

**ASX Release – Alesco Corporation Limited (“ALS”)**

**FINANCIAL RESULTS FOR THE YEAR ENDED 31 MAY 2005**

Date: 27 July 2005

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Alesco Corporation Limited (**Company**) is pleased to announce the audited financial results for the year ended 31 May 2005. Highlights include:

- **Record earnings per share (before amortisation of intangibles and significant items) of 62.2 cents per share (cps), up 15% (2004: 54.2cps)**
- **Final dividend of 25cps (fully franked) up from 18cps for the previous year. This brings the total dividend for the year to 45cps (fully franked) up 36% (2004: 33cps)**
- **Positive impact from B&D in its first year of ownership**
- **The divestment of the Automotive Division on 31 December 2004 for \$90.5 million**
- **\$16.5 million expenditure program announced at B&D to create world class garage door & openers business**
- **Record net profit after tax of \$41.0 million, up 106% (2004: \$19.9 million)**

It is pleasing to report, in a year of a satisfactory trading conditions, the Company has delivered to shareholders a fourth consecutive year of record eps (pre amortisation of intangibles and significant items). In addition, we have added a number of sensible bolt-on acquisitions and restructured or divested under-performing and non-core businesses. As a result, Alesco is in a strong position to continue its success in the new financial year.

**Trading performance**

The results for the year have been achieved in an overall satisfactory trading environment in Australia and New Zealand. Whilst Alesco experienced a softening in the building and renovations market there was strong demand in both the scientific & medical and the construction & mining sectors. This diversification of earnings has helped to achieve the continued strong financial results. The performance of the key operating ratios for the year was:

	<b>May 05</b>	<b>May 04</b>	<b>May 03</b>	<b>May 02</b>	<b>May 01</b>
EBITA <sup>1</sup> /Sales	<b>10.8%</b>	8.4%	6.9%	6.0%	5.2%
Return on average funds employed	<b>15.9%</b>	18.1%	15.3%	14.1%	13.5%
Return on equity <sup>2</sup>	<b>14.0%</b>	15.5%	13.0%	12.3%	10.9%

1. pre significant items

2. pre amortisation of intangibles & significant items

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These ratios have been affected by the acquisition of B&D which has had the impact of increasing the EBITA/Sales ratio and slightly reducing both return on funds employed and return on equity. This was anticipated at the time of the acquisition because the acquisition EBITA multiple of 7.5 x implies a return that is above our group cost of capital but is below the return on funds employed for the group (excluding B&D). Over time we expect the B&D return to rise to be more in line with the rest of the group.

Excluding the impact of B&D, the balance of Alesco continued a five year trend of steady improvement in ROFE and ROE.

### Business Unit Performance

Business unit results, pre significant items, were as follows:

\$ millions	Operating revenue			EBITA		
	2005	2004	2003	2005	2004	2003
Building & Renovations						
Garage Doors & Openers	179.5	-	-	31.8	-	-
Kitchen/Laundry Components	155.0	154.8	118.3	21.7	21.6	10.9
	334.5	154.8	118.3	53.5	21.6	10.9
Scientific & Medical	96.8	79.4	19.6	10.4	8.2	1.9
Construction & Mining	141.4	146.5	151.6	7.0	7.5	8.6
Discontinued (Automotive)	59.6	100.8	102.6	6.1	9.4	9.6
Corporate/Unallocated	0.3	-	-	(8.4)	(6.5)	(4.0)
<b>Total</b>	<b>632.6</b>	<b>481.5</b>	<b>392.1</b>	<b>68.6</b>	<b>40.2</b>	<b>27.0</b>

### Garage Doors & Openers

The Garage Doors and Openers division performed in line with Alesco's expectations in its first year of ownership. This performance was delivered in a softening new housing market and a steady renovations market. Sales revenue and EBITA were both ahead of the prior year on a pro forma basis. Whilst, raw material (steel) price increases were incurred during the year, margins were maintained by passing through these increases to customers and by further reducing costs in the manufacturing process. The strong Australian dollar also helped to strengthen margins, particularly in the automatic opener business.

As previously announced, Alesco completed its acquisition of Dominator International Ltd on 25 February 2005 for \$NZ41.6 million, with earnings being consolidated from that date. Dominator is one of the largest garage door and opener manufacturers in New Zealand and is complementary to B&D's New Zealand based Garador business. It is expected that this acquisition will be synergistic to B&D's existing operations in New Zealand. The transaction was funded entirely by debt and has been immediately accretive to earnings per share (on a pre-amortisation of intangibles basis).

