

Tag Pacific Limited

ABN 73 009 485 625

**Annual Financial Statements
for the financial year ended 30 June 2010**

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Chairman's report

The year to 30 June 2010 was a year of highs and lows for the Tag Group.

The highpoints were the quantum leap in the scale and scope of the MPower Group's activities; the successful sale of the interior building products businesses late in the financial year; and the commencement of the Unique World Group's turnaround. Together, these activities (which form the core of the Tag Group's operational investments) accounted for A\$86.1 million in revenues and A\$4.0 million in EBITDA before minority interests. This EBITDA compares to A\$1.9 million in the 2009 financial year.

These gains were marred by a market downgrade in the ASX listed iSoft Group Limited, with the value of the Tag Group's shares in that company suffering a reversal in value of A\$5.1 million against a gain of A\$0.7 million in the prior year. It was this reversal of fortunes in the last quarter of the financial year that caused the Tag Group's overall loss of A\$3.3 million after tax and minority interests.

Overall revenue of A\$86.1 million (inclusive of discontinued operations) was in line with the prior year. Revenue from continuing operations was A\$56.8 million, up 20% from A\$47.2 million in the prior period. General business conditions were difficult, particularly in the interior building products sector, so the advances made by the Group for the year were satisfying.

Continued rise of the power sector

A year ago, MPower was launched as a new brand and corporate structure to unite the Group's diverse offering of stored, emergency, generated and green power solutions. The MPower Group comprises the M+H Power and Advanced Power businesses which collectively operate through 8 business units from 10 locations around Australia and New Zealand.

The inauguration of MPower coincided with a ramp up of activities and an increase in the scope and scale of MPower's operations. MPower achieved revenues of A\$56.6 million during year, up from A\$47.2 million in the prior year. EBITDA before minority interests also increased significantly from A\$2.7 million last year to A\$3.8 million this year.

In late 2009 MPower announced that it had been awarded a A\$32 million power contract for the Gorgon Project in Western Australia. The contract, which is proceeding satisfactorily, is for the design, manufacture and commissioning of a 28 megawatt power generation plant to power the construction and commissioning phase of the Gorgon Project. The project win has been a significant milestone for the company and has also been a quantum step up for MPower, providing opportunities

for the development of expertise and resources. At the same time, it has acted as a catalyst for expanding the platform on which MPower will build its future growth and its reach into new and developing fields.

Amongst these areas of development is MPower's active and flourishing involvement in the field of renewables. Already recognised as a proficient and reliable marketer of solar system components, MPower is gradually increasing its concentration on renewable energy through its green business unit. The recent implementation of new supply arrangements is a precursor to increased deployment in what is forecast to be a growing sector. In parallel, MPower is also expanding its expertise in cogeneration projects and other sustainable energy projects which are becoming more and more commonplace in commercial developments.

MPower is, in itself, a diversified business. But within that diversification there is a clear focus on developing expertise in the provision of "Power with Purpose". The year ahead looks set to deliver further growth for MPower and as the business develops, so do the opportunities for organic growth and growth by way of acquisition.

At 30 June 2010, Tag held a 60% interest in the MPower Group, up from 58% at 30 June 2009.

Sale of interior building products sector businesses

The Tag Group's involvement in the interior building products sector has a long history, particularly in the case of **Potter Interior Systems**, a name that has become synonymous with quality products and great service in the New Zealand interior building products market.

Through Tag's involvement with Potter Interior Systems in New Zealand, the opportunity arose to acquire the assets of a similar business in Australia. When **Comprador Pacific** was established, Tag took a 51% interest and Comprador Pacific successfully operated a specialist commercial ceilings business from four branches around Australia. Comprador Pacific later acquired the long established **Charles Tims** business, expanding Comprador Pacific's activities into whiteboards, pin-boards and acoustic panels, thus mirroring the activities of its sister company in New Zealand.

In April this year we announced that Potter Interior Systems and Comprador Pacific had reached agreement to sell their respective businesses to CSR Building Products in a deal that has seen the Tag Group exiting fully from its investments in the interior building products sector.

The parallel but separate transactions completed in May 2010 placed a headline enterprise value of approximately A\$8 million on the businesses before the retirement of bank debt. Tag realised an after tax gain of approximately A\$1 million over and above the carrying value of its investments, after allowing for the interest of a minority shareholder.

A range of opportunities had been investigated in recent years to grow the investments in the interior building products sector by way of organic growth and by way of both acquisition and merger. However Tag's aspirations were thwarted by a number of obstacles, including deteriorating market conditions in the last few years and compounded by constraints around supply arrangements. In light of the mature nature of the sector and the diminishing prospects of any meaningful uplift, it was determined that other parties more closely aligned to the building sector were better positioned than Tag to extract value from the Potter Interior Systems and Comprador Pacific businesses.

When viewed in retrospect, the 100% investment in Potter Interior Systems must be viewed as having been successful, particularly because of its ability to generate surplus cash on a continuing basis. However, the 51% investment in Comprador Pacific, which initially was also very beneficial in terms of its contribution, turned into something less favourable in more recent years.

The sale of Potter Interior Systems and Comprador Pacific took the form of a sale of assets and included a period of transition following ownership passing to the purchaser. Accordingly, certain assets and liabilities relating to the businesses remained in the accounts at year end and will be converted to cash or discharged (as the case may be) in coming months.

Whilst the sale of our investments in this sector marks the end of an era, it signifies the commencement of a new phase that will enable Tag to invest in other areas where the growth prospects are better aligned to our investment parameters.

iSoft Group Limited

The value of Tag's shareholding in **iSoft Group Limited** (ASX: ISF) plummeted during the year, reflecting the fall in the iSoft share price from \$0.645 per share at the start of the year to \$0.17 per share at 30 June 2010. The fall in value is predominantly attributed to an earnings downgrade issued by the company in June 2010. The iSoft share price movement translates to an unrealised loss of A\$5.1 million for Tag in the financial year which is taken through the income statement in accordance with the applicable accounting standards for fair value assets.

A small number of iSoft shares were sold during the year at an average price of A\$0.78 per share, leaving Tag with a holding of approximately 11 million iSoft shares at year end.

Whilst the fall in the value of the iSoft investment is a non-cash item, it has had a major impact on Tag's capital base.

Other matters

With offices in Sydney, Melbourne and Canberra, **Unique World** provides information management solutions across Australia to enterprises within the financial services, government, manufacturing, property & construction and utility industries.

RecordPoint Software delivers innovative software solutions that solve local compliance problems. RecordPoint Software, which is still in its infancy, continues to refine its records management software offering and is now actively seeking to market the software to organisations with complex records management requirements.

Tag has maintained its 37% investment in the Unique World and RecordPoint Software businesses which were separated operationally during the year. The two businesses made a combined after tax equity accounted contribution of A\$0.3 million during the year which was slightly ahead of the prior year but below the desired level of performance. The 2010 year was punctuated by a number of delays and deferrals in project work; however during the last quarter it became evident that because of its expertise and focus on niche projects, Unique World would begin the new financial year with a record confirmed pipeline of business to carry it into 2011. This is seen as a welcome development.

Tag's investment in the **Power Property Unit Trust** increased during the year, moving it from being an equity accounted investment in the past to being a 50.2% owned consolidated entity. The Power Property Unit Trust is a property trust that was originally established in 1997 to own a property in Rowville, Victoria which is leased to the MPower Group. The property is recorded in the accounts at its original cost less accumulated depreciation and not at its current market value.

The Tag Group balance sheet continues to be robust. Group cash stood at A\$15.5 million at year end, partly due to the timing of cash flows relating to major power projects and partly as a result of the sale of Tag's investments in the interior building products sector. Whilst group cash will not remain at this high level on a continuing basis, it does demonstrate the strength of the balance sheet and the ability to take advantage of opportunities as they arise. Cash flow from operating activities was very strong and cash reserves exceeded bank debt at year end by a very healthy margin.

Although it had no cash effect, the fall in the carrying value of the iSoft investment during the year has caused directors to adopt a conservative approach when considering a 2010 dividend. The underlying activities and operations of Tag's core investments remain sound, however the directors believe that cash preservation at a parent company level is paramount, and have decided that no dividend will be declared at present. The reinstatement of dividends will of course be considered at the earliest possible time.

A note of thanks is extended to management and staff across the Tag Group for their efforts during the year.

For and on behalf of the board

A handwritten signature in black ink, appearing to read "Peter Wise". The signature is written in a cursive, flowing style.

Peter Wise
Chairman
26 August 2010

Directors' report

The directors present their report on the company (Tag Parent) and its controlled entities (Tag Group) for the financial year ended 30 June 2010 in accordance with the provisions of the Corporations Act 2001 (Cth). The Chairman's Report (pages 2 to 4) contains a review of the operations of the Tag Group during the financial year and the results of those operations and details of significant changes in the Tag Group. The Chairman's Report is incorporated into and forms part of this Directors' Report.

Principal activity

The Tag Group is a strategic investor.

Review of operations

The operating result of the Tag Group for the financial year ended 30 June 2010 after eliminating non-controlling equity interest and providing for income tax was a loss of A\$3,267,189 (2009: profit of A\$1,184,459).

Changes in the state of affairs

No significant changes in the state of affairs of the Tag Group occurred during the financial year other than the sale of the interior building products businesses in Australia and New Zealand.

The interior building products businesses were sold on 14 May 2010, thereby discontinuing the consolidated group's operations in this segment. The net profit on sale before income tax was A\$1.04M. The sale of the businesses is incorporated into the current year's result and is reported as a discontinuing operation in the financial statements.

Subsequent events

There has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Tag Group, the results of those operations, or the state of affairs of the Tag Group in future financial years other than those matters referred to in the Chairman's Report.

Future developments

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

Dividends

The directors have not declared a dividend in respect of the financial year ended 30 June 2010.

In respect of the financial year ended 30 June 2009, a dividend of 0.75 cents per share (totalling A\$515,145) franked to 100% at the corporate income tax rate of 30% was declared on 25 August 2009 with a payment date of 16 October 2009 to the holders of fully paid ordinary shares.

Indemnification of officers and auditor

During the financial year, the company paid a premium to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company.

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

Non-audit services

Details of amounts paid or payable to Deloitte Touche Tohmatsu for non-audit services provided during the year by the auditor are outlined in note 32 to the financial statements. The directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth). The directors are of the opinion that the services as disclosed in note 32 to the financial statements do not compromise the external auditor's independence, based on advice received from the audit committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks or rewards.

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.

Options on issue

At the date of this report, the options on issue over unissued ordinary shares in Tag Pacific Limited were as follows:

Grant date	Expiry date	Exercise price	Number of options
22 December 2006	22 December 2011	A\$0.33	263,333
22 December 2006	22 December 2011	A\$0.40	400,000
31 August 2007	31 August 2012	A\$0.39	90,000
31 August 2007	31 August 2012	A\$0.45	200,000
17 November 2008	17 November 2013	A\$0.24	160,000
17 November 2008	17 November 2013	A\$0.30	200,000
	Total		1,313,333

During the year ended 30 June 2010 no ordinary shares in Tag Pacific Limited were issued on the exercise of options granted under the Tag Pacific Limited Executive Share Option Plan. No shares have been issued under the Executive Share Option Plan to the date of this report. No person entitled to exercise an option had or has any right, by virtue of the option, to participate in any share issue of any other body corporate.

Environmental regulations

There are no particular or significant environmental regulations under a law of the Commonwealth or of a state or territory affecting the Tag Group.

The Tag Group's operations do not pose a high risk for breach of environmental legislation and in the directors' opinion there is no known breach of regulatory requirements that may:

- potentially result in financial penalties;
- result in the governing authority having the ability to suspend an operation;
- have a major impact on surrounding ecosystems; or
- have a financial impact on the operations and results of the Tag Group.

Auditor's independence declaration

The lead auditor's independence declaration under section 307C of the Corporations Act 2001 (Cth) for the year ended 30 June 2010 has been received and a copy can be found on page 62 of this report.

Rounding off of amounts

The company is a company of the kind referred to in ASIC Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Information on directors

The names and particulars of the directors of the company during or since the end of the financial year are as follows. References to directors' relevant interest in shares are current at the date of this report.

Peter Wise	Chairman (executive)
Qualifications	Dip ID
Experience	Appointed Chairman and board member in 1986. Chairman of subsidiaries within the Tag Group and non-executive director of iSoft Group Limited and Unique World Group Pty Limited.
Interest in shares	Through family interests has a controlling interest in Anthony Australia Pty Ltd which controls 32,959,482 ordinary shares in Tag Pacific Limited and 800,000 options over unissued ordinary shares in Tag Pacific Limited.
Directorships held in other listed entities in the previous 3 years	<i>Listed entity</i> iSoft Group Limited
	<i>Relevant dates</i> since 30 September 1999

Gary Cohen	Director (non-executive)
Qualifications	B Comm, LLB, LLM (Hons)
Experience	Director since 1999. CEO of iSoft Group Limited. Formerly a corporate adviser and a senior legal practitioner.
Interest in shares	Holds a relevant interest in 5,728,278 ordinary shares in Tag Pacific Limited.
Special responsibilities	Member of the remuneration committee.
Directorships held in other listed entities in the previous 3 years	<i>Listed entity</i> iSoft Group Limited
	<i>Relevant dates</i> since 30 September 1999

Robert Constable	Director (non-executive)
Qualifications	MA (Cantab.)
Experience	Director since 1986. Former positions include secretary of the Beecham Group, director of Sime Darby Holdings Limited and deputy chief executive of Bousteadco Singapore Limited.
Interest in shares	200,000 ordinary shares in Tag Pacific Limited held beneficially.
Special responsibilities	Chairman of the audit committee and a member of the remuneration committee.

Robert Moran	Director (non-executive)
Qualifications	BEc LLB (Hons)
Experience	Director since 2002. Managing Director of Oceania Capital Partners. Experience in principal investing for 11 years. Prior to that practiced as a corporate and commercial lawyer for 12 years.
Interest in shares	557,772 ordinary shares in Tag Pacific Limited held non-beneficially.
Special responsibilities	Member of the audit committee.
Directorships held in other listed entities in the previous 3 years	<i>Listed entity</i> Oceania Capital Partners Limited iSoft Group Limited
	<i>Relevant dates</i> since 25 July 2007 since 6 November 2008

Richard Peterson	Director (non-executive)
Qualifications	LLM (Hons) FAMINZ
Experience	Director since 1986. Barrister and Solicitor of The High Court of New Zealand and principal of Peterson Law Limited.
Interest in shares	1,214,049 ordinary shares in Tag Pacific Limited held non-beneficially.

Gary Weiss	Director (non-executive)																								
Qualifications	LLM (NZ), JSD (Cornell)																								
Experience	Director since 1988. Executive director of Guinness Peat Group plc, director of Ariadne Australia Limited and a director of several other public companies.																								
Interest in shares	250,000 ordinary shares in Tag Pacific Limited held non-beneficially.																								
Directorships held in other listed entities in the previous 3 years	<table> <thead> <tr> <th><i>Listed entity</i></th> <th><i>Relevant dates</i></th> </tr> </thead> <tbody> <tr> <td>Ariadne Australia Limited</td> <td>since 28 November 1989</td> </tr> <tr> <td>Canberra Investment Corporation Limited</td> <td>27 September 1995 to 28 August 2008</td> </tr> <tr> <td>Capral Aluminium Limited</td> <td>25 November 2003 to 6 November 2008</td> </tr> <tr> <td>Coats plc</td> <td>since 4 February 2003</td> </tr> <tr> <td>Gosford Quarry Holdings Limited</td> <td>26 March 2008 to 14 November 2008</td> </tr> <tr> <td>Guinness Peat Group plc (UK)</td> <td>since 30 November 1990</td> </tr> <tr> <td>Premier Investments Limited</td> <td>since 11 March 1994</td> </tr> <tr> <td>Tower Australia Group Limited</td> <td>19 December 2006 to 8 August 2008</td> </tr> <tr> <td>Westfield Holdings Limited</td> <td>25 July 2004 to 27 May 2010</td> </tr> <tr> <td>Westfield Management Limited</td> <td>29 May 2002 to 27 May 2010</td> </tr> <tr> <td>Westfield America Management Limited</td> <td>29 May 2002 to 27 May 2010</td> </tr> </tbody> </table>	<i>Listed entity</i>	<i>Relevant dates</i>	Ariadne Australia Limited	since 28 November 1989	Canberra Investment Corporation Limited	27 September 1995 to 28 August 2008	Capral Aluminium Limited	25 November 2003 to 6 November 2008	Coats plc	since 4 February 2003	Gosford Quarry Holdings Limited	26 March 2008 to 14 November 2008	Guinness Peat Group plc (UK)	since 30 November 1990	Premier Investments Limited	since 11 March 1994	Tower Australia Group Limited	19 December 2006 to 8 August 2008	Westfield Holdings Limited	25 July 2004 to 27 May 2010	Westfield Management Limited	29 May 2002 to 27 May 2010	Westfield America Management Limited	29 May 2002 to 27 May 2010
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Westfield America Management Limited	29 May 2002 to 27 May 2010																								

Nathan Wise	Company Secretary
Qualifications	BCom, LLM (UNSW)
Experience	Company secretary since 2006. Head of Corporate Development at Tag Pacific Limited and a director of a number of controlled entities within the Tag Group. Practiced as a corporate and commercial lawyer before joining the Tag Group.

Remuneration of directors

Information about the remuneration of directors and senior management is set out in the remuneration report on pages 9 to 13.

Directors' meetings

The following table outlines the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, nine board meetings, two audit committee meetings and two remuneration committee meetings were held.

