

**AUSTRALIAN VALUE FUNDS MANAGEMENT LIMITED**  
**PROFORMA HISTORICAL FINANCIAL INFORMATION**

---

## **1. FINANCIAL INFORMATION**

The financial information comprises:

- an audited statement of financial position as at 30 June 2004, pro forma adjustments in respect of the proposed transaction and a proforma historical statement of financial position of Australian Value Funds Management Limited as at 30 June 2004 as set out in Section 2; and
- an Independent Accountant's Report by Horwath Melbourne as set out in Section 3.

In order to understand the bases, assumptions and limitations underlying the proforma statement of financial position as at 30 June 2004 the historical financial information presented should be read in conjunction with:

- the statement of significant accounting policies set out in Note 1 of Section 2 of this financial information; and
- the Independent Accountant's Report on proforma historical financial information as set out in Section 3 of this financial information

Any reference to the Financial Report of Australian Value Funds Management Limited for the year ended 30 June 2004 is a reference to the financial report of Australian Value Funds Management Limited which was audited by MCG Partners Chartered Accountants who issued an unmodified opinion in relation to that financial report.

## **2. PROFORMA HISTORICAL STATEMENT OF FINANCIAL POSITION**

The table below sets out the proforma historical statement of financial position for Australian Value Funds Management Limited as at 30 June 2004. In preparing the proforma historical statement of financial position the audited statement of financial position of Australian Value Funds Management Limited has been adjusted to reflect 24 million shares issued under the Prospectus dated 26 October 2004 at \$0.25 per share raising \$6 million, less expected costs of the offer of \$285,000 (\$255,000 will be settled via cash consideration and the remaining \$30,000 will be satisfied by an equity issue – refer below).

In addition to the shares issued under the Prospectus the following additional shares issued have been included in the proforma adjustments:

- Issue of 120,000 shares in satisfaction of an amount payable of \$30,000, relating to capital raising costs;
- Issue of 2,068,203 shares in consideration of an amount payable of \$517,050 relating to the acquisition of a 28% interest in Carroll, Pike and Piercy Pty Ltd; and
- Issue of 130,000 shares in satisfaction of an amount payable of \$32,500 relating to incidental costs associated with the acquisition of Carroll, Pike and Piercy Pty Ltd.

**AUSTRALIAN VALUE FUNDS MANAGEMENT LIMITED**  
**PROFORMA HISTORICAL FINANCIAL INFORMATION**

**STATEMENTS OF FINANCIAL POSITION**

	Notes (1)	Audited 30 June 2004 (2) \$	Proforma Adjustments (3) \$	Proforma 30 June 2004 (4) \$
<b>CURRENT ASSETS</b>				
Cash assets	3	511,999	1,644,872	2,156,871
Receivables	4	7,044	500,000	507,044
Other financial assets	5	118,822	1,681,178	1,800,000
<b>TOTAL CURRENT ASSETS</b>		<u>637,865</u>	<u>3,826,050</u>	<u>4,463,915</u>
<b>NON-CURRENT ASSETS</b>				
Investments accounted for using the equity method	6	-	2,468,500	2,468,500
<b>TOTAL NON-CURRENT ASSETS</b>		<u>-</u>	<u>2,468,500</u>	<u>2,468,500</u>
<b>TOTAL ASSETS</b>		<u>637,865</u>	<u>6,294,550</u>	<u>6,932,415</u>
<b>CURRENT LIABILITIES</b>				
Payables		20,719	-	20,719
Provisions		85,805	-	85,805
<b>TOTAL CURRENT LIABILITIES</b>		<u>106,524</u>	<u>-</u>	<u>106,524</u>
<b>TOTAL LIABILITIES</b>		<u>106,524</u>	<u>-</u>	<u>106,524</u>
<b>NET ASSETS</b>		<u>531,341</u>	<u>6,294,550</u>	<u>6,825,891</u>
<b>EQUITY</b>				
Contributed equity	7	6,849,724	6,294,550	13,144,274
Reserves		1,634,267	-	1,634,267
Accumulated losses		(7,952,650)	-	(7,952,650)
<b>TOTAL EQUITY</b>		<u>531,341</u>	<u>6,294,550</u>	<u>6,825,891</u>

(1) Represents a reference to a note to the proforma historical statement of financial position contained on the pages following this statement.

(2) Represents the audited financial position of Australian Value Funds Management Limited as at 30 June 2004.

(3) Represents proforma adjustments as outlined in Note 2 of the Notes to the historical statement of financial position.