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### **Creating a World Class Garage Door & Opener Business**

The acquisition of B&D is a good example of Alesco's strategy at work. The first part of the strategy is the acquisition of a business that satisfies all our key acquisition criteria: high market share, strong brands, diverse customers and financially prudent metrics and therefore provides a good platform to grow in the future.

The second part is operational improvement. For a number of historical reasons, the opportunities for operational improvement in B&D are substantially larger as a result of a legacy of previous acquisitions, a state based operating structure and antiquated IT systems.

Over the past 12 months a comprehensive strategic review in the areas of brand management, manufacturing rationalisation and information technology has been undertaken within the business with the assistance of external experts. This review has highlighted the potential for earnings growth through productivity improvement, particularly within the manufacturing area.

To deliver these benefits, \$16.5 million has been approved by the Board for expenditure over the next two years. This includes a significant item of \$10.3 million included in the year end results. The principal objective is to modernize B&D with the intention of creating a world class garage door & opener business. The key elements of this program include the:-

- Fine tuning and blue printing of the current state based business processes to best practice
- Implementation of a modern IT system using this best practice
- Rationalisation of 9 manufacturing sites in Australia, New Zealand and Hong Kong through process and productivity improvement, outsourcing and the achievement of economies of scale through consolidation.

Whilst some of the benefit will be felt in 2007, the full benefit is expected in 2008.

The payback on this expenditure, once consolidation is fully implemented, should be between three and four years.

### **Kitchen & Laundry Components (Parbury & Robinhood)**

The kitchen and laundry division delivered a relatively steady result with both sales and EBITA being in line with the prior year. This was achieved in a steady renovations market and a softening new homes market, particularly in the second half of the financial year. In the coming year Parbury will continue to focus on enhancing margins by further developing its Parbury brand and updating its product range, particularly to increase its exposure to the commercial sector. This should help in offsetting any further softening in the residential building and renovations market.

Earlier in the year, Parbury announced that from 1 July 2005, it would outsource all of its manufacturing of kitchen cabinet doors to a local manufacturer. This would allow the business to focus on its key strengths of marketing and distribution rather than manufacturing and will also release approximately \$3 million of funds employed. As a result of the decision a \$1.5 million after tax cost (predominantly redundancy payments) has been recorded as a significant item in the year ended 31 May 2005 results.

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Robinhood has recently embarked on a complete 80:20 analysis of all products and customers. In addition, a strategic review is currently being performed on all manufactured products to determine more cost effective sourcing options. As a result of this review, a decision has been taken to outsource the manufacture of ironing centres. This will again allow the business to focus on its marketing and distribution whilst having a more flexible supply chain. A \$1.2 million after tax cost (predominantly asset write-downs) has been recorded as a significant item in the year ended 31 May 2005 results.

### **Scientific and Medical**

Biolab achieved another period of strong growth at both the sales and EBITA level compared to the prior corresponding period. This was achieved through organic growth and the acquisitions of Medtec and Jacobs Medical in the medical equipment distribution segment as well as Sensor Technologies in the environmental division of the scientific equipment distribution business. Gross margins in the laboratory products (consumables) part of the business were significantly enhanced this year due to post acquisition 80:20 productivity initiatives as well as significant investment in and development of the Labserv brand.

In January 2005, Biolab acquired Sensor Technologies, a major distributor of flammable and noxious gas detection and monitoring equipment in Australia (with annual revenues of approximately \$6 million). This acquisition has added to Biolab's strong presence in the growing environmental monitoring market.

A significant amount of management time and effort has gone into exploring a number of opportunities in the medical equipment distribution sector over the last six months. Alesco has to date chosen not to pursue these opportunities as a result of them not fitting within Alesco's disciplined financial investment criteria.

A number of potential bolt on acquisitions continue to be reviewed in both the medical and scientific sectors.

### **Construction and Mining**

Although the result for this division was lower than the prior year, Parchem delivered an improved earnings performance with EBITA increasing over the prior year. The business continues to focus on the strong construction and commercial building sectors.

Marathon experienced a positive turn around performance in the second half of the financial year due principally to the downsizing initiatives undertaken in the first half and the strong activity in the mining sector. A shortage in the worldwide supply of earth moving tyres has allowed the business to increase sales and margin and improve its return on funds employed.