	Board meetings		Audit committee meetings		Remuneration committee meetings	
	Held	Attended	Held	Attended	Held	Attended
Peter Wise	9	9	-	-	-	-
Gary Cohen	9	7	-	-	2	2
Robert Constable	9	8	2	2	2	2
Robert Moran	9	8	2	2	-	-
Richard Peterson	9	8	-	-	-	-
Gary Weiss	9	6	-	-	-	-

Remuneration report

This report details the emoluments paid or payable to each director of Tag Pacific Limited and the senior managers (also known as key management personnel) receiving the highest remuneration.

Remuneration policy

The remuneration policy details set out below are relevant to Tag Pacific Limited ("Tag") only.

The board of each controlled entity in the Tag Group determines the remuneration policy for the senior managers of that controlled entity, the majority of which are not wholly owned by Tag. Accordingly, Tag's remuneration policy does not extend to senior managers of controlled entities. Details of the remuneration of controlled entity senior managers have been included in this report where applicable for compliance reasons.

Tag's remuneration policy has been designed to align director and senior manager objectives with shareholder and business objectives by providing a fixed remuneration component and, where applicable, offering specific short-term and long-term incentives based on key performance areas affecting Tag's financial results. The board believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best senior managers and directors to run and manage Tag, as well as create goal congruence between directors, senior managers and shareholders.

The board's policy for determining the nature and amount of remuneration for executive board members and senior managers (key management personnel) of Tag is as follows:

- The remuneration policy, setting the terms and conditions for executive directors and other senior managers, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants where necessary.
- Senior managers may receive base remuneration (which is based on factors such as length of service and experience), superannuation, fringe benefits, short-term incentives or long-term incentives.
- The remuneration committee reviews certain senior manager packages annually by reference to Tag's performance, senior manager performance and comparable information from industry sectors.

The performance of Tag's senior managers is measured against criteria agreed regularly with each senior manager and is based predominantly on the forecast growth of the Tag Group's profits and shareholder value. Short-term incentives, where applicable, are linked to predetermined performance indicators where possible. The board may exercise its discretion in relation to approving short-term and long-term incentives and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance indicators. The policy is designed to attract the highest calibre of senior managers and reward them for performance that results in long-term growth in shareholder wealth.

All remuneration paid to directors and senior managers is valued at the cost to the company and expensed. Options are valued using the Black-Scholes methodology.

The board's policy is to remunerate non-executive directors for time, commitment and responsibilities. The remuneration committee determines payments to the non-executive directors based on market practice, duties and accountability. Independent external advice may be sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders. Fees for non-executive directors are not linked to Tag's performance. However, to align directors' interests with shareholders' interests, the directors are encouraged to hold shares in the company.

Performance based remuneration

Tag has a policy which sets out the framework for awarding performance based remuneration to Tag senior managers. Performance based remuneration may comprise both a short-term incentive ("STI") and a long-term incentive ("LTI") component. The STI takes the form of a cash bonus and the LTI comprises the issue of options under the Tag Pacific Limited Executive Share Option Plan. The remuneration committee has the discretion to determine the STI and LTI for eligible senior managers.

Short-term incentives

The remuneration package for an eligible senior manager may comprise a STI in the form of a performance based cash bonus. The maximum STI component of a remuneration package is expressed as a percentage of the relevant senior manager's base remuneration. A senior manager may be awarded a STI depending on performance against a set of performance indicators. The performance indicators may differ for each senior manager and are determined by the remuneration committee from time to time. A weighting is given to each performance indicator at the time the performance indicators are set.

The performance criteria against which the STI's are assessed are as follows:

- (a) Contribution to the profitability, future profitability or potential profitability of the group.
- (b) Contribution to the enhancement of shareholder value, future shareholder value or potential shareholder value.
- (c) Contribution to the strategic direction and growth of the group.
- (d) Performance of the group compared to budget.
- (e) Group profitability in the relevant financial year relative to shareholders' funds.

Details of the STI's awarded in respect of the year to 30 June 2010 are as follows:

Nathan Wise

Nathan Wise earned a cash bonus in the amount of A\$44,975 in respect of the year to 30 June 2010. The total STI that was available (subject to performance against set criteria) was in the range of 0% to 33.3% of his base remuneration of A\$210,000 per annum (A\$0 to A\$70,000). Of the total STI that was available, 64% was awarded and 36% was forfeited due to performance against set criteria.

John Marinos

John Marinos earned a cash bonus in the amount of A\$22,040 in respect of the year to 30 June 2010. The total STI that was available (subject to performance against set criteria) was in the range of 0% to 20% of his base remuneration of A\$201,286 for the year (A\$0 to A\$40,257). Base remuneration excludes consulting fees of A\$18,240 received from associates during the year. Of the total STI that was available, 55% was awarded and 45% was forfeited due to performance against set criteria.

Long-term incentives

Options over shares in Tag Pacific Limited may be awarded to eligible senior managers in accordance with the Tag Pacific Limited Executive Share Option Plan. The award of options is considered appropriate as it contains an element of reward for individual achievement together with an incentive aligned to the group's longer term performance. The approach also aligns management's interests with those of shareholders.

The maximum number of options that can be on issue under the Executive Share Option Plan at any time is 5% of the shares on issue at that time. In addition, the maximum number of options that can be issued to any one senior manager is 1,250,000. The remuneration committee must make reference to these and other rules of the Executive Share Option Plan when deciding on long-term incentive components.

No options were issued to directors or specified senior managers during the year ended 30 June 2010 as part of their remuneration. In lieu of the issue of options and pending a review of Tag's long-term incentive plan, a long-term incentive in the form of a cash bonus of A\$8,000 was awarded to each of Nathan Wise and John Marinos in respect of the year to 30 June 2010.

Shareholder approval for the issue of options under the Executive Share Option Plan to each of Peter Wise and Nathan Wise was obtained under ASX Listing Rule 10.14 on 13 November 2008.

Option holdings

	Balance 1 July 2009	Granted as remuneration	Options exercised/ (lapsed)	Balance 30 June 2010	Number of options vested 30 June 2010	Number of options outstanding 30 June 2010	Total unexercisable 30 June 2010
Directors							
Peter Wise	1,200,000	-	(400,000)	800,000	800,000	800,000	-
Specified senior managers							
Brian Bamforth ¹	175,000	-	(175,000)	-	-	-	-
Paul Sharp	125,000	-	(125,000)	-	-	-	-
John Marinos	540,000	-	(175,000)	365,000	215,000	365,000	150,000
Nathan Wise	655,000	-	(366,667)	288,333	138,333	288,333	150,000
	<u>2,695,000</u>	<u>-</u>	<u>(1,241,667)</u>	<u>1,453,333</u>	<u>1,153,333</u>	<u>1,453,333</u>	<u>300,000</u>

1. Brian Bamforth ceased being a senior manager on 14 May 2010 due to the sale of the Potter Interior Systems business.

Refer to note 33 for the factors and assumptions used in determining share-based payments.

At 30 June 2010, the following share-based payment arrangements were in existence under the Tag Pacific Limited Executive Share Option Plan:

Option series	Grant date	Expiry date	Fair value at grant date (A\$ cents)	Vesting date
1. Issued 22 December 2006	22 Dec 06	22 Dec 11	12.94	01 Jul 07 to 30 Sep 09
2. Issued 22 December 2006	22 Dec 06	22 Dec 11	10.69	date of grant
3. Issued 31 August 2007	31 Aug 07	31 Aug 12	10.67	01 Jul 08 to 30 Sep 10
4. Issued 31 August 2007	31 Aug 07	31 Aug 12	9.08	date of grant
5. Issued 17 November 2008	17 Nov 08	17 Nov 13	5.92	01 Jul 09 to 30 Sep 11
6. Issued 17 November 2008	17 Nov 08	17 Nov 13	4.52	date of grant

There are no performance criteria that need to be met in relation to options granted under series 2, 4 and 6 however the options lapse if the senior manager no longer provides services to the company. Senior managers receiving options under the remaining option series are entitled to the beneficial interest under the option when the performance conditions are met and only if they continue to provide services to the company at that time.

The following table summarises the value of options granted, exercised or lapsed during the year to senior management:

	Value of options granted at the grant date (A\$)	Value of options lapsed at the lapsing date (A\$)	Value of options exercised at the exercise date (A\$)
Peter Wise	-	28,098	-
Nathan Wise	-	29,405	-
John Marinos	-	19,390	-
Paul Sharp	-	12,293	-
Brian Bamforth ¹	-	8,780	-

1. Brian Bamforth ceased being a senior manager on 14 May 2010 due to the sale of the Potter Interior Systems business.

Shareholdings

The number of shares held by directors and specified senior managers inclusive of relevant interests is as follows:

	Balance 1 July 2009	Received as remuneration	Net change other	Balance 30 June 2010
Directors				
Peter Wise	31,768,174	-	1,191,308	32,959,482
Gary Cohen	5,523,970	-	204,308	5,728,278
Robert Constable	200,000	-	-	200,000
Robert Moran	537,611	-	20,161	557,772
Richard Peterson	1,170,167	-	43,882	1,214,049
Gary Weiss	250,000	-	-	250,000
Specified senior managers				
John Marinos	11,350	-	-	11,350
Nathan Wise ¹	-	-	-	-
Paul Sharp	71,250	-	11,000	82,250
Anthony Csillag	20,000	-	-	20,000
Brian Bamforth ²	42,000	-	-	42,000
	39,594,522	-	1,470,659	41,065,181

1. Nathan Wise is a director of Anthony Australia Pty Ltd which had a relevant interest in 32,959,482 ordinary shares in Tag Pacific Limited at 30 June 2010.

2. Brian Bamforth ceased being a senior manager on 14 May 2010 due to the sale of the Potter Interior Systems business.

Company performance, shareholder wealth and director and senior management remuneration

The Tag remuneration policy has been tailored to increase goal congruence between shareholders, directors and senior managers. The main method applied in achieving this aim has been the issue of options to select senior managers to encourage the alignment of personal and shareholder interests.

The following table shows the gross revenue, profits and dividends for the last five years for Tag Pacific Limited, as well as the share price at the end of the respective financial years.

	2006	2007	2008	2009	2010
Revenue (A\$'000) (including discontinued operations)	80,888	84,127	87,997	86,930	86,015
Other income/(loss) (A\$'000)	4,614	5,317	(6,573)	879	(3,956)
Net profit/(loss) before non-controlling equity interest (A\$'000)	5,665	7,843	(3,942)	1,702	(2,789)
Dividends paid (A\$'000)	334	501	501	501	515
Share price at year end (cents per share)	26.5	34.0	21.0	13.5	13.0

The table above shows there has been a general trend of increasing revenue year-on-year. The major item that has impacted the net profit result in recent years is the movement in the fair value of the investment in iSoft Group Limited. The fair value of the investment is subject to sharemarket volatility which is beyond the control of the Tag Group. Otherwise, revenue from operating investments has increased in line with the Tag Group's strategy of increasing the scale and level of activity of its operating investments.

The board is of the opinion that these results can be attributed in part to the previously described remuneration policy and is satisfied that it has contributed in increasing shareholder wealth over the past five years.

Details of remuneration

The remuneration for each director and five specified senior managers of the Tag Group receiving the highest remuneration in respect of the year to 30 June 2010 was as follows:

2010 A\$	Salary, fees and commissions	Superannuation Contributions	Cash bonus	Non-cash benefits	Options	Total	Performance related %	Option %
Directors								
Peter Wise								
Chairman (executive)	325,000	-	-	-	-	325,000	-	-
Gary Cohen								
Non-executive director	20,000	-	-	-	-	20,000	-	-
Robert Constable								
Non-executive director	20,000	-	-	-	-	20,000	-	-
Robert Moran								
Non-executive director	20,000	-	-	-	-	20,000	-	-
Richard Peterson								
Non-executive director	20,000	-	-	-	-	20,000	-	-
Gary Weiss								
Non-executive director	20,000	-	-	-	-	20,000	-	-
Total directors	425,000	-	-	-	-	425,000		
Tag executives								
John Marinos²								
Head of Finance	201,920	-	30,040	-	1,588	233,548	14	1
Nathan Wise								
Head of Corporate Development	210,000	-	52,975	-	1,588	264,563	21	1
Executives of subsidiaries								
Paul Sharp³								
Group Managing Director MPower Group	286,488	25,999	-	8,678	-	321,165	-	-
Anthony Csillag³								
Managing Director MPower Group - Advanced Power	222,120	27,004	-	7,747	-	256,871	-	-
Brian Bamforth								
General Manager Potter Interior Systems	159,579	-	-	15,018	-	174,597	-	-
Total executives	1,080,107	53,003	83,015	31,443	3,176	1,250,744		

1. All directors and senior managers held their positions for the whole year with the exception of Brian Bamforth who ceased being a senior manager on 14 May 2010 due to the sale of the Potter Interior Systems business. Senior managers held their positions on a full-time basis unless otherwise stated.
2. The remuneration details for John Marinos exclude income derived from an associate company.
3. The cash bonus component of the remuneration package for each of Paul Sharp and Anthony Csillag for the year to 30 June 2010 has not yet been determined.

The remuneration for each director and five specified senior managers of the Tag Group receiving the highest remuneration in respect of the year to 30 June 2009 was as follows:

2009 A\$	Salary, fees and commissions	Superannuation contributions	Cash bonus	Non-cash benefits	Options	Total	Performance related %	Option %
Directors								
Peter Wise	325,000	-	-	-	9,050	334,050	3	3
Gary Cohen	20,000	-	-	-	-	20,000	-	-
Robert Constable	20,000	-	-	-	-	20,000	-	-
Robert Moran	20,000	-	-	-	-	20,000	-	-
Richard Peterson	20,000	-	-	-	-	20,000	-	-
Gary Weiss	20,000	-	-	-	-	20,000	-	-
Total directors	425,000	-	-	-	9,050	434,050		
Tag executives								
John Marinos¹								
John Marinos ¹	184,904	-	20,250	-	8,883	214,037	14	4
Nathan Wise								
Nathan Wise	199,751	-	39,500	-	8,883	248,134	19	4
Executives of subsidiaries								
Paul Sharp								
Paul Sharp	284,652	25,810	-	8,846	-	319,308	-	-
Anthony Csillag								
Anthony Csillag	190,684	49,240	22,266	10,069	-	272,259	8	-
Brian Bamforth²								
Brian Bamforth ²	187,024	-	-	14,159	-	201,183	-	-
Total executives	1,047,015	75,050	82,016	33,074	17,766	1,254,921		

1. The remuneration details for John Marinos exclude income derived from an associate company.
2. Brian Bamforth ceased being a senior manager on 14 May 2010 due to the sale of the Potter Interior Systems business.

Contract details

There were no written contracts in place with directors or specified senior managers other than the following:

- (a) A written contract is in place in respect of the services provided by Nathan Wise to Tag Pacific Limited. The contract has no specified duration and requires three months notice of termination (equating to a termination payment of A\$55,000).
- (b) A written contract is in place in respect of the services provided by John Marinos to Tag Pacific Limited. The contract has no specified duration and requires six months notice of termination (equating to a termination payment of A\$112,500).
- (c) A written contract is in place in respect of the services provided by Anthony Csillag to Advanced Power Pty Ltd. The contract has no specified duration and requires three months notice of termination (equating to a termination payment of A\$64,218).

Performance income as a proportion of total remuneration

In some circumstances senior managers are paid performance based bonuses based on set monetary figures and not as a proportion of their salary. These bonuses have been set to encourage achievement of specific goals that have been given a high level of importance in relation to the future growth and profitability of the Tag Group. The payment of bonuses and other incentive payments for specified senior managers are reviewed by the remuneration committee annually as part of the review of executive remuneration and a recommendation is put forward to the board for approval. Bonuses, options and incentives are linked to predetermined performance criteria. The board can exercise its discretion in relation to approving incentives, bonuses and options and can recommend changes to the committee's recommendations.

Signed in accordance with a resolution of the directors.



Peter Wise
Chairman

26 August 2010

Consolidated statement of comprehensive income
for the year ended 30 June 2010

	Note	2010 A\$'000	2009 A\$'000
Continuing operations			
Revenue	3	56,531	47,075
Other revenue	4	247	152
Other (losses)/gains	5	(5,107)	865
Share of profits of associates	14	300	275
Raw materials and consumables used		(41,941)	(32,797)
Advertising and marketing expense		(300)	(357)
Depreciation and amortisation expense	7	(321)	(266)
Employee benefits expense	7	(9,998)	(9,768)
Finance costs	6	(181)	(134)
Occupancy expense		(677)	(782)
Other expenses		(1,322)	(2,223)
(Loss)/profit before income tax	7	(2,769)	2,040
Income tax expense	8	(781)	(130)
(Loss)/profit for the year from continuing operations		(3,550)	1,910
Discontinued operations			
Profit/(loss) for the year from discontinued operations	9	761	(208)
(LOSS)/PROFIT FOR THE YEAR		(2,789)	1,702
Attributable to:			
Owners of the company		(3,267)	1,185
Non-controlling interest		478	517
		(2,789)	1,702
Other comprehensive income			
Exchange differences on translating foreign operations			
Exchange differences arising during the year		11	61
		11	61
Income tax relating to components of other comprehensive income		-	-
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		(2,778)	1,763
Total comprehensive (loss)/income attributable to:			
Owners of the company		(3,256)	1,246
Non-controlling interest		478	517
		(2,778)	1,763
Earnings per share			
From continuing and discontinued operations:			
Basic (cents per share)	36	(4.7)	1.7
Diluted (cents per share)	36	(4.7)	1.7
From continuing operations:			
Basic (cents per share)	36	(6.5)	1.8
Diluted (cents per share)	36	(6.5)	1.8
Dividends per share (cents per share)	29	0.75	0.75

The accompanying notes form part of these financial statements.

