annual report 06

ISS Group Limited

ACN 109 443 852

Left to Right: Shane Attwell (Managing Director), Evan Cross (Non-Executive Director), Stuart Usher (Company Secretary), Ian Spence (Non-Executive Director), John Yeudall (Chairman)

corporate directory

directors
Mr John Yeudall - Chairman
Mr Shane Attwell - Managing Director
Mr Evan Cross - Non Executive Director
Mr Ian Spence - Non Executive Director

company secretary
Mr Stuart Usher

registered and principal office
First Floor
117 Stirling Highway
Nedlands WA 6009
Tel: +61 8 9386 0800
Fax: +61 8 9386 5941

solicitors
Steinepreis Paganin Lawyers & Consultants
Level 4, Next Building
16 Milligan Street
Perth WA 6000

auditors
HLB Mann Judd
Chartered Accountants
15 Rheola Street
West Perth WA 6005
Tel: +61 8 9481 0977
Fax: +61 8 9481 3686

Share registry
Advanced Share Registry Services
110 Stirling Highway
Nedlands WA 6009
Tel: +61 8 9389 8033
Fax: +61 8 9389 7871

website
www.issgroup.com.au

corporate adviser
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Nedlands WA 6009
Tel: +61 8 9389 5933
Fax: +61 8 9389 5944

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184.456 x 123.402 km

chairman's report

Dear Shareholders

I am delighted to report that in the first full year of operations as a listed company, ISS Group Ltd is moving from strength to strength as we expand our operations not only within Australia but internationally. New industry sectors of iron ore, nickel and alumina are recognizing the return on investment that a partner relationship with ISS can bring. Operation managers are valuing having access to web based, real time information on which they can make management decisions that impact directly on their bottom line.

As we reported last year we have invested in taking our products to exciting new markets in Asia, the Middle East, North America and the UK resulting in successful contracts with new clients.

Back in Australia we continue to service and expand our business with existing clients in the petrochemical sector whilst winning new business with clients in the mining and minerals sector.

With revenues increasing by 76% and profit after tax coming in at $1.48m this year we are delighted to be able to commence the payment of a first dividend of 0.5cents to the shareholders. The directors are confident of future growth in revenues and earnings in the year ahead and intend to now pay dividends on a regular basis.

The focus for 2006 – 2007 will be to consolidate the overseas bases and partnerships we are building, to ensure that the contracts we undertake are delivered to specification and to build long term relations with the blue chip client base we have now established. This will be achieved through investment in the best people, implementing best practice management techniques and keeping the ISS product suite up to the minute. To assist with this we have recently secured an AusIndustry R & D grant of $863,373 which will greatly enhance our efforts in this endeavor.

No doubt there will be ongoing challenges with international competition, finding and retaining the best people available in the booming economy of Western Australia and staying abreast of the available technology but our track record is speaking for itself.

On behalf of the Board I would like to record our thanks to the company's dedicated staff, shareholders and suppliers for your support throughout 2006.

Yours truly,

John Yeudall
Chairman
ISS Group Limited

29 September 2006
Perth, WA

directors' report

THE Board of Directors of ISS Group Limited has pleasure in presenting its report in respect of the financial year ended 30 June 2006.

Directors

The names, qualifications and experience of directors in office during the financial year and until the date of this report are as follows:

Mr John Yeudall *C.Eng., M.I.Struct.E.*

Position: Chairman – Independent and Non-Executive (appointed 31 July 2004)

Experience: Mr Yeudall was born in the U.K. and qualified as a Chartered Engineer. Mr Yeudall has extensive experience managing a range of businesses both in Australia and internationally. He has spent ten years in senior positions with the Australian Trade Commission based in the Middle East with responsibility for expanding Australia's trade to that region. He has also served a 3 year term as Australia's Consul General based in Dubai.

Since retiring from the public service he has had responsibility for expanding Western Australia's share of the international education sector and for advancing the interests of the Australian steel industry.

Mr Yeudall now acts as an independent advisor and serves on several boards of directors including Cash Converters International Limited, which now operates worldwide and is listed on the Australian and London stock exchanges and since 2002 has been the WA Chairman of the Australian Arab Chamber of commerce and Industry.

Other current directorships: Independent non-executive director of Cash Converters International Limited (director since 2002).

Former directorships in last 3 years: None.

Special responsibilities: Chairman of the Board, Member of the Remuneration Committee, Member of the Audit Committee

Mr Shane Attwell *B.Eng, GD Bus*

Position: Managing Director – (appointed 5 April 2004)

Experience: Mr Attwell founded ISS in 1995. Mr Attwell has 20 years experience with process plant information systems and optimisation. Seven of these years were spent abroad developing technologies in the U.S., Canada, South America, Europe, Africa and the Middle East.

Mr Attwell holds a Bachelor of Engineering degree and a Graduate Diploma in Business, both from Curtin University.

Other current directorships: None

Former directorships in last 3 years: None

Special responsibilities: Managing Director

Mr Evan Cross *B.Bus, C.A.*

Position: Director – Independent and Non-Executive (appointed 8 June 2004)

Experience: Mr Cross is an Associate of the Institute of Chartered Accountants in Australia. He has held a number of senior positions in commerce and industry with particular focus on corporate finance and has international finance experience having worked in the investment banking industry in Australia and the U.S.

Mr Cross is a co-founder and Executive Director of the private investment firm HealthTec Growth Partners Pty Ltd.

Other current directorships: None.

Former directorships in last 3 years: None.

Special responsibilities: Member of the Audit Committee, Chairman of the Remuneration Committee

Mr Ian Spence *B.Com*

Position: Director – Independent and Non-Executive (appointed 30 July 2004)

Experience: Mr Spence, a New Zealander, currently resides in Singapore. He has been and is currently a director of a number of public and private companies in South East Asia. Mr Spence holds a Bachelor of Commerce degree and is a qualified Accountant.

Other current directorships: None.

Former directorships in last 3 years: Independent non-executive director of RCR Tomlinson Ltd (2002 – Dec 2005).

Special responsibilities: Chairman of the Audit Committee, Member of the Remuneration Committee.

Directors have been in office since the start of the financial year and to the date of this report unless otherwise stated.

Company Secretary

Mr Stuart Usher

B.Bus., Grad.Dip. CSP, CPA, A.C.I.S.

Position: Company Secretary (appointed 8 June 2004)

Experience: Mr Usher is a CPA, an Associate member of 'The Chartered Institute Of Secretaries and Administrators' and a member of 'Chartered Secretaries Australia' where he has attained the status of Chartered Company Secretary. He has extensive experience in the management and corporate affairs of public listed companies.

operations report

The past 12 months have been an exciting time for ISS GROUP where it began to see the returns from last year's investment in establishing its global distribution channels and its R & D program.

ISS GROUP has continued developing the infrastructure necessary to operate as a global player in the Oil/Gas and Minerals sector, and has increased its distribution leverage both in Australia and overseas.

ISS GROUP has set up distribution networks in most major oil and gas locations in the world. The Company currently has representative organisations in:

- Middle East
- United States
- Canada
- Indonesia
- Malaysia
- Pakistan
- United Kingdom

The reception in these locations to the ISS GROUP product range has been excellent. ISS Asian office in Singapore recorded a profit for the year. ISS has also received major orders for our systems in the Middle East and North America.

Domestic operations have continued to perform well. We have added several new blue chip clients to its client list.

Asia

The Company is pleased with its growth to date of the Singapore branch being cash positive and contributing to the company profits after only 12 months of full operation.

The ISS Singapore office is now established with agreements now in place with our Malaysian, Pakistan, Indonesian and Middle East Agents. The new business pipeline continues to grow with opportunities from these agreements. ISS Asia has received several significant orders in the region.

With the developing Asian region we see significant growth opportunities for the company and ISS will look to expand its presence in these regions with the appointment of key industry specialists to leverage these opportunities.

Middle East

The highlight of the year was the pilot study with one of the largest Oil producers in the world. ISS has also issued several proposals to other key players in the region.

Our research indicates that there is almost $200 billion of committed expenditure in the Gulf region alone over the next 6 years, predominantly on Oil & Gas projects.

North America

Since the completion of the 2006 financial year, ISS has been awarded a contract for the implementation of its products by a major Canadian oil company This success was achieved against competition from several major US and Canadian companies. ISS is implementing the project with our regional partner Industrial Evolution Corporation.

The receipt of this order is a very good indication of the reception we are receiving for our products from the North American region. Upon completion of this project, the client will be an excellent reference site for the expansion of the ISS/IE Joint Venture in North America. ISS is currently reviewing the feasibility of opening a branch office in Houston and making the appointment of dedicated industry specialists to leverage this relationship and region.

Europe

ISS is in the early stages of building up its presence in the United Kingdom with the opening of its branch in Southampton and the appointment of key industry specialists in the region. Significant marketing effort has taken place over the past few months and as a result a number of tenders and proposals are in place. With the eastern European and African regions developing quickly in this sector, we expect the UK branch to become a positive contributor to group profitability in the new financial year.

Australia

On the domestic front, ISS has made a number of key appointments during the year with a view on enhancing our Marketing, Business Development and Strategic Account Capability. ISS has a mature set of products and our focus has moved to increasing our sales force to capitalise on our past product development. In parallel ISS has invested heavily in increasing the quality of our products with the instigation of a dedicated test and delivery group. ISS has clearly seen the effect of this increased focus on marketing.

