all Board Committee meetings by invitation and the COO and CFO attend Board and Committee meetings by invitation.

Nomination Committee

The Nomination Committee, established in March 2006, critically reviews on an annual basis the corporate governance procedures of the Group and the composition and effectiveness of the Board.

The Committee currently consists of the five independent non-executive directors of the Board whose skills and experience cover finance and accounting, taxation, law, medicine and health administration, property development and community service with an emphasis on multiculturalism. The Committee is chaired by Ian Ferrier. The Committee believes that the Board has a healthy mix of skills to ensure the ongoing development and growth of the Group.

In addition to its role in proposing candidates for director appointment for consideration by the Board, the Nomination Committee reviews and advises the Board in relation to Chief Executive Officer and Board succession planning and advises on Board and Committees' performance.

The Committee Charter is available on the Company's website: **www.invocare.com.au**

Directors' Performance Evaluation

The Board, through its Nomination Committee, undertakes an annual performance review of the full Board, its Committees and of the Chairman. The Chairman performs individual appraisals of each director.

The evaluation process involves an 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.

Performance evaluation reviews were undertaken during 2007.

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 other 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 it considers this information to be insufficient to support informed decision-making, then they are entitled to request additional information prior to or at Board meetings.

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 programme covers the Group'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 Nomination Committee is responsible for reviewing the effectiveness of the director induction programme. 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 Group and its operating environment. Directors typically attend courses and seminars relevant to the effective discharge of their duties.

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. This code also mandates the avoidance of conflicts of interest and requires high standards of personal integrity, objectivity and honesty in the dealings of all directors, executives and staff, providing detailed guidelines to ensure the highest standards are maintained.

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. Such behaviours extend to areas such as confidentiality, Privacy Act obligations, communications with the media, occupational health and safety and drugs and alcohol.

This code is provided to all directors and employees as part of their induction process. It is subject to ongoing review and assessment to ensure it continues to be relevant to contemporary conditions.

The code is available on the Company's website: **www.invocare.com.au**

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 confines the opportunity for directors and employees to trade in InvoCare securities to certain limited periods.

This policy applies to all senior staff, particularly those, such as finance team members, who have access to information which is not generally available. In addition, it applies to all the associates of these individuals. The policy prohibits trading in the Company's shares except within narrow and specific windows when the Group believes the market is fully informed. There are limited procedural exceptions to the policy and in certain circumstances the Chairman has the ability to approve trading outside the policy prescriptions.

The share trading policy is available on the Company's website: **www.invocare.com.au**

Principle 4 – Safeguard Integrity in Financial Reporting

Audit Committee

The Audit Committee provides assistance to the Board in fulfilling its corporate governance, risk management and oversight responsibilities in relation to the Group's financial reporting, internal control structure, information management systems, interest rate and foreign currency risks 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 Group. Both the internal and external auditors have a direct line of communication to the Chairman of the Audit Committee.

The Audit Committee comprises three independent non-executive directors and is currently chaired by Roger Penman. Mr Penman is an FCA and brings a wealth of financial and taxation experience to the Committee. Other members are Christine Clifton and Richard Fisher.

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

The Committee Charter is available on the Company's website: **www.invocare.com.au**

Corporate governance statement continued

Principle 5 – Make Timely and Balanced Disclosure

The Company has appropriate mechanisms in place to ensure all investors are provided with material, timely, complete and accurate information affecting the Group's financial position, performance, ownership and governance.

The Chairman, CEO, CFO or Company Secretary have been nominated as responsible for communication with shareholders and the ASX. 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. Continuous disclosure obligations are well understood and upheld by the Board and senior executives. Formal and informal discussion and consideration of these obligations occur as and when the need arises.

The Group's shareholder communication strategy is designed to ensure that all relevant information, especially market sensitive information, is made available to all shareholders and other stakeholders as soon as possible. InvoCare's website is structured to ensure information is easily located and logically grouped. Those shareholders who have made the appropriate election receive email notification of all announcements.

The Continuous Disclosure Policy and Shareholder Communication Strategy are available on the Company's website: **www.invocare.com.au**

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 Group's state of affairs.

The Company uses its website to complement the official release of material information to the market. Shareholders may elect to receive email alerts when Company announcements are made. Notice of Annual General Meeting, half-year and annual results announcements and financial reports, investor presentations, press releases and other ASX announcements can be found on the Company's website: **www.invocare.com.au**

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 also allows a reasonable opportunity for shareholders to ask questions of the auditor regarding the audit and auditor's report.

The next Annual General Meeting is scheduled to be held at 11.00am on Friday, 23 May 2008 at The Westin Sydney, 1 Martin Place, Sydney.

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

The Shareholder Communication Strategy is available on the Company's website: **www.invocare.com.au**

Principle 7 – Recognise and Manage Risk

The Board, through the Risk Committee and Audit Committee, reviews and oversees the Group's risk management systems.

Risk Committee

The Risk Committee determines the Group'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.

Each senior executive, with input and assistance from their direct reports, identifies key risks for their areas of responsibility and function which are in turn aggregated into an overall corporate risk register. Each risk is assessed and assigned an inherent risk rating. After considering the impact of management controls, a residual risk rating is determined for each risk. The risk register so compiled is reviewed and updated at least once each year by senior executives and their direct reports, or more frequently if new risks are identified or when incidents occur or mitigating controls change which warrant a reassessment of risk ratings.

Extracts of the risk register focussing on the risks with high and very high residual ratings are provided to the Risk Committee at each of its meetings, together with specific commentary or information on significant changes to the risks or the ratings. The Committee is informed of any major incidents and the effectiveness of actions to mitigate the impact of risk events. In addition, the Committee considers developments or improvements in risk management and controls, including the adequacy of insurance programmes. In particular, the Committee reviews and monitors the Group's rolling three-year risk management plan which includes targets, timelines and status for the management of risks.

Separate records and registers are maintained for other more common or recurring risks, for example arising, from customer complaints and occupational health and safety issues. These are managed and reported to the Committee by the relevant in-house specialists. In this context, the Committee monitors complaints handling and also has a strong focus on ensuring suitable work practices and employee learning and development programmes are developed and delivered.

Specific major risks or incidents are reported as and when they occur with the CEO and COO responsible for escalation to the Risk Committee and Board where necessary if the event occurs outside the regular cycle of Committee meetings.

The Risk Committee comprises four independent non-executive directors and is currently chaired by Christine Clifton. The other members are Ian Ferrier, Richard Fisher and Benjamin Chow.

The Risk Committee Charter is available on the Company's website: **www.invocare.com.au**

Internal Control

The Group maintains a register of delegated authorities which are designed to ensure that all transactions are approved at the appropriate level of management and by individuals who have no conflicts of interest in relation to the transaction.

All systems and processes are regularly reviewed to ensure that they contain adequate levels of checks and balances to safeguard the assets of the Company and ensure that all transactions are correctly and promptly recorded.

The internal audit function undertakes regular reviews, either with its own resources or through outsourcing specific projects, of all key business processes. In addition, the internal audit function is involved in reviewing all systems improvements and enhancements prior to live implementation to ensure an adequate level of internal control and accountability is maintained.

Assurance

Prior to finalising the release of half-year and full-year results and reports the Board receives assurance from the CEO, CFO and COO in accordance with s295A of the *Corporations Act 2001*. These assurances also provide the Board with information in relation to internal control and other areas of risk. These officers receive similar assurance from the key financial and operational staff in relation to these matters.

Principle 8 – 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.

The Remuneration Committee reviews and makes recommendations to the Board on senior executive remuneration and appointment and on overall staff remuneration and compensation policies.

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

The Remuneration Committee comprises two independent non-executive directors, Ian Ferrier who chairs the committee and Roger Penman.

The Remuneration Committee Charter is available on the Company's website: **www.invocare.com.au**

Remuneration Structure

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, which may be sacrificed by payment into superannuation plans or by allocation of ordinary shares. 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, access by invitation to the Deferred Employee Share Plan and fringe benefits.

The Remuneration Report is set out on pages 38 to 45.

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 2007, 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
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 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 Group. 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;
– motivate non-executive directors to achieve InvoCare's long-term strategic objectives; and
– 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 $500,000, being the amount approved by shareholders at the Annual General Meeting held on 25 May 2007. The shareholders will be asked to consider and if thought fit pass a resolution at the Annual General Meeting on 23 May 2008 to increase the pool limit to $575,000.

This remuneration is to be divided among the non-executive directors in such proportion as the Board determines. During the 2007 financial year, annual fees for non-executive directors were $145,000 for the Chairman of the Board and $78,000 for each of the other three non-executive directors who held office for the full year. For the 2008 financial year, based upon an external review of non-executive director compensation which was commissioned by the Board Remuneration Committee, the fees are $150,000 for the Chairman and $87,500 for each of the other four 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 2007 and 31 December 2006.

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.

Non-executive directors may participate in the Company's Deferred Employee Share Plan on a fee sacrifice basis. No shares have been issued or allocated to non-executive directors under the Deferred Employee Share Plan.

Retiring Allowances

No retiring allowances are paid to non-executive directors.

Superannuation

Where relevant, 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 reviews for the approval of the Board of Directors, remuneration of all other key management personnel 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 a 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 predetermined 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 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 (e.g. 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 base 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

- Payment of death and total and permanent disablement and salary continuance insurance premiums for senior executive staff; and
- Nominal 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

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

Prior to the Initial Public Offering of InvoCare, equity compensation in the form of share options had been provided to selected executives. No further options have been issued. Details are set out on page 42 under "Share-based Compensation – Options".

During 2007, a share-based compensation scheme, the InvoCare Deferred Employee Share Plan, was introduced under which the Board may offer selected senior executives and other managers incentive shares ("LTI shares"), subject to performance and/or continuous service conditions. If employment is terminated, for any reason, prior to the vesting date, or if the performance and service conditions are not met, any unvested LTI shares will be forfeited.

For the offers made in 2007, all LTI shares will vest in three equal tranches in February of each of 2009, 2010 and 2011. The LTI shares are held in trust until vesting and the employees will be entitled to any dividends paid in respect of unforfeited shares. Upon vesting, the employee has the discretion to leave the shares in the plan, withdraw or sell any number of them.

Performance conditions apply to senior managers who have an important strategic role impacting InvoCare's financial performance and relate to compound earnings per share growth. The 2007 LTI shares will vest in accordance with the following table:

Earnings per Share (EPS) growth p.a. compound effective from 1 January 2007	< 8%	8% to 9%	9% to 10%	10% to 11%	11% to 12%	> 12%
Number of LTI shares that will vest	nil	50% + 0.5% for each 0.1% EPS	55% + 1% for each 0.1% EPS	65% + 1.5% for each 0.1% EPS	80% + 2% for each 0.1% EPS	100%

The performance conditions for LTI shares were selected following independent advice and analysis of:

- broker analysis and forecasts for InvoCare;
- historic and forecast EPS growth in the ASX/S&P 200; and
- InvoCare's own earnings forecasts.

If the EPS performance conditions are not met at the vesting date, the LTI shares remain available until February 2012, based on the last available full measurement year ending 31 December 2011.

Remuneration report continued

To receive 100% of the LTI shares allocated, the senior executive or manager must remain employed for four years to February 2011, and if subject to performance conditions, InvoCare's compound EPS growth must exceed 12% per annum.

Future offers of LTI shares may be made at the discretion of the Board and the service and performance conditions for any future offers may vary from those applying to the 2007 LTI share offers.

Further details of LTI shares are set out on page 45 under "Share-based Compensation – Shares".

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

Unless indicated otherwise, the following persons were the key management personnel of InvoCare during the whole of the financial years ended 31 December 2007 and 31 December 2006:

Executive Directors
Richard Davis – Chief Executive Officer

Michael Grehan – Chief Operating Officer (resigned 15 February 2007)

Non-executive Directors
Ian Ferrier (Chairman)

Christine Clifton

Roger Penman

Richard Fisher

Benjamin Chow (appointed 22 February 2007)

Senior executives (who are also included in the category of the five highest paid executives):

- Andrew Smith was appointed Chief Operating Officer with effect from 28 March 2007, previously having been Chief Financial Officer from 16 January 2006; and
- Phillip Friery was appointed Company Secretary on 12 January 2007 and Chief Financial Officer on 28 March 2007, having been an employee of the Group since 12 December 1994.

On 12 January 2007, Kenneth Mealey resigned 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 & Crematoria;
- John Fowler – General Manager Victoria, Funerals Division, and
- Damian Hiser – formerly General Manager NSW, Funerals Division.

Armen Mikaelian was promoted to the above position on 1 January 2005, having been with InvoCare since 1990 in various capacities.

John Fowler has held general manager positions with InvoCare since May 1995, having been employed in the industry for over 32 years and by InvoCare since 1994 when it acquired the Le Pine funeral businesses in Victoria.

Damian Hiser resigned effective 28 September 2007 and was replaced by Greg Bisset who joined the Group on 15 January 2008.

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 tables on the following page.

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

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 12 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 months' notice or by payment of six months' remuneration. In the event of termination, the agreement provides normal commercial restraint conditions for a period of 12 months after termination. The agreement also provides 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 the Chief Operating Officer, Andrew Smith, were formalised in service agreements executed in March 2007 and December 2005 respectively. The agreements provide for provision of salary, short-term performance-related cash bonuses, long-term performance-related share-based bonuses, superannuation and other benefits. The Remuneration Committee reviews the base salary and bonus incentives annually. The term of employment is indefinite and termination may generally be effected with either six months' notice or by payment of six months' remuneration. Details of the share-based remuneration 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 managers are formalised in letters of appointment as varied from time to time, including through annual review of the base salary, short and long-term incentives. Each contract is for an indefinite term. One month's notice or payment in lieu of notice is generally required in the event of resignation. Termination benefits are limited to statutory leave entitlements, unless determined otherwise by the Remuneration Committee. The other key management personnel and certain other senior executives also participated in the Company's Employee Share Option Plan and options were granted to them in September 2003. Since that date, no further options have been granted. Details of these options are set out in Section D. Share-based Compensation. During 2007, the other key management personnel and certain other senior managers participated in the Group's Deferred Employee Share Plan. Details of this plan are set out in Section D. Share-based Compensation. Remuneration details are as follows:

2007	Short-term employee benefits			Post employment benefits		Share-based payments		
	Cash salary or fee $	Short-term cash bonus $	Non-monetary benefits $	Super-annuation $	Termination benefits $	Options $	Shares $	Total $
Non-executive directors								
Ian Ferrier	–	–	–	145,000	–	–	–	145,000
Christine Clifton	71,560	–	–	6,440	–	–	–	78,000
Roger Penman	78,000	–	–	–	–	–	–	78,000
Benjamin Chow	61,123	–	–	5,501	–	–	–	66,624
Richard Fisher	71,560	–	–	6,440	–	–	–	78,000
Executive directors								
Richard Davis	440,000	432,221	14,090	39,600	–	–	–	925,911
Michael Grehan	40,028	–	42,096	30,602	389,192	8,224	–	510,142
Other key management personnel								
Andrew Smith	355,045	174,150	22,864	31,953	–	–	85,732	669,744
Phillip Friery	250,000	147,500	17,515	22,500	–	1,495	33,911	472,921
Totals for each component	1,367,316	753,871	96,565	288,036	389,192	9,719	119,643	3,024,342
Totals by category		2,217,752		288,036	389,192	129,362		3,024,342
Other executives in the category of the five highest paid executives but who are not key management personnel								
Armen Mikaelian	170,000	186,430	11,484	31,078	–	2,392	25,433	426,817
John Fowler	139,828	70,000	46,155	45,320	–	748	17,140	319,191
Damian Hiser [1]	153,128	–	20,287	12,620	–	–	–	186,035

2006	Short-term employee benefits			Post employment benefits		Share-based payments		
	Cash salary or fee $	Short-term cash bonus $	Non-monetary benefits $	Super-annuation $	Termination benefits $	Options $	Shares $	Total $
Non-executive directors								
Ian Ferrier	100,917	–	–	9,083	–	–	–	110,000
Christine Clifton	62,385	–	–	5,615	–	–	–	68,000
Roger Penman	68,000	–	–	–	–	–	–	68,000
Richard Fisher	–	–	–	68,000	–	–	–	68,000
Executive directors								
Richard Davis	400,000	327,611	31,207	36,000	–	–	–	794,818
Michael Grehan	300,000	180,000	20,856	27,000	–	56,568	–	584,424
Other key management personnel								
Andrew Smith	296,550	151,047	23,331	26,690	–	–	37,980	535,598
Kenneth Mealey	220,000	40,000	22,025	19,800	–	15,428	–	317,253
Phillip Friery	200,000	93,600	18,907	18,000	–	8,523	–	339,030
Totals for each component	1,647,852	792,258	116,326	210,188	–	80,519	37,980	2,885,123
Totals by category		2,556,436		210,188		118,499		2,885,123
Other executives in the category of the five highest paid executives but who are not key management personnel								
Armen Mikaelian	170,000	152,926	26,205	29,063	–	10,818	–	389,012
John Fowler	145,667	20,000	41,697	28,183	–	5,143	–	240,690

In accordance with 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.