The contract that Marathon currently holds with Michelin is due to expire on 30 June 2006. Whilst we believe a new contract will be negotiated, there is some uncertainty, at this stage, as to the terms of a new contract. As a result of this uncertainty a major initiative for the business going forward is to focus on the service element as well as to seek out other opportunities in the supply of tyres.

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We anticipate that the performance of the Marathon business in the 2006 year will improve due mainly to the continued strong demand in the mining sector. However, with the uncertainty associated with the completion of the Michelin contract in June 2006 the Board has taken a conservative decision to write-off all of the remaining goodwill in the Marathon business of \$7.6 million. This has been recorded as a significant item in the year end accounts.

### Dividends – increased payout ratio

The Directors have increased the full year dividend payout ratio to approximately 70-75% of earnings per share (pre amortisation of intangibles and significant items). The Company continues to actively review its capital management strategy to enhance shareholder value with the increased payout ratio enabling Alesco to continue to pass through to shareholders more of the value associated with a strong flow of franking credits.

The increase in the final dividend to 25cps, fully franked, up from 18cps for the prior year, represents a 39% increase. This brings the total dividend for the year to 45cps, fully franked, up from 33cps for the prior year, a 36% increase.

The dividend is payable in respect of shares registered as at 5:00pm (Sydney time) on 18 August 2005 and will be paid on 1 September 2005. The dividend re-investment plan will continue to operate with a nil discount rate.

### Summary of Significant Items

Significant items included in the results are:

\$m	Pre tax	Tax	Post Tax
Gain on disposal of Automotive division	38.7	(7.7)	31.0
Restructuring program at B&D	(10.3)	3.1	(7.2)
Parbury outsourcing of cabinet doors	(2.2)	0.7	(1.5)
Robinhood outsourcing ironing centres to China	(1.7)	0.5	(1.2)
Write-off of Marathon goodwill	(7.6)	-	(7.6)
<b>Net gain</b>	<b>16.9</b>	<b>(3.4)</b>	<b>13.5</b>

### Cash Flow and Gearing

The group generated a record operational cash flow of more than \$48 million. This was predominantly used to repay debt and pay for the bolt on acquisitions made during the year. At year-end, gearing (net debt / book equity) stood at 33.4%. Interest cover (EBITA (pre significant items) / net interest expense) for the period was a strong 6.7 times.

### International Financial Reporting Standards

As required under the Corporations Act 2001, Australian equivalents to International Financial Reporting Standards (A-IFRS) will be effective for Alesco from 1 June 2005. The financial report

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for the half-year to 30 November 2005 will be the Company's first report under the new accounting standards. Comparative financial information will be presented applying A-IFRS for transition adjustments to the opening balance sheet as at 1 June 2004 and to restate 2004/5 comparative earnings.

In summary, we anticipate that the adoption of A-IFRS will have no significant impact on cash flows, dividend policies or future earnings of the Company. The key areas where A-IFRS is likely to impact on Alesco are:

- AASB 2 "Share Based Payments" – the fair value of equity compensation for employees will now be expensed to the profit and loss account over the vesting period.
- AASB 138 "Intangible Assets" – goodwill is no longer amortised over twenty years but rather tested for impairment on an annual basis.

### Disposal of Automotive division

As previously announced, the Company successfully completed the disposal of its Automotive Division on 31 December 2004 to Repco Ltd for a consideration of \$90.5 million. The proceeds were used to repay outstanding debt. An after tax gain of approximately \$31.0 million has been recorded in the year end results as a significant item.

### Outlook

The outlook for the Australian and New Zealand economies in 2006 is more subdued than has been the case over the past few years. This is particularly relevant in relation to our Building and Renovation activities where we anticipate a further softening in the new homes segment and relatively flat renovations activity. Nevertheless there are some signs that during the currency of this financial year the housing cycle will bottom with a recovery predicted in financial year 2006/07. The balance of our portfolio of businesses is exposed to faster growing sectors and this, along with improvements from a number of productivity initiatives, means we are budgeting for growth in earning per share (before amortisation of intangibles and significant items) for the 2005/06 year. In the absence of significant acquisitions, this is expected to be single digit growth rather than the double digit growth rates achieved in the last few years.

A principal focus will continue to be on seeking acquisition targets that meet our financial and strategic criteria. With our strong balance sheet these are likely to be debt funded and therefore accretive to eps.

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Alesco is an industrial brands company with leading positions in niche markets.

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