



Kingsgate

Consolidated Limited

ABN 42 000 837 472

26 August 2005

21 Pages (including this page)

Manager, Company Announcements
Australian Stock Exchange Limited
Level 4, 20 Bridge Street
SYDNEY NSW 2000

Dear Sir,

PRELIMINARY FINAL ASX APPENDIX 4E REPORT FOR THE YEAR ENDED 30 JUNE 2005

We enclose herewith the Preliminary Final ASX Appendix 4E Report for the year ended 30 June 2005.

Yours faithfully
KINGSGATE CONSOLIDATED LIMITED

JOHN FALCONER
Company Secretary

KINGSGATE CONSOLIDATED LIMITED
ABN 42 000 837 472

ASX CODE: KCN

PRELIMINARY FINAL ASX 4E REPORT
FOR THE YEAR ENDED 30 JUNE 2005

TABLE OF CONTENTS

Results for Announcement to the Market	1
Review of Operations	2
Statement of Financial Performance	5
Statement of Financial Position	6
Statements of Cash Flows	7
Notes to the Preliminary Final Report	8

Kingsgate Consolidated Limited
ABN 42 000 837 472
(ASX Code: KCN)

Appendix 4E
Preliminary Final Report
For the Financial Year Ended 30 June 2005

Results for Announcement to the Market

				\$'000
Revenue from ordinary activities	Down	23.7 %	to	66,190
Profit from ordinary activities after tax attributable to members	Down	77.0%	to	8,680
Net profit for the period attributable to members	Down	77.0%	to	8,680
Dividends/distributions	Amount per security		Franked amount per security	
Final dividend				
- current reporting period	5.0 ¢		nil	
- previous reporting period	12.0¢		nil	
Interim dividend				
- current reporting period	2.0¢		nil	
- previous reporting period	10.0		nil	
Record date for determining entitlements to the final dividend of 5.0 cents per share				
<div>9 September 2005</div>				
Brief explanation of any of the figures reported above and short details of any bonus or cash issue or any other item of importance not previously released to the market:				
Refer attached Review of Operations for commentary on the results for the year.				

Current Reporting Period: Year ended 30 June 2005
Previous Corresponding Reporting Period: Year ended 30 June 2004

REVIEW OF OPERATIONS

Overview

The directors of Kingsgate Consolidated Limited today announced a net profit after tax of \$8.7 million for the year ended 30 June 2005, its third full year of production.

Although a difficult mining year, the 2004/05 year has been another successful one for Kingsgate. Exciting exploration success near the mine site added over 1.2 million ounces of gold to the resource inventory during the year, confirming the growth potential of the Chatree Gold Mine. The company continues to invest for the future and substantial expenditure has been incurred near Chatree on exploration, land, plant and equipment.

Final Dividend

The directors have declared a final unfranked dividend of 5 cents per share, bringing to 7 cents the total dividends declared in respect to 2004/05. Earnings per share were 10.1 cents for the year.

Dividend payments during 2004/05 include a final dividend of 12 cents per share relating to the 2003/04 year, and an interim dividend for 2004/05 of 2 cents per share.

Finance

The net profit after tax for the year was \$8.7 million and represents a 77.0% decrease on the profit of \$37.7 million achieved in the previous year. The profit is equivalent to US\$6.5 million.

Operational performance was impacted by reduced gold production, the treatment of lower grade ore at a higher mining strip ratio, higher mining costs and the realised gold price was reduced by delivery into hedge positions. Additionally, various accounting items, depreciation and the write off exploration expenditure in South America further affected the year's profits. The financial performance of the company in A\$ terms was also adversely impacted by the stronger A\$:US\$ exchange rate in 2004/05 of 0.75 compared with 0.71 in the previous year.

Total revenue amounted to \$66.2 million and is a decrease of 23.7% over the previous year. The decreased revenue resulted from lower gold production at a lower average realised price.