1. *Damian Hiser resigned effective 28 September 2007 and the information disclosed above relates to the period from 1 January 2007 to 28 September 2007.*

Remuneration report continued

D. Share-based Compensation

Options

The terms and conditions of each grant of options affecting remuneration in this reporting period are set out below. The options will not affect remuneration in future periods.

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
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.

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.

2007	Balance at start of year	Vested at start 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							
Michael Grehan	140,060	–	–	140,060	140,060	–	–
Key management personnel							
Phillip Friery	25,466	–	–	25,466	25,466	–	–
Other executives							
Armen Mikaelian	40,745	–	–	40,745	40,745	–	–
John Fowler	12,733	–	–	12,733	12,733	–	–

All vested options have been exercised and at 31 December 2007 there were no options over unissued shares of InvoCare Limited.

2006	Balance at start of year	Vested at start 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							
Michael Grehan	420,179	–	–	280,119	280,119	140,060	–
Key management personnel							
Kenneth Mealey	114,594	–	–	76,396	76,396	38,198	–
Phillip Friery	63,665	–	–	38,199	38,199	25,466	–
Other executives							
Armen Mikaelian	81,489	–	–	40,744	40,744	40,745	–
John Fowler	38,200	–	–	25,467	25,467	12,733	–

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	
	2007	2006	**2007**	2006
Directors				
Michael Grehan	**–**	$0.59	**–**	140,060
Michael Grehan	**$1.07**	$1.07	**140,060**	140,059
Other key management personnel				
Phillip Friery	**–**	$0.59	**–**	12,734
Phillip Friery	**$1.07**	$1.07	**25,466**	25,466
Other executives in the category of the five highest paid executives but who are not other key management personnel				
Armen Mikaelian	**$1.07**	$1.07	**40,745**	40,744
John Fowler	**–**	$0.59	**–**	12,734
John Fowler	**$1.07**	$1.07	**12,733**	12,733

No amounts are unpaid on any shares issued on the exercise of options. Refer to Section E. Additional Information.

Shares

Under a service agreement, Andrew Smith may receive long-term incentive bonus remuneration in the form of ordinary shares in InvoCare Limited. The maximum bonus payable each year is one third of his combined base salary and superannuation and is linked to the profit performance of InvoCare. Shares to the value of the bonus will be purchased on behalf of the employee and one third will vest on each of the first, second and third anniversaries of their purchase on behalf of the employee. The employee will be entitled to any dividends paid in respect of the shares and any unvested shares will be forfeited upon termination of employment. Mr Smith's long-term incentive bonus in respect of 2007 has been determined by the Remuneration Committee as $129,000 (2006: $112,000). In accordance with the requirements of AASB 2 *Share-based Payment*, $85,732 (2006: $41,987) was expensed as share-based remuneration during the year ended 31 December 2007 in relation to the above long-term incentive bonus.

Other key management personnel and other executives in the category of the five highest paid executives but who are not other key management personnel received shares under the terms of the InvoCare Deferred Employee Share Plan. Details of the grants are set out below.

	Grant value $	Expensed $
Other key management personnel		
Phillip Friery	100,000	33,911
Other executives in the category of the five highest paid executives but who are not other key management personnel		
Armen Mikaelian	75,000	25,433
John Fowler	51,000	17,295

Remuneration report continued

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	Received during year on DESP grants	Other changes during year	Balance at end of year
Non-executive Directors					
Ian Ferrier	152,401	–	–	(50,000)	102,401
Christine Clifton	100,160	–	–	10,366	110,526
Roger Penman	–	–	–	–	–
Benjamin Chow	–	–	–	–	–
Richard Fisher	5,080	–	–	183	5,263
Executive Directors					
Richard Davis	1,299,733	–	–	–	1,299,733
Other key management personnel					
Andrew Smith	–	–	20,100	–	20,100
Phillip Friery	15,747	25,466	16,172	(5,000)	52,385
Other executives in the category of the five highest paid executives but who are not other key management personnel					
Armen Mikaelian	60,000	40,745	12,016	(20,000)	92,761
John Fowler	140,059	12,733	8,199	(22,792)	138,199

Michael Grehan, who resigned as an executive director on 15 February 2007, had 1,053,905 shares at the beginning of the year and at the time of his resignation exercised options over a further 140,060 shares.

E. Additional Information

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 four years' results of the Company and returns to shareholders are summarised below.

	2007	2006	2005	2004
Earnings per share	**27.6**	24.7	21.0	20.4
Dividends paid in year (cents per share):				
Interim for current year	**10.0**	8.0	7.0	6.4
Final for previous year	**11.5**	9.5	9.0	–
Special	**–**	–	10.5	–
Total dividends paid in the year	**21.5**	17.5	26.5	6.4
Share price – 1 January	**$5.57**	$4.19	$3.35	$2.14
Share price – 31 December	**$7.01**	$5.57	$4.19	$3.35
Total shareholder return (price movement plus cash dividends)	**$1.66**	$1.56	$1.11	$1.27
Total shareholder return as percentage of opening share price	**30%**	37%	33%	59%

Cash and Share-based Bonuses

For each cash bonus and share-based 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.

	Cash bonus		Share-based bonus	
Name	Payable %	Forfeited %	Payable %	Forfeited %
Richard Davis	100	0	–	–
Andrew Smith	100	0	100	0
Phillip Friery	100	0	100	0
Armen Mikaelian	93	7	100	0
John Fowler	100	0	100	0
Damian Hiser	0	100	0	100

Share-based Compensation – Options

Further details relating to options are set out below:

	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 $
Phillip Friery	0.3	–	128,858	–	128,858
Armen Mikaelian	0.6	–	210,244	–	210,244
John Fowler	0.2	–	62,392	–	62,392

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the year.
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.

Share-based Compensation – Shares

One third of shares granted in respect of long-term share-based incentives will vest on each of the second, third and fourth anniversaries of the share grant dates. The value of the shares will be expensed over the periods from grant to vesting in accordance with AASB 2 *Share-based Payment* and is estimated as follows:

Financial years ending 31 December	Value of unvested shares to be expensed $					
	2006	2007	2008	2009	2010	2011
Andrew Smith	41,987	85,732	69,858	39,284	14,234	1,720
Phillip Friery	–	33,911	33,911	21,090	9,754	1,333
Armen Mikaelian	–	25,433	25,433	15,818	7,316	1,000
John Fowler	–	17,295	17,140	10,660	4,930	674

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 at 31 December 2007 nor were any options granted during or since the end of the financial year.

Shares Issued on the Exercise of Options

The following ordinary shares of the Company were issued during the year ended 31 December 2007 on the exercise of options granted under the Employee Share Option Plan:

Date options granted	Issue price of shares	Number of shares issued
22 September 2003	$1.07	313,228

The Directors' Report concludes on the following page.

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 the 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 auditor (PricewaterhouseCoopers) during the year ended 31 December 2007:

	$
Assurance services	21,163
Taxation services	129,975
Advisory services	13,900
Legal services (PricewaterhouseCoopers Legal)	6,000
Total	171,038

Legal fees related to advice in respect of the Group's tax sharing agreement 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 47.

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 28th day of March 2008.

Auditor's Independence Declaration

PRICEWATERHOUSECOOPERS

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As lead auditor for the audit of InvoCare Limited for the year ended 31 December 2007, 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 Feely
Partner

PricewaterhouseCoopers

New York USA
28 March 2008

Liability limited by a scheme approved under Professional Standards Legislation

Financial Report

InvoCare Limited and Controlled Entities

The financial report covers both the separate financial statements of InvoCare Limited as an individual entity and the consolidated financial statements for the consolidated entity consisting of InvoCare Limited and its subsidiaries. The financial report is presented in the Australian currency.

InvoCare Limited (ABN 42 096 437 393) is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 4, 153 Walker Street
North Sydney NSW 2060

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report.

The financial report was authorised for issue by the directors on 28 March 2008. The Company has power to amend and reissue the financial report.

Through the use of the internet, InvoCare ensures corporate reporting is timely, complete, and available globally at minimum cost to the Company. All press releases, financial reports and other information are available on the Company's website: www.invocare.com.au.

Refer to page 100 for Independent Audit Report and page 102 for Shareholder Information.

Notes to the Financial Statements

Income Statements

For the year ended 31 December 2007

		Consolidated Entity		Parent Entity	
	Notes	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Revenue from continuing operations	3	**228,197**	196,290	**44,663**	37,735
Other income	4	**818**	7,027	**–**	–
Finished goods, consumables and funeral disbursements		**(64,635)**	(55,636)	**–**	–
Employee benefits expense		**(53,111)**	(45,854)	**(457)**	(314)
Employee related and on-cost expenses		**(13,599)**	(12,143)	**(10)**	–
Advertising and public relations expenses		**(6,939)**	(5,353)	**–**	–
Depreciation, amortisation and impairment expenses	5	**(8,945)**	(11,314)	**–**	–
Occupancy and facilities expenses		**(13,287)**	(11,818)	**–**	–
Finance costs	5	**(12,095)**	(11,258)	**(9,966)**	(10,390)
Motor vehicle expenses		**(5,049)**	(4,372)	**–**	–
Other expenses		**(11,989)**	(10,998)	**(529)**	(506)
Profit before income tax		**39,366**	34,571	**33,701**	26,525
Income tax expense	6	**(11,715)**	(10,434)	**(1,728)**	(2,080)
Profit from continuing activities		**27,651**	24,137	**31,973**	24,445
Profit for the year		**27,651**	24,137	**31,973**	24,445
Profit is attributable to:					
Equity holders of InvoCare Limited		**27,554**	24,047	**31,973**	24,445
Minority interest		**97**	90	**–**	–
		27,651	24,137	**31,973**	24,445
Earnings per share for profit attributable to the ordinary equity holders of the Company					
Basic earnings per share (cents per share)	11	**27.6**	24.7		
Diluted earnings per share (cents per share)	11	**27.6**	24.6		

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

Balance Sheets

As at 31 December 2007

	Notes	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
ASSETS					
Current assets					
Cash and cash equivalents	12	**8,981**	5,717	**–**	–
Trade and other receivables	13	**18,567**	20,606	**18**	16
Inventories	14	**13,170**	12,743	**–**	–
Property classified as held for sale	15	**–**	3,083	**–**	–
Deferred selling costs	16	**543**	528	**–**	–
Total current assets		**41,261**	42,677	**18**	16
Non-current assets					
Trade and other receivables	13	**9,072**	9,069	**220,781**	203,172
Other financial assets	17	**–**	–	**15,957**	15,679
Property, plant and equipment	19	**212,715**	201,797	**–**	–
Intangible assets	20	**56,457**	47,288	**–**	–
Derivative financial instruments	21	**5,257**	1,486	**4,360**	1,016
Deferred selling costs	16	**7,607**	7,397	**–**	–
Total non-current assets		**291,108**	267,037	**241,098**	219,867
Total assets		**332,369**	309,714	**241,116**	219,883
LIABILITIES					
Current liabilities					
Trade and other payables	22	**25,557**	21,013	**168**	25
Borrowings	23	**–**	–	**929**	26
Current tax liabilities		**4,661**	4,781	**4,150**	3,930
Deferred revenue	24	**2,956**	2,940	**–**	–
Provisions	25	**8,079**	7,429	**–**	–
Total current liabilities		**41,253**	36,163	**5,247**	3,981
Non-current liabilities					
Trade and other payables	22	**251**	559	**–**	–
Borrowings	23	**154,547**	152,084	**131,701**	131,602
Deferred tax liabilities	26	**33,390**	32,317	**1,509**	411
Deferred revenue	24	**41,382**	41,167	**–**	–
Provisions	25	**1,067**	1,064	**–**	–
Total non-current liabilities		**230,637**	227,191	**133,210**	132,013
Total liabilities		**271,890**	263,354	**138,457**	135,994
Net assets		**60,479**	46,360	**102,659**	83,889
EQUITY					
Contributed equity	27	**70,125**	64,473	**70,125**	64,473
Reserves	28	**3,504**	1,171	**3,748**	1,208
Retained profits/(Accumulated losses)	28	**(14,175)**	(20,334)	**28,786**	18,208
Parent entity interest		**59,454**	45,310	**102,659**	83,889
Minority interest	29	**1,025**	1,050	**–**	–
Total equity		**60,479**	46,360	**102,659**	83,889

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

Statements of Recognised Income and Expense

For the year ended 31 December 2007

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Cash flow hedges, net of tax	**2,565**	3,420	**2,565**	3,420
Exchange difference on translation of foreign operations	**(207)**	(37)	**–**	–
Net income recognised directly in equity	**2,358**	3,383	**2,565**	3,420
Profit after tax	**27,651**	24,137	**31,973**	24,445
Total recognised income and expense for the year	**30,009**	27,520	**34,538**	27,865
Total recognised income and expense for the year is attributable to:				
Members of InvoCare Limited	**29,912**	27,430	**34,538**	27,865
Minority interest	**97**	90	**–**	–
	30,009	27,520	**34,538**	27,865

The above statements of recognised income and expense should be read in conjunction with the accompanying notes.

Cash Flow Statements

For the year ended 31 December 2007

	Notes	Consolidated Entity 2007 $'000	Consolidated Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Cash flow from operating activities					
Receipts from customers		**245,629**	211,919	**–**	–
Payments to suppliers and employees		**(187,062)**	(164,949)	**(799)**	(270)
Other revenue		**3,456**	3,641	**–**	–
		62,023	50,611	**(799)**	(270)
Interest received		**273**	302	**1**	–
Finance costs		**(11,092)**	(10,987)	**(9,600)**	(10,609)
Income taxes paid		**(12,609)**	(10,295)	**–**	–
Net cash provided by operating activities	34	**38,595**	29,631	**(10,398)**	(10,879)
Cash flow from investing activities					
Proceeds from sale of property, plant and equipment		**4,571**	5,055	**–**	–
Purchase of subsidiaries and other businesses net of cash acquired		**(8,526)**	(25,203)	**–**	–
Purchase of property, plant and equipment		**(17,366)**	(9,817)	**–**	–
Payment of dividend by newly acquired subsidiary to former shareholders		**–**	(1,674)	**–**	–
Net cash used in investing activities		**(21,321)**	(31,639)	**–**	–
Cash flow from financing activities					
Proceeds from issue of ordinary shares		**335**	5,077	**335**	5,077
Payment for shares acquired by InvoCare Deferred Employee Share Plan Trust		**(816)**	–	**(816)**	–
Proceeds from borrowings		**18,362**	40,505	**16,000**	20,000
Repayment of borrowings		**(16,000)**	(28,000)	**(16,000)**	(28,000)
Payment of dividends – InvoCare Limited shareholders (net of Dividend Reinvestment Plan $5,687,000 (2006: $3,194,000))		**(15,708)**	(13,810)	**(15,708)**	(13,810)
Payment of dividends – minority interests		**(122)**	(47)	**–**	–
Proceeds from repayments by controlled entities		**–**	–	**25,684**	27,431
Net cash provided by/(used in) financing activities		**(13,949)**	3,725	**9,495**	10,698
Net increase/(decrease) in cash held		**3,325**	1,717	**(903)**	(181)
Cash and cash equivalents at the beginning of the year		**5,717**	4,000	**(26)**	155
Effects of exchange rates changes on cash and cash equivalents		**(61)**	–	**–**	–
Cash and cash equivalents at the end of the year	12	**8,981**	5,717	**(929)**	(26)

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

Note 1: Summary of Significant Accounting Policies

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

(a) Basis of preparation

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

(i) Compliance with IFRS
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the consolidated financial statements and notes of InvoCare Limited comply with International Financial Reporting Standards (IFRS).