Consolidated statement of financial position

as at 30 June 2010

	Note	30/06/2010 A\$'000	30/06/2009 A\$'000
Assets			
Current assets			
Cash and bank balances	10	15,479	3,411
Trade and other receivables	11	14,404	15,792
Inventories	12	7,148	15,041
Other assets	13	361	192
Total current assets		<u>37,392</u>	<u>34,436</u>
Non-current assets			
Investments in associates	14	2,436	2,325
Other financial assets	16	1,873	7,237
Property, plant & equipment	17	2,063	1,504
Deferred tax assets	18	3,236	2,901
Intangible assets	19	1,717	1,911
Total non-current assets		<u>11,325</u>	<u>15,878</u>
Total assets		<u>48,717</u>	<u>50,314</u>
Liabilities			
Current liabilities			
Trade and other payables	21	16,961	13,409
Borrowings	22	2,219	3,397
Current tax liabilities	23	650	417
Provisions	24	1,195	1,411
Other liabilities	25	1,220	533
Total current liabilities		<u>22,245</u>	<u>19,167</u>
Non-current liabilities			
Borrowings	22	311	1,460
Provisions	24	61	130
Total non-current liabilities		<u>372</u>	<u>1,590</u>
Total liabilities		<u>22,617</u>	<u>20,757</u>
Net assets		<u>26,100</u>	<u>29,557</u>
Equity			
Capital and reserves			
Issued capital	26	16,477	16,093
Reserves	27	572	558
Retained earnings		2,553	6,335
Equity attributable to owners of the company		19,602	22,986
Non-controlling interest	28	6,498	6,571
Total equity		<u>26,100</u>	<u>29,557</u>

The accompanying notes form part of these financial statements.

Consolidated statement of changes in equity

for the year ended 30 June 2010

	Share capital	Equity-settled employee benefits reserve	Foreign currency translation reserves	Capital reserve	Retained earnings	Attributable to owners of the parent	Non-controlling interest	Total
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
Balance at 1 July 2008	15,741	196	(349)	659	5,651	21,898	6,288	28,186
Payment of dividends (note 29)	-	-	-	-	(501)	(501)	(234)	(735)
Profit for the year	-	-	-	-	1,185	1,185	517	1,702
Other comprehensive income for the year	-	-	61	-	-	61	-	61
Total comprehensive income for the year	-	-	61	-	1,185	1,246	517	1,763
Recognition of share-based payments (note 7)	-	(9)	-	-	-	(9)	-	(9)
Issue of shares under dividend reinvestment plan (note 26)	357	-	-	-	-	357	-	357
Share issue costs (note 26)	(5)	-	-	-	-	(5)	-	(5)
Balance at 30 June 2009	16,093	187	(288)	659	6,335	22,986	6,571	29,557
Payment of dividends (note 29)	-	-	-	-	(515)	(515)	(551)	(1,066)
Profit/(loss) for the year	-	-	-	-	(3,267)	(3,267)	478	(2,789)
Other comprehensive income for the year	-	-	11	-	-	11	-	11
Total comprehensive income for the year	-	-	11	-	(3,267)	(3,256)	478	(2,778)
Recognition of share-based payments (note 7)	-	3	-	-	-	3	-	3
Issue of shares under dividend reinvestment plan (note 26)	384	-	-	-	-	384	-	384
Balance at 30 June 2010	16,477	190	(277)	659	2,553	19,602	6,498	26,100

The accompanying notes form part of these financial statements.

Consolidated statement of cash flows

for the year ended 30 June 2010

	Note	2010 A\$'000	2009 A\$'000
Cash flows from operating activities			
Receipts from customers		96,331	97,203
Payments to suppliers and employees		<u>(81,842)</u>	<u>(96,487)</u>
Cash generated from operations		14,489	716
Interest received		111	117
Dividends received		111	57
Proceeds from sale of fair value investments		195	1,466
Payment for fair value investments		-	(550)
Income tax paid		(774)	(730)
Interest and other costs of finance paid		<u>(337)</u>	<u>(396)</u>
Net cash generated by operating activities	10	<u>13,795</u>	<u>680</u>
Cash flows from investing activities			
Proceeds from disposal of plant & equipment		19	141
Net cash acquired upon acquisition of subsidiary	35	86	-
Payments for property, plant & equipment		(356)	(377)
Payments for intangible assets		-	(12)
Proceeds from sale of business combination	35	<u>2,054</u>	<u>-</u>
Net cash generated by/(used in) investing activities		<u>1,803</u>	<u>(248)</u>
Cash flows from financing activities			
Proceeds from issue of shares		384	357
Payment for share issue costs		-	(5)
Proceeds from borrowings		1,336	245
Repayment of borrowings		(4,190)	(751)
Dividends paid by controlled entities to non-controlling interest		(619)	(234)
Dividend paid to owners of the company		<u>(515)</u>	<u>(501)</u>
Net cash used in financing activities		<u>(3,604)</u>	<u>(889)</u>
Cash and cash equivalents at the beginning of the financial year		3,411	3,845
Net increase/(decrease) in cash and cash equivalents		11,994	(457)
Effects of exchange rate changes on the balance of cash held in foreign currencies		<u>74</u>	<u>23</u>
Cash and cash equivalents at the end of the financial year	10	<u>15,479</u>	<u>3,411</u>

The accompanying notes form part of these financial statements

Notes to the financial statements

for the financial year ended 30 June 2010

1. GENERAL INFORMATION

Tag Pacific Limited is a strategic investor and is a listed public company, incorporated and domiciled in Australia. Tag Pacific Limited is also the ultimate parent of the Tag Group (Tag Pacific Limited and its controlled entities).

The registered office and principal place of business of the company is:

Tag Pacific Limited
Level 30, Piccadilly Tower
133 Castlereagh Street
Sydney NSW 2000
Australia

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards, Australian Accounting Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in the financial statements containing relevant and reliable information about transactions, events and conditions to which they apply. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

The financial statements include the consolidated financial statements of the Tag Group. The financial statements were authorised for issue by the directors on 26 August 2010.

The following is a summary of the material accounting policies adopted by the Tag Group in the preparation of the financial statements. The accounting policies have been consistently applied, unless otherwise stated.

Basis of preparation

The accounting policies set out below have been consistently applied to all years presented.

The financial statements have been prepared on the basis of historical costs, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Tag Parent has applied the relief available to it under ASIC Class Order 98/100. Accordingly, amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Critical accounting judgments and key sources of estimation uncertainty

In the application of the Tag Group's accounting policies, management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key estimates — Impairment

The Tag Group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates. Should the projected turnover figures differ significantly from the budgeted figures incorporated in value-in-use calculations then an impairment loss would be recognised up to the maximum carrying value of intangibles at 30 June 2010. Goodwill and indefinite lived intangibles are tested annually for impairment and carried at cost less accumulated impairment losses.

No impairment has been recognised in respect of goodwill and indefinite lived intangibles for the year ended 30 June 2010.

Key estimates — Provision for impairment of receivables

An estimate is made for doubtful debts when collection of the full amount of a receivable is no longer probable.

Key estimates — Construction contracts

Revenue and expenses for construction contracts are recognised in the profit or loss by reference to the stage of completion of each identifiable component for construction contracts. A fundamental condition for being able to estimate percentage of

Notes to the financial statements

for the financial year ended 30 June 2010

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

completion profit recognition is that project revenues and project costs can be established reliably. This reliability is based on such factors as compliance with the Tag Group's system for project control and that project management has the necessary skills. Project control also includes a number of estimates and assessments that depend on the experience and knowledge of project management in respect of project control, risk management and prior management of projects.

In determining revenues and expenses for construction contracts, management makes key assumptions regarding estimated revenues and expenses over the life of the contracts. Where variations are recognised in revenue, assumptions are made regarding the probability that customers will approve variations and the amount of revenue arising from variation. In respect of costs, key assumptions regarding costs to complete contracts may include estimation of labour, technical costs, impact of delays and productivity.

Accounting policies

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Tag Pacific Limited and entities controlled by Tag Pacific Limited (its subsidiaries). A list of subsidiaries is contained in note 15. All controlled entities have a 30 June financial year-end. Control is achieved where Tag Pacific Limited has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of the subsidiaries acquired or disposed of during the year are included in consolidated statement of profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Tag Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the parent entity disclosures in note 39 for Tag Pacific Limited, intra-group transactions ('common controlled transactions') are generally accounted for by reference to the existing (consolidated) book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Tag Group's equity therein. Non-controlling interests consist of the amount of those interests at the date of the original business combination and the non-controlling interests' share of changes in equity since the date of the combination. Losses applicable to the non-controlling interests in excess of the non-controlling interests' interest in the subsidiary's equity are allocated against the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Acquisitions of subsidiaries and businesses are generally accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Tag Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 *Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Tag Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Tag Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of non-controlling shareholders in the acquiree is initially measured at the non-controlling interests' proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(b) Income tax

Current tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantively enacted by the balance date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is recognised on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in profit or loss except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised. Capitalised losses are only brought account when it is probable they will be recouped through future taxable capital gains.

Notes to the financial statements

for the financial year ended 30 June 2010

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. Refer to note 2(p) for the policy in relation to work in progress and construction contracts.

(d) Property, plant and equipment

Each class of property, plant and equipment is carried at cost less any accumulated depreciation and impairment.

Plant and equipment

Plant and equipment are measured on the cost basis. The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

The cost of fixed assets constructed within the Tag Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. 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 Tag Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets are depreciated on a straight-line basis over their useful lives to the Tag Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of fixed asset	Depreciation rate
Leasehold improvements	6-33%
Plant and equipment	5-67%
Leased plant and equipment	20-23%

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

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the consolidated statement of comprehensive income.

(e) Leased assets

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the Tag Group are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the life of the lease term. Lease incentives under operating leases are recognised as a liability and amortised over the life of the lease term.

(f) Financial assets

Recognition

Financial assets are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these financial assets are measured as set out below.

Financial assets at fair value through profit and loss

A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management and within the requirements of AASB 139:

Recognition and Measurement of Financial Instruments.

Specifically, the financial asset forms part of a group of financial assets which is managed and its performance is evaluated on a fair value basis, in accordance with the Tag Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis. Derivatives are also categorised as held for trading unless they are designated as hedges. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables

Trade receivables, loans and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method less impairment.

Interest income is recognised by applying the effective interest rate.

Notes to the financial statements

for the financial year ended 30 June 2010

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value

For all quoted investments fair value is determined by reference to observable prices of market transactions for identical assets at or near the measurement date whenever that information is available. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of comprehensive income.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

(g) Impairment of assets

At each reporting date, the Tag Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the consolidated statement of comprehensive income.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Tag Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(h) Investments in associates

An associate is an entity over which the group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of individual investments.

Losses of an associate in excess of the group's interest in that associate (which includes any long-term interests that, in substance, form part of the group's net investment in the associate) are recognised only to the extent that the group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of the acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognised immediately in profit or loss. Where a group transacts with an associate of the group, profits and losses are eliminated to the extent of the group's interest in the relevant associate.

(i) Intangible assets

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition. Goodwill on acquisition of controlled entities is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purposes of impairment testing (refer note 19).

Notes to the financial statements

for the financial year ended 30 June 2010

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or groups of cash-generating units) and then to reduce the other assets of the cash-generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or groups of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses.

Research and development

Expenditure during the research phase of a project is recognised as an expense as incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs are amortised on a straight line basis over the period during which the related benefits are expected to be realised, once commercial production has commenced.

(j) Foreign currency transactions and balances

Functional and presentation currency

The functional currency of each of the Tag Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the Tag Parent's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the consolidated statement of comprehensive income, except where deferred in equity as a qualifying cash flow.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange

difference is recognised in the consolidated statement of comprehensive income.

Tag Group companies

The financial results and position of foreign operations whose functional currency is different from the Tag Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the historical exchange rates.

Exchange differences arising on translation of foreign operations are transferred directly to the Tag Group's foreign currency translation reserve in the consolidated statement of financial position. These differences are recognised in the consolidated statement of comprehensive income in the period in which the operation is disposed.

(k) Employee benefits

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

Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Tag Group to employee superannuation funds and are charged as expenses when incurred.

(l) Provisions

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Notes to the financial statements

for the financial year ended 30 June 2010

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Provision for warranties

Provision is made in respect of the Tag Group's estimated liability on all products and services under warranty at balance date. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the Tag Group's history of warranty claims.

(n) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the consolidated statement of financial position.

(o) Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Rendering of services

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

- installation fees are recognised by reference to the stage of completion of the installation, determined as the proportion of the total time expected to install that has elapsed at reporting date; and
- revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Revenue from construction contracts is recognised in accordance with the accounting policy set out in note 2(p).

Sale of goods

Revenue from sale of goods is recognised upon delivery of goods to customers.

Dividend, distribution and interest revenue

Dividend and distribution revenue from investments is recognised when the Tag Group's right to receive payment has been established. Dividends received from associates are accounted for in accordance with the equity method of accounting.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

All revenue is stated net of the amount of goods and services tax (GST).

(p) Construction contracts and work in progress

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

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

Construction work in progress is valued at cost, plus profit recognised to date less any provision for anticipated future losses. Cost includes both variable and fixed costs relating to specific contracts and those costs that are attributable to the contract activity in general and that can be allocated on a reasonable basis.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

(r) Goods and services tax (GST)

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

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

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

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

Notes to the financial statements

for the financial year ended 30 June 2010

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(s) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised costs using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(t) Derivative financial instruments

The Tag Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 38 to the financial statements.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in the income statement immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in the income statement depends on the nature of the hedge relationship.

Note 38 contains details of the fair values of the derivative instruments used for hedging purposes.

(u) Share-based payments

Share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of the Black-Scholes model. Further details on how the fair value of equity-settled share-based transactions has been determined can be found in note 33.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the group's estimate of equity instruments that will eventually vest.

At each reporting date, the group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve.

(v) Rounding of amounts

The Tag Parent has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial statements and directors' report have been rounded off to the nearest A\$1,000, unless otherwise indicated.

(w) Adoption of new and revised Accounting Standards

In the current year, the Tag Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period.

Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below. The Tag Group has also adopted the following standards as listed below which only impacted on the Tag Group's financial statements with respect to disclosure:

- AASB 101 *Presentation of Financial Statements (revised October 2006)*
- AASB 7 *Financial Instruments: Disclosures*
- AASB 2008-4 *Amendments to Australian Accounting Standard – Key Management Personnel Disclosures by Disclosing Entities.*

Notes to the financial statements

for the financial year ended 30 June 2010

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Adoption of new and revised Accounting Standards

(x.1) Standards and Interpretations affecting amounts reported in the current period (and/or prior periods)

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in note 2(x.2).

Standards affecting presentation and disclosure

AASB 101 *Presentation of Financial Statements (revised September 2007)*, AASB 2007-8 *Amendments to Australian Accounting Standards arising from AASB 101* and AASB 2007-10 *Further Amendments to Australian Accounting Standards arising from AASB 101*

AASB 101 (September 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

AASB 8 *Operating Segments*

AASB 8 is a disclosure Standard that has resulted in a redesignation of the group's reportable segments (see note 31).

AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments*

The amendments to AASB 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.

Amendments to AASB 5 *Noncurrent Assets Held for Sale and Discontinued Operations* (adopted in advance of effective date of 1 January 2010)

Disclosures in these financial statements have been modified to reflect the clarification in AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* that the disclosure requirements in Standards other than AASB 5 do not generally apply to non-current assets classified as held for sale and discontinued operations.

Amendments to AASB 107 *Statement of Cash Flows* (adopted in advance of effective date of 1 January 2010)

The amendments (part of AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*) specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows. Consequently, cash flows in respect of development costs that do not meet the criteria in AASB 138 *Intangible Assets* for capitalisation as part of an internally generated intangible asset (and, therefore, are recognised in profit or loss as incurred) have been reclassified from investing to operating activities in the statement of cash flows. Prior year amounts have been restated for consistent presentation.

AASB 3 *Business Combinations* (as revised in 2008)

AASB 3(2008) has been adopted in the current year. Its adoption has affected the accounting for business combinations in the current period.

In accordance with the relevant transitional provisions, AASB 3(2008) has been applied prospectively to business combinations for which the acquisition date is on or after 1 July 2009. The impact of the adoption of AASB 3(2008) *Business Combinations* has been:

- to allow a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as 'minority' interests) either at fair value or at the non-controlling interests' share of the fair value of the identifiable net assets of the acquiree. In the current period, when accounting for the acquisition of the Power Property Unit Trust, the group has elected to measure the non-controlling interests at fair value at the date of acquisition. Consequently, the goodwill recognised in respect of that acquisition reflects the impact of the difference between the fair value of the non-controlling interests and their share of the fair value of the identifiable net assets of the acquiree;

Notes to the financial statements

for the financial year ended 30 June 2010

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Adoption of new and revised Accounting Standards (continued)

- to change the recognition and subsequent accounting requirements for contingent consideration. Under the previous version of the Standard, contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were recognized against goodwill. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against goodwill only to the extent that they arise from better information about the fair value at the acquisition date, and they occur within the 'measurement period' (a maximum of 12 months from the acquisition date). All other subsequent adjustments are recognised in profit or loss;
- where the business combination in effect settles a pre-existing relationship between the group and the acquiree, to require the recognition of a settlement gain or loss; and
- to require that acquisition-related costs be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current period, these changes in policies have had no effect.

AASB 127 Consolidated and Separate Financial Statements (as revised in 2008)

The revisions to AASB 127(2008) principally affect the accounting for transactions or events that result in a change in the group's interests in its subsidiaries.