(4) The proforma historical statement of financial position has been prepared in accordance with and should be read in conjunction with the accounting policies as set out in the Notes to the proforma historical statement of financial position and the adjustments made and described above.

The audited and proforma historical statements of financial position are presented in an abbreviated form in so far as they do not include all the disclosure of the Australian Accounting Standards applicable to financial reports prepared in accordance with the Corporations Act 2001.

(5) After Australian Value Funds Management Limited has paid the purchase price to acquire the interests in the investments which will constitute its initial investment portfolio out of the monies raised under the Prospectus, the company will have enough working capital to fund its obligations as and when they become due.

**AUSTRALIAN VALUE FUNDS MANAGEMENT LIMITED**  
**PROFORMA HISTORICAL FINANCIAL INFORMATION**

---

**NOTES TO THE PROFORMA HISTORICAL STATEMENT OF FINANCIAL POSITION**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

**(a) Basis of Preparation**

The historical statement of financial position as at 30 June 2004 and proforma statement of financial position as at 30 June 2004 have been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001, except that certain disclosures have been omitted. In the view of Australian Value Funds Management Limited, these disclosures are not considered relevant to potential investors in the company.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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

**(b) Income Tax**

The company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account either as provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The company has not yet elected to enter the tax consolidation regime.

**(c) Cash**

Cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than two months and net of bank overdrafts.

**(d) Trade and other receivables**

Trade receivables are recognised and carried at original invoice amount less provision for any doubtful debts. An estimate for doubtful debts is made when collectors for the full amount is no longer possible.

**(e) Investments**

Listed shares and units in listed trusts held as current assets are carried in the financial report at the lower of cost and net realisable value.

Investments essentially comprise securities held for short-term trading purposes. Where disposals are made from investments the gain or loss arising from the difference between the proceeds and the carrying value is included in the Net Profit of the company.

All other non-current investments, including investments in associates are valued at the lower of cost and recoverable amount in the financial report.

**AUSTRALIAN VALUE FUNDS MANAGEMENT LIMITED**  
**PROFORMA HISTORICAL FINANCIAL INFORMATION**

---

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****(f) Revenue**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Other revenue is recognised when the right to receive the revenue has been established.

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

**(g) Goods and Services Tax (GST)**

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

**(h) Payables**

Payables represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

**(i) Transaction costs on the issue of equity instruments**

Transaction costs on the issue of equity instruments are recognised directly in equity as a reduction of the proceeds of the equity instruments to which the costs relate. Transaction costs are the costs that are incurred directly in connection with the issue of those equity instruments and which would not have been incurred had these instruments not been issued.

**(j) Impact of adopting AASB equivalents to IASB standards**

The Australian Accounting Standards Board is adopting Australian equivalents to International Financial Reporting Standards (AIFRS), for application to reporting periods beginning on or after 1 January 2005. The Company will be required to prepare its first fully AIFRS compliant financial report for the year ended 30 June 2006.

The Company is in the process of analysing the full impact of the AIFRS. Set out below are the key areas where accounting policies will change and may have an impact on the financial report of the Company. The actual impacts will depend upon the particular circumstances in existence at the time that the AIFRS are implemented. For these reasons it is not yet possible to quantify the impact of the Company's transition to AIFRS.

*i. Trading Portfolio to be measured at Market Value*

Under AIFRS, the Company's trading portfolio will need to be revalued to market value continuously, with any increments and decrements in value being included in the Company's net profit. Currently, it is the company's policy to value its portfolio at the lower of cost and net realisable value in aggregate. This change may result in increased volatility in the reported results for the Company's trading portfolio under AIFRS.

At 30 June 2004, the amount by which the market value of the Company's trading portfolio was in excess of its carrying value in the financial statements is approximately \$15,000 – this value has not been adjusted for any transaction costs anticipated on disposal of investments in the portfolio.

*ii. Impact on Income Tax as a result of measuring the trading portfolio at its market value*

As a consequence of the need to revalue the Company's trading portfolio to market value (as stated above), the Company will also be required to recognise an additional tax asset/liability under the AIFRS, which is intended to reflect the deferred tax effect of valuing its portfolio to market value. If applied at 30 June 2004, this would require the recognition of an increase in a deferred tax liability and income tax expense of approximately \$4,500.

**AUSTRALIAN VALUE FUNDS MANAGEMENT LIMITED**  
**PROFORMA HISTORICAL FINANCIAL INFORMATION**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

iii. *Share Based Payments*

Under AASB 2 *Share Based Payments*, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share-based payments issued after November which have not vested as at 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is impracticable, as the details of future equity based remuneration plans are unknown.

iv. *Other impacts on Income Taxes*

Under the Australian equivalent to IAS 12 Income Taxes, the Company will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect the amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be any material impact as a result of adoption of this standard.