During the year ISS maintained its existing customer base and initiated some major projects throughout the year. Highlights being the introduction of our new Managed Application service capability aimed at providing minor oil producers access to our product suite and support infrastructure on an annuity payment basis. Also, after successfully demonstrating the benefits of our products in a pilot project, a major Australian Iron Ore producer has implemented a corporate rollout of our BabelFish product .

product research and development

On the product development front, ISS GROUP has maintained its significant investment in R&D. This financial year ISS GROUP invested approximately $1.9M (2006: 24% of revenue) into product development.

Whilst there has been a reduction in R & D spend as a percentage of ISS Group revenue (2005 : 40%), the group has spent significant funds on keeping ISS at the forefront of technology with the development of a geospatial interface to our BabelFish product. Traditionally, ISS products have been aimed at top sides and production facilities only. However, over the past 12 months, the main focus of our R&D program has been in expanding the scope of our product suite within the existing industry verticals by developing our geospatial system BabelFish Aspect. This system will provide ISS GROUP access to the sub sea and geospatial segment of the market. ISS has already received an order for this system by a major Australian oil producer. Post year-end, ISS GROUP received an AusIndustry Commercial Ready Grant to continue development of this application.

With the initial deliverable scheduled for December 2006, ISS intends to significantly increase marketing activity in this area during the new financial year as we anticipate that this product will play a major role in the ISS growth strategy going forward.

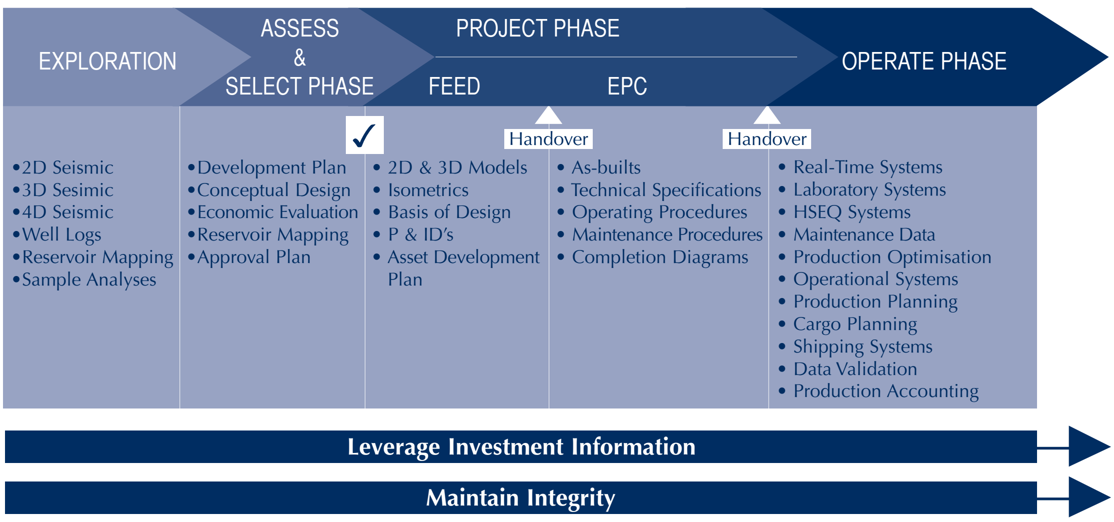
The development of the Geospatial product is in line with ISS's product strategy of expanding our product range to take advantage of the full data life cycle of resource assets. Traditionally ISS's products have been targeted at the real-time operations aspect of the assets.

Financial

ISS Group is pleased to report on the delivery of significantly improved results for the 2006 financial year as development expenditures begin to drive revenues and profitability.

Revenue to 30 June 2006 was up 76% from the same period last year to $8.01 million (2005: $4.54 million). Net profit for the year of $1.48 million highlighted a strong turnaround in the company's financial performance from the previous year (2005: loss $0.78 million). This was mainly due to the increased revenues and higher margins resulting from the previous year's investments in marketing and R&D in Australia and overseas.

Optimising Asset Information Utilisation



Profit breakdown:

	2006	2005
Net Revenues from Operating activities	$8,011,526	$4,544,726
Operating Profit before tax and before the following items:	$ 3,273,605	$ 1,158,770
R&D spend *	$ 1,925,308	$ 1,786,500
Depreciation	$ 151,101	$ 114,816
Allowance for doubtful debts	$ 64,407	$ 35,713
Tax benefit	$(352,191)	-
Profit/(Loss) after tax	$ 1,484,980	$(778,259)
* Based on unaudited R&D Tax Claim		
Profit/(loss) after tax by Region:		
	2006	**2005**
Australia	$ 1,449,730	$(727,619)
Asia	$ 35,250	$(50,640)

ISS saw a significant increase in software product-related annuity revenue which rose over 400% from the same period last year. The improved revenue mix reflects the growing acceptance of the company's products on both the domestic and international markets.

ISS has ended the year on a sound financial footing with cash and receivables totalling $3.1 million. This is an increase of 77% from the previous financial year. The company continues to build a solid pipeline of projects both domestically and internationally. Going forward, the focus will be to maintain revenue growth while increasing product license sales, annuity revenue streams and operating margins.

Dividends Paid or Recommended

Based on the strong improvement in operations and profitability, the board is recommending a maiden dividend of 0.5c for the 2006 year and activation of the Company's Dividend Re-investment Plan.

Market and Industry Outlook

The market outlook for ISS GROUP products is very positive. With the high oil and resource prices globally, resource projects in oil, gas and minerals are at a high and the Company has seen a large increase in the number of new projects as well as expansion of existing plants. With its expansion internationally, ISS is already achieving great success in its penetration of these global markets.

On the domestic front, ISS is well entrenched in the Australian market which alone is one of the world's most productive and diversified oil, gas and mineral regions. With an estimated total of A$18 billion in current projects in Western Australia alone, the industry sector continues to be buoyant and we see significant growth opportunities leveraging our proven relationships and capabilities across the region.

Company Background:

- **Eleven year operating history.** ISS GROUP was established in 1995 by Shane Attwell (ISS GROUP Managing Director) and now comprises a team of software developers, process specialists and support engineers. During the past eleven years ISS GROUP has undertaken a significant investment in technology, research & development and marketing. The time and expenditure incurred by ISS GROUP in developing the applicable infrastructure and operational software products during this time, forms a barrier to entry from potential competitors.

Conclusion

ISS is maintaining its key focus on supporting and further developing relationships with existing customers, which include some of the world's largest resources companies. In parallel, the Company is continuing to develop the infrastructure necessary to build a presence as a global player in the resources services sector.

With the company's growth initiatives currently in place, the directors are confident that ISS Group is well positioned to capitalise on the continuing strong industry economics to deliver ongoing growth over the medium term. It is important for shareholders to recognise that ISS Group products tend to be installed well into the resource cycle as projects come into production, or as resource pricing becomes weaker and economic efficiency becomes a greater focus. ISS is ideally placed to benefit in the long term from the current boom conditions being experienced in the resources sector by providing both services and software that create operational efficiencies.

Major ASX Announcements

1.	7-Aug-06	ISS contacted to supply BabelFish software to Shell Canada
2.	31-Jul-06	ISS contracted to supply BabelFish software to all Rio Tinto Pilbara Iron sites
3.	3-Apr-06	ISS contracted to pilot BabelFish software with Saudi Aramco
4.	20-Feb-06	ISS awarded orders for the implementation of visualization shapes for BHP Billiton
5.	26-Aug-05	ISS awarded development of Geospatial Data integration environment for Santos

Significant Changes in State of Affairs

There have been no significant changes in the state of affairs of the consolidated entity to the date of this report.

After Balance Date Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Environmental Regulations

The company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Likely developments and expected results of operations

Comments on expected results of the operations of the company are included in this report under the review of operations.

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

remuneration report

This report details the nature and amount of remuneration for each director of ISS Group Limited and for the executives receiving the highest remuneration.

Remuneration Policy

The Board of Directors of ISS Group Limited is responsible for determining and reviewing compensation arrangements for directors and the executive team. Remuneration levels for executives are competitively set to attract the most qualified and experienced directors and senior executive officers, in the context of prevailing market conditions, particular experience of the individual concerned and the overall performance of the company, with the objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. The assistance of an external consultant or remuneration surveys is used where necessary.

The board of ISS Group Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the consolidated entity, as well as create goal congruence between directors, executives and shareholders.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the consolidated entity is as follows:

The remuneration policy, setting the terms and conditions for the executive directors and other senior executives, was developed by the remuneration committee and approved by the board after seeking professional advice from independent external consultants. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation and fringe benefits. The remuneration committee reviews executive packages annually by reference to the consolidated entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed biannually with each executive and is based predominantly on the forecast growth of the consolidated entity's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share and option arrangements.

The executive director and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed, except for options which under International Financial Accounting Standards will not be expensed until 2006 when these standards are introduced. Securities given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued based on the Black and Scholes option pricing model.