AASB 7 *Financial Instruments: Disclosures* is applicable to annual reporting periods beginning on or after 1 January 2007 and has been adopted in this report. AASB 7 introduces new disclosures of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces the disclosure requirements in IAS 32 *Financial Instruments: Disclosure and Presentation*. It is applicable to all reporting entities.

AASB 2005-10 *Amendments to Australian Accounting Standards (AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 and AASB 1038)* is applicable to annual reporting periods beginning on or after 1 January 2007 and has been adopted in this report. The amendment to AASB 101 introduces disclosures about the level of an entity's capital and how it manages capital.

(ii) 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).

(iii) 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 39.

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

In particular, funeral sales revenue has been presented inclusive of disbursements invoiced to customers for the first time this year. The Group pays certain funeral disbursements such as press notices, cemetery fees, crematoria fees, clergy offerings and doctors' fees at the request of its funeral home customers. In previous reporting periods, funeral disbursements have been netted against invoiced sales so that sales revenue has been reported net of disbursements. This change in presentation is a consequence of a review of revenue reporting and better reflects the commercial substance of sales to customers.

The Group has not changed its accounting policy for the recognition of revenue, which is described in note 1(e). The effect of the change in presentation was to increase reported sales revenue by $36,677,000 (2006: $32,118,000).

As a consequence of the change in reporting of sales revenue, funeral disbursements amounting to $36,677,000 (2006: $32,118,000) paid to suppliers by the Group have been included as expenses with finished goods and consumables used in the income statement.

(b) Principles of consolidation

(i) Subsidiaries
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of InvoCare Limited ("Company" or "parent entity") as at 31 December 2007 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 deconsolidated 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(i)).

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.

(ii) Employee share trust
The Group has formed a trust to administer the InvoCare Exempt Employee Share Plan and the InvoCare Deferred Employee Share Plan. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group. Shares held by the InvoCare Deferred Employee Share Plan Trust are disclosed as treasury shares and deducted from contributed equity.

(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.

Note 1: Summary of Significant Accounting Policies continued

(d) Foreign currency translation

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

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

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

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(e) 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:

(i) 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, because the Group does not have the power to govern the financial and operating policies of the trust or trustee entities nor does the Group have the legal right or access to the trust funds until the contracted funeral services are performed.

Accordingly, the monies held in trust 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.

(ii) Cemeteries and crematoria operations
Sales of at-need and prepaid 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. Revenues 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.

(f) 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.

(g) Income tax

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

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable, profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Note 1: Summary of Significant Accounting Policies continued

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

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

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

(i) Tax consolidation legislation
InvoCare Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, InvoCare Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Group. Details about the tax funding agreement are disclosed in note 6.

(h) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases.

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.

(i) Business combinations and 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(p)). If the cost of acquisition is less than the fair value of the net identifiable 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 acquisition. 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.

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. 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). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversals of the impairment at each reporting date.

(k) 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.

(l) Receivables

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 as non-current receivables and measured as 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.

Note 1: Summary of Significant Accounting Policies continued

The carrying amount of the asset is reduced through the use of a provision for doubtful receivables account and the amount of the loss is recognised in the income statement within "other expenses". When a trade receivable is uncollectible, it is written off against the provision account for trade receivables. Subsequent recoveries of amounts previously written off are credited against "sundry revenue" in the income statement. Details of the impaired receivables, provision account movements and other details are included in note 13.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, a proportion of variable and fixed overhead. Costs are assigned to individual items of inventory predominantly on the basis of weighted average cost. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

(n) 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 writedown 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.

(o) 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. 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(j)).

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.

(p) 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 (note 20(b)).

(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.

(q) Trade and other payables

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

(r) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest 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 notes 2 and 23 for further information on borrowings.

Note 1: Summary of Significant Accounting Policies continued

(s) Derivative financial instruments
The Group uses derivative financial instruments such as cross currency and interest rate swaps to hedge its risks associated with foreign currency and interest rate fluctuations. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges); or
- hedges of a net investment in a foreign operation.

The Group documents at inception 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 or hedged items.

The fair value of interest rate swap contracts is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair values of derivative financial instruments used for hedging purposes are disclosed in note 21. Movements in the hedging reserve in shareholders' equity are shown in note 28. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Hedges that meet the strict criteria for hedge accounting are accounted for as follows:

(i) Cash flow hedges
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 within finance costs.

Amounts accumulated in equity are recycled in the income statement within finance costs in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place).

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.

(ii) Hedges of a net investment
Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the income statement.

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

(ii) 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.

(iii) 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.

(iv) 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.

(v) Share-based payments
The Group provides benefits to certain employees, including key management personnel, in the form of share-based payments, whereby employees render services in exchange for shares or options over shares. Details of the employee share or option plans are set out in note 8.

The cost of equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date granted. The cost is recognised as an employee benefit expense in the income statement, with a corresponding increase in equity, over the period during which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become unconditionally entitled to the award (the vesting date).

Note 1: Summary of Significant Accounting Policies continued

The fair value of options at grant date is independently determined using a binomial option pricing model that takes into account the exercise price of an option, the term of an 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 grant 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 Group revises its estimate of the number of awards that are expected to vest. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

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.

(u) 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.

(v) Dividends

Provision is made for the amount of any dividend declared being appropriately authorised and no longer at the discretion of the Company on or before the end of the financial year but not distributed at balance date.

(w) 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.

(x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of the GST, except where the amount of the GST incurred is not recoverable from the taxing authority. 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 statement 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 taxing authority, is classified as operating cash flows.

(y) 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 rounding 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.

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2007 reporting periods. The Group's and parent entity's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 *Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8*
AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 may result in a significant change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for the evaluation of segment performance and to decide how to allocate resources to operating segments. The Group has yet to decide when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) AASB 3 *Business Combinations*
The Australian Accounting Standards Board has recently announced that the revisions to the equivalent international accounting standard will be adopted in Australia for reporting periods beginning on or after 1 January 2009. The main impact of this standard is that the costs associated with the completion of an acquisition will no longer be regarded as part of the cost of the acquisition and these costs must be written off in the income statement. This will result in an immediate impact on the income statement in the year an acquisition is made, however, the quantum of the impact cannot be forecast due to the inherently uncertain nature of the timing and costs of completing acquisitions. The Group has yet to decide when to adopt AASB 3.

(iii) Revised AASB 101 *Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101*
A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made prior period adjustments or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group has yet to decide when to adopt AASB 101.

Note 2: Financial Risk Management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and price risk but not fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focusses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as interest rate swaps and cross currency swaps to hedge certain risk exposures. The Group uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and price risk and aging analysis for credit risk.

Risk management is carried out under policies approved by the Board of Directors on the recommendation of the Risk Committee. These policies provide written principles for overall risk management, as well as policies covering specific areas such as interest rate risk and currency risk.

The Group and the parent entity hold the following financial instruments:

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Financial assets				
Cash and cash equivalents	**8,981**	5,717	**–**	–
Trade and other receivables	**27,639**	29,675	**220,799**	203,188
Derivative financial instruments	**5,257**	1,486	**4,360**	1,016
Other financial assets	**–**	–	**15,957**	15,679
	41,877	36,878	**241,116**	219,883
Financial liabilities				
Trade and other payables	**25,808**	21,572	**168**	25
Borrowings	**154,547**	152,084	**132,630**	131,628
	180,355	173,656	**132,798**	131,653

(a) Market risk

(i) Cash flow interest rate risk

The Group's main interest rate risk arises from long-term borrowings. All borrowings are initially at variable interest rates determined by a margin over the applicable reference rate. The applicable margin over the reference rate is determined by reference to the Group's leverage ratio and may vary between 100 basis points and 55 basis points. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. It is the policy of the Group to keep at least 75% of debt on fixed interest rates by entering into interest rate swap contracts. During 2007 and 2006 the Group's borrowings were all denominated at variable Australian rates in Australian dollars. The Group has entered into interest rate swap contracts under which it receives interest at variable rates and pays interest at fixed rates. The bank loans of the Group currently bear an effective average variable interest rate inclusive of swaps of 6.60% (2006: 6.64%).

At balance date 99% (2006: 99%) of long-term borrowings were protected by interest rate swaps. Of these interest rate swaps 15% (2006: 14%) were denominated in Singapore dollar fixed interest instruments and the balance denominated in Australian dollars. As at 31 December 2007 the weighted average fixed interest rate payable on the interest rate swaps is 5.85% (2006: 5.89%) and the weighted average variable rate receivable as at 31 December 2007 is 6.89% (2006: 6.45%). The weighted average fixed interest payable under interest rate swaps on debt principal that has been swapped into Singapore dollars is 3.455% (2006: 3.485%).

At the reporting date the Group had the following variable rate borrowings and interest rate swap contracts outstanding:

	31 December 2007		31 December 2006	
	Weighted average interest rate	**Balance $'000**	Weighted average interest rate	Balance $'000
Bank loans	**7.64%**	**154,547**	7.19%	152,084
Interest rate swaps (notional principal)	**5.85%**	**152,867**	5.88%	150,505
Net exposure to cash flow interest rate risk		**1,680**		1,579

An analysis of maturities is provided in (c) below.

Note 2: Financial Risk Management continued

(a) Market risk continued

(i) Cash flow interest rate risk continued

As a consequence the Group is exposed to interest rate risks on that portion of total borrowings not swapped to fixed rates, gains or losses arising from the difference between variable rates and the fixed rates on the swap instruments in place and to potential movements in the margin due to changes in the Group's leverage ratio. At balance date an increase of 100 basis points (2006: 50 basis points) in the interest rate would result in an after tax loss of $82,000 (2006: $92,000 loss). A decrease of 50 basis points (2006: 50 basis points) would result in an after tax gain of $68,000 (2006: $92,000 gain). That portion of borrowings that have been swapped to fixed rates denominated in Singapore dollars give rise to a currency risk on the interest payments. A 10% increase (2006: 10%) in the Australian to Singapore dollar exchange rate would result in an after tax gain of $43,000 (2006: $11,000) and a decrease of 10% (2006: 10%) would result in an after tax loss of $52,000 (2006: $13,000).

The Group's cash and cash equivalents held in Australia are interest bearing. At 31 December 2007 the weighted average interest rate was 6.5% (2006: 5.85%). If interest rates increased by 100 basis points (2006: 50 basis points) the Group's after tax result would increase by $30,000 (2006: $31,000). A decrease of 50 basis points (2006: 50 basis points) would result in a decrease in the Group's after tax result of $16,000 (2006: $16,000).

(ii) Foreign exchange risk

The Group rarely undertakes commercial transactions in currencies other than in the functional currency of the operating entity.

Foreign exchange risks arise from recognised assets and liabilities that are denominated in a currency other than the Group's functional currency, the Australian dollar. The major foreign exchange risk relates to the investment in a controlled entity in Singapore. This exposes the Group to foreign currency risk on the assets and liabilities. Where natural hedges do not exist, currency swap instruments are used to hedge at least 75% of the net recognised assets and liabilities which are denominated in foreign currencies. At 31 December 2007 84.9% (2006: 93.4%) of the Group's exposure was hedged.

Two cross currency basis swaps were executed in October 2006 to swap the currency of borrowings used to fund the Singapore acquisition from $20,505,000 Australian dollars into $24,200,000 Singapore dollars and to swap the principal at the same exchange rate of 0.8473 at maturity. A further two cross currency basis swaps were executed in March 2007 to swap $2,362,000 Australian dollars into $2,892,000 Singapore dollars and to swap the principal at the same exchange rate of 0.8165 at maturity. These cross currency basis swaps have been designated as hedges of the Group's net investment in Singapore. Gains and losses on remeasuring these swaps are transferred to equity (foreign currency translation reserve) to offset any gains or losses on translation of the net investment in Singapore Casket Company (Private) Limited.

The only significant foreign currency exposure relates to the deferred cash settlement for business interests acquired. Settlement of these liabilities will result in an increase or decrease in the value of the investment recognised and will have no impact on either profit and loss or equity. The carrying amounts of the Group's trade and other payables that are denominated in foreign currency are:

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current				
Singapore dollars	**940**	2,499	**–**	–
Non-current				
Singapore dollars	**–**	232	**–**	–

(iii) Price risk

The Group does not hold any investments in equities or commodities and is therefore not subject to price risk for any recognised financial assets.

However, as indicated in Note 24 Deferred Revenue, monies totalling $272 million at 31 December 2007 (2006: $252 million) not controlled by the Group and not recorded as an asset on the balance sheet are held in trust for prepaid funeral contracts and, to a lesser extent, prepaid burial and cremation services.

Note 2: Financial Risk Management continued

(a) Market risk continued

(iii) Price risk continued

The Group recognises revenue on these prepaid services only when the services are performed and the monies held in trust, including any investment earnings, are receivable by the Group. Due to the expected average 12-15-year period from contract date to performance of the service, the trusted monies are invested with a significant bias to equities, which historically provide the best long-term investment returns. Accordingly, the Group's future revenue is sensitive to the price risk relating to, in particular, the amount of equities and investment returns on these funds under management.

The asset allocation determined by the investment advisers and managers of the trusts is:

	Consolidated Entity	
	2007 %	2006 %
Australian equities	**57**	57
International equities	**2**	2
Property	**5**	5
Cash and/or fixed interest	**36**	36
Total	**100**	100

The gross annual returns of the funds under management, before investment management and administration fees (currently 1.6%), are set out below:

	Consolidated Entity		
	31 December 2007	31 December 2006	Movement %
12 months ended	**11.9**	17.2	(30.8)
3 years ended	**14.4**	16.2	(11.1)
5 years ended	**13.5**	10.7	26.2
7 years ended	**10.1**	10.0	1.0

The decline in 12-month and 3-year returns are largely attributable to the equity market performance since mid 2007. Share market declines and continued volatility since 31 December 2007 would have impacted the amount of the trust funds and may impact future revenue and margins of the Group. It has been estimated that each 5% change in equity market values would alter the trust assets at 31 December 2007 by 3%. For example, if the values of equities fell by 15%, the estimated value of trust assets at 31 December 2007 would decline by $24 million to $248 million.

The future revenue and margin impact for the Group in any one year is unlikely to be material because approximately 50% of the trust assets at 31 December 2007 are expected to be recognised as revenue and margin over the next 10 years, and 90% over about 28 years. Only approximately 13% (2006: 14%) of the funeral services performed by the Group in 2007 were prepaid, a proportion which has been reasonably constant for many years and is not expected to change significantly in the short term.

Based on historical experience in equity markets, any decline such as the 15% mentioned above is unlikely to be permanent. Also, ongoing investment earnings and additional new prepaid contract monies, which the Group is targeting to exceed at-need service redemptions, are expected to increase the amount of funds under management and enhance future revenues and margins.

However, assuming no recovery in equity markets after a 15% decline and no further investment earnings or growth in funds under management, 2008 revenues and margins could decline by an estimated $2 million. The performance of prepaid services in 2007 generated additional revenue and margin of $3.2 million (2006: $1.0 million) in excess of the revenue and margin that would have been earned had the services not been prepaid.

Whilst the Group is not in control of the funds under management, it monitors the asset allocations and investment performance at least quarterly and makes representations as required to those in control of the trusts to mitigate price risks and enhance the returns which will ultimately impact the Group's future results.

Other than disclosed above the Group does not hold any investments in equities or commodities and is therefore not subject to price risk.

Note 2: Financial Risk Management continued

(b) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers including outstanding receivables and committed transactions. For banks and financial institutions, only independently rated parties with a minimum rating of AA- are accepted.

Credit risk in relation to customers are highly dispersed and without concentration on any particular region or sector. Funeral homes attempt to collect deposits at the time the service is commissioned both as a sign of good faith and in order to cover out of pocket expenses. Cemetery and crematorium products are generally not delivered prior to the receipt of all or substantially all of the amounts due.

Credit risks are analysed in more detail in Note 13 Trade and Other Receivables.

(c) Liquidity risk

Prudent liquidity management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the relatively stable nature of the Group's business, management aims to maintain a large portion of committed credit lines on a long-term basis.

The Group's borrowings are unsecured but subject to negative pledges and the Group has complied with these covenants throughout and at the end of the year. Details of the Group and parent entity facilities are as follows.