The operational performance during the year constrained the operating cash flow which totalled \$22.2 million. Net investing cash flows for property, plant, equipment and exploration were \$38.1 million and included \$11.5 million spent on exploration activities in Thailand and South America.

Dividends paid during the year amounted to \$12 million and a further \$723,353 was incurred on the Share Buy Back program, under which 275,721 shares were cancelled.

The company has available a financing facility of US\$24 million, with 4 banks participating by means of a revolving credit facility. The facility was fully available at year-end. The company is in a strong financial position at year end with cash on hand of \$32.1 million.

Operations

Total production at Chatree for the year was 126,550 ounces of gold and 353,275 ounces of silver at a total cash cost of US\$212 per ounce and total production cost of US\$262 per ounce of gold. These results place Chatree as a low cost producer. Gold production represents a 15.6% decrease on the previous year as lower grades of ore were treated. The impact of lower grade ore has been partly mitigated through higher plant throughput following an upgrade at the end of 2003. Installation of a pebble crusher is expected to further increase plant capacity to 2.35Mtpa by the end of 2005.

The company's excellent safety and environmental performance continued without a single lost time injury being recorded throughout the year. There were no significant environmental incidents and the company maintained international accreditations for ISO 9001 for Quality Control, ISO 14001 for Environmental Management and OHSAS 18001 for Occupational Health and Safety.

Exploration

Exploration continued to focus on developing resources and reserves near the Chatree mine area. The company's significant exploration program achieved continuing success and raised the total company Ore Reserves to over 1.5 million ounces of gold as at 30 June 2005, an increase of 38% on last year. Mineral Resources amount to over 3.0 million ounces of gold compared with 1.8 million ounces a year ago, a 66% increase. New discoveries have been made at various locations north and south of the existing operation, illustrating mineralisation over approximately 10 kilometres in strike length.

Over the past two years the average cost of discovering gold into a resource category has been US\$7 an ounce. There will be an increased focus on converting discoveries to mineral resources and ore reserves and a commensurate re-evaluation of the project scale as the size of the project is increased. Scope to significantly increase the plant capacity further is being evaluated in light of the exploration potential of the area.

In the Regional program, stream sediment sampling was completed over a large area of the Loei-Petchabun Belt and numerous gold and copper anomalies have been generated by this work.

In South America, Kingsgate has recently applied for tenements in the Puquio Region of Peru where a large alteration system with associated high grade gold and silver epithermal vein systems has been identified.

The company is committed to exploration in order to increase the Mineral Resource and Ore Reserve position and will increase exploration expenditure to approximately US\$11.0 million in the forthcoming year, with over US\$9 million to be spent in and around the Chatree operation.

Business Development

The company has agreed to subscribe for 19.99% of the share capital in Goldstar Resources NL, at a cost of between \$2.1 and \$2.4 million. The investment will be by way of share placements and sub-underwriting in a proposed rights issue. This is a strategic long term investment in an undervalued Victorian gold explorer.

Outlook

The Directors are confident that Kingsgate is well-positioned to progress its strategy for profitable growth. Opportunities are being continually monitored and evaluated. The outlook for next year is positive and current expectations are for gold production in the vicinity of 145,000 to 150,000 ounces at a cash cost of approximately US\$220 per ounce. Improvements to these projections are being targeted through a focus on cost and production initiatives and by pursuing short-term contributions from exploration.