Each of the non-executive directors receives a fixed fee for their services as directors. Non-executive directors' fees not exceeding an aggregate of $200,000 per annum have been approved by the Company in a general meeting. There is no direct link between remuneration paid to any of the directors and corporate performance such as bonus payments for achievements of certain key performance indicators.

remuneration report (cont'd)

Details of Remuneration for Year Ended 30 June 2006 (This information has been audited)

The remuneration for each director and for the executive officers of the consolidated entity receiving the highest remuneration during the year was as follows:

	Short-term benefits		Post employment	Share based payments	Total
	Salary & Fees	Non-cash benefits	Superannuation Contributions	Options	
Directors	$	$	$		$
Mr J Yeudall – Non Executive Chairman	-	-	54,500	-	54,500
Mr S Attwell – Managing Director	199,440	15,511	40,560	-	255,511
Mr E Cross – Non-executive Director	-	-	-	-	-
Mr I Spence – Non-executive Director	30,000	-	2,700	-	32,700
Other key management personnel					
Kevin Fell – Chief Operating Officer – (appointed 15 August 2005)	190,146	-	17,113	-	207,259
Total Remuneration	419,586	15,511	114,873	-	549,970

Details of Remuneration for Year Ended 30 June 2005 (This information has been audited)

	Short-term benefits		Post employment	Share based payments	Total
	Salary & Fees	Non-cash benefits	Superannuation Contributions	Options^	
Directors	$	$	$	$	$
Mr J Yeudall – Non Executive Chairman	47,917	-	4,312	1,455	53,684
Mr S Attwell – Managing Director	162,718	8,310	14,645	-	185,673
Mr E Cross – Non-executive Director	-	-	-	-	-
I Spence – Non-executive Director	27,500	-	2,475	727	30,702
Past directors who held office during the year:					
Mr T Fitzgerald	-	-	-	-	-
Mr V Bosanac	-	-	-	-	-
Total Remuneration	238,135	8,310	21,432	2,182	270,059

^ Options were allotted on 23 September 2004 and were issued for nominal consideration. These options have been valued based on the 'Black and Scholes' option pricing model, which takes into account the exercise price, the term of the option, the vesting and market related criteria, the share price at grant date, the expected price volatility of the underlying share and the risk-free interest rate for the term of the option.

The model inputs for these options included:

(a) Options are granted for no consideration and vest immediately.
(b) Exercise price: $0.25
(c) Grant date: 23 September 2004
(d) Expiry date: 30 September 2007
(e) Share price at grant date: 20 cents
(f) Expected price volatility of the Company's shares: 10.8%
(g) Risk-free interest rate: 5.5%

Equity instrument disclosures relating to key management personnel

(i) Shareholdings:

Year ended 30 June 2006	Opening Balance 01.07.05	Received as Remuneration	Acquired on market	Other changes	Balance 30.6.06
Directors					
Mr J Yeudall– Non Executive Chairman	220,000	-	-	-	220,000
Mr S Attwell–Managing Director	23,750,000	-	-	-	23,750,000
Mr E Cross – Non-executive Director	1,830,000	-	-	-	1,830,000
Mr I Spence – Non-executive Director	-	-	-	-	-
Other key management personnel					
Mr K Fell – Chief Operating Officer	-	-	-	-	-
Total	25,800,000	-	-	-	25,800,000

Year ended 30 June 2005	Opening Balance 01.07.04	Received as Remuneration	Acquired on market and from initial public offering	Other (IPO)	Balance 30.6.05
Directors					
Mr J Yeudall– Non Executive Chairman	-	-	-	220,000^	220,000
Mr S Attwell–Managing Director	-	-	-	11,874,852^# 11,875,148#	23,750,000
Mr E Cross – Non-executive Director	-	-	-	200,000^* 1,630,000*	1,830,000
Mr I Spence – Non-executive Director	-	-	-	-	-
Total	-	-	-	25,800,000	25,800,000

^ Represents those shares where there is an indirect beneficial interest.
* Represents those shares that were issued during the year representing initial subscriber and promoter shares.
# Represents those shares that were issued during the year for part consideration for the acquisition of shares in Industrial Software Solutions Pty Ltd.

remuneration report (cont'd)

(ii) Option holdings

Year ended 30 June 2006	Opening Balance 01.07.05	Received as Remuneration	Other	Balance 30.6.06
Directors				
Mr J Yeudall– Non Executive Chairman	510,000	-	-	510,000
Mr S Attwell–Managing Director	17,125,000	-	-	17,125,000
Mr E Cross – Non-executive Director	1,615,000	-	-	1,615,000
Mr I Spence – Non-executive Director	200,000	-	-	200,000
Other key management personnel				
Mr K Fell – Chief Operating Officer	-	1,000,000[1]	-	1,000,000
Total	19,450,000	1,000,000	-	20,450,000

[1] Transferred from Employee Option Scheme

Year ended 30 June 2005	Opening Balance 01.07.04	Received as Remuneration	Other	Balance 30.6.05
Directors				
Mr J Yeudall– Non Executive Chairman	-	400,000	110,000^	510,000
Mr S Attwell–Managing Director	-	-	17,125,000#	17,125,000
Mr E Cross – Non-executive Director	-	-	800,000^* 815,000*	1,615,000
Mr I Spence – Non-executive Director	-	200,000	-	200,000
Total	-	600,000	18,850,000	19,450,000

^ Represents those options where there is an indirect beneficial interest

* Represents those shares that were issued during the year representing initial subscriber and promoter shares.

Represents those options that were issued during the year for part consideration for the acquisition of shares in Industrial Software Solutions Pty Ltd.

Options Issued as Part of Remuneration for the Year Ended 30 June 2006

Options are granted under the ISS Group Ltd Employee Option Plan. Staff eligible to participate in the plan are full time employees, directors and consultants.

Options are granted under the plan for no consideration.

Service agreements (audited)

Executive Services Agreement with Mr Shane Attwell

The Company and Mr Shane Attwell entered into an executive services agreement on 9 August 2004 pursuant to which Mr Attwell was appointed as Managing Director of the Company, commencing on 30 September 2004 for a minimum period of three years. Mr Attwell is paid a gross base salary of $240,000, including statutory superannuation. In addition to the salary, the Company will provide a motor vehicle with a value up to $60,000 and will pay lease payments and running costs.

Mr Attwell is entitled to terminate the Executive Services Agreement with 3 months written notice and can be terminated by the Company in a number of circumstances, including:

- by giving 3 months written notice in the event Mr Attwell is unable by reason of illness or incapacity to perform his duties for a total of 9 months in any 12 month period;
- by giving 1 month written notice in the event Mr Attwell is guilty of any serious breach of the agreement or unreasonably neglects to perform his duties under the agreement;
- summarily without notice if Mr Attwell is convicted of any major criminal offence which brings the Company into any lasting disrepute; and
- without reason giving three month's written notice and making a payment of 9 months salary after the expiry of the 3 months written notice period. The Company can elect to dispense with the notice period and pay the equivalent of 12 months salary.

Executive Services Agreement with Mr Kevin Fell

The Company and Mr Kevin Fell entered into an executive services agreement on 15 August 2005 pursuant to which Mr Fell was appointed as Chief Operating Officer of the Company, commencing on 15 August 2005. Mr Fell is paid a gross base salary of $239,500, including statutory superannuation.

Mr Fell is entitled to terminate the Executive Services Agreement with 3 months written notice and can be terminated by the Company in a number of circumstances, including:

- by giving 3 months written notice in the event Mr Fell is unable by reason of illness or incapacity to perform his duties for a total of 9 months in any 12 month period;
- by giving 1 month written notice in the event Mr Fell is guilty of any serious breach of the agreement or unreasonably neglects to perform his duties under the agreement;
- summarily without notice if Mr Fell is convicted of any major criminal offence which brings the Company into any lasting disrepute; and
- without reason giving three month's written notice and making a payment of 3 months salary after the expiry of the 3 months written notice period. The Company can elect to dispense with the notice period and pay the equivalent of 6 months salary.

remuneration report (cont'd)

Meetings of Directors

The number of meetings of the company's board of directors and each board committee held during the year ended 30 June 2006, and the numbers of meetings attended by each director were:

	Director Meetings		Audit Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr J Yeudall	4	4	4	4
Mr S Attwell	4	4	-	-
Mr E Cross	4	4	4	4
Mr I Spence	4	4	4	4

Indemnifying Directors and Officers

During the financial year, ISS Group Limited paid a premium of $18,000 (2005: $22,000) to insure the directors and secretary of the company and its Australian-based controlled entities.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the consolidated entity, and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Options

Details of Options that were granted over unissued shares during the financial year by the company and which remain outstanding at balance date are disclosed at Note 17(b) to the financial statements.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of ISS Group Limited support and adhere to the principles of corporate governance. The company's corporate governance statement is contained in the following section of this annual report.

Proceedings on Behalf of Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company or to 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.

Non-audit Services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (HLB Mann Judd) for audit and non-audit services provided during the period are set out below.

For the financial year ended 30 June 2006 HLB Mann Judd has provided non-audit services in the form of taxation compliance services. The Board of Directors have considered the position and, in accordance with the advice received from the audit committee satisfied that the provision of the non-audit services by the auditor, as set out below, do not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non related audit firms

	Consolidated	
	2006 $	2005 $
HLB Mann Judd		
– Audit and review of the financial reports and other audit work under the Corporations Act 2001.	31,000	22,000
Other services:		
– Independent Accountant's report - Prospectus	-	17,000
– Taxation compliance services	26,794	24,644
– Other services	-	3,498
Non-HLB Mann Judd audit firms:		
Remuneration of the auditor of the company for:		
– Auditing or reviewing the financial report	2,000	3,050
	59,794	70,192

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 18.