AASB 127(2008) has been adopted for periods beginning on or after 1 July 2009 and has been applied retrospectively (subject to specified exceptions) in accordance with the relevant transitional provisions. The revised Standard has affected the group's accounting policies regarding changes in ownership interests in its subsidiaries that do not result in a change in control. In prior years, in the absence of specific requirements in A-IFRS, increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate; for decreases in interests in existing subsidiaries that did not involve a loss of control, the difference between the consideration received and the carrying amount of the share of net assets disposed of was recognised in profit or loss. Under AASB 127(2008), all such increases or decreases are dealt with in equity, with no impact on goodwill or profit or loss.

When control of a subsidiary is lost as a result of a transaction, event or other circumstance, the revised Standard requires that the group derecognise all assets, liabilities and non-controlling interests at their carrying amount. Any retained interest in the former subsidiary is recognised at its fair value at the date control is lost, with the gain or loss arising recognised in profit or loss.

Amendments to AASB 128 Investments in Associates

The principle adopted under AASB 127(2008) (see above) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendment to AASB 128 in AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*; therefore, when significant influence is lost, the investor measures any investment retained in the former associate at fair value, with any consequential gain or loss recognised in profit or loss.

AASB 2008-3 has been adopted for periods beginning on or after 1 July 2009 and has been applied prospectively in accordance with the relevant transitional provisions. The changes have not affected the accounting for the group's interest in associates during the year.

Notes to the financial statements

for the financial year ended 30 June 2010

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x.2) Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

<i>AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate</i>	The amendments deal with the measurement of the cost of investments in subsidiaries, jointly controlled entities and associates when adopting A-IFRS for the first time and with the recognition of dividend income from subsidiaries in a parent's separate financial statements.
<i>AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations</i>	The amendments clarify the definition of vesting conditions for the purposes of AASB 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.
<i>AASB 123 Borrowing Costs (as revised in 2007) and AASB 2007- 6 Amendments to Australian Accounting Standards arising from AASB 123</i>	The principal change to AASB 123 was to eliminate the option to expense all borrowing costs when incurred. This change has had no impact on these financial statements because it has always been the group's accounting policy to capitalise borrowing costs incurred on qualifying assets.
<i>AASB 2008-8 Amendments to Australian Accounting Standards– Eligible Hedged Items</i>	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
<i>Interpretation 16 Hedges of a Net Investment in a Foreign Operation</i>	The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.
<i>Interpretation 17 Distributions of Non-cash Assets to Owners and AASB 2008-13 Amendments to Australian Accounting Standards arising from AASB Interpretation 17 Distributions of Non-cash Assets to Owners</i>	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
<i>AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2008-6 Further Amendments to Australian Accounting Standard arising from the Annual Improvements Project</i>	In addition to the changes affecting amounts reported in the financial statements described at note 2.x.1 above, the amendments have led to a number of changes in the detail of the group's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported.
<i>AASB 2009-4 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	In addition to the amendments to AASB 5 and AASB 107 described earlier in this section, and the amendments to AASB 117 discussed in note 2.x.3 below, the amendments have led to a number of changes in the detail of the Group's accounting policies – some of which are changes in terminology only, and some of which are substantive but have had no material effect on amounts reported. Except as noted in note 2.x.3 below, the changes in AASB 2009-5 have been adopted in advance of their effective dates of 1 January 2010.

Notes to the financial statements

for the financial year ended 30 June 2010

2. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x.3) Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2009-5 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*</i>	1 January 2010	30 June 2011
AASB 2009-8 <i>Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions</i>	1 January 2010	30 June 2011
AASB 2009-10 <i>Amendments to Australian Accounting Standards – Classification of Rights Issues</i>	1 February 2010	30 June 2011
AASB 124 <i>Related Party Disclosures (revised December 2009)</i> , AASB 2009-12 <i>Amendments to Australian Accounting Standards</i>	1 January 2011	30 June 2012
AASB 9 <i>Financial Instruments</i> , AASB 2009-11 <i>Amendments to Australian Accounting Standards arising from AASB 9</i>	1 January 2013	30 June 2014
AASB 2009-14 <i>Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement</i>	1 January 2011	30 June 2012
<i>Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments</i>	1 July 2010	30 June 2011
AASB 2010-3 <i>Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	1 July 2010	30 June 2011
AASB 2010-4 <i>Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project</i>	1 January 2011	30 June 2012

* AASB 2009-5 *Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* specify amendments resulting from the IASB's annual improvement project to various Australian accounting standards and interpretations. As permitted, the group has early adopted most of the amendments in AASB 2009-5 (refer note 2.x.2). However, the amendments to AASB 117 *Leases* have not been early adopted. Adoption of these amendments will potentially result in the reclassification of several leases over land as finance leases. The amendments, which apply retrospectively to unexpired leases from 1 July 2010, remove the guidance from AASB 117 which effectively prohibited the classification of leases over land as finance leases. It is not practical to provide a reasonable estimate of the impact of this amendment until a detailed review of existing leases has been completed.

Notes to the financial statements
for the financial year ended 30 June 2010

	2010 A\$'000	2009 A\$'000
3. REVENUE		
The following is an analysis of the group's revenue for the year from continuing operations (excluding other revenue – refer note 4):		
- Revenue from sale of goods	33,617	35,138
- Revenue from the rendering of services	954	1,978
- Construction contract revenue	21,960	9,959
Total revenue	<u>56,531</u>	<u>47,075</u>
4. OTHER REVENUE		
Continuing operations		
Interest revenue	111	91
Dividends received	111	-
Trust distributions received	-	26
Other (aggregate of immaterial items)	25	35
Total investment revenue	<u>247</u>	<u>152</u>
The following is an analysis of investment revenue earned on financial assets by category of asset.		
Loans and receivables (including cash and bank balances)	<u>111</u>	<u>91</u>
Total interest income for financial assets not designated as at fair value through profit or loss	111	91
Investment income earned on non-financial assets	<u>136</u>	<u>61</u>
	<u>247</u>	<u>152</u>
Revenue relating to financial assets classified as at fair value through profit or loss is included in 'other gains and losses' in note 5.		
5. OTHER (LOSSES)/GAINS		
Continuing operations		
Gain on disposal of other assets	14	-
Fair value (losses)/gains on financial assets designated as at fair value through profit or loss	(5,155)	715
Gains on disposal of assets designated as at fair value through profit or loss	34	150
	<u>(5,107)</u>	<u>865</u>
6. FINANCE COSTS		
Finance costs		
- other persons	158	105
- finance lease charges	23	29
	<u>181</u>	<u>134</u>

Notes to the financial statements

for the financial year ended 30 June 2010

	2010	2009
	A\$'000	A\$'000
7. PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		
The profit/(loss) before income tax from continuing operations has been determined after:		
Depreciation and amortisation expense		
- Depreciation of property plant & equipment	276	267
- Amortisation of non-current assets	45	(1)
	<u>321</u>	<u>266</u>
Research and development expenses	7	136
Employee benefits expense		
- Short-term employee benefits	9,995	9,777
- Share-based payments	3	(9)
	<u>9,998</u>	<u>9,768</u>
Bad and doubtful debts on receivables	18	15
Operating lease rentals – minimum lease payments	589	767
Fair value loss on forward exchange contracts	71	185
Net foreign exchange gain	(30)	-
Write down of inventory to realisable values	<u>79</u>	<u>-</u>
Significant revenues and expenses		
The following significant revenue and expense items are relevant in explaining the financial performance:		
Gain on disposal of other assets	14	-
Gain on disposal of financial assets designated as at fair value through profit or loss	34	150
Fair value (losses)/gains on financial assets designated as at fair value through profit or loss	<u>(5,155)</u>	<u>715</u>

Notes to the financial statements
for the financial year ended 30 June 2010

	2010 A\$'000	2009 A\$'000
8. INCOME TAX EXPENSE		
(a) The components of income tax expense comprise:		
Current tax	1,204	833
Deferred tax (refer note 18)	(335)	(557)
Over provision in respect of prior years	(88)	(146)
Income tax expense	<u>781</u>	<u>130</u>
(b) The prima facie tax on (loss)/profit before income tax is reconciled to income tax as follows:		
Prima facie tax (benefit)/expense on (loss)/profit from continuing operations before income tax at 30% (2009: 30%)	(831)	612
Add tax effect of:		
- assessable items	169	-
- non-allowable items	104	61
- non-deductible items – fair value loss	1,547	-
Less tax effect of:		
- non-assessable items	(3)	(44)
- non-assessable gains on sale of assets	(27)	(45)
- non-assessable items – fair value gain	-	(225)
- share of net profit of associates	(90)	(83)
- over provision for income tax in prior year	(88)	(146)
Income tax expense attributable to the entity	<u>781</u>	<u>130</u>
The applicable weighted average effective tax rates are as follows:	(28.2%)	6.4%

The tax rate used for the 2010 and 2009 reconciliations above is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law.

Notes to the financial statements

for the financial year ended 30 June 2010

30/06/2010 30/06/2009
A\$'000 A\$'000

9. DISCONTINUED OPERATIONS

Analysis of profit for the year from discontinued operations

The combined results of the discontinued operations, PISL Limited and CPPL Pty Limited, included in the consolidated income statement are set out below. The comparative profit and cash flows from discontinued operations have been re-presented to include those operations classified as discontinued in the current period.

Profit/(loss) for the year from discontinued operations

Revenue	29,237	39,703
Other gains	13	14
	<u>29,250</u>	<u>39,717</u>
Expenses	<u>(29,639)</u>	<u>(39,923)</u>
Loss before income tax	(389)	(206)
Attributable income tax revenue/(expense)	<u>156</u>	<u>(2)</u>
	<u>(233)</u>	<u>(208)</u>
Gain on disposal of operation	1,043	-
Attributable income tax expense	<u>(49)</u>	<u>-</u>
	<u>994</u>	<u>-</u>
Profit/(loss) for the year from discontinued operations	<u>761</u>	<u>(208)</u>
Cash flows from discontinued operations		
Net cash inflows/(outflows) from operating activities	4,882	(1,613)
Net cash inflows/(outflows) from investing activities	1,657	(5)
Net cash outflows from financing activities	<u>(5,062)</u>	<u>(7)</u>
Net cash inflows/(outflows)	<u>1,477</u>	<u>(1,625)</u>

10. CASH & BANK BALANCES

For the purposes of the consolidated statement of cash flows, cash and bank balances include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the reporting period as shown in the consolidated statement of cash flows can be reconciled to the related items in the statement of financial position as follows:

Cash and bank balances	9,786	3,251
Short-term bank deposits	<u>5,693</u>	<u>160</u>
	<u>15,479</u>	<u>3,411</u>

Reconciliation of cash

Cash at the end of the financial year as shown in the consolidated statement of cash flows is reconciled to items in the consolidated statement of financial position

	<u>15,479</u>	<u>3,411</u>
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The weighted average effective interest rate on cash and cash equivalents for the financial year ended 30 June 2010 was 1.28% (2009: 3.15%).

Notes to the financial statements
for the financial year ended 30 June 2010

	2010 A\$'000	2009 A\$'000
10. CASH & BANK BALANCES (CONTINUED)		
Cash balances not available for use	1,627	60
The above cash balances which are unavailable for use are held as security by financial institutions in relation to financial and performance guarantees that have been issued on behalf of the group. The cash balances are held in interest yielding accounts.		
Reconciliation of (loss)/profit for the period to net cash flow from operating activities		
(Loss)/profit from operating activities after income tax	(2,789)	1,702
Non-cash flows		
- amortisation	45	(1)
- depreciation (from continuing operations)	276	267
- depreciation (from discontinued operations)	130	234
- changes to provisions	189	(3)
- share based payments	3	(9)
- share of associated companies operating profit after income tax	(300)	(275)
Gain on sale of fair value assets	(34)	1,466
Dividends received	(111)	-
Purchase of fair value assets	-	(550)
Gain on sale of property, plant and equipment	(1,070)	(14)
Net fair value losses/(gains) on financial assets	5,155	(715)
Changes in assets and liabilities		
- decrease in receivables and prepayments	1,340	1,462
- decrease/(increase) in inventories	7,988	(684)
- increase/(decrease) in trade creditors & accruals	3,074	(1,560)
- (increase) in income tax balances	(101)	(640)
Cash flow provided by operating activities	13,795	680
Liquidity risk management		
Financing Facilities		
Credit facilities	13,620	13,192
Amounts utilised	(8,732)	(7,518)
Unused credit facilities	4,888	5,674
Loan and non-financial facilities		
Loan and non-financial facilities are arranged with a number of Australian and New Zealand banks and insurers with the general terms and conditions being set and agreed to annually.		
Interest rates are variable and subject to adjustment.		
Non-cash financing and investment activities		
During the year the Tag Group acquired plant and equipment with an aggregate value of A\$177,245 (2009: A\$26,192) by means of finance leases and hire purchases. These acquisitions are not reflected in the consolidated statement of cash flows.		

Notes to the financial statements

for the financial year ended 30 June 2010

30/06/2010
A\$'000

30/06/2009
A\$'000

11. TRADE & OTHER RECEIVABLES

Trade receivables	8,110	13,590
Allowance for doubtful debts	(249)	(182)
	<u>7,861</u>	<u>13,408</u>
Other debtors	33	122
Accrued revenue receivable	6,321	2,262
Amounts receivable from associates	189	-
	<u>6,543</u>	<u>2,384</u>
	<u>14,404</u>	<u>15,792</u>
Ageing of past due but not impaired		
60-90 days	476	508
90-120 days	<u>928</u>	<u>1,089</u>
Total	<u>1,404</u>	<u>1,597</u>
Average age (days)	<u>46</u>	<u>63</u>
Movement in the allowance for doubtful debts		
Balance at the beginning of the year	182	231
Impairment losses recognised on receivables	160	120
Amounts written off during the year as uncollectible	(87)	(173)
Amounts recovered during the year	-	4
Impairment losses reversed	(6)	-
Balance at the end of the year	<u>249</u>	<u>182</u>

The average credit period on sales of goods and rendering of services is 60 days. The Tag Group has provided for receivables over 60 days based on estimated unrecoverable amounts from sales of goods and rendering of services, determined by reference to the particular circumstances in relation to the debt and past default experience.

In determining the recoverability of a trade receivable, the Tag Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts. There is no security held in relation to these balances.

Ageing of impaired trade receivables

90-120 days	<u>249</u>	<u>182</u>
Total	<u>249</u>	<u>182</u>

12. INVENTORIES

Raw materials	1,708	2,835
Work in progress	87	125
Finished goods	<u>5,353</u>	<u>12,081</u>
	<u>7,148</u>	<u>15,041</u>

The cost of inventories recognised as an expense during the period in respect of continuing operations was A\$41.9 million (2009: A\$32.8 million).

13. OTHER ASSETS

Current

Prepayments	<u>361</u>	<u>192</u>
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Notes to the financial statements

for the financial year ended 30 June 2010

	2010	2009
	A\$'000	A\$'000

14. INVESTMENTS IN ASSOCIATES

On 27 July 2009, the Power Property Unit Trust redeemed all the units held by two non-controlling unitholders. As a result of the redemption of units, Tag's interest in the Power Property Unit Trust increased from 48.9% to 50.2%. Accordingly, the Power Property Unit Trust is now consolidated by the Tag Group from 27 July 2009 and is no longer considered an equity accounted investment. The Power Property Unit Trust is the owner of a property in Melbourne, Victoria which is occupied by the MPower Group.

Tagpac Securities Ltd has a 37.9% (2009: 37.9%) interest in the ordinary shares of Unique World Group Pty Limited which consists of the Unique World and RecordPoint Software businesses. Unique World Group Pty Limited is incorporated in Australia and its principal activity is the provision of services as a web based technology solution provider and the development, marketing and distribution of proprietary software applications. The reporting date of Unique World Group Pty Limited is 30 June 2010.

(a) Reconciliation of movement during the year in investment in associates:

Balance at the beginning of the financial year	2,325	2,107
Add: Share of associate's profit after income tax	300	275
Less: Dividends received	<u>(189)</u>	<u>(57)</u>
Balance at the end of the financial year	<u>2,436</u>	<u>2,325</u>

(b) Summarised financial performance:

Total revenues	<u>7,591</u>	<u>8,746</u>
Total profit for year before income tax	<u>306</u>	<u>445</u>
Total profit for the year after income tax of associate	791	725
Group's share of associate's profit before income tax	116	168
Group's share of associate's income tax benefit/(expense)	<u>184</u>	<u>107</u>
Group's share of associate's profit after income tax	<u>300</u>	<u>275</u>

(c) Summarised presentation of financial position:

Total assets	4,901	4,637
Total liabilities	<u>1,556</u>	<u>1,583</u>
Net assets	<u>3,345</u>	<u>3,054</u>
Group's share of net assets of associate	<u>1,268</u>	<u>1,158</u>

(d) Dividends received from associates:

During the financial year ended 30 June 2010, the Tag Group received fully franked dividends of A\$189,498 (2009: A\$56,849) from its equity accounted associates.

(e) Contingent liabilities and capital commitments:

There are no contingent liabilities or contingent assets at balance date.

There are no capital commitments at balance date.

The group's share of other expenditure commitments of associates is disclosed in note 30.