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Finance facilities available				
Unrestricted access was available at balance date to the following lines of credit:				
Total facilities				
– unsecured loan facility expiring in three to four years	**180,000**	180,000	**180,000**	180,000
– working capital facility expiring within one year	**5,000**	5,000	**5,000**	5,000
	185,000	185,000	**185,000**	185,000
Used at balance date				
– unsecured loan facility	**154,867**	152,505	**154,867**	152,505
– working capital facility	**398**	181	**398**	181
	155,265	152,686	**155,265**	152,686
Unused at balance date				
– unsecured loan facility	**25,133**	27,495	**25,133**	27,495
– working capital facility	**4,602**	4,819	**4,602**	4,819
	29,735	32,314	**29,735**	32,314

The Group uses interest rate swap instruments and as at 31 December 2007, the notional principal amounts and periods of expiry of the interest rate swap contracts are as follows:

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
2 – 3 years	**130,000**	–	**130,000**	–
3 – 4 years	**22,867**	130,000	**–**	130,000
4 – 5 years	**–**	20,505	**–**	–
	152,867	150,505	**130,000**	130,000

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. The gain or loss from remeasuring the hedging instruments at fair value is deferred in equity in the hedging reserve, to the extent that the hedge is effective, and reclassified into profit and loss when the hedged interest expense is recognised. Any ineffective portion is recognised in the income statement immediately. In the year ended 31 December 2007, $319,000 was transferred to the income statement (2006: $359,000).

Note 2: Financial Risk Management continued

(d) Summarised sensitivity analysis

The following table summarises the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk net of applicable income tax.

Consolidated Entity		Interest rate risk				Foreign exchange risk			
		– 50 basis points		+ 50 basis points		– 10%		+ 10%	
31 December 2006	Carrying amount $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000	Profit $'000	Equity $'000
Financial assets									
Cash and cash equivalents	5,717	(16)	–	16	–	–	–	–	–
Accounts receivable	29,675	–	–	–	–	–	–	–	–
Derivative financial instruments	1,486	(864)	(2,050)	260	1,420	–	(1,627)	–	1,628
Financial liabilities									
Trade and other payables	(21,572)	–	–	–	–	–	–	–	–
Borrowings	(152,084)	92	–	(92)	–	(13)	–	11	–
Total increase/(decrease)		(788)	(2,050)	184	1,420	(13)	(1,627)	11	1,628

Consolidated Entity		**Interest rate risk**				**Foreign exchange risk**			
		– 50 basis points		**+ 100 basis points**		**– 10%**		**+ 10%**	
31 December 2007	**Carrying amount $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**	**Profit $'000**	**Equity $'000**
Financial assets									
Cash and cash equivalents	**8,981**	**(16)**	**–**	**30**	**–**	**–**	**–**	**–**	**–**
Accounts receivable	**27,639**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Derivative financial instruments	**5,257**	**(210)**	**(1,077)**	**166**	**2,104**	**–**	**(1,465)**	**–**	**1,492**
Financial liabilities									
Trade and other payables	**(25,808)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Borrowings	**(154,547)**	**68**	**–**	**(82)**	**–**	**(52)**	**–**	**43**	**–**
Total increase/(decrease)		**(158)**	**(1,077)**	**114**	**2,104**	**(52)**	**(1,465)**	**43**	**1,492**

Note 2: Financial Risk Management continued

(d) Summarised sensitivity analysis continued

Parent Entity 31 December 2006	Carrying amount $'000	Interest rate risk – 50 basis points Profit $'000	Equity $'000	+ 50 basis points Profit $'000	Equity $'000	Foreign exchange risk – 10% Profit $'000	Equity $'000	+ 10% Profit $'000	Equity $'000
Financial assets									
Accounts receivable	203,188	–	–	–	–	–	–	–	–
Derivative financial instruments	1,016	(585)	(2,050)	(13)	1,420	–	–	–	–
Other financial assets	15,679	–	–	–	–	–	–	–	–
Financial liabilities									
Trade and other payables	(25)	–	–	–	–	–	–	–	–
Borrowings	(131,628)	91	–	(91)	–	–	–	–	–
Total increase/(decrease)		(494)	(2,050)	(104)	1,420	–	–	–	–

Parent Entity 31 December 2007	Carrying amount $'000	Interest rate risk – 50 basis points Profit $'000	Equity $'000	+ 100 basis points Profit $'000	Equity $'000	Foreign exchange risk – 10% Profit $'000	Equity $'000	+ 10% Profit $'000	Equity $'000
Financial assets									
Accounts receivable	220,799	–	–	–	–	–	–	–	–
Derivative financial instruments	4,360	8	(1,077)	(15)	2,104	–	–	–	–
Other financial assets	15,957	–	–	–	–	–	–	–	–
Financial liabilities									
Trade and other payables	(168)	–	–	–	–	–	–	–	–
Borrowings	(132,630)	60	–	(74)	–	–	–	–	–
Total increase/(decrease)		68	(1,077)	(89)	2,104	–	–	–	–

The sensitivity analysis has been completed by applying the range values to the actual balances that existed at all points throughout the year.

(e) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of derivatives, which are recorded on the balance sheet, are measured using the cumulative dollar offset method.

The Group does not hold any financial instruments or derivatives which are held for trading.

The carrying value less impairment provisions for trade receivables and payables is a reasonable approximation of their fair values due to the short-term nature of trade receivables.

Note 3: Revenue from Continuing Operations

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Sales revenue [i]				
Sale of goods	**98,547**	84,599	**–**	–
Services revenue	**125,371**	107,333	**–**	–
Management fees	**–**	–	**1,200**	900
	223,918	191,932	**1,200**	900
Other revenue				
Rent	**277**	219	**–**	–
Administration fees	**2,355**	1,907	**–**	–
Sundry revenue	**994**	1,256	**–**	–
Dividend income:				
Wholly-owned group – controlled entities	**–**	–	**26,500**	19,710
Interest revenues				
Other persons/corporations	**653**	976	**–**	8
Wholly-owned group – controlled entities	**–**	–	**16,963**	17,117
	4,279	4,358	**43,463**	36,835
Total revenue from continuing operations	**228,197**	196,290	**44,663**	37,735

(i) Sales revenue has been reported inclusive of funeral disbursements invoiced to customers. In previous periods, sales revenue has been reported net of funeral disbursements. Further explanation and details of this change in presentation are set out in Note 1(a)(iv) Summary of Significant Accounting Policies.

Note 4: Other Income

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Net gain on disposal of non-current assets	**818**	7,027	**–**	1,955

Note 5: Expenses

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Profit before income tax includes the following specific expenses:				
Depreciation				
Buildings	**2,890**	2,416	**–**	–
Property, plant and equipment	**5,196**	4,714	**–**	–
Total depreciation	**8,086**	7,130	**–**	–
Amortisation of non-current assets				
Cemetery land	**365**	362	**–**	–
Leasehold land and buildings	**128**	137	**–**	–
Leasehold improvements	**122**	116	**–**	–
Brand names	**244**	113	**–**	–
Total amortisation	**859**	728	**–**	–
Impairment of non-current assets				
Impairment loss	**–**	5,871	**–**	–
Reversal of impairment loss	**–**	(2,415)	**–**	–
Total impairment of non-current assets (see note 19)	**–**	3,456	**–**	–
Total depreciation, amortisation and impairment	**8,945**	11,314	**–**	–
Finance costs				
Interest paid and payable	**10,425**	10,132	**9,549**	9,933
Interest rate swap loss	**862**	475	**319**	359
Other finance costs	**808**	651	**98**	98
Total financing costs	**12,095**	11,258	**9,966**	10,390
Impairment losses – financial assets				
Trade receivables	**500**	272	**–**	–
Rental expense				
Operating lease rental – minimum lease payments	**4,657**	4,273	**–**	–
Defined contribution superannuation expense	**3,858**	3,726	**–**	–

Note 6: Income Tax

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
(a) Income tax expense				
Current tax	**12,316**	11,328	**2,159**	2,122
Deferred tax	**(562)**	(417)	**(1)**	108
Benefit arising from previously unrecognised temporary difference of a prior period	**–**	(544)	**–**	(150)
Impact of change of income tax rate in Singapore	**(84)**	–	**–**	–
Adjustments recognised in the current year in relation to the current tax of prior years	**45**	67	**(430)**	–
Income tax expense attributable to continuing operations	**11,715**	10,434	**1,728**	2,080
(b) Reconciliation of income tax expense to prima facie tax payable				
Prima facie tax at 30% (2006: 30%) on profit from ordinary activities	**11,810**	10,371	**10,110**	7,957
Tax effect of amounts which are not deductible/(taxable) in calculation of taxable income				
Difference in overseas tax rates	**(365)**	(37)	**–**	–
Share-based payments expense	**(15)**	48	**–**	36
Non-assessable dividend	**–**	–	**(7,950)**	(5,913)
Under/(Over) provision in prior years	**45**	67	**(430)**	–
Other items (net)	**240**	(15)	**(2)**	–
Income tax expense	**11,715**	10,434	**1,728**	2,080

(c) Tax consolidation legislation

InvoCare Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation from 1 January 2004. The accounting policy in relation to this legislation is set out in note 1(g).

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

The entities entered into an updated tax funding agreement under which the wholly-owned entities will continue to fully compensate InvoCare Limited for any current tax payable assumed and be compensated by InvoCare Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to InvoCare Limited under the tax consolidation legislation.

The amounts receivable or payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. InvoCare Australia Pty Limited, as permitted by the tax funding agreement, acts on behalf of InvoCare Limited for the purpose of meeting its obligations to make tax payments, or receive refunds, and reimburses, or is compensated by, that entity through the intercompany loan account for amounts of tax paid, or received, except for the tax allocated to that entity.

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
Benjamin Chow

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

During the financial year, Michael Grehan resigned as director and Chief Operating Officer on 15 February 2007, and Benjamin Chow was appointed non-executive director on 22 February 2007.

(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:

- Andrew Smith – Chief Operating Officer (from 28 March 2007) and formerly Chief Financial Officer
- Phillip Friery – Chief Financial Officer (from 28 March 2007) and Company Secretary (from 12 January 2007)

On 12 January 2007, Kenneth Mealey resigned as Company Secretary, before which date he was also considered key management personnel.

All of the above persons were also key management personnel during the year ended 31 December 2006.

(c) Key management personnel compensation

	Consolidated Entity		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Short-term employee benefits	**2,217,752**	2,556,436	**282,243**	231,302
Post-employment benefits	**288,036**	210,188	**163,381**	82,698
Termination benefits	**389,192**	–	**–**	–
Share-based payments	**129,362**	118,499	**–**	–
	3,024,342	2,885,123	**445,624**	314,000

The Company has taken advantage of the relief provided by Corporations Regulation 2M.6.04 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 38 to 45.

Note 7: Key Management Personnel Disclosures continued

(d) Equity instrument disclosures relating to key management personnel

(i) Shares and options provided as remuneration and shares issued on exercise of such options

Details of shares and options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the shares and options, can be found in section D of the remuneration report on pages 42 to 44.

(ii) 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.

2007	Balance at start of year	Vested at start 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	–	–	–	–	–	–	–
Michael Grehan	140,060	–	–	140,060	140,060	–	–
Other key management personnel							
Andrew Smith	–	–	–	–	–	–	–
Phillip Friery	25,466	–	–	25,466	25,466	–	–

2006	Balance at start of year	Vested at start 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	–	–	–	–	–	–	–
Michael Grehan	420,179	–	–	280,119	280,119	140,060	–
Other key management personnel							
Andrew Smith	–	–	–	–	–	–	–
Kenneth Mealey	114,594	–	–	76,396	76,396	38,198	–
Phillip Friery	63,665	–	–	38,199	38,199	25,466	–

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

(iii) Share holdings

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. During the year, shares were granted to other key management personnel under the terms of the InvoCare Deferred Employee Share Plan the details of which are outlined in note 8.

Note 7: Key Management Personnel Disclosures continued

(d) Equity instrument disclosures relating to key management personnel continued

(iii) Share holdings continued

	Balance at start of year	Received during year on exercise of options	Granted during year as compensation	Other changes during year	Balance at end of year
Non-executive directors					
Ian Ferrier	152,401	–	–	(50,000)	102,401
Christine Clifton	100,160	–	–	10,366	110,526
Roger Penman	–	–	–	–	–
Benjamin Chow	–	–	–	–	–
Richard Fisher	5,080	–	–	183	5,263
Executive directors					
Richard Davis	1,299,733	–	–	–	1,299,733
Other key management personnel					
Andrew Smith	–	–	20,100	–	20,100
Phillip Friery	15,747	25,466	16,172	(5,000)	52,385

Michael Grehan, who resigned as a director on 15 February 2007, held 1,053,905 ordinary shares on 31 December 2006 and, upon his resignation, exercised options to acquire a further 140,060 shares.

(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

The Chairman, Ian Ferrier, is also Chairman and a shareholder of Good Health Solutions Pty Limited, a company which provides specialist medical services to the corporate sector. During the year, services were provided to the Group on normal terms and conditions amounting to $10,907 (2006: $8,692).

A director, Richard Fisher, is the immediate past Chairman of Partners of Blake Dawson Waldron. During the year, this firm undertook one legal assignment on normal commercial terms and conditions amounting to $7,151 (2006: Nil).

The Chief Financial Officer and Company Secretary, 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 $12,550 (2006: $21,000).

A director, Roger Penman, is a principal in WHK Horwath which has provided professional accounting and tax advisory services to the consolidated entity in the first half of 2006 on normal commercial terms and conditions amounting to $26,846. No services have been provided to the consolidated entity since May 2006.

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

	2007 $	2006 $
Amounts recognised as expense		
Accounting and tax advisory fees	**12,550**	47,846
Other professional services	**10,907**	8,692
Legal services	**7,151**	–
	30,608	56,554

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:

	2007 $	2006 $
Current liabilities	**–**	8,250

Note 8: Share-based Payments

(a) Employee share options

InvoCare Limited has no options over unissued shares granted to executive management outstanding at balance date. No options have been granted since 22 September 2003. The last of the options vested on 1 May 2007 and have all since been exercised.

Set out below is a summary of the movement in options during the year, including those held by directors and other key management personnel. At 31 December 2007 and 31 December 2006, no options were vested and exercisable.

Grant date	Expiry date	Exercise price	Balance at start of year	Issued during year	Exercised during year	Lapsed during year	Balance at end of year
2007 – consolidated and parent entity							
22 September 2003*	**1 May 08**	**$1.07**	**313,228**	**–**	**313,228**	**–**	**–**
			313,228	**–**	**313,228**	**–**	**–**
Weighted average exercise price			**$1.07**		**$1.07**		
Weighted average share value at exercise					**$5.90**		
Proceeds from shares issued					**$335,154**		

** Options issued under the Employee Share Option Plan.*

Grant date	Expiry date	Exercise price	Balance at start of year	Issued during year	Exercised during year	Lapsed during year	Balance at end of year
2006 – consolidated and parent entity							
22 September 2003*	1 May 07	$0.59	234,287	–	234,287	–	–
22 September 2003*	1 May 08	$1.07	626,450	–	313,222	–	313,228
			860,737	–	547,509	–	313,228
Weighted average exercise price			$0.94	–	$0.86		$1.07
Weighted average share value at exercise					$4.66		
Proceeds from shares issued					$473,377		

** Options issued under the Employee Share Option Plan.*

The weighted value of shares issued on the exercise of options is based upon Australian Securities Exchange 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 31 December 2007 was nil years (2006: 1.33 years).

(b) Employee shares

(i) Exempt employee share plan

During October 2006, the Company established the InvoCare Exempt Employee Share Plan, providing plan members the opportunity to acquire ordinary shares in InvoCare Limited to the tax free value of $1,000.

During 2007, more than 650 (2006: 600) eligible employees were invited to participate in the plan and pay the share purchase price by regular deductions from pre-tax wage or salary over the 12 (2006: eight) months to 30 June 2008. The criteria for eligibility included being employed for a minimum six months as a full-time or permanent part-time employee. In June 2007 (2006: November), the trustee, IVC Employee Share Plan Managers Pty Ltd, purchased on market 31,288 (2006: 41,610) shares on behalf of 192 (2006: 219) plan members. The plan rules require members to leave the shares in the plan for a minimum three years after purchase, unless the member leaves the Group's employment earlier. Future offers of participation may be made at the discretion of, and subject to terms and conditions determined by, the Board of Directors. At 31 December 2007, the balance owing by employee plan members for the purchase price of shares was $92,702 (2006: $177,846).