This report is made in accordance with a resolution of the Board of Directors.

Mr John Yeudall
Chairman

Dated this 29 day of September 2006.

auditors' independence declaration

HLB Mann Judd
Chartered Accountants

Auditors' Independence Declaration

As lead auditor for the audit of the financial report of ISS Group Limited for the year ended 30 June 2006, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of ISS Group Limited.

L Di Giallonardo
Partner, HLB Mann Judd

Chartered Accountants

15 Rheola Street,
West Perth WA 6005

Perth, Western Australia
29 September 2006

corporate governance statement

ISS Group Limited is committed to protecting and enhancing shareholder value and adopting best practice governance policies and practices. This Corporate Governance Statement outlines the main Corporate Governance practices that were in place throughout the financial year, which comply with the Australian Stock Exchange ('ASX') Corporate Governance Council recommendations. Where a recommendation has not been followed, this is clearly stated along with an explanation for the departure.

Principle 1

Lay solid foundations for management and oversight

The Board is the governing body of the Company. The Board and the Company act within a statutory framework – principally the Corporations Act and also the Constitution of the Company. Subject to this statutory framework, the Board has the authority and the responsibility to perform the functions, determine the policies and control the affairs of ISS Group Limited.

The Board must ensure that ISS Group Limited acts in accordance with prudent commercial principles, and satisfies shareholders – consistent with maximising the Company's long term value.

The primary responsibilities of the Board include:

- Charting the direction, strategies and financial objectives of the company and ensuring appropriate resources are available
- Monitoring the implementation of those policies and strategies and the achievement of those financial objectives
- Monitoring compliance with control and accountability systems, regulatory requirements and ethical standards
- Ensuring the preparation of accurate financial reports and statements
- Reporting to shareholders and the investment community on the performance and state of the company
- Appoint the Chief Executive Officer and monitor performance of the Chief Executive Officer and senior executives
- Establish proper succession plans for management of the company

Separate functions of the Board and management existed and were practised throughout the year.

Principle 2

Structure the Board to add value

The composition of the Board has been determined on the basis of providing the Company with the benefit of a broad range of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level. Details of each Directors' skills and experience are set out in the Directors' report.

The ASX guidelines recommend that a listed company should have a majority of directors who are independent. The Board complies with the ASX Corporate Governance Council Principles 2.1 having three of the four directors including the Chairman who are independent.

In the context of director independence, 'materiality' is considered from both the company and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point at the actual ability in question to shape the direction of the company's loyalty.

The roles of Chairman and Executive Officer are exercised by different individuals, providing for clear division of responsibility at the head of the company. Their roles and responsibilities, and the division of responsibilities between them, are clearly understood and there is regular communication between them.

Principle 2 (Continued)

With the prior approval of the Chairman, each director has the right to seek independent legal and other professional advice at the company's expense concerning any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

Director's are subject to re-election by rotation at annual general meetings as stipulated in the Corporations Act and the company's constitution. There are no maximum terms for non-executive director appointments. Newly elected directors must seek re-election at the first general meeting of shareholders following their appointment.

The remuneration of the directors is determined by the remuneration committee. Further information and the components of remuneration for directors' are set out in the Directors' Report and notes to the financial statements.

The members of the remuneration committee during the year were:

- Mr E Cross (Chairman)
- Mr J Yeudall
- Mr I Spence

Principle 3

Promote ethical and responsible decision-making

The Board places great emphasis on ethics and integrity in all its business dealings.

In regards to principle 3.1, the board considers the business practices and ethics exercised by individual Board members and key executives to be of the highest standards.

Trading in the company's shares

The company's policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices. Statutory provisions of the Corporations Act dealing with insider trading have been strictly complied with.

Principle 4

Safeguard integrity in financial reporting

The board has established an audit committee. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, including the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information. The Board has delegated responsibility for the establishment and framework of internal controls and ethical standards for the management of the consolidated entity to the audit committee.

The committee also provides the board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. All members of the audit committee are independent non-executive directors.

The members of the audit committee during the year were:

- Mr I Spence (Chairman)
- Mr J Yeudall
- Mr E Cross

The audit committee always invites the Company Secretary and Chief Financial Officer to attend meetings.

Principle 5

Make timely and balanced disclosure

The Company complied with all disclosure requirements to ensure that it manages the disclosure of price sensitive information effectively and in accordance with the requirements as set out by regulatory bodies. All market disclosures are approved by the Board.

The Managing Director and Company Secretary are authorised to communicate with shareholders and the market in relation to Board approved disclosures.

All announcements made to the ASX are placed on the Company's web site immediately after public release.

Principle 6

Respect the rights of shareholders

The Company has a positive strategy to communicate with shareholders and actively promote shareholder involvement in the Company. It aims to continue to increase and improve the information available to shareholders on its website. All company announcements, presentations to analysts and other significant briefings are posted on the company's website after release to the Australian Stock Exchange.

Principle 7

Recognise and manage risk

The Board oversees the establishment, implementation and ongoing review of the Company's risk management and internal control system. Recommendation 7.1 requires the establishment of a risk committee. During the year ISS Group Limited did not have a separately established risk committee. The board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate risk committee.

Recommendation 7.1 also requires that the company has a formal risk management policy and internal compliance and control system. During the year, ISS Group Limited did not have a formal risk management policy as such. However, the company carries out regular risk assessments in a timely manner and covers all aspects of the company. The company also has in place classes of insurance at levels which, in the reasonable opinion of the directors, are appropriate for it size and operations.

Principle 8

Encourage enhanced performance

During the year the company did not conduct a performance evaluation of its board and members in accordance with recommendation 8.1. It was considered inappropriate as the company has a relatively new board with all members being appointed to the board in the few months prior to its listing on the Australian Stock Exchange in September 2005. The board is planning to adopt a formal process of assessing performance in the next reporting period.

To enable the performance of their duties, all directors:

- have access to management
- are provided with appropriate management information in a timely manner
- are able to seek independent professional advice at the company's expense
- are entitled to request additional management information at any time

Principle 9

Remunerate fairly and responsibly

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, the managing director and senior executives. The board has established a remuneration committee, comprising three non-executive directors.

The remuneration policy, which sets the terms and conditions for the managing director and other senior executives, was developed by the remuneration committee after seeking professional advice from independent consultants and was approved by the board. All executives receive a base salary, superannuation, fringe benefits, performance incentives and retirement benefits. The remuneration committee will review executive packages annually by reference to company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice. The performance of executives is measured against criteria agreed half-yearly which is based on the forecast growth of the company's profits and shareholders value. The policy is designed to attract the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.

Director disclosure requirements are dealt with in the notes to the financial statements.

Principle 10

Recognise the legitimate interests of stakeholders

The Board recognises that the interests of all stakeholders will be best served when the company, its directors and staff adhere to high standards of business ethics and comply with the law.

The Board expects a high standard of ethical corporate behaviour from all directors and staff. A code of Business Ethics has been developed outlining the policies and procedures which operate within the company to ensure its exemplary reputation is maintained.

financial statements

	Note	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Revenue	**4**	**8,011,526**	**4,544,726**	**336,811**	**195,397**
Other income		4,419	11,655	-	-
Employee benefits expense		(4,583,844)	(3,415,814)	(92,287)	(105,103)
Consulting and labour hire		(859,852)	(811,159)	-	-
Depreciation		(151,101)	(114,816)	-	-
Rent & outgoings		(327,431)	(258,692)	-	-
Travel		(294,554)	(296,798)	(3,024)	(9,258)
Impairment of investment in subsidiary		-	-	-	(760,075)
Reversal of impairment of investment in subsidiary		-	-	760,075	-
Finance costs		(7,299)	(5,751)	-	-
Other expenses from ordinary activities		(659,075)	(431,610)	(214,711)	(99,220)
Profit/(loss) before income tax	**5**	**1,132,789**	**(778,259)**	**786,864**	**(778,259)**
Income tax benefit	6	352,191	-	798	-
Profit/(loss) for the period		1,484,980	(778,259)	787,662	(778,259)
Profit/(loss) attributable to members of the parent entity		**1,484,980**	**(778,259)**	**787,662**	**(778,259)**

	Note	Consolidated 2006	Consolidated 2005
Profit/(loss) per share from profit/(loss) from continuing operations attributable to the ordinary equity holders of the company		Cents	Cents
Basic earnings/(loss) per share (cents per share)	9	1.8	(1.6)
Diluted earnings/(loss) per share (cents per share)	9	1.8	(1.6)

The above income statements should be read in conjunction with the accompanying notes.

balance sheets
as at 30 June 2006

	Note	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Current Assets					
Cash and cash equivalents	10	568,509	958,262	16,971	761,482
Trade and other receivables	11	2,511,353	786,137	24,051	26,644
Total Current Assets		3,079,862	1,744,399	41,022	788,126
Non-Current Assets					
Property, plant and equipment	12	354,458	343,586	-	-
Other financial assets	13	-	-	8,850,000	8,089,925
Receivables	11	-	-	1,421,798	651,706
Deferred tax asset	6	550,491	-	195,344	-
Intangible assets	14	8,115,903	8,115,903	-	-
Total Non-Current Assets		9,020,852	8,459,489	10,467,142	8,741,631
Total Assets		12,100,714	10,203,888	10,508,164	9,529,757
Current Liabilities					
Trade and other payables	15	762,691	562,454	48,096	28,570
Borrowings	16	21,334	19,841	-	-
Current tax liabilities	17	-	12,562	-	-
Total Current Liabilities		784,025	594,857	48,096	28,570
Non-Current Liabilities					
Provisions	18	89,533	18,465	-	-
Deferred tax liability	6	4,008	-	150	-
Borrowings	16	68,045	89,379	-	-
Total Non-Current Liabilities		161,586	107,844	150	-
Total Liabilities		945,611	702,701	48,246	28,570
Net Assets		11,155,103	9,501,187	10,459,918	9,501,187
Equity					
Issued capital	19	10,121,498	9,950,429	10,121,498	9,950,429
Reserves	20	326,884	329,017	329,017	329,017
Retained earnings/(losses)	21	706,721	(778,259)	9,403	(778,259)
Total Equity		11,155,103	9,501,187	10,459,918	9,501,187

The above balance sheets should be read in conjunction with the accompanying notes.