Notes to the financial statements
for the financial year ended 30 June 2010

15. SUBSIDIARIES

Details of the group's subsidiaries at 30 June 2010 are as follows:

Entity	Place of incorporation	Class of share	% Owned 2010	% Owned 2009
Advanced Power Pty Ltd ^(a)	Australia	ord	60	58
Advanced Power Southern Pty Limited ^(a)	Australia	ord	60	58
CPPL Pty Limited	Australia	ord	51	51
Comprador Pacific Unit Trust	Australia	units	51	51
Electro Securities Pty Limited	Australia	ord	100	100
Fibumi Pty Ltd	Australia	ord	100	100
M+H Power Systems Pty Ltd ^(a)	Australia	ord	60	58
MPower Group Pty Limited ^(a)	Australia	ord	60	100
Power Property Unit Trust	Australia	units	50	49
ShareCover Pty Limited	Australia	ord	100	100
ShareCover Services Pty Limited	Australia	ord	100	100
Tagpac Financial Services Pty Limited	Australia	ord	100	100
Tagpac Securities Ltd	Australia	ord	100	100
Techno Holdings Pty Limited	Australia	ord/pref	100/100	100/100
Flatbat Ltd	New Zealand	ord	100	100
M+H Power Systems Ltd ^(a)	New Zealand	ord	60	58
PISL Limited	New Zealand	ord	100	100
Spedding Ltd	New Zealand	ord	100	100

Companies incorporated in New Zealand carry on business primarily in that country.

Percentages have been rounded.

- (a) On 27 July 2009, M+H Power Systems Pty Limited completed a share buy-back and restructure by way of a share capital reduction. As a result of the restructure, a newly incorporated company, MPower Group Pty Limited became the parent company of the M+H Power and Advanced Power businesses and Tag's interest increased from 57.7% of M+H Power Systems Pty Limited to 59.9% of MPower Group Pty Limited following the restructure. The change has been accounted for as a transaction between shareholders' interests in equity.

	30/06/2010 A\$'000	30/06/2009 A\$'000
Available-for-sale investments carried at fair value		
Shares in listed corporations ^(a)	1,873	7,189
Other unlisted investments at cost ^(b)	-	48
	<u>1,873</u>	<u>7,237</u>
Non-current	<u>1,873</u>	<u>7,237</u>

- (a) Financial assets designated at fair value through profit or loss. The fair value of shares in listed corporations was determined by reference to quoted market values. The financial assets have been classified in this manner as this group of assets is managed and its performance is evaluated monthly on a fair value basis in accordance with an investment strategy.
- (b) Financial assets classified as available for sale. The fair value of unlisted available for sale financial assets cannot be reliably measured as variability in the range of reasonable fair value estimates is significant. As a result, all unlisted investments are recorded at cost.

Notes to the financial statements
for the financial year ended 30 June 2010

30/06/2010 **30/06/2009**
A\$'000 A\$'000

17. PROPERTY, PLANT & EQUIPMENT

Cost	4,488	4,838
Accumulated depreciation	(2,425)	(3,334)
	2,063	1,504
Plant & equipment	927	1,164
Leasehold improvements	89	283
Capitalised leased assets	18	57
Land & buildings	1,029	-
	2,063	1,504

Cost	Plant & equipment A\$'000	Leasehold improvements A\$'000	Capitalised leased assets A\$'000	Land & buildings A\$'000	Total A\$'000
Balance at 1 July 2008	3,954	616	358	-	4,928
Additions from continuing operations	226	70	26	-	322
Additions from discontinued operations	49	6	-	-	55
Disposals	(173)	(64)	(238)	-	(475)
Effect of foreign currency exchange differences	4	4	-	-	8
Balance at 30 June 2009	4,060	632	146	-	4,838
Additions from continuing operations	445	-	-	-	445
Additions from discontinued operations	84	3	-	-	87
Additions from business combinations	-	-	-	1,054	1,054
Disposals from business combinations	(1,086)	(371)	(23)	-	(1,480)
Other disposals	(330)	(26)	(97)	-	(453)
Effect of foreign currency exchange differences	(2)	(1)	-	-	(3)
Balance at 30 June 2010	3,171	237	26	1,054	4,488

Accumulated Depreciation	Plant & equipment A\$'000	Leasehold improvements A\$'000	Capitalised leased assets A\$'000	Land & buildings A\$'000	Total A\$'000
Balance at 1 July 2008	(2,669)	(347)	(206)	-	(3,222)
Eliminated on disposals of assets	167	36	186	-	389
Depreciation expense continuing operations	(251)	(10)	(6)	-	(267)
Depreciation expense discontinued operations	(143)	(28)	(63)	-	(234)
Balance at 30 June 2009	(2,896)	(349)	(89)	-	(3,334)
Eliminations from business combinations	717	201	-	-	918
Eliminated on disposals of assets	274	26	97	-	397
Depreciation expense from continuing operations	(235)	(6)	(10)	(25)	(276)
Depreciation expense from discontinued operations	(104)	(20)	(6)	-	(130)
Balance at 30 June 2010	(2,244)	(148)	(8)	(25)	(2,425)
Net Balance at 30 June 2010	927	89	18	1,029	2,063

Notes to the financial statements

for the financial year ended 30 June 2010

30/06/2010 30/06/2009
A\$'000 A\$'000

17. PROPERTY, PLANT & EQUIPMENT (CONTINUED)

Assets pledged as security

The group's freehold land and buildings are measured on a historical cost basis. The freehold land and buildings have been pledged as security for bank loans under a mortgage that was used to acquire the land and buildings. The group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity. Buildings are depreciated at the rate of 2% per year.

18. TAXATION

Current tax liabilities

Income tax attributable to entities in the consolidated group

650 417

Deferred tax balances

Deferred tax assets arise from the following:

	Opening balance A\$'000	Recognised in profit or loss A\$'000	Closing balance A\$'000
Tag Group 2010 year			
<i>Temporary differences</i>			
Intangible asset	6	(3)	3
Doubtful debts provision	41	12	53
Long service leave provision	141	8	149
Annual leave provision	261	(61)	200
Warranty provision	12	15	27
Stock provision	72	(3)	69
Other provisions and accruals	101	(44)	57
	634	(76)	558
Unused tax losses and credits	2,267	411	2,678
	2,901	335	3,236
Tag Group 2009 year			
<i>Temporary differences</i>			
Intangible asset	13	(7)	6
Doubtful debts provision	55	(14)	41
Long service leave provision	138	3	141
Annual leave provision	268	(7)	261
Warranty provision	12	-	12
Stock provision	62	10	72
Other provisions and accruals	66	35	101
Prepayments and other	(1)	1	-
	613	21	634
Unused tax losses and credits	1,731	536	2,267
	2,344	557	2,901

2010 2009
A\$'000 A\$'000

Deferred tax assets not brought to account which will only be realised if the conditions for deductibility set out in note 2 occur

- capital losses	4,122	4,139
	4,122	4,139

Notes to the financial statements

for the financial year ended 30 June 2010

30/06/2010 30/06/2009
A\$'000 A\$'000

19. INTANGIBLE ASSETS

Cost	2,278	2,427
Accumulated amortisation	(561)	(516)
	<u>1,717</u>	<u>1,911</u>

Cost	Capitalised development costs A\$'000	Goodwill A\$'000	Trademarks A\$'000	Other A\$'000	Total A\$'000
Balance at 1 July 2008	314	1,799	274	24	2,411
Additions	-	11	-	5	16
Balance at 30 June 2009	314	1,810	274	29	2,427
Additions	-	-	-	8	8
Additions from business combinations	-	22	-	-	22
Disposals from business combinations	-	(172)	-	-	(172)
Disposals	-	-	(7)	-	(7)
Balance at 30 June 2010	<u>314</u>	<u>1,660</u>	<u>267</u>	<u>37</u>	<u>2,278</u>

Accumulated amortisation	Capitalised development costs A\$'000	Goodwill A\$'000	Trademarks A\$'000	Other A\$'000	Total A\$'000
Balance at 1 July 2008	(314)	-	(178)	(25)	(517)
Amortisation expense	-	(4)	-	(6)	(10)
Reversal of impairment losses	-	11	-	-	11
Balance at 30 June 2009	(314)	7	(178)	(31)	(516)
Amortisation expense	-	-	(43)	(2)	(45)
Balance at 30 June 2010	<u>(314)</u>	<u>7</u>	<u>(221)</u>	<u>(33)</u>	<u>(561)</u>
Net balance at 30 June 2010	<u>-</u>	<u>1,667</u>	<u>46</u>	<u>4</u>	<u>1,717</u>

The current amortisation charges for intangible assets are included under note 7. Goodwill has an indefinite life reviewed annually for any signs of impairment.

The recoverable amount of each cash-generating unit is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5 year period. The cash flows are discounted using weighted average cost of capital disclosed below.

Goodwill is allocated to the Tag Group's cash-generating units identified according to business segment and country of operation for impairment testing purposes. Goodwill has been allocated to the investment in the power sector which is a reportable segment. The carrying amount of goodwill allocated to the power sector cash-generating unit is significant in comparison with the total carrying amount of goodwill. The carrying amount of goodwill allocated to other cash-generating units is not significant in comparison with the total carrying amount of goodwill.

At reporting date all the goodwill recognised has arisen from acquisitions of businesses which were purchased as going concerns. These businesses continue to be operated and there are no plans to cease any part of the operations.

Notes to the financial statements

for the financial year ended 30 June 2010

19. INTANGIBLE ASSETS (CONTINUED)

The following assumptions were used in the value-in-use calculations for goodwill which was allocated to the cash generating unit:

	Growth rate	Discount rate
M+H Power Systems Pty Ltd	3%	14%
Advanced Power Pty Ltd	3%	15%

The value-in-use calculations have been based on budgets for entities within the MPower Group. These budgets use historical weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated weighted average inflation rates over the period which is consistent with inflation rates applicable to the locations in which entities within the MPower Group operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with entities within the MPower Group.

	30/06/2010	30/06/2009
	A\$'000	A\$'000

20. CONSTRUCTION CONTRACTS

Contracts in progress

Recognised and included in the financial statements as amounts due:

From customers under construction contracts	6,322	2,262
To customers under construction contracts	(36)	(79)
	<u>6,286</u>	<u>2,183</u>
Retentions on construction contracts in progress	<u>67</u>	<u>120</u>
Advances received and receivable on construction contracts in progress	<u>44</u>	<u>79</u>
Accrued revenue on construction contracts in progress	<u>6,321</u>	<u>2,262</u>
Accrued costs on construction contracts in progress	<u>6,791</u>	<u>2,029</u>

21. TRADE & OTHER PAYABLES

Current unsecured liabilities

- trade payables	7,852	8,465
- sundry payables and accrued expenses	<u>9,109</u>	<u>4,944</u>
	<u>16,961</u>	<u>13,409</u>

Foreign currency liabilities

Current liabilities not effectively hedged

- Australian Dollars	389	348
- Euros	3,137	1,423
- Japanese Yen	-	2
- New Zealand Dollars	-	1
- Singapore Dollars	383	373
- United States Dollars	<u>847</u>	<u>1,941</u>
	<u>4,756</u>	<u>4,088</u>

The general policy for subsidiaries within the Tag Group with foreign currency exposure arising from cross border trading is to hedge between 50% and 100% of the exposure.

The credit period on purchases from overseas suppliers ranges from 30 to 90 days. No interest is charged on trade payables paid within the relevant supplier term. Average credit periods for local purchases range between 7 to 30 days.

Notes to the financial statements

for the financial year ended 30 June 2010

30/06/2010
A\$'000

30/06/2009
A\$'000

22. BORROWINGS

Current

- bank facilities (secured)	2,083	3,203
- finance lease liabilities (secured)	136	194
	<u>2,219</u>	<u>3,397</u>

Non-current

- bank facilities (secured)	120	1,168
- finance lease liabilities (secured)	191	292
	<u>311</u>	<u>1,460</u>

Bank facilities are fully secured by registered mortgage debentures given by controlled entities over their assets. The total carrying amounts of assets pledged as security are A\$35,945,837 (2009: A\$41,534,841).

Summary of borrowing and financial facility arrangements

The covenants and specific conditions which apply to the bank facilities are as follows:

- (a) For Power Property Unit Trust which represents A\$1.09 million of the bank borrowings (charged at an interest rate of 6.16%) there are no financial covenants.
- (b) For MPower Group (and subsidiaries) which represents A\$1.4 million of the borrowings there is a requirement that:
 - In relation to the commercial bill borrowings of A\$0.6 million (charged at an interest rate of 5.46%) there is a requirement there be a minimum interest cover of 2 times and minimum capital adequacy of 40%.
 - In relation to trade finance and asset finance borrowings of A\$0.6 million there is a requirement there be a minimum interest cover of 2 times and minimum capital adequacy of 40%.
 - In relation to asset finance borrowings of A\$0.2 million there is a requirement there be a debt to EBITDA ratio of no more than 2.25:1 and interest cover ratio of no less than 2.5:1.

The above banking conditions also apply with respect to the off balance sheet finance facilities provided to MPower Group.

There were no breaches of any covenants at 30 June 2010 (2009: nil).

The lease liabilities are secured by the leased assets as disclosed in note 17.

23. CURRENT TAX LIABILITIES

Income tax payable	<u>650</u>	<u>417</u>
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24. PROVISIONS

Employee benefits ^(a)	1,165	1,501
Warranties ^(b)	91	40
	<u>1,256</u>	<u>1,541</u>
Current	1,195	1,411
Non-current	61	130
	<u>1,256</u>	<u>1,541</u>

Notes to the financial statements
for the financial year ended 30 June 2010

30/06/2010 **30/06/2009**
AS'000 AS'000

24. PROVISIONS (CONTINUED)

Warranties

- Opening balance at beginning of year	40	41
- Additional provisions raised during year	73	-
- Amounts used	(22)	(1)
- Balance at end of year	91	40

(a) The provision for employee benefits represents annual leave and long service leave entitlements accrued by employees. A provision has been recognised for employee entitlements relating to long service leave. The calculation for the present value of future cash flows in respect of long service leave is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in note 2.

(b) The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the Tag Group's warranty program for certain products sold. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

25. OTHER LIABILITIES

Current

Advance receipts from sale of business assets	1,164	-
Construction contract advances received	44	79
Forward exchange contract liability	-	424
Lease incentive	12	18
Customer deposits in advance	-	12
	1,220	533

26. ISSUED CAPITAL

70,606,864 (2009: 68,685,962) fully paid ordinary shares 16,477 16,093

	Number of shares '000	Share capital AS'000
Balance at 1 July 2008	66,805	15,741
Shares issued during the year	1,881	357
Share issue costs	-	(5)
Balance at 30 June 2009	68,686	16,093
Shares issued during the year ^(a)	1,921	384
Balance at 30 June 2010	70,607	16,477

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the company does not have authorised capital or par value in respect of the issued 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 is entitled to one vote for each share held.

(a) 1,920,902 fully paid ordinary shares were issued on 16 October 2009 pursuant to the company's Dividend Reinvestment Plan with an issue price of A\$0.20 per ordinary share.

(b) During the financial year, an on-market share buy-back facility was in place. To date, no purchases have been made under the on-market share buy-back facility.

Notes to the financial statements

for the financial year ended 30 June 2010

30/06/2010
A\$'000

30/06/2009
A\$'000

27. RESERVES

Capital reserve ^(a)	659	659
Share option reserve ^(b)	190	187
Foreign currency translation reserve ^(c)	<u>(277)</u>	<u>(288)</u>
	<u>572</u>	<u>558</u>

(a) Capital reserve

The capital reserve records a capital profit from the realisation of a non-current asset.

(b) Share option reserve

Balance at beginning of the year	187	196
Share based payments for the year	<u>3</u>	<u>(9)</u>
Balance at end of the year	<u>190</u>	<u>187</u>

The share option reserve records items recognised as expenses in relation to executive share options.

(c) Foreign currency translation reserve

Balance at beginning of the year	(288)	(349)
Adjustment arising from the translation of self-sustaining foreign controlled entities' financial statements	<u>11</u>	<u>61</u>
Balance at end of the year	<u>(277)</u>	<u>(288)</u>

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled entities.

28. NON-CONTROLLING INTEREST IN CONTROLLED ENTITIES

Non-controlling interest comprises

- capital	1,439	1,466
- profits	<u>5,059</u>	<u>5,105</u>
	<u>6,498</u>	<u>6,571</u>

29. DIVIDENDS

Recognised amounts

Dividend of 0.75 (2009: 0.75) cents per share franked to 100% (2009: 100%) at the tax rate of 30% (2009: 30%)	<u>515</u>	<u>501</u>
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Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax and franking debits arising from payment of dividends	<u>227</u>	<u>185</u>
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Subsequent to year end, as the directors have not declared a dividend the franking account would not be reduced for any declared unrecognised dividend (2009: reduction of A\$220,776).

Notes to the financial statements

for the financial year ended 30 June 2010

30/06/2010 30/06/2009
A\$'000 A\$'000

30. CAPITAL AND LEASING COMMITMENTS

Capital expenditure commitments - -

Operating lease commitments

Operating leases are non-cancellable property leases with varying terms up to 6 years, with variable renewable options and contingent rental provisions.

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable – minimum lease payments

- not later than one year	701	1,043
- later than one year but not later than five years	595	1,334

	1,296	2,377
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Group's share of operating lease commitments of associates

Operating leases are non-cancellable property leases with varying terms up to 6 years, with variable renewable options and contingent rental provisions.

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable – minimum lease payments

- not later than one year	308	114
- later than one year but not later than five years	595	-

	903	114
--	-----	-----

Finance lease commitments

Finance leases relate principally to motor vehicles with terms up to 3 year typically with a 25% residual value

Payable

- not later than one year	150	218
- later than one year but not later than five years	204	310

Minimum lease payments

Less: future finance charges	354	528
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	327	486
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Group's share of finance lease commitments of associates

Finance leases relate principally to computer equipment with terms up to 4 year typically with a 25% residual value

Payable

- not later than one year	14	-
- later than one year but not later than five years	20	-

Minimum lease payments

Less: future finance charges	34	-
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	31	-
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Notes to the financial statements

for the financial year ended 30 June 2010

31. SEGMENT INFORMATION

(a) Adoption of AASB 8 Operating Segments

The group has adopted AASB 8 *Operating Segments* with effect from 1 July 2009. AASB 8 requires operating segments to be identified on the basis of internal reports about components of the group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor standard (AASB 114 *Segment Reporting*) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's system of internal financial reporting the key management personnel serving only as the starting point for the identification of such segments. Notwithstanding the adoption of AASB 8, the identification of the group's reportable segments remains unchanged. As the interior building products investments were disposed during the year they will no longer be included as an operating segment.