Note 8: Share-based Payments continued

(b) Employee shares continued

(ii) Deferred employee share plan

In 2006, following a review of long-term incentive practices by the Remuneration Committee, the Board of Directors approved the establishment of the InvoCare Deferred Employee Share Plan whereby selected key management personnel and other senior managers are able to participate and benefit from a range of remuneration opportunities, including long-term equity incentives to align executive and shareholder interests.

Under the terms of the plan, employees are offered a predetermined value of shares which the Trustee, IVC Employee Share Plan Managers Pty Ltd, purchases on market. During 2007, offers were made to and accepted by a total of 40 employees and a total of 131,305 shares purchased on market for $816,002 at an average price of $6.21 per share. Set out below is a summary of the grants under the plan:

Grant date	Vesting date	Purchase price per share $	Balance at the start of the year $'000	Value granted during the year $'000	Value forfeited during the year $'000	Balance at the end of the year $'000
Consolidated and parent entity – 2007						
1 January 2006	22 February 2008	6.21	–	41	–	41
	22 February 2009	6.21	–	41	–	41
	22 February 2010	6.21	–	41	–	41
1 January 2007	25 February 2009	6.21	–	169	25	144
	25 February 2010	6.21	–	169	25	144
	25 February 2011	6.21	–	169	25	144
1 July 2007	25 February 2009	6.21	–	62	2	60
	25 February 2010	6.21	–	62	2	60
	25 February 2011	6.21	–	62	2	60
			–	816	81	735

Performance hurdles apply to certain grants to senior managers. Generally, no shares vest in the event that compound earnings per share growth is less than 8% and 100% of the shares vest when earnings per share compound growth is greater than 12%. Shading in provisions apply with partial vesting where compound earnings per share growth is greater than 8% but less than 12%.

(c) Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated Entity		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
Options issued under employee option plan	**(42)**	121	**–**	121
Long-term incentive bonus share expense	**313**	38	**–**	–
	271	159	**–**	121

Note 9: Remuneration of Auditors

	Consolidated Entity		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
During the year, the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms.				
(a) Audit services				
PricewaterhouseCoopers – Australian firm				
Audit and review of financial reports	**189,000**	159,000	**–**	–
Non-PricewaterhouseCoopers – Singaporean firm				
Audit and review of financial reports*	**16,875**	14,967	**–**	–
Total remuneration for audit services	**205,875**	173,967	**–**	–
(b) Non-audit services				
PricewaterhouseCoopers – Australian firm				
Assurance services	**21,163**	8,550	**–**	–
Advisory services	**13,900**	3,800	**–**	–
Taxation services	**129,975**	73,966	**–**	–
Related practices of PricewaterhouseCoopers – Australian firm				
Legal	**6,000**	22,695	**–**	–
Non-PricewaterhouseCoopers – Singaporean firm				
Other services	**3,367**	–	**–**	–
Total remuneration for non-audit services	**174,405**	109,011	**–**	–

** The 2006 amount represents the fee paid or payable to the auditor of Singapore Casket Company (Private) Limited for the full year ended 31 December 2006. This entity was acquired on 20 October 2006.*

It is the Company's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the consolidated entity are important and auditor independence is not compromised. These assignments are principally tax advice and advisory services, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Company's policy to seek competitive tenders for any major consulting projects.

Note 10: Dividends

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Dividends paid				
Final ordinary dividend for the year ended 31 December 2006 of 11.5 cents (2005: 9.5 cents) per fully paid share paid on 12 April 2007 (2005: 12 April 2006), fully franked based on tax paid at 30% (2005: 30%)	**11,404**	9,207	**11,404**	9,207
Interim ordinary dividend for the year ended 31 December 2007 of 10.0 cents (2006: 8.0 cents) per share paid on 12 October 2007 (2006: 12 October 2006), fully franked based on tax paid at 30% (2006: 30%)	**9,991**	7,797	**9,991**	7,797
Dividends paid to members of InvoCare Limited	**21,395**	17,004	**21,395**	17,004
Dividends paid to minority interest of 15.2 cents (2006: 5.9 cents) per fully paid share fully franked based on tax paid at 30% (2006: 30%)	**122**	47	**–**	–
	21,517	17,051	**21,395**	17,004
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 12.5 cents (2006: 11.5 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend, expected to be paid on 11 April 2008 out of 2007 profits, but not recognised as a liability at year end is:	**12,536**	11,404	**12,536**	11,404
Franking credit balance				
The amounts of franking credits available for subsequent financial years are: Franking account balance at the end of the financial year	**14,664**	11,636	**14,022**	10,963
Franking credits that will arise from the payment of income tax payable at the end of the financial year	**4,064**	4,193	**3,790**	3,930
Reduction in franking account resulting from payment of proposed final dividend of 12.5 cents (2006: 11.5 cents)	**(5,373)**	(4,887)	**(5,373)**	(4,887)
	13,355	10,942	**12,439**	10,006

Note 11: Earnings per Share

	Consolidated Entity	
	2007 $'000	2006 $'000
Reconciliation of earnings to profit and loss		
Profit from ordinary activities after income tax	**27,651**	24,137
Less profit attributable to minority interests	**(97)**	(90)
Profit used to calculate basic and diluted EPS	**27,554**	24,047

	2007 Number	2006 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	**99,657,830**	97,541,881
Adjustments for calculation of diluted earnings per share relating to options	**–**	242,493
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	**99,657,830**	97,784,374

Note 11: Earnings per Share continued

(a) Options
Options granted to employees under the Employee 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 8.

Note 12: Cash and Cash Equivalents

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Cash on hand	**60**	51	**–**	–
Cash at bank	**8,921**	5,666	**–**	–
	8,981	5,717	**–**	–
Cash at bank attracts floating interest rates between 5.5% and 6.5% (2006: 4.8% and 6.0%)				
Reconciliation to cash at the end of the year: The above figures are reconciled to cash at the end of the financial year as shown in the statements of cash flows as follows:				
Balances as above	**8,981**	5,717	**–**	–
Bank overdraft (note 23)	**–**	–	**(929)**	(26)
Balances per statement of cash flows	**8,981**	5,717	**(929)**	(26)

Note 13: Trade and Other Receivables

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current				
Trade receivables	**17,313**	16,657	**–**	–
Provision for doubtful receivables	**(1,371)**	(1,183)	**–**	–
Prepayments	**1,722**	1,352	**18**	16
Other receivables	**903**	3,780	**–**	–
	18,567	20,606	**18**	16
Non-current				
Trade receivables	**8,763**	8,827		–
Provision for doubtful receivables	**(312)**	(312)		–
Security deposits	**180**	123		–
Other receivables	**441**	431		–
Loan to controlled entity	**–**	–	**220,781**	203,172
	9,072	9,069	**220,781**	203,172

Note 13: Trade and Other Receivables continued

(a) Impaired receivables

The total amount of the provision for doubtful receivables was $1,683,000 (2006: $1,495,000). As at 31 December 2007 receivables with a nominal value of $1,168,000 (2006: $1,090,000) had been referred to the Group's independent debt collection agent and hence were considered to be impaired. The amount of the provision for doubtful receivables was calculated by applying the historical debt collector's recovery ratio to all debtors over 90 days overdue. There are no impaired trade receivables in the parent company in 2007 or 2006.

Movements in the provision for impairment of receivables are as follows:

	Consolidated Entity	
	2007 $'000	2006 $'000
As at 1 January	**1,495**	1,495
Provision for impairment recognised during the year	**500**	272
Receivables written off as uncollectible	**(321)**	(272)
Effect of movements in exchange rates	**9**	–
As at 31 December	**1,683**	1,495

(b) Past due but not impaired

As of 31 December 2007, trade receivables of $3,962,000 (2006: $3,571,000) were past due but not been referred to external debt collection agents and hence were considered not to be impaired. These relate to customers where there is no current evidence of an inability or unwillingness to settle the amount due but where payment has been delayed. The Group's own collection activity, which varies based on the nature and relative age of the debt, is routinely applied to all past due accounts. When these activities do not result in a successful outcome, the debt is referred to external debt collection agencies.

	Consolidated Entity	
	2007 $'000	2006 $'000
1 to 3 months overdue	**2,459**	2,124
Over 3 months overdue	**1,503**	1,447

The parent company has no impaired receivables.

(c) Other receivables

These amounts generally arise from transactions outside the normal operating activities of the Group. Interest is generally not charged on the amounts involved although collateral is generally obtained for larger amounts receivable. For example, in 2006 other receivables included an amount of $3,240,000 due to a partial deferral of the payment of the purchase price for excess land that had been sold. This amount was secured by a bank guarantee.

(d) 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 controlled entity is set out at note 37.

(e) Fair value

Due to the short-term nature of the current trade receivables, their carrying amount is assumed to approximate their fair value. Non-current trade receivables are discounted to their fair value in accordance with the accounting policy outlined in note 1(l).

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 and Singapore.

Note 14: Inventories

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current				
Work in progress – at cost	**744**	1,747	**–**	–
Finished goods – at cost	**12,426**	10,996	**–**	–
	13,170	12,743	**–**	–

Note 15: Properties Classified as Held for Sale

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Land and buildings held for sale	**–**	3,083	**–**	–

After a detailed consideration of the business needs of the Group a property previously classified as held for sale will be retained and has been transferred to non-current property, plant and equipment.

Note 16: Other Assets

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current				
Deferred selling costs (refer note 1(f))	**543**	528	**–**	–
Non-current				
Deferred selling costs (refer note 1(f))	**7,607**	7,397	**–**	–

Note 17: Other Financial Assets

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Shares in subsidiaries	**–**	–	**15,957**	15,679

Shares in subsidiaries are carried at cost and relate to InvoCare Limited's ownership interest in InvoCare Australia Pty Limited, InvoCare (Singapore) Pty Limited, InvoCare New Zealand Limited and IVC Employee Share Plan Managers Pty Ltd. All shares held are ordinary shares. Refer to Note 18 Subsidiaries for details of controlled entities.

Note 18: Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of InvoCare Limited and the following controlled entities in accordance with the accounting policy in note 1(b).

Name of entity	Country of incorporation	Equity holding 2007 %	Equity holding 2006 %
InvoCare Australia Pty Limited	Australia	**100**	100
New South Wales Cremation Company Pty Limited	Australia	**100**	100
Cremations (Newcastle) Holdings Pty Limited	Australia	**100**	100
Cremations (Newcastle) Pty Limited	Australia	**100**	100
Macquarie Memorial Park Pty Limited	Australia	**83**	83
Macquarie Funeral Service Pty Limited	Australia	**83**	83
Novocastrian Funerals Pty Limited	Australia	**100**	100
Novocastrian Funerals Unit Trust	Australia	**100**	100
Catholic Funerals Newcastle Pty Limited	Australia	**100**	100
Mead & Purslowe Pty Limited	Australia	**100**	100
Mead & Purslowe Trading Trust	Australia	**100**	100
Oakwood Funerals Pty Limited	Australia	**100**	50
Dignity Pre-Arranged Funerals Pty Limited	Australia	**100**	100
Memorial Guardian Plan Pty Limited	Australia	**100**	100
Pine Grove Forest Lawn Funeral Benefit Company Pty Limited	Australia	**100**	100
Kitleaf Pty Limited	Australia	**100**	100
The Australian Cremation Society Pty Limited	Australia	**100**	100
Metropolitan Burial and Cremation Society Funeral Contribution Fund Pty Limited	Australia	**100**	100
Labor Funerals Contribution Fund Pty Limited	Australia	**100**	100
Purslowe Custodians Pty Limited	Australia	**100**	100
Beresfield Funerals Pty Limited	Australia	**100**	100
Restbind Pty Limited	Australia	**100**	100
D & J Drysdale Pty Ltd	Australia	**100**	100
Liberty Funerals Pty Limited	Australia	**100**	–
IVC Employee Share Plan Managers Pty Ltd	Australia	**100**	100
InvoCare (Singapore) Pty Limited	Australia	**100**	100
Singapore Casket Company (Private) Limited	Singapore	**100**	100
Casket Palace Pty Ltd	Singapore	**100**	100
InvoCare New Zealand Limited	New Zealand	**100**	–

InvoCare Australia Pty Limited and InvoCare (Singapore) Pty Limited have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 35.

Note 19: Property, Plant and Equipment

	Consolidated Entity						
Consolidated	Cemetery land $'000	Freehold land $'000	Buildings $'000	Leasehold land and buildings $'000	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
At 1 January 2006							
Cost	106,158	32,683	68,629	4,470	1,493	51,326	264,759
Accumulated depreciation/amortisation	(3,787)	–	(18,493)	(1,582)	(951)	(36,631)	(61,444)
Impairment writedowns	(12,520)	–	–	–	–	–	(12,520)
Net book amount	89,851	32,683	50,136	2,888	542	14,695	190,795
Year ended 31 December 2006							
Opening net book amount	89,851	32,683	50,136	2,888	542	14,695	190,795
Additions	199	750	4,546	–	103	4,219	9,817
Acquisition of subsidiary	–	8,647	3,806	–	–	1,201	13,654
Disposals	–	(527)	(420)	–	(4)	(317)	(1,268)
Depreciation/ amortisation charge	(362)	–	(2,416)	(137)	(116)	(4,714)	(7,745)
Net impairment writedowns (see below)	(3,456)	–	–	–	–	–	(3,456)
Transfers/reclassifications	(22)	(115)	(638)	6	–	769	–
Closing net book amount	86,210	41,438	55,014	2,757	525	15,853	201,797
At 31 December 2006							
Cost	106,334	41,438	76,227	4,466	1,516	55,895	285,876
Accumulated depreciation/amortisation	(4,148)	–	(21,213)	(1,709)	(991)	(40,042)	(68,103)
Impairment writedowns	(15,976)	–	–	–	–	–	(15,976)
Net book amount	86,210	41,438	55,014	2,757	525	15,853	201,797
Year ended 31 December 2007							
Opening net book amount	**86,210**	**41,438**	**55,014**	**2,757**	**525**	**15,853**	**201,797**
Additions	**41**	**2,801**	**3,670**	**–**	**349**	**10,505**	**17,366**
Acquisition of subsidiary	**–**	**–**	**–**	**–**	**29**	**174**	**203**
Disposals	**(49)**	**(121)**	**(88)**	**–**	**(4)**	**(269)**	**(531)**
Depreciation/ amortisation charge	**(365)**	**–**	**(2,890)**	**(128)**	**(122)**	**(5,196)**	**(8,701)**
Effect of movement in exchange rates	**–**	**(339)**	**(133)**	**–**	**–**	**(31)**	**(503)**
Assets no longer classified as held for sale	**–**	**1,394**	**1,689**	**–**	**–**	**–**	**3,083**
Transfers/reclassifications	**(49)**	**(348)**	**(142)**	**(1)**	**(1)**	**541**	**–**
Closing net book amount	**85,788**	**44,825**	**57,121**	**2,628**	**776**	**21,577**	**212,715**
At 31 December 2007							
Cost	**106,278**	**44,825**	**81,584**	**4,466**	**1,690**	**59,574**	**298,417**
Accumulated depreciation/amortisation	**(4,514)**	**–**	**(24,463)**	**(1,838)**	**(914)**	**(37,997)**	**(69,726)**
Impairment writedowns	**(15,976)**	**–**	**–**	**–**	**–**	**–**	**(15,976)**
Net book amount	**85,788**	**44,825**	**57,121**	**2,628**	**776**	**21,577**	**212,715**

Note 19: Property, Plant and Equipment continued

(a) Parent entity
The parent entity does not have any property, plant and equipment.

(b) Assets in the course of construction
The carrying amounts of assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Cemetery land	**–**	49	**–**	–
Freehold buildings	**1,806**	1,246	**–**	–
Leasehold improvements	**5**	–	**–**	–
Plant and equipment	**940**	219	**–**	–
Total assets in the course of construction	**2,751**	1,514	**–**	–

(c) Impairment
(i) 2007
All impaired cemetery and crematorium sites were reassessed at 31 December 2007 using the same methodology as previously applied and no change to the impairment provision was considered necessary in 2007.

The impairment losses may be reversed in future years. The Group has no impairment at other cemetery and crematorium sites, or of other property, plant and equipment assets. The total recoverable amount of the Group's assets is well in excess of carrying value.