Consolidated	Note	Ordinary Shares $	Retained Earnings $	Foreign Currency Translation Reserve $	Share Based Payments Reserve $	Option Reserve $	Total $
Balance as at 1 July 2004		-	-	-	-	-	-
Contributions of equity net of transaction costs	19	9,950,429	-	-	-	310,833	10,261,262
Profit attributable to members of the parent entity		-	(778,259)	-	-	-	(778,259)
Cost of share based payments		-	-	-	18,184	-	18,184
Balance at 30 June 2005		**9,950,429**	**(778,259)**	**-**	**18,184**	**310,833**	**9,501,187**

Consolidated	Ordinary Shares $	Retained Earnings $	Foreign Currency Translation Reserve $	Share Based Payments Reserve $	Option Reserve $	Total $
Balance as at 1 July 2005	9,950,429	(778,259)	-	18,184	310,833	9,501,187
GST not claimable on share issue costs	(23,327)	-	-	-	-	(23,327)
Tax benefit of share issue costs	194,396	-	-	-	-	194,396
Profit attributable to members of the parent entity	-	1,484,980	-	-	-	1,484,980
Adjustment from translation of foreign controlled entities	-	-	(2,133)	-	-	(2,133)
Balance at 30 June 2006	**10,121,498**	**706,721**	**(2,133)**	**18,184**	**310,833**	**11,155,103**

The above statements of changes in equity should be read in conjunction with the accompanying notes

Parent	Note	Ordinary Shares $	Retained Earnings $	Foreign Currency Translation Reserve $	Share Based Payments Reserve $	Option Reserve $	Total $
Balance as at 1 July 2004		-	-	-	-	-	-
Contributions of equity net of transaction costs	19	9,950,429	-	-	-	310,833	10,261,262
Profit attributable to members of the parent entity		-	(778,259)	-	-	-	(778,259)
Cost of share based payments		-	-	-	18,184	-	18,184
Balance at 30 June 2005		**9,950,429**	**(778,259)**	**-**	**18,184**	**310,833**	**9,501,187**

Parent	Ordinary Shares $	Retained Earnings $	Foreign Currency Translation Reserve $	Share Based Payments Reserve $	Option Reserve $	Total $
Balance as at 1 July 2005	9,950,429	(778,259)	-	18,184	310,833	9,501,187
GST not claimable on share issue costs	(23,327)	-	-	-	-	(23,327)
Tax benefit of share issue costs	194,396	-	-	-	-	194,396
Profit attributable to members of the parent entity	-	787,662	-	-	-	787,662
Balance at 30 June 2006	**10,121,498**	**9,403**	**-**	**18,184**	**310,833**	**10,459,918**

The above preliminary consolidated statement of changes in equity should be read in conjunction with the accompanying notes

	Note	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		6,960,864	5,073,034	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		(7,128,678)	(5,430,851)	(311,231)	(193,466)
Interest received		32,007	57,192	11,299	35,469
Interest paid		(4,094)	-	-	-
Income tax (paid) refunds		(54,515)	161,406	-	-
Net cash used in operating activities	22	(194,416)	(139,219)	(299,932)	(157,997)
Cash flows from investing activities					
Cash paid on acquisition of controlled entity		-	(4,100,000)	-	(4,100,000)
Payments for plant and equipment		(168,197)	(201,104)	-	-
Cash introduced on acquisition of controlled entity		-	409,719	-	-
Payments for intellectual property		-	(30,000)	-	-
Loans to controlled entities		-	-	(444,579)	(491,778)
Net cash used in investing activities		(168,197)	(3,921,385)	(444,579)	(4,591,778)
Cash flows from financing activities					
Proceeds from issue of shares		-	6,135,920	-	6,135,920
Payments for share issue costs		-	(624,663)	-	(624,663)
Repayment of borrowings		(27,140)	(492,391)	-	-
Net cash (used in) / provided by financing activities		(27,140)	5,018,866	-	5,511,257
Net increase/(decrease) in cash and cash equivalents		(389,753)	958,262	(744,511)	761,482
Cash and cash equivalents at the beginning of the year		958,262	-	761,482	-
Cash and cash equivalents at the end of the year		568,509	958,262	16,971	761,482

The above cash flow statements should be read in conjunction with the accompanying notes.

notes to the financial statements

for the year ended 30 June 2006

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied, unless otherwise stated. The financial report covers the consolidated entity of ISS Group Ltd. ("company" or "parent entity") and its controlled entities. ISS Group Ltd. is a listed public company, incorporated and domiciled in Australia.

(a) Basis of preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first ISS Group Ltd. financial statements to be prepared in accordance with AIFRSs. AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of ISS Group Ltd. until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing ISS Group Ltd. financial statements for the year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods, applied in the AGAAP financial statements to comply with AIFRS. The comparative figures in respect of 30 June 2005 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Consolidated entity's equity and its net income are given in note 30.

Historical cost convention

These financial statements have been prepared under the historical cost convention, and do not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair value of the consideration given in exchange for assets.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

(c) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries controlled by ISS Group Ltd as at 30 June 2006 and the results of all subsidiaries for the year then ended. ISS Group Ltd. and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity. Where control of an entity is obtained during a financial year, its results are included in the consolidated income statement from the date on which control commences.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Principles of consolidation (cont'd)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(e) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is ISS Group Ltd.'s functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non monetary items, such as equities classified as available for sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Interest revenue is recognised based on the effective interest method.

Sale of services are recognised in the accounting period for which the services are rendered, by reference to completion of the specific transaction, assessed on the basis of the actual service provided as a proportion of the total services to be provided.

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

(g) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(h) Income Tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

ISS Group Ltd. and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as at 1 July 2006.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(i) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(o)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired. In respect of step acquisitions, the excess of acquisition price over the fair value of the net assets acquired is treated as goodwill.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(l) Receivables

Receivables are recognised on an accrual basis as the services to which they relate are performed and are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. An allowance for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the asset's carrying amount and the present value of estimated

future cash flows, discounted at the effective interest rate. The amount of the allowance is recognised in the income statement.

(m) Plant and Equipment

Items of plant and equipment are carried at historical cost less accumulated depreciation, and recoverable amount.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet 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 (note 1(j)).

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

Depreciation

Items of plant and equipment are depreciated over their estimated useful lives. The straight line method of depreciation is used and assets are depreciated from the date of acquisition. The expected useful lives are as follows:

Fixtures and equipment	3 – 10 years

(n) Investments in controlled entities

Investments in controlled entities are stated at cost. Where there has been a permanent diminution in the value of an investment an impairment charge is recognised.

(o) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing. Each of those cash generating units represents the company's investment in each country of operation.

(ii) Licences

Licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of licences over their estimated useful lives, which vary from 9 to 20 years.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(q) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Employee Benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Contributions are made by the company to employee superannuation funds and are charged as expenses when incurred. During the year the company contributed 9% of salaries and wages under the Superannuation Guarantee Act requirements.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Share based payments

Equity settled transactions:

Share based compensation benefits are provided to employees via the company's Employee Incentive Option Plan. Information relating to these schemes is set out in note 27.

Shares options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the company's Employee Incentive Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non market vesting conditions (for example, profitability and sales growth targets). Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital.

(r) Employee Benefits (cont'd)

(iii) Share based payments

In respect of performance shares, market conditions are factored into the valuation of the shares on grant date, with no subsequent adjustment made for changes in the probability of the target being met. The vesting condition is not included in the valuation of the share, but is used to adjust the number of equity instruments expected to vest. This probability is adjusted each period so that on a cumulative basis an expense is only recognised where the vesting condition is met. The expense is recognised over the vesting period, which is equal to the expected length of time required to meet the vesting conditions. If the employee leaves, the balance of the cost is recognised in full.

(s) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(t) Investments and other financial assets

The company classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, and available for sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.

(i) Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non current assets. Loans and receivables are included in receivables in the balance sheet.

(u) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(v) Contributed equity

Ordinary share capital is recognised as the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(w) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(x) 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 Tax 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 the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are included in the Statements of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities which is recoverable from or payable to the ATO are classified as operating cash flows.

(y) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill and intangible assets

The company tests annually whether goodwill has suffered any impairment, and other intangible assets are tested for any indication of impairment, in accordance with the accounting policy stated in note 1(o). The recoverable amounts of cash generating units have been determined based on value in use calculations. These calculations require the use of assumptions.