Statement of Financial Performance
For the year ended 30 June 2005

	Notes	Consolidated 2005 \$'000	2004 \$'000
Revenue from ordinary activities	3	<u>66,190</u>	<u>86,780</u>
Changes in inventories of finished goods and work in progress		(868)	2,096
Direct costs of mining and processing		(33,537)	(31,012)
Rehabilitation expenses		(785)	(667)
Employee benefits expense		(5,972)	(4,760)
Depreciation and amortisation expenses	3	(8,520)	(11,323)
Borrowing costs expense	3	(889)	(2,416)
Exploration expensed		(2,082)	-
Foreign exchange gains / (losses)		135	1,645
Other expenses from ordinary activities		<u>(4,992)</u>	<u>(2,664)</u>
Profit from ordinary activities before related income tax expense		8,680	37,679
Income tax expense	4	<u>-</u>	<u>-</u>
Profit from ordinary activities after related income tax expense		<u>8,680</u>	<u>37,679</u>
Net Profit attributable to members of Kingsgate Consolidated Limited		<u>8,680</u>	<u>37,679</u>
Net exchange differences on translation of financial reports of foreign controlled entities		<u>(10,504)</u>	<u>(968)</u>
Total revenues, expenses and valuation adjustments attributable to members of Kingsgate Consolidated Limited recognised directly in equity		<u>(10,504)</u>	<u>(968)</u>
Total changes in equity attributable to members of Kingsgate Consolidated Limited other than those resulting from transactions with owners as owners		<u>(1,824)</u>	<u>36,711</u>
		Cents	Cents
Basic earnings per share	14	10.1	45.5
Diluted earnings per share	14	10.1	45.5

The statement of financial performance is to be read in conjunction with the review of operations and the accompanying notes to the financial statements.

Statement of Financial Position
As at 30 June 2005

	Notes	Consolidated 2005 \$'000	2004 \$'000
<i>Current Assets</i>			
Cash assets		32,119	59,696
Receivables		5,989	5,854
Inventories		5,200	6,511
Other assets		1,816	1,797
<i>Total Current Assets</i>		45,124	73,858
<i>Non-Current Assets</i>			
Mine property, plant and equipment		86,474	65,689
Other assets		3,650	3,866
<i>Total Non-Current Assets</i>		90,124	69,555
<i>Total Assets</i>		135,248	143,413
<i>Current Liabilities</i>			
Payables		7,184	4,443
Provisions		1,395	1,201
Other liabilities		872	1,095
<i>Total Current Liabilities</i>		9,451	6,739
<i>Non-Current Liabilities</i>			
Other liabilities		2,767	1,628
<i>Total Non-Current Liabilities</i>		2,767	1,628
<i>Total Liabilities</i>		12,218	8,367
<i>Net Assets</i>		123,030	135,046
<i>Equity</i>			
Parent entity interest			
Contributed equity	8	75,934	74,153
Reserves		(19,846)	(9,342)
Retained profits	9	66,942	70,235
<i>Total Equity</i>		123,030	135,046

The statement of financial position is to be read in conjunction with the review of operations and the accompanying notes to the financial statements.

Statement of Cash Flows
For the year ended 30 June 2005

	Note	Consolidated	
		2005	2004
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers		65,440	86,194
Payments to suppliers and employees		(44,350)	(37,764)
Interest received		1,983	1,991
Borrowing costs		(889)	(1,127)
Net cash inflow from operating activities	12	22,184	49,294
Cash flows from investing activities			
Payments for exploration and land acquisitions		(33,913)	(11,160)
Payments for property, plant and equipment		(4,229)	(12,837)
Net cash outflow from investing activities		(38,142)	(23,997)
Cash flows from financing activities			
Proceeds from issue of shares		215	42,910
Payments for shares bought back		(718)	-
Share issue and buy-back transaction costs		(5)	(1,183)
Proceeds from borrowings		-	13,274
Repayment of borrowings		-	(32,693)
Dividends paid		(9,684)	(16,676)
Net cash inflow / (outflow) from financing activities		(10,192)	5,632
Net increase / (decrease) in cash held		(26,150)	30,929
Cash at the beginning of the financial year		59,696	28,914
Effects of exchange rate changes on cash		(1,427)	(147)
Cash at the end of the financial year		32,119	59,696

The statement of cash flows is to be read in conjunction with the review of operations and the accompanying notes to the financial statements.