**NOTE 2: PROFORMA ADJUSTMENTS**

**Adjustments and Assumptions used in the preparation of the proforma statement of financial position.**

The proforma statement of financial position has been prepared to reflect the state of affairs of Australian Value Funds Management Limited as it would appear at 30 June 2004. It reflects the following assumptions:

Australian Value Funds Management Limited will issue 24 million ordinary shares of \$0.25 each which will be sold pursuant to a Prospectus. Total proceeds to be raised are expected to be \$6 million, less expected costs of the offer of \$285,000 (\$255,000 will be settled via cash consideration and the remaining \$30,000 will be satisfied by an equity issue – refer below).

- These proceeds will increase the cash held by the company.
- In addition to the shares issued under a Prospectus the following additional shares will be issued as part of the capital raising process as follows:
  1. Issue of 120,000 shares in satisfaction of an amount payable of \$30,000 relating to capital raising costs;
  2. Issue of 2,068,203 shares in consideration of an amount payable of \$517,050 relating to the acquisition of a 28% interest in Carroll, Pike and Piercy Pty Ltd; and
  3. Issue of 130,000 shares in satisfaction of an amount payable of \$32,500 relating to incidental costs associated with the acquisition of Carroll, Pike and Piercy Pty Ltd.
- Costs associated with the capital raising will total approximately \$285,000 (\$255,000 will be settled via cash consideration and the remaining \$30,000 will be satisfied by an equity issue – refer above). These costs will reduce the cash held and the value of contributed equity. A summary of the contributed equity is disclosed in Note 7 of these notes to the proforma historical statement of financial position.
- Australian Value Funds Management Limited will invest \$1,800,000 into listed investments based on an investment mandate with Armytage Private Limited.
- Australian Value Funds Management Limited will advance \$500,000 to Carroll, Pike and Piercy Pty Ltd to assist their working capital requirements. In addition to this another \$500,000 is available to Carroll, Pike and Piercy Pty Ltd to draw down upon as required.
- Australian Value Funds Management Limited will acquire a 28% interest in Carroll, Pike and Piercy Pty Ltd. This will be satisfied via a cash settlement of \$1,918,950 and the issue of 2,068,203 shares in Australian Value Funds Management Limited.

**AUSTRALIAN VALUE FUNDS MANAGEMENT LIMITED**  
**PROFORMA HISTORICAL FINANCIAL INFORMATION**

<b>NOTE 3: CASH ASSETS</b>	<b>Audited 30 June 2004</b>	<b>Proforma Adjustments</b>	<b>Proforma Statement of Financial Position 30 June 2004</b>
Cash at bank	511,999	1,644,872	2,156,871
<b>NOTE 4: RECIEVABLES</b>			
Other Debtors	7,044	-	7,044
Amounts receivable from associated companies	-	500,000	500,000
	7,044	500,000	507,044
<b>NOTE 5: OTHER FINANCIAL ASSETS</b>			
Investments in listed shares and units – at cost	118,822	1,681,178	1,800,000
<b>NOTE 6: INVESTMETNS ACCOUNTED FOR USING THE EQUITY METHOD</b>			
Associated Companies	-	2,468,500	2,468,500
<b>NOTE 7: CONTRIBUTED EQUITY</b>			
Ordinary shares fully paid	6,849,724	6,294,550	13,144,274
Proforma adjustment represented by:			
46,828,483 fully paid ordinary shares per the 30 June 2004 audited financial report	6,849,724	-	6,849,724
24,000,000 fully paid ordinary shares issued pursuant to the Prospectus	-	6,000,000	6,000,000
Capital raising costs associated with the Prospectus capital raising	-	(285,000)	(285,000)
2,068,203 fully paid ordinary shares issued pursuant to the acquisition of the 28% interest in CPP	-	517,050	517,050
250,000 fully paid ordinary shares issued in satisfaction of services provided by Armytage Private Ltd	-	62,500	62,500
	6,849,724	6,294,550	13,144,274

**3. INDEPENDENT ACCOUNTANT'S REPORT ON PROFORMA HISTORICAL FINANCIAL INFORMATION**

---



Horwath Melbourne  
A.B.N 43 774 280 973  
Chartered Accountants  
114 William Street, Melbourne 3000  
GPO Box 4736UU, Melbourne 3001  
Victoria Australia  
Telephone 03 9670 0955  
Facsimile 03 9670 3002