(ii) Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using a Black and Scholes model, using the assumptions detailed in Note 27.

NOTE 3: SEGMENT INFORMATION

(a) Description of segments

Business segments

The Company is an Australian information and technology company that develops and markets infrastructure and application software for the oil, gas and mineral processing industries, and as such, represents only one reportable business segment.

Geographical segments

Although the consolidated entity's divisions are managed on a global basis they operate in two main geographical areas:

Australia

The home country of the parent entity. The areas of operation are principally to identify and develop global distribution channels as well as to provide the localised delivery capability and product R & D.

Singapore

Provides localised sales, support and delivery capability for the Asia & Middle East regions.

GEOGRAPHIC SEGMENTS	AUSTRALIA		SINGAPORE		Consolidated	
	2006 $	2005 $	2006 $	2005 $	2006 $	2005 $
Sales to external customers	7,009,057	4,517,427	1,002,469	27,299	8,011,526	4,544,726
Other revenue	4,419	11,655	-	-	4,419	11,655
Total segment revenue	7,013,476	4,529,082	1,002,469	27,299	8,015,945	4,556,381
Segment assets	11,484,328	10,088,939	616,386	114,949	12,100,714	10,203,888
Segment liabilities	904,731	537,112	40,880	165,589	945,611	702,701
Segment result	1,449,730	(727,619)	35,250	(50,640)	1,484,980	(778,259)
Acquisitions of property, intangibles and other non-current segment assets	123,121	281,158	38,852	33,621	161,973	314,779
Depreciation & amortisation	127,315	103,610	23,786	11,206	151,101	114,816

Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard AASB 114 Segment Reporting.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, plant and equipment and goodwill and other intangible assets, net of related provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors and employee benefits. Segment assets and liabilities do not include income taxes.

NOTE 4: REVENUE	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Sales revenue				
– Consulting and licensing revenues	7,738,580	4,409,546	-	-
Other revenue				
– Interest received	32,007	57,192	11,298	35,469
– Governments grants received	150,000	-	-	-
– Sub-lease rentals	90,939	77,988	-	-
– Cost recovery from controlled entities	-	-	325,513	159,928
	8,011,526	4,544,726	336,811	195,397

NOTE 5: EXPENSES

Loss before income tax includes the following specific expenses:

Depreciation of non-current assets:				
– Fixtures and equipment	132,344	100,592	-	-
– Motor vehicles	18,757	14,224	-	-
	151,101	114,816	-	-
Finance costs				
– Interest and finance charges paid	7,299	5,751	-	-
Other charges against assets				
– Doubtful debts	64,407	35,713	-	-

NOTE 6: INCOME TAX

Income tax recognised in profit or loss

The major components of tax expense are:

Deferred tax expense/(benefit) relating to the origination and reversal of temporary differences (including tax losses)	(313,312)	-	38,081	-
Benefit arising from previously unrecognised tax losses, tax credits or temporary differences of a prior period that is used to reduce deferred tax expense	(38,879)	-	(38,879)	-
Total tax benefit	(352,191)	-	(798)	-

NOTE 6: INCOME TAX (cont'd)	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:				
Accounting profit/(loss) before income tax	1,132,789	(778,259)	786,864	(778,259)
Income tax expense/(benefit) calculated at 30%	339,837	(233,478)	236,059	(233,478)
Non-deductible expenses	4,102	-	1,988	228,022
Non-assessable income	-	-	(228,022)	-
Adjustments in respect of current income tax of previous years	(38,879)	-	(38,879)	-
Benefit of tax losses recognised for the first time	(435,584)	-	(41,437)	-
Unrecognised tax losses	-	487,096	-	17,599
R & D tax concessions	(214,319)	(253,618)	-	-
Other	(7,348)	-	69,493	(12,143)
Income tax benefit reported in the consolidated income statement	(352,191)	-	(798)	-
The following deferred amounts were charged directly to equity during the period:				
Deferred tax:				
• Share issue expenses	116,637	-	116,637	-
	116,637	-	116,637	-
Deferred tax assets comprise:				
Share issue expenses	116,637	-	116,637	-
Losses available for offset against future taxable income	276,218	-	69,354	-
Other temporary differences	157,636	-	9,353	-
	550,491	-	195,344	-
Deferred tax liabilities comprise:				
Other temporary differences	4,008	-	150	-
	4,008	-	150	-

The Group has tax losses arising in Australia of $920,730 that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

NOTE 6: INCOME TAX (cont'd)

Tax Consolidation

ISS Group Limited and its 100% owned Australian resident subsidiaries have formed a tax consolidated group with effect from 1 July 2006. ISS Group Limited is the head entity of the tax consolidated group. Members of the group will enter into a tax sharing arrangement in order to allocate income tax expense to the wholly owned subsidiaries on a pro-rata basis. In addition the agreement will provide for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations.

The allocation of taxes under the tax funding agreement will be recognised as an increase/decrease in the subsidiaries' intercompany accounts with the tax consolidated group head company, ISS Group Limited. Because under UIG 1052 Tax Consolidation Accounting the allocation of current taxes to tax consolidated group members on the basis of accounting profits is not an acceptable method of allocation given the group's circumstances, the difference between the current tax amount that will be allocated under the tax funding agreement and the amount that will be allocated under an acceptable method is recognised as a contribution/distribution of the subsidiaries' equity accounts. The group will apply the group allocation approach in determining the appropriate amount of current taxes to allocate to members of the tax consolidated group.

NOTE 7: KEY MANAGEMENT DISCLOSURES

(a) The company has applied the relief available under ASIC Class Order [06/50] which allows listed companies to transfer remuneration disclosures in relation to key management personnel required by Accounting Standard AASB 124: Related Party Disclosures, from the financial report to the Directors' Report. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report under Details of Remuneration and are designated as audited.

(b) Directors

The following persons were directors of ISS Group Ltd. during the financial period:

(i) Executive directors

Mr S. Attwell, Managing Director

(ii) Non-executive directors

Mr John Yeudall, Chairman

Mr. E. Cross

Mr. I. Spence

(c) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, during the financial period.

Mr. K. Fell, Chief Operating Officer (from 15 August 2005)

NOTE 7: KEY MANAGEMENT DISCLOSURES (cont'd)

(d) Key management personnel compensation

	Consolidated		Parent entity	
	2006	**2005**	**2006**	**2005**
	$	**$**	**$**	**$**
Short term employee benefits	435,097	246,445	30,000	75,417
Post employment benefits	114,873	21,432	57,200	6,787
Share based payments	-	2,182	-	2,182
	549,970	270,059	87,200	84,386

As noted above the company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in the Remuneration Report on page 12.

Equity instrument disclosures relating to key management personnel

(i) Share holdings: The numbers of shares in the company held during the financial period by each director and other key management personnel of the Group, including their personally related parties, are set out below.

Number of Shares held by Directors

	Balance 01.07.05	Received as Remuneration	Other	Balance 30.06.06
Directors				
Mr J Yeudall– Non Executive Chairman	220,000	-	-	220,000
Mr S Attwell–Managing Director	23,750,000	-	-	23,750,000
Mr E Cross – Non-executive Director	1,830,000	-	-	1,830,000
Mr I Spence – Non-executive Director	-	-	-	-
Other key management personnel				
Mr. Kevin Fell – Chief Operating Officer	-	-	-	-
Total	25,800,000	-		25,800,000

	Balance 01.07.04	Received as Remuneration	Other	Balance 30.06.05
Directors				
Mr J Yeudall– Non Executive Chairman	-	-	220,000^	220,000
Mr S Attwell–Managing Director	-	-	11,874,852^# 11,875,148#	23,750,000
Mr E Cross – Non-executive Director	-	-	200,000^* 1,630,000*	1,830,000
Mr I Spence – Non-executive Director	-	-	-	-
Total	-	-	25,800,000	25,800,000

^ Represents those shares where there is an indirect beneficial interest.
* Represents those shares that were issued during the year representing initial subscriber and promoter shares.
# Represents those shares that were issued during the year for part consideration for the acquisition of shares in Industrial Software Solutions Pty Ltd.

NOTE 7: KEY MANAGEMENT DISCLOSURES (cont'd)

Equity instrument disclosures relating to key management personnel

(ii) Option holdings

Number of options held by Specified Directors

	Balance 01.07.05	Received as Remuneration	Other	Balance 30.06.06
Directors				
Mr J Yeudall– Non Executive Chairman	510,000	-	-	510,000
Mr S Attwell–Managing Director	17,125,000	-	-	17,125,000
Mr E Cross – Non-executive Director	1,615,000	-	-	1,615,000
Mr I Spence – Non-executive Director	200,000	-	-	200,000
Other key management personnel				
Mr. Kevin Fell – Chief Operating Officer	-	1,000,000[1]	-	1,000,000
Total	19,450,000	1,000,000	-	20,450,000

[1] Transferred from the Employee Scheme

	Opening Balance	Received as Remuneration	Other	Balance 30.06.05
Directors				
Mr J Yeudall– Non Executive Chairman	-	400,000	110,000^	510,000
Mr S Attwell–Managing Director	-	-	17,125,000#	17,125,000
Mr E Cross – Non-executive Director	-	-	800,000^* 815,000*	1,615,000
Mr I Spence – Non-executive Director	-	200,000	-	200,000
Total	-	600,000	18,850,000	19,450,000

^ Represents those options where there is an indirect beneficial interest

* Represents those shares that were issued during the year representing initial subscriber and promoter shares.