(b) Products and services from which reportable segments derive their revenues

The Tag Group's reportable segments under AASB 8 are organised into three major sectors – power investments, fair value investments and other investments. These sectors are the basis on which the Tag Group reports its reportable segment information. The principal products and services of each of those sectors are as follows:

- Power investments – consists of MPower Group Pty Limited, M+H Power Systems Pty Ltd, M+H Power Systems Ltd and Advanced Power Pty Ltd (all 59.9% owned at 30 June 2010). This grouping is a leading provider of innovative and dependable power solutions for use in all manner of emergency, back-up, generated and renewable power situations in Australia, New Zealand and Fiji.
- Fair value investments – consists principally of Tag's investments in iSoft Group Limited. iSoft Group Limited is a health information technology company listed on the ASX with operations in Australia and a number of overseas countries.
- Other investments – consists principally of Tag's investments in Unique World Group Pty Limited and the Power Property Unit Trust. Unique World Group Pty Limited is an IT consultancy and software development group providing products and services leveraging the Microsoft platform to corporate and government organisations across New South Wales, Victoria and the Australian Capital Territory. The Power Property Unit Trust owns a property occupied by MPower Group Pty Limited in Melbourne, Victoria.

(c) Segment revenues

The following is an analysis of the group's revenue and results from continuing operations by reportable segment:

	Segment revenue		Segment profit	
	2010	2009	2010	2009
	A\$'000	A\$'000	A\$'000	A\$'000
Continuing operations				
Power investments	56,658	47,157	3,541	2,445
Fair value investments	111	-	(5,010)	865
Other investments	187	70	129	39
Total for continuing operations	56,956	47,227	(1,340)	3,349
Less: elimination on consolidation	(178)	-	-	-
Total for continuing operations	56,778	47,227	(1,340)	3,349
Share of profits of associates			300	275
Finance costs			(181)	(134)
Unallocated costs			(1,548)	(1,450)
(Loss)/profit before income tax (from continuing operations)			(2,769)	2,040

Revenue reported above represents revenue generated from external customers. The only inter-segment sale during the year was rental income charged by the other investments segment to the power investments segment of A\$177,979 which was eliminated on consolidation (2009: Nil).

The accounting policies of the reportable segments are the same as the group's accounting policies described in note 2. Segment profit represents the profit earned by each segment without allocation of central administration costs and directors' salaries, profits of associates, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Notes to the financial statements
for the financial year ended 30 June 2010

31. SEGMENT INFORMATION (CONTINUED)

(d) Segment assets and liabilities

Segments Assets

	30/06/2010	30/06/2009
	A\$'000	A\$'000
Power investments	34,690	22,879
Fair value investments	1,873	7,189
Other investments	9,001	5,422
Total segment assets	45,564	35,490
Assets relating to interior building products investments (now discontinued)	3,153	14,824
Consolidated assets	48,717	50,314

Segments Liabilities

	30/06/2010	30/06/2009
	A\$'000	A\$'000
Power investments	19,534	9,167
Fair value investments	-	-
Other investments	1,632	510
Total segment liabilities	21,166	9,677
Liabilities relating to interior building products investments (now discontinued)	1,451	11,080
Consolidated liabilities	22,617	20,757

For the purposes of monitoring performance and allocating resources between segments:

- (a) All assets are allocated to reportable segments. There are no assets used jointly by reportable segments.
- (b) All liabilities are allocated to reportable segments. There are no liabilities for which reportable segments are jointly liable.

(e) Other segment information

	Depreciation and amortisation		Additions to non-current assets	
	2010	2009	2010	2009
	A\$'000	A\$'000	A\$'000	A\$'000
Power investments	279	247	437	316
Fair value Investments	-	-	-	-
Other investments	42	19	1,062	6
	321	266	1,499	322

(f) Revenue from major products and services

The following is an analysis of the group's revenue from continuing operations from its major products and services.

	2010	2009
	A\$'000	A\$'000
Power investments - construction contract revenue	21,960	9,959
Power investments - other revenue	34,698	37,198
	56,658	47,157

Notes to the financial statements

for the financial year ended 30 June 2010

31. SEGMENT INFORMATION (CONTINUED)

(g) Geographical information

The investment in the power sector has business segments located across Australia and New Zealand (incorporating Fiji). Specifically, geographical segments consist of branches across Australia in New South Wales, Victoria, Queensland, Western Australia and South Australia. The New Zealand segment includes branches in Auckland, Wellington and Christchurch.

There are only minor exports made to other countries.

The group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below.

	Revenue from external customers		Non-current assets	
	2010 A\$'000	2009 A\$'000	2010 A\$'000	2009 A\$'000
Australia	50,384	40,761	11,212	15,253
New Zealand	6,394	6,466	113	625
	<u>56,778</u>	<u>47,227</u>	<u>11,325</u>	<u>15,878</u>

(h) Information about major customers

Included in revenues arising from construction contracts of A\$22.0 million are revenues of approximately A\$14.6 million which arose from sales to the group's largest customer.

32. AUDITOR'S REMUNERATION

	2010 A\$	2009 A\$
Remuneration of the auditor of Tag Group:		
Deloitte Touche Tohmatsu		
- Auditing or reviewing financial statements	206,450	204,450
- Other services	14,100	-
Total	<u>220,550</u>	<u>204,450</u>

33. EMPLOYEE BENEFITS

Executive Share Option Plan

The following share-based payment arrangement existed at 30 June 2010.

Under the Tag Pacific Limited Executive Share Option Plan, the remuneration committee may offer options to executives having regard to their length of service with the group, the contribution made to the Tag Group by the executive, the potential contribution of the executive and any other matters considered relevant.

The maximum number of options that can be on issue at any time is 5% of the shares on issue at that time. In addition, the maximum number of options that can be issued to any one executive is 1,250,000.

An option may be exercised, if vested, by the relevant participant lodging a Notice of Exercise of Option and Application for Shares, together with the exercise price for each share to be issued on exercise. Options may only be exercised by a participant at the times and in the numbers and subject to the satisfaction of any conditions set by the remuneration committee at the time of the offer of the options. The remuneration committee may stipulate that options may only be exercised if the company achieves stipulated performance benchmarks.

Notes to the financial statements

for the financial year ended 30 June 2010

33. EMPLOYEE BENEFITS (CONTINUED)

An option not exercised will lapse on the expiry of the exercise period or if the executive to whom the option was offered ceases to be engaged by the company due to resignation or retirement. Unless the remuneration committee determines otherwise, options may not be transferred.

No options were granted under the Tag Pacific Limited Executive Share Option Plan in the year to 30 June 2010 (2009: 500,000).

	Tag Group		Weighted average exercise price	
	2010	2009	2010	2009
	No.	No.	A\$	A\$
Movement in the number of share options held by executives are as follows:				
Opening balance	2,695,000	2,416,667	0.34	0.36
Granted during the year	-	500,000	-	0.26
Lapsed during the year	(1,241,667)	(221,667)	0.33	0.35
Closing balance	1,453,333	2,695,000		

Details of the options on issue at year end were as follows:

Grant date	Expiry date	Exercise price	Number of options
22 December 2006	22 December 2011	A\$0.33	263,333
22 December 2006	22 December 2011	A\$0.40	400,000
31 August 2007	31 August 2012	A\$0.39	160,000
31 August 2007	31 August 2012	A\$0.45	200,000
17 November 2008	17 November 2013	A\$0.24	230,000
17 November 2008	17 November 2013	A\$0.30	200,000
		Total	1,453,333

During the year ended 30 June 2010 no ordinary shares in Tag Pacific Limited were issued on the exercise of options granted under the Tag Pacific Limited Executive Share Option Plan. No shares have been issued under the Executive Share Option Plan to the date of this report. No person entitled to exercise an option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

During the year 1,241,667 share options lapsed.

The options outstanding at 30 June 2010 had a weighted average exercise price of A\$0.35 and a weighted average remaining contracted life of 1.62 years. Exercise prices range from A\$0.24 to A\$0.45 each in respect of options outstanding at 30 June 2010.

Included under employee benefits expense in the income statement is an expense of A\$3,176 (2009: credit of A\$9,438) relating in full to equity-settled share-based payment transactions. The credit arising during the 2009 year reflected the reversal of prior period share-based payment expenses associated with options that did not vest according to performance against set criteria.

34. RELATED PARTIES

Parent entity

The parent entity and ultimate parent entity of the group is Tag Pacific Limited.

Controlled entities

Information relating to controlled entities is set out in note 15. Transactions occur between certain of these entities during the year, all of which are conducted on normal commercial rates and conditions no more favourable than those available to other parties with no security unless otherwise stated.

Notes to the financial statements

for the financial year ended 30 June 2010

34. RELATED PARTIES (CONTINUED)

Director related entities

Peter Wise has a controlling interest in Anthony Australia Pty Ltd through family interests. Anthony Australia Pty Ltd effected a net increase of 1,191,308 (2009: 1,206,388) ordinary shares in Tag Pacific Limited during the year under review. Anthony Australia Pty Ltd has received management fees for services rendered during the year. These fees are included in the remuneration of directors' disclosures in the Directors' Report. Anthony Australia Pty Ltd received no share options during the year under the Tag Group's Executive Share Option Plan.

Directors

The names of the directors of the Tag Group during the year under review are Peter Wise, Gary Cohen, Robert Constable, Robert Moran, Richard Peterson and Gary Weiss. Information on the remuneration of directors and their respective periods of service is set out in the Directors' Report. Information on directors' interests in shares is detailed in the Directors' Report.

Richard Peterson is a principal of Peterson Law Limited. Peterson Law Limited received legal fees of A\$13,615 for the financial year (2009: A\$366) as the Tag Group's solicitor in New Zealand. These services were provided on an arm's length basis.

Transactions with related parties

(a) Associated companies

Associated companies paid directors fees of A\$10,000 to Tag Pacific Limited during the year (2009: A\$10,000). These services were provided on an arm's length basis.

(b) Key management personnel

The names and positions held by key management personnel of the Tag Group who have held office during the financial year are:

- Peter Wise – Chairman (executive)
- Gary Cohen – Non-executive Director
- Robert Constable – Non-executive Director
- Robert Moran – Non-executive Director
- Richard Peterson – Non-executive Director
- Gary Weiss – Non-executive Director
- Nathan Wise – Head of Corporate Development and Company Secretary
- John Marinos – Head of Finance
- Brian Bamforth – General Manager, Potter Interior Systems (ceased 14 May 2010)
- Paul Sharp – Group Managing Director, MPower Group
- Anthony Csillag – Managing Director, MPower Group – Advanced Power

The aggregate compensation made to directors and other key management personnel of the parent entity and consolidated group are set out below:

	Tag Group	
	2010	2009
	A\$	A\$
Short-term employee benefits	1,588,122	1,554,031
Post employment benefits	53,003	75,050
Other payments	31,443	33,074
Termination benefits	-	-
Share based payments	3,176	26,816
	<u>1,675,744</u>	<u>1,688,971</u>

Key management personnel remuneration has been included in the remuneration section of the Directors' Report.

Notes to the financial statements
for the financial year ended 30 June 2010

34. RELATED PARTIES (CONTINUED)

(c) Key management personnel equity holdings

Key management personnel and key management personnel-related entities hold directly, indirectly or beneficially as at the reporting date the following interests in Tag Pacific Limited:

2010	Balance at 1 July 2009	Net other change	Balance at 30 June 2010
	No.	No.	No.
Peter Wise	31,768,174	1,191,308	32,959,482
Gary Cohen	5,523,970	204,308	5,728,278
Robert Constable	200,000	-	200,000
Robert Moran	537,611	20,161	557,772
Richard Peterson	1,170,167	43,882	1,214,049
Gary Weiss	250,000	-	250,000
Nathan Wise ¹	-	-	-
John Marinos	11,350	-	11,350
Brian Bamforth	42,000	-	42,000
Paul Sharp	71,250	11,000	82,250
Anthony Csillag	20,000	-	20,000
	39,594,522	1,470,659	41,065,181

2009	Balance at 1 July 2008	Net other change	Balance at 30 June 2010
	No.	No.	No.
Peter Wise	30,561,786	1,206,388	31,768,174
Gary Cohen	5,314,198	209,772	5,523,970
Robert Constable	200,000	-	200,000
Robert Moran	512,195	25,416	537,611
Richard Peterson	1,125,728	44,439	1,170,167
Gary Weiss	250,000	-	250,000
Nathan Wise ¹	-	-	-
John Marinos	11,350	-	11,350
Brian Bamforth	42,000	-	42,000
Paul Sharp	71,250	-	71,250
Anthony Csillag	-	20,000	20,000
	38,088,507	1,506,015	39,594,522

1. Nathan Wise is a director of Anthony Australia Pty Ltd which had a relevant interest in 32,959,482 ordinary shares in Tag Pacific Limited at 30 June 2010.

(d) Share options in Tag Pacific Limited

2010	Balance at 1 July 2009	Granted as compensation	Lapsed	Balance at 30 June 2010	Vested but not exercisable	Vested and exercisable
	No.	No.	No.	No.	No.	No.
Peter Wise	1,200,000	-	(400,000)	800,000	-	800,000
Nathan Wise	655,000	-	(366,667)	288,333	-	138,333
John Marinos	540,000	-	(175,000)	365,000	-	215,000
Brian Bamforth	175,000	-	(175,000)	-	-	-
Paul Sharp	125,000	-	(125,000)	-	-	-
Anthony Csillag	-	-	-	-	-	-
	2,695,000	-	(1,241,667)	1,453,333	-	1,153,333

2009	Balance at 1 July 2008	Granted as compensation	Lapsed	Balance at 30 June 2009	Vested but not exercisable	Vested and exercisable
	No.	No.	No.	No.	No.	No.
Peter Wise	1,000,000	200,000	-	1,200,000	-	1,200,000
Nathan Wise	586,667	150,000	(81,667)	655,000	-	338,333
John Marinos	530,000	150,000	(140,000)	540,000	-	140,000
Brian Bamforth	175,000	-	-	175,000	-	175,000
Paul Sharp	125,000	-	-	125,000	-	125,000
Anthony Csillag	-	-	-	-	-	-
	2,416,667	500,000	(221,667)	2,695,000	-	1,978,333

All share options issued to key management personnel were made in accordance with the provisions of the Executive Share Option Plan. Further details of the Tag Pacific Limited Executive Share Option Plan and of share options granted during the 2010 and 2009 financial years are included in note 33 to the financial statements.

Notes to the financial statements

for the financial year ended 30 June 2010

35. BUSINESS COMBINATIONS

(a) Subsidiaries acquired

On 27 July 2009, the Power Property Unit Trust redeemed all the units held by two non-controlling unitholders. As a result of the redemption of units, Tag's interest in the Power Property Unit Trust increased from 48.9% to 50.2%. Accordingly, the Power Property Unit Trust is now consolidated by the Tag Group from 27 July 2009. The Power Property Unit Trust is the owner of a property in Melbourne, Victoria which is occupied by the MPower Group.

Cost of assets acquired and liabilities assumed at the date of acquisition

	<u>A\$'000</u>
Current assets	
Cash & cash equivalents	86
Prepayments and other	16
Total current assets	<u>102</u>
Non-current assets	
Land & buildings ⁽ⁱ⁾	1,054
Total non-current assets	<u>1,054</u>
Total assets	<u>1,156</u>
Current liabilities	
Trade & other payables ⁽ⁱⁱ⁾	(61)
Borrowings ⁽ⁱⁱⁱ⁾	(1,087)
Total current liabilities	<u>(1,148)</u>
Net assets assumed at the date of acquisition	<u>8</u>

- (i) Land and buildings at net book value of A\$1,053,758 relate to the land and buildings owned in Melbourne, Victoria rented to the MPower Group.
- (ii) Trade and other payables pertain predominantly to trust distributions payable to unit holders for the financial year ending 30 June 2009 and GST payable to the Australian Taxation Office.
- (iii) Borrowings of A\$1,087,000 relate to funds borrowed to fund the acquisition of land and buildings owned in Melbourne, Victoria.

The non-controlling interest (49.8%) in the Power Property Unit Trust recognised at the acquisition date was measured by reference to the fair-value of the non-controlling interest and amounted to A\$3,984. This fair value was estimated by applying an income approach.

Goodwill arising on acquisition

	<u>A\$'000</u>
Consideration transferred	22
Plus: non-controlling interests (at fair value)	4
Less: Fair value of identifiable net assets acquired	<u>(4)</u>
Goodwill arising on acquisition	22

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

Net cash outflow/(inflow) arising on acquisition

	<u>A\$'000</u>
Consideration paid in cash	-
Less: cash and cash equivalent balances acquired	86
	<u>(86)</u>

Notes to the financial statements

for the financial year ended 30 June 2010

35. BUSINESS COMBINATIONS (CONTINUED)

Impact of acquisition on the results of the group

Included in the profit for the year is a net profit of A\$33,172 attributable to the Power Property Unit Trust. Revenue relating to rental income between related parties has been eliminated on consolidation. Included in borrowing costs is a liability of A\$1,087,000 relating to funds borrowed against the land and buildings in Melbourne, Victoria.