Notes to the Preliminary Final Report
For the year ended 30 June 2005

1. Basis of preparation of the Preliminary Final Report

This report has been prepared in accordance with Appendix 4E of the Australian Stock Exchange Listing Rules and is based on AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views. This financial report relates to the consolidated entity consisting of Kingsgate Consolidated Limited and the entities it controlled at the end of, or during, the year ended 30 June 2005. The accounting policies adopted are consistent with those of the previous year.

The company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the “rounding off” of amounts in financial reports. Amounts in this report have been rounded off in accordance with that Class order to the nearest thousand dollars.

2. Statement about the audit status

This report is based on financial statements that are in the process of being audited. The company does not expect that there will be any qualifications to its financial statements.

3. Revenue and Expenses from Ordinary Activities

	Consolidated	
	2005	2004
	\$'000	\$'000
Revenue from operating activities		
Gold Sales	60,480	81,091
Silver Sales	3,239	3,319
Revenue from outside the operating activities		
Interest	2,042	2,353
Other	429	17
Revenue from ordinary activities	<u>66,190</u>	<u>86,780</u>

	Consolidated	
	2005	2004
	\$'000	\$'000
Expenses from Ordinary Activities		
Cost of sales	40,763	37,124
Foreign exchange (gain) / losses	(135)	(1,645)
Borrowing costs		
Interest and finance charges paid/payable	673	1,024
Exchange losses on foreign currency borrowings	-	1,288
Amortisation of deferred borrowing costs	216	104
Borrowing costs expensed	889	2,416
Write down of raw materials and stores	568	-
Rental expense relating to operating leases	1,426	634
Depreciation and amortisation		
Mine properties	6,288	7,352
Mine buildings, plant and equipment	2,157	3,925
Non-mining property, plant and equipment	237	111
Depreciation capitalised	(162)	(65)
Total depreciation and amortisation	8,520	11,323

4. Income Tax

	Consolidated	
	2005	2004
	\$'000	\$'000
Income tax expense		
The income tax expense for the financial year differs from the amount calculated on the profit.		
The differences are reconciled as follows:		
Profit from ordinary activities before income tax expense	8,680	37,679
Income tax calculated @ 30%	2,604	11,304
Tax effect of permanent differences:		
Tax exempt profits – Thailand	(4,502)	(12,231)
Income tax adjusted for permanent differences	(1,898)	(927)
Current year tax loss not brought to account	1,898	927
Income tax expense	-	-

Akara Mining Limited, a controlled entity, has received approval from the Royal Thai Board of Investment (BOI) of the Office of the Prime Minister for promotion of the Chatree Gold Mine.

Subject to meeting BOI conditions and based on a production of 178,416 ounces of gold and 583,733 ounces of silver, Akara Mining Limited's Chatree Gold Mine is entitled to:

- a) An 8 year full corporate tax holiday commencing at first gold pour on metal sales;
- b) A further 5 year half tax holiday following (a) above (at a 15% tax rate); and
- c) Other benefits.

5. Controlled entities acquired or disposed of

Patron Limited, an inactive subsidiary, was dissolved on 25 January 2005.

The following companies were established during the year and are 100% owned by the Consolidated Entity:

- Minera Kingsgate Capital Pty Ltd South America Limited was incorporated on the 12 October 2004 in Chile.
- Kingsgate Peru SRL was incorporated on the 3 November 2004 in Peru.

6. Details of aggregate share of profit (losses) of Associates and Joint Venture Entities

There are no associates or joint venture entities associated with the Consolidated Entity.

7. Segment Information

Primary reporting – Business segments

The Consolidated Entity operates exclusively in the business segment of gold mining and exploration.