\# Represents those options that were issued during the year for part consideration for the acquisition of shares in Industrial Software Solutions Pty Ltd.

NOTE 8: REMUNERATION OF AUDITORS

During the period the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non related audit firms

	Consolidated		Parent	
	2006 $	2005 $	2006 $	2005 $
HLB Mann Judd				
– Audit and review of the financial reports and other audit work under the Corporations Act 2001.	31,000	22,000	31,000	22,000
Other services:				
– Independent Accountant's report - Prospectus	-	17,000	-	-
– Taxation compliance services	26,794	24,644	8,185	2,066
– Other services	-	3,498	-	3,498
Non-HLB Mann Judd audit firms:				
Remuneration of the auditor of the company for:				
– Auditing or reviewing the financial report	2,000	3,050	-	-
	59,794	70,192	39,185	44,564

NOTE 9: EARNINGS/(LOSS) PER SHARE

	Consolidated 2006	Consolidated 2005
(a) Basic earnings per share	1.8 cents	(1.6) cents
Diluted earnings per share	1.8 cents	(1.6) cents
	2006 $	**2005 $**
(b) Reconciliation of earnings used in calculating earnings/(loss) per share		
Net Profit/(loss)	1,484,980	(778,259)
	Number	**Number**
(c) Weighted average number of ordinary shares used as the denominator in calculating basic loss per share	62,166,667	49,118,265

(d) Classification of securities.

Options outstanding have been classified as potential ordinary shares, however they are not considered to be dilutive in nature as their conversion will not result in an increase in the basic loss per share.

NOTE 10: CASH AND CASH EQUIVALENTS	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Cash at bank and on hand	568,509	958,262	16,971	761,482

Cash at bank earns interest at floating rates based on daily deposits

NOTE 11: RECEIVABLES

Current				
Trade debtors	2,450,123	720,323	-	-
Less: Allowance for doubtful debts	(100,120)	(35,713)	-	-
	2,350,003	684,610	-	-
Other receivables	102,848	56,867	7,628	6,294
Prepayments	58,502	44,660	16,423	20,350
	2,511,353	786,137	24,051	26,644

Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

Non Current				
Loan to controlled entities (note 23)	-	-	1,421,798	651,706

NOTE 12: PROPERTY, PLANT AND EQUIPMENT

Total property, plant and equipment				
At cost	848,812	686,841	-	-
Less: Accumulated depreciation	(494,354)	(343,255)	-	-
	354,458	343,586	-	-

Reconciliation

Reconciliation of the carrying amount of each class of property, plant and equipment is set out below:

Fixtures and Equipment				
Balance at the beginning of the period	243,548	-	-	-
Additions	161,973	572,579	-	-
Depreciation expense	(132,344)	(329,031)	-	-
Carrying amount at the end of the period	273,177	243,548	-	-
Motor Vehicles				
Balance at the beginning of the period	100,038	-	-	-
Additions	-	114,262	-	-
Depreciation expense	(18,757)	(14,224)	-	-
Carrying amount at the end of the period	81,281	100,038	-	-

NOTE 13: NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Investment in subsidiaries – at cost (Note 24)	-	-	8,850,000	8,850,000
Less: Impairment	-	-	-	(760,075)
	-	-	8,850,000	8,089,925

In the previous year, an impairment loss of $760,075 in the investment in subsidiaries was recorded on the basis that the subsidiaries had incurred losses and it was considered prudent to provide for the possibility that a portion of the investment was not recoverable. In the current year, this impairment loss has been reversed due to the subsidiaries returning to a profitable level. The carrying value of the investment in subsidiaries is dependent on the successful development and commercialisation of the technology or realisation by sale, by the company's controlled entities.

NOTE 14: NON-CURRENT ASSETS - INTANGIBLE ASSETS

	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Goodwill	8,085,904	8,085,904	-	-
Licenses, patents and other rights – at cost	30,000	30,000	-	-
	8,115,904	8,115,904	-	-

Consolidated	Goodwill	Patents, licenses and other rights	Total
Year ended 30 June 2005			
Opening net book amount	-	-	-
Acquisition of subsidiary	8,085,904	-	8,085,904
Additions	-	30,000	30,000
Closing net book amount	8,085,904	30,000	8,115,904
At 30 June 2005			
Cost	8,085,904	30,000	8,115,904
Accumulated amortisation and impairment	-	-	-
Net book amount	8,085,904	30,000	8,115,904

Consolidated	Goodwill	Patents, licenses and other rights	Total
Year ended 30 June 2006			
Opening net book amount	8,085,904	30,000	8,115,904
Additions	-	-	-
Closing net book amount	8,085,904	30,000	8,115,904
At 30 June 2006			
Cost	8,085,904	30,000	8,115,904
Accumulated amortisation and impairment	-	-	-
Net book amount	8,085,904	30,000	8,115,904

As from 1 July 2005 goodwill is no longer amortised but is now subject to annual impairment testing.

NOTE 15: CURRENT LIABILITIES - PAYABLES	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Trade creditors	166,203	157,930	-	-
Other creditors and accruals	596,488	404,524	48,096	28,570
	762,691	562,454	48,096	28,570

Trade creditors are non-interest bearing and are normally settled on 60-day terms.

NOTE 16: BORROWINGS

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Current				
Lease liabilities	21,334	19,841	-	-
	21,334	19,841	-	-
Non-Current				
Lease liabilities	68,045	89,375	-	-
	68,045	89,379	-	-

Hire purchase liabilities are effectively secured by way of the rights to the financed assets recognised in the financial statements which will revert to the financier in the event of default.

NOTE 17: CURRENT TAX LIABILITIES

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Current tax liabilities	-	12,562	-	-
	-	12,562	-	-

NOTE 18: PROVISIONS

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Non-Current				
Employee entitlements	89,533	18,465	-	-
	89,533	18,465	-	-

NOTE 19: CONTRIBUTED EQUITY

	2006 Number	2006 $	2005 Number	2005 $
(a) Issued and paid up capital				
62,166,667 ordinary shares				
	62,166,667	10,121,498	62,166,667	9,950,429

Movements during the period

Ordinary shares	Number	$
Balance at the beginning of the financial year	62,166,667	9,950,429
Share issue expenses – GST not claimable	-	(23,327)
Tax benefit of share issue costs	-	194,396
Balance at end of financial year	62,166,667	10,121,498

NOTE 19: CONTRIBUTED EQUITY (Cont'd)

(b) Share Options

Options over ordinary shares issued during the year and outstanding at balance date:

(i) 31,083,333 Listed Options Expiring 30 September 2008 (ASX Code: ISSO).

On 23 September 2004, 31,083,333 options were granted over ordinary shares, exercisable any time prior to their expiry date being 30 September 2008. The options were issued on the basis of one option for every two shares subscribed for under the prospectus dated 9 August 2004. The options are listed on the ASX and have an exercise price of $0.50 cents per share.

These options have been Issued at $0.01 each and the funds from the issue have been included as an option reserve in the Balance Sheets.

(ii) 22,266,667 Unlisted Options Expiring 30 September 2007.

On 23 September 2004, 22,266,667 unlisted options were granted over ordinary shares, exercisable any time prior to their expiry date being 30 September 2007. The options have an exercise price of $0.25 each for the life of the Option.

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

(c) Terms and conditions of ordinary shares

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.

At shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(d) Employee option scheme

Information relating to the employee option scheme are set out in note 27

(e) Dividend reinvestment plan

The Company has adopted a dividend re-investment plan designed to provide Shareholders with an opportunity to apply any cash dividend distributed by the Company towards the subscription for new Shares.

Participation in the Dividend Re-investment Plan by Shareholders is optional.

It is intended that Shares allotted under the Dividend Re-investment Plan will be offered at a discount that is not greater than 7.5% of the weighted average market price of the Shares on ASX during the 5 business days prior to and including the closing date of an offer under the Dividend Re-investment Plan.

No brokerage, commission, stamp duty or other transaction costs will be payable by participants in respect of any allotment of any Shares under the Dividend Re-investment Plan.

NOTE 20: RESERVES	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Reserves				
Option reserve	310,833	310,833	310,833	310,833
Share based payments reserve	18,184	18,184	18,184	18,184
Foreign currency translation reserve	(2,133)	-	-	-
	326,884	329,017	329,017	329,017
Movements:				
Option reserve (Note 19(b)(i))				
Balance 1 July	310,833	-	310,833	-
Movements	-	310,833	-	310,833
Closing balance	310,833	310,833	310,833	310,833
Share based payments reserve				
Balance 1 July	18,184	-	18,184	-
Options	-	18,184	-	18,184
Closing balance	18,184	18,184	18,184	18,184

Share based payments reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 27 for further details of these plans.

Foreign currency translation reserve				
Balance 1 July	-	-	-	-
Movements	(2,133)	-	-	-
Closing balance	(2,133)	-	-	-

Foreign currency translation reserve is used to record exchange differences arising from translation of the financial statements of foreign subsidiaries.

