

GARRATT'S LIMITED

ACN 000 003 725

Telephone: +61 2 9224 5555 Facsimile: +61 2 9224 5550

30 November 2004

Company Announcements Office
Australian Stock Exchange
Level 4
20 Bridge Street
Sydney NSW 2000

Via ASX Online

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ANNOUNCEMENT

IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Garratt's Limited has commenced reviewing its accounting policies and financial reporting to assess the impacts of the transition from current Australian Accounting Standards to Australian equivalents of International Financial Reporting Standards (IFRS). The Company's management, along with its auditors, will continue this process in order to properly manage the transition.

The adoption of the Australian equivalents of IFRS will first be reflected in the economic entity's financial reports for the half-year ended 31 December 2005 and the year ended 30 June 2006. In some cases choices of accounting policies are available, including elective exemptions under AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards. These choices will be analysed to determine the most appropriate accounting policy for the economic entity.

The major changes identified to date that will be required to the economic entity's existing accounting policies and may have an impact on the future financial reports are set out below. At this stage the Company has not been able to reliably quantify the impacts on future financial reports.

Business Combinations (AASB 3)

Currently, the economic entity amortises goodwill over 20 years. Under AASB 3, amortisation is prohibited and is replaced by an annual impairment test. An election is available under AASB 1 not to apply AASB 3 to past business combinations. At this time the Company has not decided whether to make this election.

Income Taxes (AASB 112)

Currently, the liability method of tax-effect accounting is used. Under this method the income tax expense is based on the accounting result adjusted for permanent differences with timing differences brought to account as either future income tax benefit or deferred tax liability. Under AASB 112, the economic entity will be required to use a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and the accounting result.

Impairment of Assets (AASB 136)

Currently, the recoverable amount of an asset is determined on the basis of the undiscounted net cash flows that will be received from the use of the asset and by its disposal. Under AASB 136, the recoverable amount of an asset is determined to be the higher of its net selling price and its value in use.

Provisions, Contingent Liabilities and Contingent Assets (AASB 137)

Under AASB 137, contingent assets of the economic entity are to be specifically disclosed in the financial reports. Compliance with this standard will have no impact on the Statement of Financial Performance or the Statement of Financial Position of the economic entity. Currently, the contingent assets of the economic entity are future income tax benefits and a debt that has been written off in the accounts.

This announcement is made at the request of the Australian Securities & Investments Commission.

Christopher Campbell
Managing Director