Secondary reporting – Geographical segments

	Consolidated	
	2005	2004
	\$'000	\$'000
Sales to external customers:		
Asia Pacific	<u>66,190</u>	<u>86,780</u>
Segment results		
Asia Pacific	10,510	37,679
South America	<u>(1,830)</u>	<u>-</u>
	<u>8,680</u>	<u>37,679</u>
Segment assets:		
Asia Pacific	134,586	143,413
South America	<u>662</u>	<u>-</u>
	<u>135,248</u>	<u>143,413</u>

8. Share Capital

Date	Details	Shares	\$'000
30 June 2003	Opening balance	72,868,854	31,471
3 September 2003	Exercise of options – Director	150,000	222
4 September 2003	Share placement at \$3.55 / share	10,800,000	37,157
13 October 2003	Share purchase plan	1,209,212	4,293
16 March 2004	Exercise of options – Employee	25,000	55
2 April 2004	Dividend reinvestment plan at \$3.46 / share	275,707	955
30 June 2004	Closing balance	<u>85,328,773</u>	<u>74,153</u>
9 September 2004	Exercise of options – Director	100,000	148
15 October 2004	Dividend reinvestment plan at \$3.05 / share	703,157	2,144
17 March 2005	Dividend reinvestment plan at \$2.15 / share	67,562	145
April to June 2005	Shares bought back on-market and cancelled	(275,721)	(723)
27 June 2005	Exercise of options – Employee	25,000	67
30 June 2005	Closing balance	<u>85,948,771</u>	<u>75,934</u>

Share Buy Back

During April to June 2005 the company purchased and cancelled 275,721 ordinary shares representing 0.3% of ordinary share capital. The shares were acquired at an average price of 2.61 per share, with prices ranging from 2.20 cents to 2.93 cents. Share buy-back transaction costs amounted to \$5,048. The on-market buyback continues at the date of this report.

9. Retained Profits

	Consolidated	
	2005	2004
	\$'000	\$'000
Retained earnings at the beginning of the financial year	70,235	50,187
Net profit attributable to members of Kingsgate Consolidated Limited	8,680	37,679
Dividends provided for or paid during the year	(11,973)	(17,631)
Retained profits at the end of the financial year	<u>66,942</u>	<u>70,235</u>

10. Net Tangible Asset Backing

	2005	2004
Net tangible asset backing per ordinary share: \$/share	1.43	1.58

11. Dividends

Details of dividends/distributions declared or paid during or subsequent to the year ended 30 June 2005 are as follows:

Record date	Payment date	Type	Amount per security in cents	Total dividend \$'000	Franked amount per security in cents	Foreign sourced dividend amount per security
3 September 2003	1 October 2003	Final	12.5	9,125	Nil	12.5
19 March 2004	2 April 2004	Interim	10.0	8,506	Nil	10.0
10 September 2004	15 October 2004	Final	12.0	10,251	Nil	12.0
9 March 2005	17 March 2005	Interim	2.0	1,722	Nil	2.0
9 September 2005	27 September 2005	Final	5.0	4,288	Nil	5.0

The Consolidated Entity operates a dividend reinvestment plan (DRP), details of which are available on the Kingsgate website (www.Kingsgate.com.au). The last date for the receipt of an election notice for participation in the DRP is 8 September 2005.

12. Cash Flow Information

Reconciliation of profit from ordinary activities after income tax to net operating cash flows:

	Consolidated	
	2005	2004
	\$ 000	\$ 000
Operating profit after income tax	8,680	37,679
Depreciation and amortisation	8,520	11,323
Net exchange differences	(135)	356
Changes in operating assets and liabilities		
(Increase) decrease in debtors	(135)	2,823
(Increase) decrease in inventories	1,311	(2,322)
(Increase) decrease in other operating assets	197	(4,600)
Increase (decrease) in creditors	2,636	1,101
Increase (decrease) in provisions	194	212
Increase (decrease) in other liabilities	916	2,722
Net cash inflow from operating activities	<u>22,184</u>	<u>49,294</u>

13. Events occurring after reporting date

Dividend

On 25 August 2005, the Directors of the parent entity declared a final unfranked dividend of 5 cents per share. The record date for the dividend is 9 September 2005 with payment due on 27 September 2005.

Share Buy Back

Between the period from 1 July to 25 August 2005, the company bought back and cancelled 191,756 shares under the Share Buy Back program, at a total cost of \$600,261. This program is still in operation at the time of this report.