(ii) 2006
The 2006 reassessment of four previously impaired cemetery and crematorium sites as at 31 December 2006 resulted in the reversal of previous impairment losses at two sites totalling $2,415,000, reflecting improvements in financial performance at those sites, and additional impairment losses at two other sites totalling $5,871,000, due primarily to less than expected performance improvements despite recent capital investment in refurbishments at one of the sites. The recoverable amount of these cash generating units, which primarily comprise cemetery and crematorium land, is based on value-in-use calculations. These calculations use cash flow projections based on financial estimates approved by management based on past performance and future expectations. The cash flows cover an initial five-year period and were then extrapolated beyond five years using estimated growth rates in revenues and expenses which are not inconsistent with historical trends and forecasts included in reports prepared by market analysts. The discount rate used was 9.9% (being unchanged from previous calculations), reflecting the risk estimates for the business as a whole which are deemed appropriate for these sites.

Note 20: Intangible Assets

	Consolidated Entity		
	Goodwill $'000	Brand name $'000	Total $'000
At 1 January 2006			
Cost	29,539	750	30,289
Accumulated amortisation	–	–	–
Net book amount	29,539	750	30,289
Year ended 31 December 2006			
Opening net book amount	29,539	750	30,289
Acquisition of subsidiaries	15,660	1,452	17,112
Amortisation charge	–	(113)	(113)
Net book amount	45,199	2,089	47,288
At 31 December 2006			
Cost	45,199	2,202	47,401
Accumulated amortisation	–	(113)	(113)
Net book amount	45,199	2,089	47,288
Year ended 31 December 2007			
Opening book amount	**45,199**	**2,089**	**47,288**
Acquisition of subsidiary/businesses	**9,055**	**733**	**9,788**
Effect of movement in exchange rates	**(309)**	**(69)**	**(378)**
Amortisation charge	**–**	**(241)**	**(241)**
Net book amount	**53,945**	**2,512**	**56,457**
At 31 December 2007			
Cost	**53,945**	**2,866**	**56,811**
Accumulated amortisation	**–**	**(354)**	**(354)**
Net book amount	**53,945**	**2,512**	**56,457**

(a) Parent entity

The parent entity does not have any intangible assets.

(b) Impairment test for goodwill

For the Group's Australian-based operations, 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. The Singapore operation is a separate CGU and the associated goodwill arising from that acquisition has been allocated to that single Singaporean CGU. As a result, the lowest level within the Group at which goodwill is monitored for management purposes comprises the grouping of all CGUs within a country of operation. The recoverable amounts of the total of Australian CGUs and of the Singaporean CGU are 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.

(c) 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 expense projections are not inconsistent with historical trends and forecasts included in reports prepared by market analysts. The discount rate used is 9.5% (2006: 9.9%), reflecting the risk estimates for the business as a whole. Sensitivity analysis indicates significant headroom exists in the value-in-use calculations for both Australia and Singapore compared to the carrying value of goodwill.

Note: 21 Derivative Financial Instruments

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Non-current assets				
Interest rate swap contracts – cash flow hedges	**3,712**	1,001	**4,360**	1,016
Cross currency basis swap contracts	**1,545**	485	**–**	–
	5,257	1,486	**4,360**	1,016

Full details of the derivatives being used by the Group and the risks and aging of the existing derivatives are set out in Note 2 Financial Risk Management.

Note 22: Trade and Other Payables

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current				
Trade payables	**16,640**	9,445	**168**	–
Sundry payables and accrued expenses	**5,331**	8,976	**–**	25
Deferred cash settlement for business interests acquired	**3,586**	2,592	**–**	–
	25,557	21,013	**168**	25
Non-current				
Deferred cash settlement for business interests acquired	**251**	559	**–**	–
	251	559	**–**	–

Full details of the risks and currency exposure of trade and other payments are set out in Note 2 Financial Risk Management.

Note 23: Borrowings

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Short-term borrowings				
Bank overdraft	**–**	–	**929**	26
	–	–	**929**	26
Long-term borrowings				
Borrowings are represented by:				
Principal amount of bank loans – unsecured	**154,867**	152,505	**132,000**	132,000
Loan establishment costs	**(320)**	(421)	**(299)**	(398)
	154,547	152,084	**131,701**	131,602

Full details of the risks, aging and available facilities are set out in Note 2 Financial Risk Management.

Note 24: Deferred Revenue

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current				
Prepaid crematorium and cemetery deferred income	**2,956**	2,940	**–**	–
Non-current				
Prepaid crematorium and cemetery deferred income	**41,382**	41,167	**–**	–

In addition to deferred crematorium and cemetery revenue, monies held in trust not controlled by the Company for prepaid funeral contracts and prepaid burial and cremation services amounted to $272 million (2006: $252 million). The monies held in trust will only be recognised as revenue when the services are performed as outlined in note 1(e).

Note 25: Provisions

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Current				
Employee benefits	**8,079**	7,429	**–**	–
Non-current				
Liability for long service leave	**1,067**	1,064	**–**	–

	Consolidated Entity		Parent Entity	
	2007 Number	2006 Number	**2007 Number**	2006 Number
(a) Employee numbers				
Number of full-time equivalent employees	**923**	842	**–**	–

(b) Superannuation plan

The Company contributes to accumulation-type employee superannuation plans in accordance with statutory requirements.

Note 26: Deferred Tax Liabilities

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Deferred tax (asset)/liability				
The deferred tax (asset)/liability balances comprised temporary differences attributable to:				
Amounts recognised in profit or loss:				
Cemetery land	**25,812**	26,837	**–**	–
Property, plant and equipment	**7,212**	6,008	**–**	–
Leasehold land and buildings	**97**	475	**–**	–
Deferred selling costs	**2,445**	2,394	**–**	–
Prepayment and other	**35**	160	**(5)**	–
Brand names	**642**	514	**–**	–
Provisions	**(3,295)**	(2,964)	**–**	–
Receivables	**143**	(197)	**–**	–
Accruals and other	**(1,476)**	(1,330)	**(49)**	(45)
Loan establishment costs	**14**	159	**–**	159
Derivatives	**(401)**	(136)	**(204)**	(115)
Amounts recognised directly in equity:				
Foreign currency reserve	**395**	(15)	**–**	–
Cash flow hedges	**1,511**	412	**1,511**	412
Deferred employee share plan	**256**	–	**256**	–
	33,390	32,317	**1,509**	411
The net movement in the deferred tax (asset) liability is as follows:				
Balance at the beginning of the year	**32,317**	30,376	**411**	(1,162)
Net charge (credit) to income statement	**(562)**	(417)	**(1)**	108
Amounts recognised due to business combinations	**174**	908	**–**	–
Amounts recognised directly in equity	**1,509**	1,450	**1,099**	1,465
Impact of change of income tax rate in Singapore	**(84)**	–	**–**	–
Effect of movements in exchange rates	**36**	–	**–**	–
Balance at the end of the year	**33,390**	32,317	**1,509**	411
Deferred tax liabilities/(assets) to be settled within 12 months	**(2,659)**	(3,138)	**462**	394
Deferred tax liabilities to be settled after more than 12 months	**36,049**	35,455	**1,047**	17
	33,390	32,317	**1,509**	411

Note 27: Contributed Equity

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Fully paid ordinary shares	**70,125**	64,473	**70,125**	64,473

	2007 Number	**2007 $'000**	2006 Number	2006 $'000
Ordinary shares				
Balance at the beginning of the financial year	**99,025,548**	**64,473**	96,915,931	55,729
Issued pursuant to exercise of share options	**313,228**	**335**	547,509	474
Dividend reinvestment plan issues	**948,549**	**5,687**	1,562,108	7,797
Transferred from share-based payment reserve	**–**	**201**	–	473
Total contributed equity – parent entity	**100,287,325**	**70,696**	99,025,548	64,473
Treasury shares	**(131,308)**	**(571)**	–	–
Total consolidated contributed equity	**100,156,017**	**70,125**	99,025,548	64,473

Note 27: Contributed Equity continued

(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) Treasury shares

Treasury shares are shares in InvoCare Limited that are held by InvoCare Deferred Employee Share Plan Trust for the purpose of issuing shares under the InvoCare Employee Deferred Employee Share Plan, as set out in note 8.

Date	Details	Number of shares	$'000
1 January 2006	Opening balance	–	–
31 December 2006	Opening balance	–	–
6 to 25 July 2007	Acquisition of shares by the Trust	131,308	571
31 December 2007	Balance	131,308	571

(c) Dividend reinvestment plan

During 2006, the Company activated its Dividend Reinvestment Plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash.

(d) Employee share option plan

Information relating to the Employee Share Option Plan, including details of shares issued under the scheme, is set out in note 8.

(e) Capital risk management

The Group's capital management objectives and strategies seek to maximise total shareholder returns, in terms of earnings per share, distributions and share price, while maintaining a capital structure with acceptable debt and financial risk.

The capital management goals can be broadly described as:

- manage the amount of equity and the expectation of returns – including dividend distribution policy, dividend reinvestment and share buy-back policies;
- maintain debt and gearing that is prudent, cost effective, supports operational needs and provides flexibility for growth and development; and
- avoid excessive exposure to interest rate fluctuations and debt refinancing risk.

The goals are actively managed by the use of quantifiable measures. These measures and relevant comments are as follows:

- Maximising shareholder returns. Earnings per share (EPS) is a key measure and for 2007 basic EPS was 27.6 cents (2006: 24.7 cents). Importantly, senior management of the Group has long-term incentives linked to EPS growth, thus aligning employee and shareholder interests. Total shareholder return, being the sum of cash dividends and share price growth, has exceeded 30% per annum since the Company listed in December 2003. A shareholder investing $1.00 in the initial public offering (IPO) would have enjoyed a total return of $3.18 or 318% up to 31 December 2007.
- Maintaining a minimum ordinary dividend payout ratio of at least 75%. For each of the years since listing, the Group has distributed ordinary dividends in excess of this payout ratio. The aggregate of the interim and final 2007 dividends represents a payout ratio of 81.8% (2006: 79.8%).
- Monitoring participation in the Dividend Reinvestment Plan. Approximately 25% of the Company's shareholders have participated in the DRP since it was first activated in October 2006, indicating it is attractive to investors, especially retail investors. For the 2007 final dividend, the DRP will remain activated and the required DRP shares will be acquired on market to avoid the dilutive impact on investors not participating in the DRP.
- Confirming compliance with the debt covenant ratios, as defined in the facility agreements, through bi-annual calculations. The Group has complied with its banking covenants as follows:
  - Interest cover (EBITDA/Net Interest Expense) must be greater than 3.00:1. At 31 December 2007 this ratio was 5.40:1 (2006: 5.06:1).
  - Leverage ratio (Net Debt/Adjusted EBITDA) must not be greater than 3.75:1. At 31 December 2007 this ratio was 2.47:1 (2006: 2.81:1).
- Maintaining an optimal leverage ratio. The optimal capital structure, which has the lowest cost of capital, is indicatively at a leverage ratio (i.e. Net Debt/EBITDA) of between 3:1 and 5:1. The Group can sustain and service higher levels of debt than the amount at balance date and has a longer term net debt target of 3.5x EBITDA. To achieve this target, where the capacity exists, debt financing will be used for small acquisitions and capital expenditure. In the absence of opportunities to invest in growing the business, the Group will consider applying excess debt capacity to make returns to shareholders (e.g. special dividends, share buy-backs). No major capital management initiatives involving a return to shareholders are anticipated during 2008.
- Maintaining floating to fixed base interest rate swaps for at least 75% of debt principal. At 31 December 2007 the proportion of debt hedged was 99% (2006: 99%). The hedge contracts extend to the end of 2010.
- Managing refinancing risk. The Group's existing debt facilities expire in January 2011 when all the debt becomes due and payable. Whilst there is no significant refinancing risk in the normal course of business, the Group is exposed to risks of refinancing all the amounts drawn (up to $180 million) at the one time. Accordingly, it is proposed future financing facilities will have a staggered maturity profile to reduce the risk of refinancing on one maturity date.

Note 28: Reserves and Retained Profits

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
(a) Reserves				
Share-based payments reserve	**221**	246	**221**	246
Hedging reserve – cash flow hedge reserve	**3,527**	962	**3,527**	962
Foreign currency translation reserve	**(244)**	(37)	**–**	–
	3,504	1,171	**3,748**	1,208
Movements:				
Share-based payments reserve				
Balance at the beginning of the year	**246**	560	**246**	560
Options expense	**271**	159	**271**	121
Transfer to share capital upon exercise of options	**(201)**	(473)	**(201)**	(435)
Deferred tax	**(95)**	–	**(95)**	–
Balance at the end of the year	**221**	246	**221**	246
Hedging reserve				
Balance at the beginning of the year	**962**	(2,458)	**962**	(2,458)
Revaluation to fair value – gross	**3,664**	4,885	**3,664**	4,885
Deferred tax	**(1,099)**	(1,465)	**(1,099)**	(1,465)
Balance at the end of the year	**3,527**	962	**3,527**	962
Foreign currency translation reserve				
Balance at the beginning of the year	**(37)**	–	**–**	–
Revaluation to fair value – gross	**1,061**	485	**–**	–
Deferred tax	**(410)**	(16)	**–**	–
Currency translation differences	**(858)**	(506)	**–**	–
Balance at the end of the year	**(244)**	(37)	**–**	–
(b) Retained profits/(accumulated losses)				
Movements in retained profits/(accumulated losses) were as follows:				
Balance at the beginning of the year	**(20,334)**	(27,377)	**18,208**	10,767
Net profit for the year	**27,554**	24,047	**31,973**	24,445
Dividends paid during the year	**(21,395)**	(17,004)	**(21,395)**	(17,004)
Balance at the end of the year	**(14,175)**	(20,334)	**28,786**	18,208

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the expensed portion of shares issued to employees under the terms of the Deferred Employee Share Plan and the fair value of options issued to employees and directors but not exercised.

(ii) 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.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve as set out in note 1(d). The reserve is recognised in profit and loss when the net investment is sold.

Note 28: Reserves and Retained Profits continued

(d) Transition to AIFRS

The transition to AIFRS resulted in $47,084,000 being charged against retained earnings of the consolidated entity at 1 January 2004. These adjustments primarily related to the recognition of deferred tax liabilities and impairment losses on cemetery and crematorium land and gave rise to consolidated net accumulated losses. 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. Since making the transition to AIFRS, the Group has distributed all available previous AGAAP profits as dividends and continues to distribute dividends from AIFRS reported profits.

The following table shows the movements in the consolidated entity's retained earnings/(accumulated losses) since transition to AIFRS on 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 AIFRS transitional adjustments which have since reversed into profits amount to $2,575,000 (2006: $2,105,000). These are shown as transfers in the table below and comprise reversals of:

- non-current asset impairment losses of $1,691,000 (net of tax);
- AASB 132 and AASB 139 financial instruments adjustments $861,000 (net of tax); and
- temporary differences relating to the deferred tax liability established at transition to AIFRS $1,745,000.