Had Tag Pacific Limited taken control of the Power Property Unit Trust on 1 July 2009 the net profit for the year after non-controlling interest would have been A\$3,005 lower.

(b) Disposal of business

On 14 May 2010, PISL Limited and CPPL Pty Limited disposed of their interior building products businesses to CSR Building Products.

Consideration received

	<u>A\$'000</u>
Consideration received in cash & cash equivalents	2,054
	<u>2,054</u>

Analysis of assets and liabilities over which control was lost

	<u>A\$'000</u>
Current assets	
Cash and cash equivalents	2
Trade debtors	95
Inventories	6,325
Other assets	<u>277</u>
	6,699
Non-current assets	
Property, plant & equipment	562
Goodwill	<u>172</u>
	734
Current liabilities	
Trade and other payables	5,856
Lease liabilities	72
Employee provisions	<u>435</u>
	6,363
Non-current liabilities	
Employee provisions	<u>59</u>
	59
Net assets disposed of	<u>1,011</u>
Gain on disposal of subsidiary	
Consideration received	2,054
Net assets disposed of	<u>(1,011)</u>
Gain on disposal (note 9)	<u>1,043</u>

The gain on disposal is included in the profit for the year from discontinued operations in the statement of comprehensive income (see note 9). There were advance receipts in respect of sale of business assets received of A\$819,367.

Notes to the financial statements

for the financial year ended 30 June 2010

36. EARNINGS PER SHARE

	2010	2009
	cents	cents
	per share	per share
Basic earnings per share		
From continuing operations	(6.5)	1.8
From discontinued operations	1.8	(0.1)
Total basic earnings per share	(4.7)	1.7
Diluted earnings per share		
From continuing operations	(6.5)	1.8
From discontinued operations	1.8	(0.1)
Total diluted earnings per share	(4.7)	1.7

	2010	2009
	A\$'000	A\$'000
Reconciliation of earnings to net profit/(loss)		
Net (loss)/profit after income tax	(2,789)	1,702
Net profit attributable to non-controlling interests	478	517
Earnings used in the calculation of basic and diluted earnings per share	<u>(3,267)</u>	<u>1,185</u>
Weighted average number of shares used in the calculation of basic earnings per share	<u>70,038,488</u>	<u>67,876,781</u>
Weighted average number of shares used in the calculation of diluted earnings per share	<u>70,038,488</u>	<u>67,876,781</u>

No options were dilutive for the purposes of determining diluted EPS for the year ended 30 June 2010.

There were 1,453,333 options on issue at year end that have not been considered dilutive for the purposes of determining diluted EPS for the year ended 30 June 2010.

37. SUBSEQUENT EVENTS

There are no matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Tag Group, the results of those operations, or the state of affairs of the Tag Group in future financial years.

Notes to the financial statements

for the financial year ended 30 June 2010

38. FINANCIAL INSTRUMENTS

(a) Capital risk management

The Tag Group manages its capital to ensure that entities in the Tag Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. This strategy remains unchanged from 2009.

The capital structure of the Tag Group consists of cash and cash equivalents, debt (including the borrowings disclosed in note 22), and equity attributable to equity holders of the Tag Parent, comprising issued capital (disclosed in note 26), reserves (disclosed in note 27) and retained earnings. The Tag Group also utilises certain off-balance sheet bank financing arrangements, including documentary credit facilities, bank overdraft facilities and import trade finance facilities to facilitate the purchase of goods from overseas suppliers and the provision of performance guarantees to customers. The Tag Group operates internationally through subsidiary companies established in New Zealand. None of the Tag Group entities are subject to externally-imposed capital requirements other than those specific bank covenants and conditions referred to under note 22. Operating cash flows are used to maintain and expand the group's manufacturing and distribution assets, as well as to make routine outflows of tax, dividends and repayment of maturing debt.

Gearing ratio

The Tag Group's senior management reviews the capital structure on a semi-annual basis. As part of this review, senior management considers the cost of capital and the risks associated with each class of capital. The Tag Group has a target gearing ratio in line with the industry custom that is determined as a proportion of net debt to equity. The Tag Group balances its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

The gearing ratio at year-end was as follows:

	2010	2009
	A\$'000	A\$'000
Financial assets		
Debt ⁽ⁱ⁾	2,530	4,857
Cash and cash equivalents	(15,479)	(3,411)
Net (cash)/debt	(12,949)	1,446
Equity ⁽ⁱⁱ⁾	26,100	29,557
Net (cash)/debt to equity ratio	(49.6%)	4.9%

(i) Debt is defined as long-term and short-term borrowings, as detailed in note 22.

(ii) Equity includes all capital, reserves and non-controlling interests.

(b) Categories of financial instruments

	2010	2009
	A\$'000	A\$'000
Financial assets		
Loans and receivables	14,404	15,792
Cash and cash equivalents	15,479	3,411
Fair value investments	1,873	7,189
Financial liabilities		
Amortised cost	19,491	18,506
Forward exchange contract liability	-	424

Notes to the financial statements

for the financial year ended 30 June 2010

38. FINANCIAL INSTRUMENTS (CONTINUED)

(b) Categories of financial instruments (continued)

There were performance guarantee contracts and surety bonds in respect of construction contracts of A\$6,060,948 at the end of the financial year (2009: A\$1,764,339). The performance guarantees were provided in the ordinary course of business and at the end of the year it was not probable that the counterparty to any of the performance guarantee contracts will claim under the contract. As fair value was considered to be nil consequently, the amount included in the above table is nil.

(c) Financial risk management objectives

The Tag Group's corporate treasury function provides services to the business, including negotiation and ongoing co-ordination of financing facilities, and monitors and manages the financial risks relating to the operations of the Tag Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk where appropriate.

The Tag Group generally hedge 50% to 100% of its foreign currency exposures. For certain entities within the Tag Group the use of these derivatives is subject to prior approval of the Tag corporate treasury function and of the board of the relevant entity.

The Tag Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The board of Tag Pacific Limited is ultimately responsible for ensuring that there is an effective risk management control framework in place.

(d) Market risk

The Tag Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates (refer note 38(e)), interest rates (refer note 38(f)) and other price risk (refer note 38(h)).

Market risks are reviewed at least monthly at a Tag Group level and at a subsidiary company level.

There has been no change to the Tag Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(e) Foreign currency risk management

The Tag Group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

To manage its exposure to foreign currency risk the Tag Group enters into forward foreign exchange contracts to hedge the exchange rate risk arising on the import of building and power related products from countries including Japan, Europe, China, Singapore and the United States.

The carrying amount of the Tag Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

	Liabilities		Assets	
	2010 A\$'000	2009 A\$'000	2010 A\$'000	2009 A\$'000
New Zealand Dollars	-	1	844	1
US Dollars	847	1,941	198	2,664
Japanese Yen	-	2	-	257
Euros	3,137	1,423	3,729	1,316
Singapore Dollars	383	373	-	201
Total	4,367	3,740	4,771	4,439

Notes to the financial statements

for the financial year ended 30 June 2010

38. FINANCIAL INSTRUMENTS (CONTINUED)

(e) Foreign currency risk management (continued)

Foreign currency sensitivity analysis

The following table details the Tag Group's sensitivity to a 10% increase or decrease in the Australian Dollar against the relevant foreign currencies. This sensitivity of 10% represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2010 A\$'000	2009 A\$'000
Profit or loss		
US Dollars	59	(86)
NZ Dollars	(77)	-
Japanese Yen	-	(12)
Euros	(54)	5
Singapore Dollars	35	16
Total	(37)	(77)

Forward foreign exchange contracts

The Tag Group has entered into contracts to purchase building and power related products from suppliers in countries including the United States, China, Japan, Singapore and Europe. The relevant subsidiaries have entered into forward foreign exchange contracts for terms not exceeding 6 months to cover specific foreign currency payments and receipts within 50% to 100% of their respective exposures.

The following table details the forward foreign currency contracts for the Tag Group outstanding as at reporting date:

Outstanding contracts	Average exchange rate		Foreign currency amount		Contract value in A\$		Fair value in A\$	
	2010	2009	2010 FC'000	2009 FC'000	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Consolidated								
Buy US Dollars								
Less than 3 months	0.810	0.673	903	1,698	1,116	2,522	31	467
3 to 6 months	-	0.756	-	334	-	442	-	-
Buy Euro								
Less than 3 months	0.641	0.517	300	751	468	1,451	30	143
Buy Singapore Dollars								
Less than 3 months	1.135	1.170	500	235	440	241	9	40
Buy Japanese Yen								
Less than 3 months	-	72.60	-	21,058	-	290	-	18
			1,703	24,076	2,024	4,946	70	668

Notes to the financial statements

for the financial year ended 30 June 2010

38. FINANCIAL INSTRUMENTS (CONTINUED)

(f) Interest rate risk management

The Tag Group is exposed to interest rate risk as entities in the Tag Group borrow funds at both fixed and floating interest rates. The risk is managed by the Tag Group by maintaining an appropriate mix between fixed and floating rate borrowings. The Tag Group does not enter into interest rate hedging activities.

Exposures to interest rates on the financial liabilities of the Tag Group are detailed in note 38(i) below.

Interest rate sensitivity analysis

The following analysis illustrates the Tag Group's sensitivity to a 200 basis point (i.e. 2% p.a.) increase or decrease in nominal interest rates, based on exposures in existence at the reporting date. This represents management's assessment of the reasonably possible change in interest rates as at that date.

At reporting date, if interest rates had been 200 basis points higher (or lower) and all other variables were held constant, the Tag Group's net profit would decrease/(increase) by A\$33,740 (2009: decrease/(increase) by A\$87,410). This is mainly attributable to the Tag Group's exposure to interest rates on its variable rate borrowings.

The Tag Group's sensitivity to interest rates has increased during the current period mainly due to the increase in variable rate debt instruments.

At reporting date, if interest rates had been 200 basis points higher (or lower) and all other variables were held constant, the Tag Group's net profit would decrease/(increase) by A\$188,902 (2009: decrease/(increase) by A\$72,564). This is mainly attributable to the Tag Group's exposure to interest rates on its cash and cash equivalents.

(g) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Tag Group. The Tag Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Tag Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management of each operating subsidiary on a regular basis.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance is purchased.

The Tag Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The following table sets out the carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, representing the Tag Group's maximum exposure to credit risk without taking account of the value of any collateral obtained:

	Maximum risk	
	2010 A\$'000	2009 A\$'000
Tag Group		
Trade and other receivables	14,404	15,792
Total	14,404	15,792

There has been no change in the Tag Group's exposure to credit risk during the current period.

Notes to the financial statements

for the financial year ended 30 June 2010

38. FINANCIAL INSTRUMENTS (CONTINUED)

(h) Other price risks

The Tag Group is exposed to equity price risks in relation to its equity investments designated as at fair value through profit or loss upon initial recognition. This group of financial assets is managed on a fair value basis in accordance with the Tag Group's documented risk management or investment strategy.

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

At reporting date, as the equity investments are designated as at fair value through profit or loss upon initial recognition, if the equity prices had been 10%p.a. higher or lower the net profit for the year ended 30 June 2010 would have increased/(decreased) by A\$187,288 (before non-controlling equity interest) (2009: A\$718,916).

The Tag Group's sensitivity to equity prices has not changed significantly from the prior year.

(i) Liquidity risk management

Liquidity risk is the risk that the Tag Group will encounter difficulty in meeting its obligations associated with financial liabilities.

Ultimate responsibility for liquidity risk management rests with the Tag Parent board of directors, who have built an appropriate liquidity risk management framework for the management of the Tag Group's short, medium and long-term funding and liquidity management requirements. The Tag Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 10 is a listing of additional undrawn facilities that the Tag Group has at its disposal to further reduce liquidity risk.

Liquidity and interest risk tables

The following tables detail the Tag Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Tag Group can be required to pay. The table includes both interest and principal cash flows.

Tag Group

	Weighted average effective interest rate %	Less than 3 months A\$'000	3 months to 1 year A\$'000	1-5 years A\$'000	5+ years A\$'000
2010					
Non-interest bearing liability	-	9,008	7,953	-	-
Finance lease liability	5.77	54	96	204	-
Variable interest rate instruments	6.20	392	1,175	120	-
Fixed interest rate instruments	8.24	516	-	-	-
Forward exchange contract liability	-	2,024	-	-	-
		11,994	9,224	324	-
2009					
Non-interest bearing liability	-	9,423	3,986	-	-
Finance lease liability	6.13	56	163	309	-
Variable interest rate instruments	6.07	2,074	1,129	1,168	-
Fixed interest rate instruments	-	-	-	-	-
Forward exchange contract liability	-	4,946	-	-	-
		16,499	5,278	1,477	-

There were performance guarantee and surety bond contracts in respect of open construction contracts at year end of A\$6,060,948 (2009: A\$1,764,339). At the end of the year it was not probable that the counterparty to any of the performance guarantee contracts will claim under the contract. Consequently, the amount included in the above table is nil.

The Tag Group is planning to finance the payment of the above liabilities by way of expected cashflow arising from operating activities based upon prepared forecasts and budgets.

Notes to the financial statements

for the financial year ended 30 June 2010

38. FINANCIAL INSTRUMENTS (CONTINUED)

(j) Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	30 June 2010			
	Level 1	Level 2	Level 3	Total
	A\$'000	A\$'000	A\$'000	A\$'000
Financial assets at FVTPL				
Derivative financial assets	1,873	-	-	1,873
Total	1,873	-	-	1,873

	Tag Parent	
	2010	2009
	A\$'000	A\$'000

39. PARENT ENTITY DISCLOSURES

(i) Financial position

Assets		
Current assets	7,219	11,646
Non-current assets	4,854	5,511
Total assets	12,073	17,157
Liabilities		
Current liabilities	450	597
Non-current liabilities	-	-
Total liabilities	450	597
Equity		
Issued capital	16,477	16,093
Retained earnings	(5,044)	280
Share option reserve	190	187
Total equity	11,623	16,560

Notes to the financial statements

for the financial year ended 30 June 2010

39. PARENT ENTITY DISCLOSURES (CONTINUED)

	Tag Parent	
	Year ended 2010	Year ended 2009
	A\$'000	A\$'000
(ii) Financial performance		
Loss for the year	(4,808)	(6)
Other comprehensive income	-	-
Total comprehensive loss	(4,808)	(6)

(iii) Guarantees entered into by the parent entity

Tag Pacific Limited has not provided any guarantees in relation to any of its subsidiaries.

(iv) Contingent liabilities of the parent entity

There are no contingent liabilities for the parent entity.

(v) Commitments for the acquisition of property, plant and equipment by the parent entity

There are no commitments for the acquisition of property, plant and equipment by the parent entity.

40. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets at balance date.

As part of the sale of the interior building products businesses, PISL Limited and CPPL Pty Limited were required to provide vendor warranties to the purchaser. Warranty claims may be made by the purchaser until 14 November 2010 (being six months after the completion date of 14 May 2010). The maximum warranty amount is capped at the purchase price of each transaction.

At this stage no warranty claim has been made against either PISL Limited or CPPL Pty Limited. It is not practicable at this stage to estimate any potential liability that may be payable under the vendor warranties in respect of any claim that may arise within the warranty period.

Directors' declaration

The directors of Tag Pacific Limited declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable;
- (b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in note 2 to the financial statements;
- (c) in the director's opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and
- (d) the directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors



Peter Wise
Chairman

Sydney, 26 August 2010

The Board of Directors
Tag Pacific Limited
Level 30 Piccadilly Tower,
133 Castlereagh Street
Sydney NSW 2000

26 August 2010

Dear Board Members

Tag Pacific Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Tag Pacific Limited.

As lead audit partner for the audit of the financial statements of Tag Pacific Limited for the financial year ended 30 June 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Tara Hill
Partner
Chartered Accountants

Independent Auditor's Report to the Members of Tag Pacific Limited

Report on the Financial Report

We have audited the accompanying financial report of Tag Pacific Limited, which comprises the consolidated statement of financial position as at 30 June 2010, and the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on *pages 14 to 61*.

Directors' Responsibility for the Financial 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 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

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

Auditor's Opinion

In our opinion:

- (a) the financial report of Tag Pacific 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 30 June 2010 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 financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 13 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Tag Pacific Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu
DELOITTE TOUCHE TOHMATSU



Tara Hill
Partner
Chartered Accountants
Sydney, 26 August 2010

Corporate governance statement

Approach to corporate governance

Tag Pacific Limited is committed to achieving and demonstrating the highest standards of corporate governance, consistent with the size and nature of the company.

As a listed entity, the company must comply with the Corporations Act 2001, the Australian Securities Exchange Listing Rules (ASX Listing Rules) and other laws.

ASX Listing Rule 4.10.3 requires ASX listed companies to report on the extent to which they have followed the recommendations ("Recommendations") set by the ASX Corporate Governance Council.

The Recommendations encourage the board to carefully consider the development and adoption of appropriate corporate governance policies and practices founded on the ASX Principles.

Compliance with ASX Recommendations

Each listed company is required to provide a statement in its annual report disclosing the extent to which it has followed the Recommendations during the reporting period.

A listed company must identify any Recommendation that has not been followed and give reasons for not following it. Where a Recommendation has been followed for only part of the period, the company must state the period during which it has been followed.

Except as noted below, and as detailed within this corporate governance statement, the company considers that its governance practices complied throughout the year ended 30 June 2010 with each of the Recommendations.

Information in respect of the company's corporate governance practices can be found on the Tag website.

This statement outlines the company's main corporate governance practices for the year ended 30 June 2010 in light of the eight core principles and twenty Recommendations set out by the ASX Corporate Governance Council.