Investment

Kingsgate has agreed to take up to 19.99% of the issued capital of Goldstar Resources NL, a gold exploration company listed on the Australian Stock Exchange (Code: GDR). The investment will be by way of share placements in two tranches and taking up an entitlement and sub-underwriting in a proposed rights issue to be made by Goldstar.

The total cost of the investment is dependant on how many shares are taken up by Kingsgate in the sub-underwriting at 13 cents each as against shares taken up in the placements at 15 cents. The maximum cash cost of the investment will be between \$2.1 and \$2.4 million.

14. Earnings per share

	2005 Cents	2004 Cents
Basic earnings per share	10.1	45.5
Diluted earnings per share	<u>10.1</u>	<u>45.5</u>
	2005 \$ 000	2004 \$ 000
Net profit used to calculate basic and diluted earnings per share	8,680	37,679
	2005 Number	2004 Number
Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>85,901,267</u>	<u>82,808,422</u>
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	<u>85,901,967</u>	<u>82,879,220</u>

15. Impact of Adopting Australian equivalents to IFRS

The Australian Accounting Standards Board (AASB) is adopting International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The AASB has issued Australian equivalents to IFRS, and the Urgent Issues Group has issued interpretations corresponding to IASB interpretations originated by the International Interpretations Committee or the former Standing Interpretations Committee. The adoption of Australian equivalents to IFRS are referred to hereafter as AIFRS. The adoption of AIFRS will be first reflected in the consolidated entity's financial statements for the half year ending 31 December 2005 and the year ending 30 June 2006.

Entities complying with AIFRS for the first time will be required to restate their comparative financial statements to amounts reflecting the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

The parent entity has established a project team to manage the transition to AIFRS, including training of staff and system and internal control changes necessary to gather all the required financial information. The project team has prepared a timetable for managing the transition to AIFRS and is currently on schedule. The project team is led by the Chief Financial Officer who reports on a regular basis to the Audit Committee.

The project team has analysed all of the AIFRS and has identified most of the accounting policy changes that will be required. In some cases choices of accounting policies are available, including elective exemptions under Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. These choices have been analysed to determine the most appropriate accounting policy for the consolidated entity.

The known or reliably estimated impacts on the financial report for the year ended 30 June 2005 had it been prepared using AIFRS are set out below. The expected financial effects of adopting AIFRS have been indicated along with descriptions of the differences. No material impacts are expected in relation to the statement of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations, and current facts and circumstances, these may change. For example, amended or additional standards or interpretations may be issued by the AASB and the IASB. Therefore, until the company prepares its full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

Financial Instruments

The consolidated entity will be taking advantage of the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* only from 1 July 2005. This allows the consolidated entity to apply previous Australian Generally Accepted Accounting Principles (AGAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 30 June 2006 financial report. Accordingly, there will be no quantitative impacts on the 30 June 2005 financial statements.

Under AASB 139, gold contracts held for hedging purposes will be accounted for as cash flow hedges. These contracts will be measured at fair value and included as a liability, with changes in the fair value recognised directly in equity where effectiveness tests are met, until the hedged transaction occurs. Once the hedged transaction occurs, the changes in the fair value will be transferred to the profit and loss.

Where effectiveness tests are not met, changes in the fair value are recognised directly in the profit and loss.

Currently, the costs or gains arising upon entry into forward sale or derivative contracts intended to hedge specific future production, together with subsequent realised or unrealised losses are deferred until the underlying designated production is delivered.

Gains or costs arising upon entry into foreign exchange contracts intended to hedge the purchase or sale of goods or services, together with subsequent exchange gains or losses resulting from those transactions, are deferred in the statement of financial position from the inception of the hedging transaction to the date of the purchase or sale and included in the measurement of the purchase or sale.

The IFRS project team is in the process of determining the impact that adopting the standards would have on the financial statements of the consolidated entity.