	Previously reported AGAAP earnings $'000	Transitional AIFRS adjustments to retained earnings $'000	Post AIFRS adoption reported earnings $'000	Total $'000
Balance of retained profits/(accumulated losses) as at 1 January 2004	11,033	(47,084)	–	(36,051)
Profit after tax for the 2004 year	17,088	–	2,167	19,255
Dividends paid during 2004	(6,080)	–	–	(6,080)
Transitional AIFRS adjustments on 1 January 2005 relating to adoption of AASB 132 and AASB 139	–	861	–	861
Profit after tax for the 2005 year	–	–	20,141	20,141
Dividends paid during 2005	(22,041)	–	(3,462)	(25,503)
Profit after tax for the 2006 year	–	–	24,047	24,047
Dividends paid during 2006	–	–	(17,004)	(17,004)
Profit after tax for the 2007 year	–	–	27,554	27,554
Dividends paid during 2007	–	–	(21,395)	(21,395)
Transfers between sub-accounts	–	2,575	(2,575)	–
Balance of retained earnings/(accumulated losses) as at 31 December 2007	–	(43,648)	29,473	(14,175)

Note 29: Minority Interest

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Reconciliation of minority interests in controlled entities:				
Share capital	**800**	800	**–**	–
Retained earnings				
Balance at the beginning of the year	**151**	108	**–**	–
Add share of operating profit	**97**	90	**–**	–
Less dividends paid	**(122)**	(47)	**–**	–
Closing balance of retained earnings	**126**	151	**–**	–
Reserves	**99**	99	**–**	–
Balance at the end of the year	**1,025**	1,050	**–**	–

Note 30: Capital and Leasing Commitments

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
(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	**5,206**	4,757	**–**	–
– between 12 months and 5 years	**9,335**	9,521	**–**	–
– greater than 5 years	**11,038**	12,843	**–**	–
	25,579	27,121	**–**	–

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	4,356	111	739	5,206
Between 12 months and 5 years	8,161	331	843	9,335
Greater than 5 years	11,038	–	–	11,038
	23,555	442	1,582	25,579

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		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
(b) Capital expenditure commitments				
Capital expenditure commitments contracted for at the reporting date but not recognised as liabilities payable:				
Building extensions and refurbishments				
– within one year	**1,422**	–	**–**	–
Plant and equipment purchases				
– within one year	**1,364**	1,897	**–**	–
(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	**1,579**	764	**–**	–

Note 31: Business Combinations

During 2007, the Group acquired the funeral business of Liberty Funerals which operates in Sydney, Australia and the Chippers funeral business which operates in the Perth region of Western Australia. Pursuant to the 2006 purchase agreements, further payments were made in 2007 in relation to the Singapore Casket Company which operates in Singapore and Drysdale Funerals which operates on the Sunshine Coast in Queensland. Further details of these acquisitions are set out below.

Liberty Funerals Pty Limited

(a) Summary of Liberty acquisition

On 1 March 2007, InvoCare Australia Pty Limited, a wholly-owned Australian subsidiary of InvoCare Limited, acquired 100% of the issued share capital of Liberty Funerals Pty Limited. This company operates a funeral business in Sydney, Australia.

The Liberty Funerals business contributed sales revenue of $2.3 million and EBITDA of $0.5 million to the Group's 2007 result. The Liberty Funerals business has been integrated into the existing InvoCare business and it is not possible to reliably estimate the impact of the acquisition on the Group's results had the acquisition been made at the beginning of the financial period and had it remained an autonomous, stand alone business. Based on accounts for the year ended 31 December 2006 prepared before the acquisition, Liberty Funerals sales revenue was $2.8 million and EBITDA was estimated at $0.6 million.

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	3,808
Direct costs relating to the acquisition	51
Sub-total	3,859
Anticipated additional consideration (refer to (b) below)	700
Total purchase consideration	4,559
Fair value of net identifiable assets acquired (refer to (c) below):	881
Goodwill	3,678
(b) Liberty purchase consideration	
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	3,808
Less: Cash balances acquired	648
Outflow of cash	3,160

The anticipated additional purchase consideration of $700,000 is payable on the achievement of predetermined EBITDA targets by the acquired entity during 2007 to 2009. At the date of this financial report, the EBITDA targets had been achieved and subsequent to the end of the financial year the full amount of the additional consideration has been paid. Therefore, additional consideration has been brought to account as a component of the goodwill arising on the acquisition.

The purchase price of the business of Liberty Funerals Pty Limited was determined using expected future maintainable earnings. This has resulted in the recognition of goodwill which reflects the high profitability of the acquired entity.

Note 31: Business Combinations continued

(c) Liberty assets and liabilities acquired

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

	Acquiree's carrying amount $'000	Fair value $'000
Cash	648	648
Trade and other receivables	101	101
Property, plant and equipment	203	203
Intangible assets: brand name	–	287
Trade payables	(266)	(266)
Provision for current income tax	(92)	(92)
Net identifiable assets acquired	594	881

Chippers Funerals

(a) Summary of the Chippers acquisition

On 13 December 2007, Oakwood Funerals Pty Limited, a subsidiary of InvoCare Australia Pty Limited, acquired the Chippers Funeral business assets. The business operates from five locations in the Western Australian market.

The Chippers business contributed revenues of $0.2 million to the Group's 2007 result. The Chippers business is in the process of being integrated into existing InvoCare businesses in the Perth region. It is estimated that 2007 sales revenue and EBITDA were approximately $5 million and $0.6 million respectively.

In a related transaction, a portion of the subsidiary, Oakwood Funerals Pty Limited, not already owned by InvoCare Australia Pty Limited was also acquired for a purchase consideration of $2.0 million, which payment was made after 31 December 2007.

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	2,700
Direct costs relating to the acquisition	176
Sub-total	2,876
Anticipated additional consideration (refer to (b) below)	2,028
Total purchase consideration	4,904
Fair value of net identifiable assets acquired (refer to (c) below):	488
Goodwill	4,416

(b) Chippers Funerals purchase consideration	
Outflow of cash to acquire the business, net of cash acquired	
Cash consideration for Chippers business	2,700
Outflow of cash	2,700

Additional consideration will be payable in cash in the future in respect of the acquisition of the equity instruments in Oakwood Funerals Pty Limited not already owned by the Group. Therefore, additional consideration has been brought to account as a component of the goodwill arising on the acquisition.

The purchase price of the business of Chippers Funerals and the related acquisition of the remaining shares in Oakwood Funerals was determined using expected future maintainable earnings. This has resulted in the recognition of goodwill which relates to synergies expected to be achieved as a result of combining Chippers Funerals with the rest of the Group.

Note 31: Business Combinations continued

(c) Chippers Funerals assets and liabilities acquired
The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount $'000	Fair value $'000
Inventories	50	50
Property, plant and equipment	300	300
Intangible assets: Brand name	–	446
Provisions	(134)	(134)
Deferred tax liabilities	–	(174)
Net identifiable assets acquired	216	488

The initial accounting for the 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.

Singapore Casket Company (Private) Limited
In the previous year, InvoCare (Singapore) Pty Limited, a wholly-owned Australian subsidiary of InvoCare Limited, acquired 100% of the issued share capital of Singapore Casket Company (Private) Limited, incorporated in the Republic of Singapore. This company operates a funeral business in Singapore.

Additional purchase consideration of $2,362,000 was paid during March 2007 in accordance with the contract. This amount was less than originally anticipated by $160,000 due in part to an appreciation of the Australian dollar compared to the Singapore dollar and lower than initially estimated earnings. The contract provided for additional purchase consideration in the event that target predetermined EBITDA is achieved by the acquired entity during 2007. These targets have been achieved and an additional consideration of $943,000 became due and payable. The difference between the final deferred payment and the initial estimate was brought to account as a component of the goodwill arising on the acquisition. Subsequent to the end of the financial year, this payment was made and due to exchange rate fluctuations the final amount settled is slightly less than $943,000.

Drysdale Funerals
In the previous year, on 14 July 2006, the Group acquired 100% of the issued share capital of D & J Drysdale Pty Ltd together with business assets including property, some of which were acquired in March 2006, from persons or entities related to the company. The business trades as Drysdale Funerals on the Sunshine Coast in Queensland. The first additional payment of $100,000, which has already been brought to account, in respect of restraint and retention amounts, was made during 2007.

Note 32: Contingent Liabilities and Contingent Assets

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
The parent entity and consolidated entity had contingent liabilities at 31 December 2007 in respect of bank guarantees given for leased premises of controlled entities to a maximum of:	**398**	149	**402**	149

For information about the deed of cross guarantees given by InvoCare Limited, InvoCare Australia Pty Limited and InvoCare (Singapore) Pty Limited, refer to note 35. No deficiencies of assets exist in any of these companies.

No liability was recognised by the parent entity or the consolidated entity in relation to the guarantees as the fair value of the guarantees is immaterial.

Note 33: Segment Reporting

(a) Primary reporting format – geographical segments

	Australian operations		Singapore operations		Consolidated	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Revenue and other income						
Services revenue	**121,994**	106,660	**3,377**	673	**125,371**	107,333
Sale of goods	**94,541**	83,791	**4,006**	808	**98,547**	84,599
	216,535	190,451	**7,383**	1,481	**223,918**	191,932
Other revenue						
Rent	**213**	207	**64**	12	**277**	219
Administration fees	**2,355**	1,907	**–**	–	**2,355**	1,907
Interest income	**643**	959	**10**	17	**653**	976
Sundry income	**994**	1,256	**–**	–	**994**	1,256
	4,205	4,329	**74**	29	**4,279**	4,358
Profit on disposal of assets	**774**	7,027	**44**	–	**818**	7,027
Total segment revenue and other income	**221,514**	201,807	**7,501**	1,510	**229,015**	203,317
Profit before income tax	**37,653**	34,295	**1,713**	276	**39,366**	34,571
Income tax expense					**(11,715)**	(10,434)
Profit from ordinary activities after income tax expenses					**27,651**	24,137
Profit attributable to minority interest					**(97)**	(90)
Profit attributable to members of InvoCare Limited					**27,554**	24,047
Segment assets	**304,417**	284,587	**27,952**	25,127	**332,369**	309,714
Segment liabilities	**(210,299)**	(203,044)	**(23,540)**	(23,212)	**(233,839)**	(226,256)
Unallocated liabilities					**(38,051)**	(37,098)
Total liabilities					**(271,890)**	(263,354)
Acquisitions of property, plant and equipment and intangibles	**26,452**	12,349	**702**	12,574	**27,154**	24,923
Depreciation and amortisation expense	**8,337**	7,715	**608**	143	**8,945**	7,858
Impairment of trade receivables	**500**	270	**–**	2	**500**	272
Impairment of assets	**–**	3,456	**–**	–	**–**	3,456

Note 33: Segment Reporting continued

(b) Secondary reporting format – business segments

	Revenues from sales to external customers		Assets		Acquisition of property, plant and equipment and intangibles	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000	**2007 $'000**	2006 $'000
Cemeteries and crematoria	**57,295**	51,785	**149,573**	149,940	**4,831**	4,151
Funeral services	**173,235**	146,357	**167,030**	151,478	**21,603**	19,946
Elimination of intra-group sales	**(6,612)**	(6,210)				
	223,918	191,932	**316,603**	301,418	**26,434**	24,097
Unallocated assets			**15,766**	8,296	**720**	826
			332,369	309,714	**27,154**	24,923

(c) Segment information – accounting policies

The consolidated entity operates in one industry, being the funeral industry, with operations in Australia and Singapore.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. Segment liabilities consist primarily of trade and other creditors and employee benefits and, in the case of Singapore, includes an allocation of the long-term borrowings raised in Australia to fund the investment in Singapore. Segment assets and liabilities do not include income taxes.

Note 34: Cash Flow Information

	Consolidated Entity		Parent Entity	
	2007 $'000	2006 $'000	**2007 $'000**	2006 $'000
Reconciliation of cash flow from operations with profit from ordinary activities after income tax				
Profit from ordinary activities after income tax	**27,651**	24,137	**31,973**	24,445
Non-cash flows in profit from ordinary activities				
Depreciation and amortisation	**8,945**	7,858	**–**	–
Impairment of non-current assets	**–**	3,456	**–**	–
Bad and doubtful debt expense	**–**	272	**–**	–
Share options expense	**270**	159	**(8)**	121
Loan establishment costs	**101**	98	**98**	98
Debtors discounting – sales revenue	**375**	464	**–**	–
Debtors discounting – interest revenue	**(381)**	(651)	**–**	–
Interest rate swap expense	**954**	475	**320**	359
Management fee received from related parties	**–**	–	**(1,200)**	(900)
Interest received from related parties	**–**	–	**(16,963)**	(17,117)
Dividends received from related parties	**–**	–	**(26,500)**	(19,710)
Income tax expense paid by a related party	**–**	–	**1,368**	2,080
Net gain on disposal of property, plant and equipment	**(519)**	(7,027)	**–**	–
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
(Increase)/decrease in trade and other debtors	**(1,507)**	294	**(2)**	(2)
(Increase)/decrease in inventories	**(605)**	(1,470)	**–**	–
(Increase)/decrease in deferred tax assets	**–**	–	**–**	(304)
Increase/(decrease) in payables	**3,059**	635	**143**	(643)
Increase/(decrease) in deferred revenue	**222**	1,102	**–**	–
Increase/(decrease) in income taxes payable	**(212)**	880	**220**	283
Increase/(decrease) in deferred taxes payable	**(706)**	971	**153**	411
Increase/(decrease) in derivative liabilities	**–**	(2,052)	**–**	–
Increase/(decrease) in provisions	**948**	30	**–**	–
	38,595	29,631	**(10,398)**	(10,879)

Note 35: Deed of Cross Guarantee

InvoCare Limited, InvoCare Australia Pty Limited and InvoCare (Singapore) Pty Limited entered into a Deed of Cross Guarantee on 11 December 2006 under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a "Closed Group" for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by InvoCare Limited, they also represent the "Extended Closed Group".

Set out below is a consolidated income statement, summary of movements in consolidated retained profits and balance sheet for the year ended 31 December 2007 of the Closed Group.

(a) Consolidated income statement and a summary of movements in consolidated retained profits of the Closed Group

	2007 $'000	2006 $'000
Consolidated income statement of the Closed Group		
Revenue from continuing operations	**205,124**	176,534
Other income	**779**	6,985
Finished goods and consumables used	**(57,344)**	(51,256)
Employee benefits expense	**(46,652)**	(41,247)
Employee related and on-cost expenses	**(12,142)**	(10,959)
Advertising and public relations expenses	**(6,252)**	(4,949)
Depreciation, impairment and amortisation expenses	**(7,401)**	(11,092)
Occupancy and facilities expenses	**(10,392)**	(9,326)
Finance costs	**(12,078)**	(11,140)
Motor vehicle expenses	**(4,638)**	(4,102)
Other expenses	**(10,565)**	(10,287)
Profit before income tax	**38,439**	29,161
Income tax expense	**(10,017)**	(9,017)
Profit for the year	**28,422**	20,144
Summary of movements in consolidated retained profits of the Closed Group		
Retained profits/(Accumulated losses) at the beginning of the financial year	**(24,367)**	(27,507)
Profit for the year	**28,422**	20,144
Dividends provided for or paid	**(21,395)**	(17,004)
Retained profits/(Accumulated losses) at the end of the financial year	**(17,340)**	(24,367)

Note 35: Deed of Cross Guarantee continued

(b) Balance sheet of the Closed Group

	2007 $'000	2006 $'000
Current assets		
Cash and cash equivalents	**5,887**	2,420
Trade and other receivables	**17,135**	19,771
Inventories	**12,089**	11,700
Property classified as held for sale	**–**	3,083
Deferred selling costs	**491**	480
Total current assets	**35,602**	37,454
Non-current assets		
Trade and other receivables	**9,052**	4,682
Other financial assets	**52,102**	47,531
Property, plant and equipment	**182,720**	170,609
Derivative financial instruments	**5,257**	1,486
Intangible assets	**28,465**	26,302
Deferred selling costs	**6,877**	6,723
Total non-current assets	**284,473**	257,333
Total assets	**320,075**	294,787
Current liabilities		
Trade and other payables	**24,620**	21,046
Current tax liabilities	**3,790**	3,930
Deferred revenue	**3,274**	2,662
Provisions for employee benefits	**7,854**	7,275
Total current liabilities	**39,538**	34,913
Non-current liabilities		
Trade and other payables	**2,906**	559
Long-term borrowings	**154,547**	152,084
Deferred tax liabilities	**27,898**	27,582
Deferred revenue	**36,665**	37,271
Provisions for employee benefits	**1,067**	1,064
Total non-current liabilities	**223,083**	218,560
Total liabilities	**262,621**	253,473
Net assets	**57,454**	41,314
Equity		
Contributed equity	**70,125**	64,473
Reserves	**4,669**	1,208
Retained profits/(Accumulated losses)	**(17,340)**	(24,367)
Parent entity interest	**57,454**	41,314
Minority interest	**–**	–
Total equity	**57,454**	41,314

Note 36: Events after the Balance Sheet Date

There have been no significant events that have occurred subsequent to 31 December 2007.

Note 37: 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 18.

(c) Directors and key management personnel
Disclosures relating to directors and key management personnel are set out in note 7.