ASX Principle 1:

Lay solid foundations for management and oversight

Recommendation 1.1

Establish the functions reserved to the board and those delegated to senior executives and disclose those functions.

The board's objective is to increase shareholder value within an appropriate framework that ensures the company's affairs are properly managed and controlled and sets the strategic business direction to be followed.

The powers reserved to the board include the following:

- establishment and maintenance of appropriate governance structures;
- the review and oversight of the company's strategic plan, setting goals and long-term objectives with a view to maximising shareholder value;
- adopting an annual budget and reviewing financial performance;
- establishment of the control environment to provide for meaningful and timely information;
- providing the basis for the review of the performance of the board and its members and the senior management and their remuneration;
- the provision of a communication capability and the relevant procedures with all stakeholders in accordance with the continuous disclosure provisions and to comply with the relevant legal requirements;
- reviewing and ratifying systems of risk management;
- establishing a basis for approvals of capital expenditure, acquisitions and divestment; and
- setting high standards for ethical and corporate behaviour.

With the exception of matters reserved for the board, all other powers are delegated to senior management.

Senior managers who are not board members have formal contracts with the company which include details of their role and job descriptions.

Recommendation 1.2:

Disclose the process for evaluating the performance of senior managers.

All senior managers, other than the Executive Chairman, are subject to a performance appraisal and remuneration review at least annually. As noted in Recommendation 8.1, such reviews are undertaken by the Remuneration Committee in accordance with the company's performance based remuneration policy, details of which are set out in the Remuneration Report in the Directors' Report.

Recommendation 1.3:

Provide the information indicated in the Guide to reporting on Principle 1.

A performance evaluation for all senior managers other than the Executive Chairman took place during the reporting

period. The Executive Chairman works closely with the board and senior executives and managers of the Tag Group. A performance evaluation for the Executive Chairman was not appropriate given the nature of the role and the structure of the company.

**ASX Principle 2:
Structure the board to add value**

*Recommendation 2.1:
A majority of the board should be independent directors.*

A Tag director is considered independent when he or she is independent of management (that is, non-executive), and free from any business or other relationship that could materially interfere with, or could be reasonably perceived to materially interfere with, the exercise of his or her unfettered and independent judgement.

Materiality is considered on a case by case basis by reference to the director's individual circumstances rather than general materiality thresholds.

The Tag board has made its own assessment to determine the independence of each director on the board.

The Tag board comprises an executive chairman, Peter Wise, and five non-executive directors being Gary Cohen, Robert Constable, Robert Moran, Richard Peterson and Gary Weiss.

The composition of the board is based on the following factors:

- size of company;
- nature and extent of head office operations;
- tenure of directors; and
- limited trading in the company's securities.

Notwithstanding the nature of the board composition, the board maintains protocols to ensure that any potential or actual conflicts of interest and duty are properly identified and managed, and to ensure directors act in accordance with their fiduciary responsibilities.

The criteria for board membership and the selection of appropriate members of the board are determined by the board itself. Election and rotation of directors is governed by the company's constitution. Shareholder approval is sought where appropriate. In determining the appointment and retirement of non-executive directors, a cross section of skills and experience is sought.

The company's constitution specifies that:

- one third of the directors (with the exception of new appointees who must retire under a different rule); and
- any director, who would have held office for more than 3 years at the time of the annual general meeting,

must retire from office at that general meeting but may stand for re-election.

Details of the directors who are considered independent appears under Recommendation 2.6. The company has adopted the recommendation for a majority of the board to be

independent directors notwithstanding the nature and extent of the company's operations and the fact that interests associated with directors hold a majority of the company's issued securities.

*Recommendation 2.2:
The chairman should be an independent director.*

Tag has not adopted this recommendation as interests associated with the chairman hold a significant percentage of the company's issued securities. This recommendation is inappropriate to the company's particular circumstances.

*Recommendation 2.3:
The roles of chairman and chief executive officer should not be exercised by the same individual.*

Tag has not adopted this recommendation as interests associated with the chairman hold a significant percentage of the company's issued securities. This recommendation is inappropriate to the company's particular circumstances.

*Recommendation 2.4:
The board should establish a nomination committee.*

Tag has not adopted this recommendation as the practices relating to the selection and appointment of directors, detailed within this statement, are an efficient means of meeting the needs of the company, having regard to the relative size of the company which is reflected in the board structure and composition.

The board consists of six directors, four of whom are considered independent, and it is considered that Tag has the capacity to consider director nomination practices within the duly constituted meetings of the board, and that the establishment of a formal committee structure would not add greater value to this process. The company has not adopted this recommendation as it is inappropriate to its particular circumstances.

*Recommendation 2.5:
Disclose the process for evaluating the performance of the board, its committees and individual directors.*

The performance of the board, its committees and individual directors is considered on an informal, as needs basis, given that interests of directors have a beneficial or non-beneficial interest in a majority of the company's issued securities.

All directors have direct access to the entire senior management team, including the company secretary, and are provided with information on a timely basis.

*Recommendation 2.6:
Provide the information indicated in the Guide to reporting on Principle 2.*

Skills, experience and expertise of directors
Information relevant to the position of each director in office at the date of this report is set out in the Directors' Report.

Independent directors
Robert Constable, Robert Moran, Richard Peterson and Gary Weiss are considered "independent" in terms of the ASX

recommendations, with each holding nominal numbers of shares as set out in the Directors' Report. The board has not set a materiality threshold for determining "independence".

No independent director has undertaken employment with a group entity, has acted as a principal of a material professional adviser or material consultant of a group entity, is a material supplier or customer of a group entity, or has a material contractual relationship with a group entity other than as a director.

Independent professional advice

Directors are able to seek reasonable independent professional advice, as appropriate, in the furtherance of their duties. Any such advice may be at the company's expense, subject to prior approval of the board.

Period of office held by each director

Information in relation to the period of office held by each director can be found in the Directors' Report.

Process for selection and appointment of directors

Given the length of service of directors, the board does not consider it necessary to develop succession plans or procedures for the appointment and re-election of directors.

Performance evaluation

A performance evaluation of the board, its committees and directors did not take place in the reporting period for the reasons given under Recommendation 2.5.

Departures from recommendations

Any departure from Recommendations 2.1 to 2.6 is explained under the relevant Recommendation.

ASX Principle 3:

Promote ethical and responsible decision-making

Recommendation 3.1:

Establish a code of conduct and disclose the code or a summary of the code as to:

- *the practices necessary to maintain confidence in the company's integrity;*
- *the practices necessary to take into account the company's legal obligations and the reasonable expectations of shareholders; and*
- *the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

As part of the board's commitment to the high standards of conduct, the company has established operating protocols to deal with various issues including:

- conflicts of interest;
- employment practices;
- fair trading;
- health and safety; and
- relations with customers and suppliers.

These are designed to:

- clarify the standards of ethical behaviour required of the board, senior managers and employees and encourage compliance with those standards; and

- assist the company to comply with its legal obligations and have regard to the reasonable expectations of shareholders.

The recommendation to establish and publish a formal code has not been adopted in view of the nature and extent of company operations, the long-standing tenure of directors and the close relationship with the senior management team.

Recommendation 3.2:

Establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy.

The board has an informal policy to restrict directors and senior managers from acting on material information to trade in the company's securities until such information has been released to the market and adequate time has passed for it to be reflected in the price of those securities.

Material information means information concerning the company's financial position, strategy or operations and any other information which a reasonable person might consider, if it were made public, would be likely to have a material impact on a decision to buy or sell the company's securities.

The recommendation to publish details of the trading policy has not been adopted in view of the limited dealings undertaken by directors and senior managers in the company's securities and the fact that interests associated with the directors and senior managers hold a majority of the company's issued securities.

Recommendation 3.3:

Provide the information indicated in the Guide to reporting on Principle 3.

Any departure from Recommendations 3.1 to 3.3 is explained under the relevant recommendation.

ASX Principle 4:

Safeguard integrity in financial reporting

Recommendation 4.1:

Establish an audit committee.

The board has established an audit committee to assist it to ensure the truthful and factual presentation of the company's financial position.

Notwithstanding the existence of the audit committee, ultimate responsibility for the integrity of the company's financial reporting rests with the full board.

Recommendation 4.2:

The audit committee should be structured so that it:

- *consists only of non-executive directors;*
- *consists of a majority of independent directors;*
- *is chaired by an independent chair, who is not chair of the board; and*
- *has at least three members.*

The audit committee comprises two of the four independent, non-executive directors and is chaired by Robert Constable who is not chairman of the board.

The board considers that the skills, experience and expertise of Messrs Constable and Moran are entirely suited to the effective discharge of the responsibilities of the committee.

The board has not adopted the recommendation for the committee to maintain at least three directors, given the nature and extent of company's activities and the relative size of the board.

Recommendation 4.3:

The audit committee should have a formal charter.

The role and responsibilities of the Tag audit committee are to:

- oversee the existence and maintenance of internal controls and accounting systems;
- ensure the integrity of the financial reporting process;
- review the annual and half-yearly financial statements;
- oversee the independence of the external auditor; and
- ensure the existence of a process for identification and management of key business risks.

The committee has rights of access to management, rights to seek explanations and additional information, and access to external auditors without management being present.

The committee meets at least twice each year and reports to the board on all matters relevant to its role and responsibilities. Minutes of its meetings are made available to the full board.

The board has not adopted the recommendation to establish a committee charter in view of the nature and extent of company operations, the experience of each committee member, and close access to the executive team.

Recommendation 4.4:

Provide the information indicated in the Guide to reporting on Principle 4.

The qualifications of committee members are listed in the Directors' Report.

The number of committee meetings held during the reporting period and the attendance of each member at those meetings is set out in the Directors' Report.

The board has not published a committee charter, or information on procedures for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners as these matters are dealt with informally.

Any departure from Recommendations 4.1 to 4.4 is explained under the relevant Recommendation.

ASX Principle 5:

Make timely and balanced disclosure

Recommendation 5.1:

Establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance and disclose those policies or a summary of those policies.

The company secretary has been nominated as the person responsible for communication with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirement in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX and the public.

The company secretary and/or the executive chairman jointly ensure that any proposed announcement is drafted in a timely manner, is factual, expressed in a clear and consistent manner and does not omit material information.

Except for standard secretarial and procedural matters, all material announcements to the ASX are authorised by the board.

The recommendation to establish and publish written policies regarding compliance with ASX Listing Rule disclosure requirements has not been adopted in view of the nature and extent of company operations.

Recommendation 5.2:

Provide the information indicated in the Guide to reporting on Principle 5.

Any departure from Recommendations 5.1 and 5.2 is explained under Recommendation 5.1 above.

ASX Principle 6:

Respect the rights of shareholders

Recommendation 6.1:

Design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose the policy or a summary of that policy.

The recommendation to publish a communications policy has not been adopted in view of the nature and extent of company operations.

Recommendation 6.2:

Provide the information indicated in the Guide to reporting on Principle 6.

The company aims to keep shareholders informed of its performance and all major developments in an ongoing manner. Information disclosed to the ASX is available by a link on the company's website.

Additionally, information is communicated to shareholders through:

- the annual report which is distributed to all shareholders;
- the half annual report which is distributed to all shareholders in an abbreviated form; and
- other correspondence regarding matters impacting on shareholders as required.

Any departure from Recommendations 6.1 and 6.2 is explained under Recommendation 6.1 above.

ASX Principle 7: Recognise and manage risk

*Recommendation 7.1:
Establish policies for the oversight and management of material business risks and disclose a summary of those policies.*

In view of the nature and extent of company operations, the tenure, experience and understanding of directors, the company has established informal policies for the oversight and management of material business risks. Formal policies would be inappropriate to the company's particular circumstances.

*Recommendation 7.2
Require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. Disclose that management has reported to the board as to the effectiveness of the company's management of its material business risks.*

In view of the nature of the company's investment activities, formal and informal policies for the oversight and management of the various business risks associated with the company's specific investments are conducted at the relevant subsidiary board level.

A formal and documented risk management and internal control system has not been adopted as it is inappropriate to the company's particular circumstances.

*Recommendation 7.3:
Disclose whether the board has received assurance from the chief executive (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.*

The board has received the declaration in accordance with section 295A of the Corporations Act and has had an opportunity to question whether the declaration is founded on a system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

*Recommendation 7.4:
Provide the information included in the Guide to reporting on Principle 7.*

Any departure from Recommendations 7.1 to 7.4 is explained under the relevant Recommendation.

ASX Principle 8: Remunerate fairly and responsibly

*Recommendation 8.1:
Establish a remuneration committee.*

The remuneration committee comprises two non-executive directors.

The role and responsibilities of the Tag remuneration committee are to:

- make recommendations to the board on an appropriate remuneration policy for directors and senior managers;
- undertake the performance reviews of senior managers; and
- determine the remuneration and employment terms of senior managers in accordance with the adopted remuneration policy.

Remuneration for non-executive directors is determined by the full board and is subject to shareholder approval.

The board considers that the skills, experience and expertise of Messrs Cohen and Constable are entirely suited to the effective discharge of the responsibilities of the committee.

The board has not established a committee charter in view of the nature and extent of company operations and the relative size of the board.

The committee meets at least once per annum.

The committee reports to the board on all matters relevant to its role and responsibilities. Minutes of its meetings are made available to the full board.

*Recommendation 8.2:
Clearly distinguish the structure of non-executive directors' remuneration from that of directors and senior managers.*

The company's remuneration policy for senior managers and non-executive directors is set out in the Remuneration Report.

*Recommendation 8.3:
Provide the information indicated in the Guide to reporting on Principle 8.*

The number of committee meetings held during the reporting period and the attendance of each member at those meetings is set out in the Directors' Report.

There are no schemes for retirement benefits for non-executive directors.

The recommendation to publish information in relation to the role, rights, responsibilities and membership requirements for the remuneration committee has not been adopted in view of the nature and extent of company operations and the relative size of the board.

The company has not published a summary of the company's policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration scheme as the directors consider that such a policy is inappropriate to the company's particular circumstances.

Any departure from Recommendations 8.1 to 8.3 is explained under the relevant Recommendation.

New Zealand Stock Exchange Corporate Governance

Fully paid ordinary shares issued by Tag Pacific Limited are quoted on the Australian Securities Exchange (under the code TAG) and on the New Zealand Stock Exchange (under the code TPC). The corporate governance rules and principles of the Australian Securities Exchange may materially differ from the New Zealand Stock Exchange's corporate governance rules and the principles of the New Zealand Corporate Governance Best Practice Code. Further information about the corporate governance and principles of the Australian Securities Exchange may be found on the Australian Securities Exchange website (www.asx.com.au).

Shareholder information

The following information is current as at 20 August 2010

Spread of shareholders

Range	Number of shareholders	Number of shares
1 – 1,000	549	265,937
1,001 – 5,000	607	1,630,197
5,001 – 10,000	204	1,580,597
10,001 – 100,000	253	6,715,295
100,001 – and over	51	60,414,838
	1,664	70,606,864

1,094 shareholders held less than a marketable parcel

Substantial shareholders

Name	Number of shares	Percentage
Anthony Australia Pty Ltd	30,041,314	45.75
AIB Investments Pty Ltd and associates	7,538,035	11.48
Quatro Capital Pty Ltd and associates	5,238,436	7.98

Twenty largest shareholders

Name	Number of shares	Percentage
Anthony Australia Pty Ltd	28,127,380	39.84
Quatro Capital Pty Limited	5,636,336	7.98
Anthony Australia Pty Ltd	4,832,102	6.84
AIB Investments Pty Ltd	4,798,573	6.80
Ms Chun-Hsia Lu	1,791,598	2.54
George Chien Hsun Lu + Jenny Chin Pao Lu	1,435,237	2.03
AIB Investments Pty Limited	1,393,806	1.97
Mr George Chien Hsun Lu + Mrs Jenny Chin Pao Lu	1,230,212	1.74
Excalibur Nominees Limited	1,214,049	1.72
Dr John Aloizos + Mrs Muriel Patricia Aloizos <Superannuation Fund No 2 A/C>	824,875	1.17
Ms Nicola Helen Moran	557,772	0.79
Noonbah Pty Ltd <Noonbah S/F A/C>	550,000	0.78
Napla Pty Ltd	500,000	0.71
Mr Johnny Hsu	425,000	0.60
Mrs Sophie Gelski	400,000	0.57
Mr Edward James Stephen Dally + Mrs Selina Dally <Lekdal Family A/C>	380,679	0.54
HSBC Custody Nominees (Australia) Limited	371,786	0.53
Alistair Woodside Cunningham	340,000	0.48
Lu's International Limited	334,513	0.47
Mr Bruce Siemon	313,331	0.44
	55,457,249	78.54

Voting rights

At meetings of members each member may vote in person or by proxy, attorney or (if the member is a body corporate) corporate representative. On a show of hands every person present who is a member or a representative of a member has one vote and on a poll every member present in person or by proxy or attorney has one vote for each fully paid ordinary share held.

On-market buy-back

Tag Pacific Limited announced an on-market buy-back of up to 5% of its issued shares on 23 July 2007. The buy-back was extended for a further period of 12 months on each of 22 July 2008, 22 July 2009 and 22 July 2010. To date, no shares have been purchased by the company under the on-market buy-back.

Stock exchange listings

Fully paid ordinary shares issued by Tag Pacific Limited are quoted on the Australian Securities Exchange (under the code TAG) and on the New Zealand Stock Exchange (under the code TPC).

Corporate directory

Directors

Peter Wise (Chairman)
Gary Cohen
Robert Constable
Robert Moran
Richard Peterson
Gary Weiss

Company secretary

Nathan Wise

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Auditors

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Australia

Share registry

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New Zealand

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Takapuna

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