Exploration Expenses

AASB 6 *Exploration for and Evaluation of Mineral Resources* was issued in December 2004 and replaces AASB 1022 Accounting for the Extractive Industry. The guidance specified by AASB 6 are broadly consistent with the factors used to determine whether or not an entity can continue to recognise its capitalised exploration and evaluation expenditures under AASB 1022.

Consequently, the recognition and measurement are largely equivalent under AASB 6 and AASB 1022 and the consolidated entity does not expect to make a material adjustment to capitalised exploration with the introduction of AIFRS.

Income Tax

Under AASB 112 *Income Taxes*, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amount of the consolidated entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This will result in a change to the current accounting policy, under which deferred tax balances are determined using the income statement method, where items are only tax-effected if they are included in the determination of pre-tax accounting profit and deferred taxes cannot be recognised directly in equity.

The IFRS project team is in the process of determining the impact that adopting the standard would have on the financial statements of the consolidated entity.

Foreign Currency Translation Reserve: Cumulative Translation Differences

On the initial application of AIFRS, the consolidated entity will elect to apply the exemption on AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* relating to the balance of the foreign currency translation reserve. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve will be deemed to be zero at the date of translation to AIFRS.

This will result in \$10,368,000 of foreign currency translation reserve being reclassified against retained earnings at 1 July 2004.

Equity Based Compensation Benefits

Under AASB 2 *Share-based Payments*, from 1 July 2004 the consolidated entity is required to recognise an expense for those options that were issued to employees and directors under the Kingsgate Employees and Contractors Option Plan after 7 November 2002 but that had not vested by 1 January 2005.

This will result in a change to the current accounting policy under which no expense is recognised for equity-based compensation. At 1 July 2004 280,000 options fall into the above category resulting in an adjustment against retained earnings of \$64,000. The impact during the financial year ended 30 June 2005 would be a further change to earnings of \$47,000, under AIFRS.

Restoration and Rehabilitation Provision

Under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* and AASB 116 *Property, Plant and Equipment* an asset and liability should be recorded for the estimated, discounted future rehabilitation cost. The increase in the rehabilitation provision relating to the unwinding of the discount and depreciation on the rehabilitation asset would be recognised as a charge to earnings.

This will result in a change to the current accounting policy under which restoration costs are accrued over the life of the mine. Costs are estimated on the basis of current undiscounted costs, current legal requirements and current technology.

Under AIFRS there would be a transition adjustment against retained earnings of \$611,000 at 1 July 2004. At this time, a rehabilitation asset would be raised of \$2,521,000 along with accumulated depreciation of \$717,000 and a corresponding liability of \$2,748,000, the net effect being a charge to retained earnings of \$944,000. This is offset by the reversal of the existing rehabilitation provision currently recognised under AGAAP of \$333,000. This would result in a net charge to retained earnings of \$611,000.

Under AIFRS the impact on earnings during the financial year to 30 June 2005 would have been an increase in borrowing costs of \$93,000, and an increase in the depreciation charge of \$200,000. In addition there would be a further charge to earnings relating to an increase in the discounted rehabilitation provision of \$53,000, resulting in a net charge to earnings of \$346,000 during the year to 30 June 2005.

Revenue Recognition

Under AASB 118, *Revenue* the point of sale will be recognised when the refinery process has been finalised and the sale transaction to a third party has been completed.

This will result in a change to the current accounting policy allowed under AASB 1022 *Accounting for the Extractive Industry* as revenue was recorded at the point in time when the gold was taken off site by the transportation company. AASB 6 *Exploration for and Evaluation of Mineral Resources* does not extend to revenue recognition.

The impact of the above is an adjustment against retained earnings of \$946,000 at 1 July 2004. During the financial year ended 30 June 2005 the change under AIFRS would result in additional revenue of \$103,000. The cumulative impact on earnings to 30 June 2005 would be to reduce earnings by \$843,000, reduce gold sale receivables by \$1,990,000 and to increase inventories by \$1,147,000.