	Consolidated Entity		Parent Entity	
	2007 $	2006 $	**2007 $**	2006 $
(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	**–**	–	**1,200,000**	900,000
Loans advanced by the parent entity	**–**	–	**17,608,240**	9,546,923
Interest charged by the parent entity	**–**	–	**16,963,403**	17,117,084
Dividend paid to the parent entity	**–**	–	**26,500,000**	19,710,000
Amounts receivable by the parent entity from controlled entities				
Loan by parent entity to a subsidiary	**–**	–	**220,780,535**	203,172,295
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% (2006: 9%).				
Transactions with other related parties				
Contributions to superannuation funds on behalf of employees	**3,857,653**	3,726,363	**–**	–

(e) Guarantees and other matters
Under the terms of loan facility agreements executed on 16 December 2005 and amended in October 2006 and June 2007, InvoCare Limited and each of its wholly-owned Australian entities (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 Australian tax group comprising InvoCare Limited and its wholly-owned entities. A tax sharing and funding agreement (TSA) between InvoCare Limited and its wholly-owned Australian 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. In accordance with the terms of the TSA, InvoCare Australia Pty Limited makes tax payments on behalf of InvoCare Limited and receives reimbursement through the intercompany loan account for amounts paid except for the tax allocated to that entity.

Note 38: 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 and an operating net cash outflow. 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 $29,735,000 as outlined in note 2(c), or by on-demand repayment of inter company advances.

Note 39: 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(p). 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 20 for details of these assumptions and the potential impact of changes to the assumptions.

(ii) Estimated impairment of other non-financial assets and cash generating units
The Group annually considers if events or changes in circumstances indicate that the carrying amount of other non-financial assets or cash generating units may not be recoverable. Similarly, at each reporting date, assets or cash generating units that suffered a previous impairment are reviewed for possible reversals of the impairment. The recoverable amounts are determined based on value-in-use calculations which require the use of assumptions. Refer to note 19 for details of these assumptions.

(iii) Timing of recognition of deferred plaque and miscellaneous merchandise revenue
Prepaid cemetery/crematorium plaque and miscellaneous 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 $30.2 million at 31 December 2007 (2006: $28.8 million).

The 15-year period is based on the actuarially assessed average period between a customer entering into a prepaid funeral plan and the contract becoming at-need. The actual history of a prepaid cemetery/crematorium contract may differ from the profile of a prepaid 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.

Management has been collating actual redemptions information for a sample of sites in order to determine a more accurate historical pattern of cemetery/crematorium prepaid sale redemptions. The information supports the current recognition period. Management will continue sampling to monitor redemption history and reassess the assumed 15-year period.

The impact of recognising revenue over 20 years instead of the current 15 years would be a reduction of approximately $0.5 million (2006: $0.5 million) per annum in revenue.

Note 40: 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 41: Authorisation of the Financial Report

This financial report was authorised for issue by the directors on 28 March 2008. 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 49 to 98 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 2007 and of their performance 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 38 to 45 in the Directors' Report comply with Accounting Standards AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*; and

(d) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 35 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 35.

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

Sydney
28 March 2008

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

Independent audit report to the members of InvoCare Limited

Report on the financial report and the AASB 124 remuneration disclosures contained in the directors' report

We have audited the accompanying financial report of InvoCare Limited (the company), which comprises the balance sheet as at 31 December 2007, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both InvoCare Limited and the InvoCare Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report under the heading "remuneration report" in the directors' report and not in the financial report. These remuneration disclosures are identified in the directors' report as being subject to audit. The remuneration report contains information also, for which an auditors' opinion is not required and has not been formed. These disclosures have been identified as such.

Directors' responsibility for the financial report and the AASB 124 remuneration disclosures contained in the directors' report

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

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

Auditor's responsibility

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

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

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

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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

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

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

Auditor's opinion on the financial report
In our opinion:

(a) the financial report of InvoCare Limited is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2007 and of their performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Auditor's opinion on the AASB 124 remuneration disclosures contained in the directors' report
In our opinion, the remuneration disclosures contained in the directors' report and identified as being subject to audit, comply with Accounting Standard AASB 124.

PricewaterhouseCoopers

PricewaterhouseCoopers

John Feely
Partner

New York USA
28 March 2008

Shareholder Information

Shares and options as at 12 March 2008

	Number
Shares on issue	100,287,325
Options on issue	Nil

Distribution of shareholdings as at 12 March 2008

	Number of shareholders	Number of shares	Percentage %
1 – 1,000	2,225	1,288,644	1.29%
1,001 – 5,000	4,802	13,148,272	13.11%
5,001 – 10,000	1,357	10,215,074	10.19%
10,001 – 100,000	787	15,499,840	15.46%
100,001 and over	55	60,135,495	59.96%
	9,226	100,287,325	100.00%

There were 83 holders of less than a marketable parcel of ordinary shares (being 81 based on a market price of $6.19 on 12 March 2008) who hold a total of 2,691 ordinary shares.

Equity security holders

	Number of shares	Percentage %
Largest 20 holders of ordinary shares at 12 March 2008		
1. National Nominees Limited	19,197,407	19.14%
2. J P Morgan Nominees Australia	9,133,860	9.11%
3. Citicorp Nominees Pty Limited	6,671,907	6.65%
4. HSBC Custody Nominees (Australia) Limited	5,009,157	4.99%
5. ANZ Nominees Limited	4,892,713	4.88%
6. Bond Street Custodians Limited	2,743,736	2.74%
7. Cogent Nominees Pty Limited	2,309,680	2.30%
8. Queensland Investment Corporation	1,669,763	1.66%
9. Richard Hugh Davis	1,052,591	1.05%
10. Argo Investments Limited	958,348	0.96%
11. Milton Corporation Limited	892,254	0.89%
12. UBS Wealth Management Australia Nominees Pty Ltd	703,361	0.70%
13. Australian Reward Investment	591,316	0.59%
14. Australian Executor Trustees Limited	535,006	0.53%
15. The University of Melbourne	516,346	0.51%
16. Huntley Investment Company Limited	470,349	0.47%
17. Questor Financial Services Limited	423,952	0.42%
18. Gwynvill Trading Pty Limited	395,370	0.39%
19. Mirrabooka Investments Limited	360,000	0.36%
20. BT Portfolio Services	332,896	0.33%
Total for top 20	58,860,012	58.70%

Unquoted equity securities

	Number on issue	Number of holders
Options issued under the Employee Share Option Plan to take up ordinary shares	–	–

Substantial holders

	Number of shares held	Percentage %
Substantial holders in the Company as at 12 March 2008 are set out below:		
J P Morgan Chase & Co. and its affiliates	12,558,305	12.52%
National Australia Bank Limited Group	7,755,505	7.73%
Commonwealth Bank of Australia	5,823,563	5.81%

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.

InvoCare Locations

Traditional

NSW/ACT

Guardian Funeral Providers

AF Anderson Funerals
Parramatta

Allen Matthews Funerals
Cremorne
North Ryde

Bruce Mauer Funerals
Crows Nest

Butler Funerals
Campbelltown

Dignified Funerals
Burwood

Guardian Funerals
Blacktown

Hansen & Cole Funerals
Bulli
Kembla Grange
Wollongong

J & C Hardy Funerals
Hurstville

J W Chandler Funerals
Richmond
Windsor

Macarthur District Funerals
Leppington

Metcalfe & Morris Funerals
Parramatta

Metropolitan Funerals
Bankstown
Rockdale

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

Byron District Funerals
Byron Bay

Casino Funerals
Casino

Economy Funerals
All areas

Kevin Geaghan Funerals
Ballina

Liberty Funerals
Chatswood
Granville

Twin Towns Funerals
Tweed Heads

Universal Chung Wah
Fairfield

William Riley & Sons
Lismore

Queensland

George Hartnett Funerals
Albany Creek
Cleveland
Darra
Holland Park
Kelvin Grove
Redcliffe
Sandgate
Wynnum

Other Providers

Cannon & Cripps
Kelvin Grove

Drysdale Funerals
Nambour
Tewantin

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

Somerville Funerals
Nerang
Robina
Southport

Value Funerals
All areas

Victoria

Le Pine including Le Pine Heritage
Box Hill
Camberwell
Croydon
Dandenong
Eltham
Ferntree Gully
Footscray West
Glen Waverley
Greensborough
Healesville
Ivanhoe
Kew East
Lilydale
Mordialloc
Oakleigh
St Kilda
Thornbury

Other Providers

Mulqueen Funerals
Coburg

Provinciale Servzio Funebre
Coburg

Value Funerals
All areas

South Australia

Blackwell Funerals including Pengelly and Knabe Funerals
Glenside
Payneham
Prospect
Torrensville

Other Providers

Value Funerals
All areas

Western Australia

Purslowe Funerals
Midland
North Perth
South Fremantle
Victoria Park
Wangara

Other Providers

Oakwood Funerals
Booragoon
Rockingham

Chippers
Mandurah
Myaree
Rockingham
Subiaco
Victoria Park

Value Funerals
All areas

Simplicity

NSW	Queensland	Victoria	South Australia	Western Australia
Balgowlah Bankstown Bateau Bay Chatswood Erina Hornsby Liverpool Mascot Miranda Newtown Paddington Penrith Randwick Smithfield Toukley East Warrawee Woy Woy Wyong	Buranda Ipswich Kedron Logan Miami Parkwood	Carnegie Flemington Frankston Pascoe Vale Reservoir Sunshine Werribee	Albert Park Black Forest Brahma Lodge Enfield Morphett Vale Victor Harbor	Kelmscott Osborne Park Spearwood

White Lady Funerals

NSW/ACT	Queensland	Victoria	South Australia	Western Australia
Bankstown Belconnen (ACT) Bondi Junction Camden Charlestown Eastwood Five Dock Kingston (ACT) Manly Mayfield Mosman Narrabeen Pennant Hills Penrith Rockdale Roseville Sutherland Tweed Heads Wyoming	Ashmore Chelmer Kelvin Grove Morningside Tanah Merah	Caulfield South Epping Heidelberg Mornington North Essendon South Melbourne	Hillcrest Plympton	*Operating as Mareena Purslowe & Associates Funerals* Subiaco Willetton

Cemeteries and Crematoria

NSW		Queensland	
Castlebrook Memorial Park	Rouse Hill	Albany Creek Memorial Park	Bridgeman Downs
Forest Lawn Memorial Park	Leppington	Allambe Gardens Memorial Park	Nerang
Lake Macquarie Memorial Park	Ryhope	Mt Thompson Memorial Garden	Holland Park
Lakeside Memorial Park	Dapto		
Newcastle Memorial Park	Beresfield		
Northern Suburbs Memorial Gardens and Crematorium	North Ryde		
Pinegrove Memorial Park	Eastern Creek		
Rookwood Memorial Gardens and Crematorium	Rookwood		
Tweed Heads Memorial Gardens	Tweed Heads		

Glossary

AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
AGAAP	Australian Generally Accepted Accounting Principles
AIFRS	The Australian equivalents to International Reporting Standards for annual reporting periods beginning on or after 1 January 2005
ASX	Australian Securities Exchange which is the operating brand of ASX Limited
ASX Corporate Governance Guidelines	The eight essential corporate governance principles and best practice recommendations of the ASX Corporate Governance Council August 2007
Cemetery	A place for burials and memorialisation
CGU	A cash generating unit which is the smallest identifiable group of assets that independently generates cash inflows
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 at after the funeral service – usually offering a catering service
Constitution	The Constitution of the Company
Crematorium	A place for cremations and memorialisation
Crypts	Above ground burial facilities
DRP	Dividend reinvestment plan
EBITDA	Earnings before interest, tax, depreciation and amortisation
EEO	Equal Employment Opportunity
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
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
OH&S	Occupational Health and Safety
Operating EBITDA	EBITDA excluding asset sale and impairment gains or losses
Prepaid Cemetery and Crematorium Services	Cemetery and crematorium services that have been arranged and paid for in advance
Prepaid Funeral Fund	The fund where prepaid funeral monies are held in trust until the funeral service is provided
Volume	A term that refers to the number of funeral services, burials and cremations performed

InvoCare
Innovation Vocation Care

Personal details guide

For the benefit of our stakeholders, this guide is made available to enable you to record information and arrangements in advance that will assist your family and funeral director to ensure everything is conducted in accordance with your wishes.

Should you require assistance in completing it or require further copies of this guide for other family members, please call Guardian Plan Toll Free 1800 151 158.

Personal Information

Family name | Given names

Address | Postcode

Date of birth | ☐ Female | ☐ Male

Place of birth (Town/City/State/Country)

If born overseas, year arrived in Australia

Occupation during working life

Name and Address of Person Who I Would Like to Make Any Arrangements

(For instance, registering the death and contacting the funeral director, e.g. executor, solicitor, family member)

Name | Telephone

Address | Postcode

Funeral Director

(Funeral director you would like to conduct your service)

Name | Telephone

Address | Postcode

Next of Kin

This information is needed when the death is registered.

Name | Telephone

Address | Postcode

Executor of My Will

Executor will need certain financial information when applying for grant of probate.

Name | Telephone

Address | Postcode

Military Information (If applicable)

Branch of service | Service serial number

Date entered service | Place

Date of discharge | Place

Grade, rank or rating

Wars/Conflicts served

Additional Information

Historical information

Every individual is deserving of a meaningful obituary written in their memory. It is here that you may list those achievements and accomplishments that have been of pride to you and your family that are not mentioned elsewhere in your "Personal details guide".

Education

Name of primary school

Date attended from | to

Name of secondary school

Date attended from | to

Name of tertiary institution

Date attended from | to

Qualifications attained

Societies/Clubs Memberships and positions held (include dates)

Other (including civic or public office held)

Special achievements (details of any special achievements or recognitions)

Medical History

This information is very important for your spouse, children and grandchildren. It is also suggested that you keep an updated copy of your medical records for your family, as doctors often ask for it.

Special Instructions and Information

We suggest that you use these lines to keep our information current. We also recommend that you always date these entries to avoid possible confusion later.

Person to be notified Name

Relationship | Telephone

Person to be notified Name

Relationship | Telephone

Person to be notified Name

Relationship | Telephone

Copy of My Will

Date of Will

Deposited with (Name and Address)

Solicitor

Name Telephone

Address Postcode

Family Doctor

Name Telephone

Address Postcode

Personal Documents

Birth Certificate Location

Marriage Certificate Location

Medicare Card Card number (to be returned to Medicare office)

Centrelink Pension Number Type of pension

Veterans' Affairs Number

Passport Name shown on passport

Passport number Expiry date

(Passport should be returned to passport office in your area, details at local Post Office)

Driver Licence Number State of issue

Club or association memberships (Should be returned to appropriate organisation.
It may be that a claim can be made for unexpired memberships or mortality fund benefit.)

Family Details

Father's surname First names

Usual occupation

Mother's maiden surname First names

Usual occupation

Spouse surname First names

Marriage Details (Please tick appropriate box(es))

☐ Married ☐ Divorced ☐ Separated ☐ Widowed ☐ Never married ☐ De facto

Details of Marriage(s)

First marriage (Place/City/Town/Country)

Age at date of marriage Name of spouse (at date of marriage)

Second marriage (if applicable) (Place/City/Town/Country)

Age at date of marriage Name of spouse (at date of marriage)

Children's Details

(List all children in order of date of birth, including legally adopted, deceased (D), still born (SB), or if no children write "none".)

First name Date of birth ☐ Female ☐ Male

First name Date of birth ☐ Female ☐ Male

First name Date of birth ☐ Female ☐ Male

First name Date of birth ☐ Female ☐ Male

Financial Information (Information below may be required by the executor of your Will.)

Bank account details Bank name

Account numbers Bank branch

Location of documents, books, statements

Building society/Financial institution Building society/Financial institution name

Account numbers

Address

Income tax records Tax File Number Location of records

Deeds of property Property address(es)

Location of records

Mortgage details Location of records

Lender Reference number

Address of lender

Life insurance policies

Location of records

Superannuation

Details

Stocks and shares

Location of records

Safe deposit box Box location/number

Location of keys

Accountant Name Telephone

Address Postcode

Car details Registration number and state

Registration document location

Location of purchase receipt/H.P. details

Corporate Information

InvoCare Limited
ABN 42 096 437 393

Directors
Ian Ferrier (Chairman)
Richard Davis (Managing Director and Chief Executive Officer)
Roger Penman (Non-executive Director)
Christine Clifton (Non-executive Director)
Richard Fisher (Non-executive Director)
Benjamin Chow (Non-executive Director)

Company Secretary
Phillip Friery

Annual General Meeting
The Annual General Meeting of InvoCare Limited will be held at The Westin Sydney, 1 Martin Place, Sydney on 23 May 2008 at 11am.

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 0303

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 Securities 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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