17 November 2004

**PRIVATE & CONFIDENTIAL**

The Board of Directors  
Australian Value Funds Management Limited  
Level 16  
90 Collins Street  
MELBOURNE VIC 3000

Dear Sirs,

**INDEPENDENT ACCOUNTANT'S REPORT ON PROFORMA HISTORICAL FINANCIAL INFORMATION**

We have prepared this Independent Accountant's Report ("report") at the request of the Directors on the proforma historical financial information of Australian Value Funds Management Limited ("AVFML" or "the Company") as at 30 June 2004, comprising the audited statement of financial position and the proforma statement of financial position of the Company, the financial information of which relates to a Prospectus dated on or about 26 October 2004, relating to the issue of up to 24 million fully paid shares (plus one attaching option) at an issue price of 25 cent per share to raise gross proceeds of up to \$6,000,000.

Expressions defined in the Prospectus have the same meaning in this report.

**Background**

Details of the Company's corporate history, structure, corporate objectives and proposed investment allocation of funds are contained in Section 2 of the Prospectus.

E.L.&C. Baillieu Stockbroking Ltd ("Baillieu") has accepted a firm allocation of 24,000,000 shares of 25 cents per share totalling \$6,000,000 (and attaching options exercisable at 20 cents per share) for which Baillieu will receive a firm allocation fee of \$120,000 in relation to this exercise.

**Scope**

The directors of AVFML have requested Horwath to prepare a report covering the following information:

- The audited statement of financial position as at 30 June 2004 as disclosed in Section 2 of the proforma historical financial information; and
- The pro forma statement of financial position as at 30 June 2004, as disclosed in Section 2 of the

### 3. INDEPENDENT ACCOUNTANT'S REPORT ON PROFORMA HISTORICAL FINANCIAL INFORMATION

---



proforma historical financial information, which assumes completion of the contemplated proforma transactions disclosed in Note 2 of the Notes to the proforma historical statement of financial position.

collectively referred to as the **proforma historical financial information**.

The audited statement of financial position as set out in Section 2 has been extracted from the Financial Report of the Company for the year ended 30 June 2004 which was audited by MCG Partners Chartered Accountants who issued an unmodified opinion in relation to that financial report.

The Directors are responsible for the preparation of the proforma historical financial information, including determination of the adjustments in respect of the pro-forma transactions.

We have conducted our review of the proforma historical financial information in accordance with the Australian Auditing and Assurance Standard AUS 902 "Review of Financial Reports". We made such inquiries and performed such procedures as we, in our professional judgement, considered reasonable in the circumstances including:

- a review of work papers, accounting records and other documents;
- a review of the assumptions used to compile the pro forma statement of financial position as at 30 June 2004 as contained in Note 2 of the Notes to the proforma historical statement of financial position. It has been prepared as if the Company had completed the proforma transactions as at 30 June 2004 as outlined in section 2.
- a comparison of consistency in application of the recognition and measurement principles in Accounting Standards and other mandatory professional reporting requirements in Australia, and the accounting policies adopted by the Company disclosed in Note 1 of the Notes to the proforma historical statement of financial position, and
- inquiry of Directors, management and others.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

#### **Conclusion:**

#### ***Review Statement on the Proforma Historical Financial Information***

Based on our review, which is not an audit, nothing has come to our attention which causes us to believe that:

- the pro forma statement of financial position has not been properly prepared on the basis of the pro forma transactions;
- the proforma historical financial information, as set out in Section 2 does not present fairly;

**3. INDEPENDENT ACCOUNTANT'S REPORT ON PROFORMA HISTORICAL FINANCIAL INFORMATION**

---



in accordance with the recognition and measurement principles prescribed in Accounting Standards and other mandatory professional reporting requirements, and accounting policies adopted by the Company disclosed in Note 1 of the Notes to the proforma historical statement of financial position as contained in Section 2.

**Subsequent events**

Apart from the matters dealt with in this report, and having regard to the scope of our report, to the best of our knowledge and belief, no material transactions or events outside of the ordinary business of the Company have come to our attention that would require comment on, or adjustment to, the information referred to in our report or that would cause such information to be misleading or deceptive.

**Independence or Disclosure of Interest**

Horwath Melbourne does not have any interest in the outcome of this issue other than in the preparation of an independent accountant's report and the provision of certain taxation advice by a related entity for which normal professional fees will be received.

Yours faithfully  
**HORWATH MELBOURNE**

A handwritten signature in black ink, appearing to read "John Blight".

**JOHN BLIGHT**  
Partner

A handwritten signature in black ink, appearing to read "Michael Smith".

**MICHAEL SMITH**  
Partner