NOTE 21: RETAINED EARNINGS/(LOSSES)

Accumulated losses at the beginning of the financial year	(778,259)	-	(778,259)	-
Net Profit/(loss) attributable to the members of ISS Group Limited	1,484,980	(778,259)	787,662	(778,259)
Retained earnings/(losses) at the end of the financial year	706,721	(778,259)	9,403	(778,259)

NOTE 22: CASH FLOW INFORMATION

	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
(a) Reconciliation of Profit/(loss) to net cash used in operating activities for the period after income tax				
Profit/(Loss) from ordinary activities after income tax	1,484,980	(778,259)	787,662	(778,259)
Non-cash flows in loss from ordinary activities:				
Depreciation	151,101	114,816	-	-
Impairment of investment in subsidiary	-	-	-	760,075
Reversal of impairment of investment in subsidiary	-	-	(760,075)	-
Non-cash employee benefits expense - Share based payments	-	18,184	-	18,184
Changes in operating assets and liabilities:				
(Increase)/decrease in receivables	(1,712,970)	252,417	(347,045)	(186,567)
Increase/(decrease) in creditors and borrowings	271,305	253,623	19,526	28,570
Net cash used in operating activities	(194,416)	(139,219)	(299,932)	(157,997)

NOTE 23: RELATED PARTY TRANSACTIONS

Transactions with related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

Key management personnel Remuneration

Details of key management personnel remuneration are set out in the Directors' Report under the section titled 'Remuneration Report'.

Transactions with Directors

(a) Mr Cross is a principal of HealthTec Growth Partners Pty Ltd which has provided company secretarial services to the consolidated entity on normal commercial terms amounting to $60,000 (2005: $186,350) net of GST.

ISS Group Limited is the ultimate parent entity in the consolidated entity.

Transactions with Related Parties in the Wholly Owned Group

During the year the company has provided interest free loans to Industrial Software Solutions Pty Ltd totalling $1,421,798 (2005: $651,706) with no fixed repayment date.

NOTE 24: INVESTMENTS IN CONTROLLED ENTITIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

Name of entity	Country of incorporation	Class of shares	Equity holding	Parent Carrying Value $
Industrial Software Solutions Pty Ltd	Australia	Ordinary	100%	8,850,000
ISS Group (Asia) Pte Ltd	Singapore	Ordinary	100%	-
				8,850,000

NOTE 25: FINANCIAL INSTRUMENTS

	Fixed interest rate maturing in 1 year		Fixed interest rate maturing 1 to 5 years		Floating Interest Rate		Non-interest Bearing		Total		Weighted Ave Effective Interest Rate	
	2006 $	2005 $	2006 $	2005 $	2006 $	2005 $	2006 $	2005 $	2006 $	2005 $	2006 %	2005 %
Financial Assets:												
Cash and cash equivalents	-	-	-	-	568,509	958,262	-	-	568,509	958,262	5.50%	5.23%
Receivables	-	-	-	-	-	-	2,511,353	786,137	2,511,353	786,137		
Total Financial Assets	-	-	-	-	568,509	958,262	2,511,353	786,137	3,079,862	1,744,399		
Financial Liabilities:												
Payables	-	-	-	-	-	-	762,691	562,454	762,691	562,454		
Lease liability	21,334	19,841	68,045	89,379	-	-	-	-	89,379	109,220		
Total Financial Liabilities	21,334	19,841	68,045	89,379	-	-	762,691	562,454	852,070	671,674		

(a) Interest Rate Risk

All financial assets and financial liabilities are non-interest bearing except for cash balances which are deposited at variable interest rates.

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date in relation to each class of recognised financial assets is the carrying amount, net of any allowances for doubtful debts, as disclosed in the balance sheets and notes to the financial statements.

The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

(c) Net Fair Values

The net fair values of all monetary financial assets and liabilities approximate their carrying values. No financial assets or financial liabilities are readily traded on organised markets in standardised form.

The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the income statements and notes to the financial statements.

NOTE 26: CAPITAL, HIRE PURCHASE AND LEASING COMMITMENTS

Finance lease and hire purchase commitments - Group as lessee

The Group has hire purchase contracts for motor vehicles. These leases have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the lease.

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are as follows:

	Consolidated		Parent	
	2006 $	2005 $	2006 $	2005 $
Payable				
Within one year	27,140	27,140	-	-
After one year but not more than five years	75,140	102,280	-	-
Total minimum lease payments	102,280	129,420	-	-
Less amounts representing finance charges	(12,901)	(20,200)	-	-
Total hire purchase liability	89,379	109,220	-	-

Commitments for minimum payments in relation to non-cancellable operating leases for the office premises are payable as follows:

Payable				
Within one year	96,680	62,050	-	-
After one year but not more than five years	194,040	-	-	-
More than five years		-	-	-
	290,720	62,050	-	-

NOTE 27: EMPLOYEE BENEFITS

Remuneration commitments
Commitments for the payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities, payable:

Within 1 year	359,750	240,000	-	-

Amounts disclosed as remuneration commitments include commitments arising from the service contract of the managing director that is not recognised as a liability and not included in the directors' remuneration disclosure in the directors' report.

	No.	No.	No.	No.
Number of employees at balance date	63	53	-	-

NOTE 27: EMPLOYEE BENEFITS (cont'd)

Employee Option Scheme

The Company has adopted an incentive option scheme with 5,000,000 options allotted to the scheme on 23 September 2004, with an exercise price of 25 cents per share expiring 30 September 2007. The Scheme is designed to provide a long term incentive for employees of the Company (or its subsidiaries) by providing them with an opportunity to participate in the future growth of the Company.

Subject to the Corporations Act and the Listing Rules, the Directors may issue invitations to eligible participants inviting them to apply for the issue of options under the Scheme on such terms as the Directors think fit. Invitations must not be issued under the Scheme if the number of Shares that would be issued pursuant to the exercise of all options the subject of the proposed invitation (when aggregated with the number of Shares that have been issued pursuant to all employee share schemes established by the Company during the previous 5 years) exceeds 5% of the total number of issued Shares as at the date its proposed invitation is considered.

The Directors also have the power to determine appropriate procedures for the administration of the Scheme, including the right to resolve questions of fact or interpretation arising in connection with the Scheme and the right to amend the Scheme from time to time.

Options are granted under the plan for no consideration.

Options granted under the plan carry no dividend or voting rights.

The exercise price of the options is 25 cents per share exercisable to 30 September 2007 and are not quoted on the Australian Stock Exchange.

Amounts receivable on the exercise of options are recognised as share capital.

Unless the Directors in their absolute discretion determine otherwise, Options may only be exercised into one ordinary share at the following times in any given year:

(1) between 17 June and 30 June;

(2) between 17 September and 30 September;

(3) between 18 September and 31 December; and

(4) between 18 March and 31 March.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted included:

(a) options are granted for no consideration, exercisable any time

(b) exercise price: $0.25

(c) grant date:

(d) expiry date: 30 September 2007

(e) share price at grant date: $0.20

(f) expected price volatility of the company's shares: 10.82%

(h) risk free interest rate: 5.5%

Employee Option Scheme (cont'd)

(b) Expenses arising from share based payment transactions

Total expenses arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent	
	2006 $	2005 $	2006 $	2005 $
Options issued under the employee option scheme	-	18,184	-	18,184

NOTE 28: AMOUNTS RECEIVABLE AND PAYABLE DENOMINATED IN FOREIGN CURRENCIES

Exposures on items not effectively hedged, expressed in Australian dollars

Amounts receivable - current, not effectively hedged				
Singapore dollars	48,995	29,643	-	-
U.S. dollars	245,311	-	-	-
Amounts payable - current, not effectively hedged				
Singapore dollars	4,093	20,116	-	-

NOTE 29: EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the company and the consolidated entity, the results of those operations, or the state of affairs in future financial years.

NOTE 30: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS'S

Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

(a) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Notes	Previous AGAAP $	Effect of transition to AIFRS $	AIFRS $
ASSETS				
Current assets				
Cash and cash equivalents		958,262	-	958,262
Receivables		741,477	44,660	786,137
Other		44,660	(44,660)	-
Total current assets		1,744,399	-	1,744,399
Non current assets				
Property, plant and equipment		343,586	-	343,586
Intangible assets		7,711,603	404,300	8,115,903
Total non current assets		8,055,189	404,300	8,459,489
Total assets		9,799,588	404,300	10,203,888
LIABILITIES				
Current liabilities				
Payables		390,937	171,517	562,454
Borrowings		19,841	-	19,841
Provisions		184,079	(184,079)	-
Current tax liabilities		-	12,562	12,562
Total current liabilities		594,857	-	594,857
Non Current liabilities				
Payables		-	18,465	18,465
Borrowings		89,379	-	89,379
Provisions		18,465	(18,465)	-
Total current liabilities		107,844	-	107,844
Total liabilities		702,701	-	702,701
Net assets		9,096,887	404,300	9,501,187
EQUITY				
Contributed equity		9,950,429	-	9,950,429
Reserves	30(d)	310,833	18,184	329,017
Accumulated losses	30(e)	(1,164,375)	386,116	(778,259)
Total equity		9,096,887	404,300	9,501,187

NOTE 30: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS'S (cont'd)

(b) Reconciliation of loss for the year ended 30 June 2005

		Consolidated		
	Notes	**Previous AGAAP $**	**Effect of transition to AIFRS $**	**AIFRS $**
Revenue		4,467,011	77,715	4,544,726
Other income		-	11,655	11,655
Employee benefits expense	30(d)	(3,386,248)	(29,566)	(3,415,814)
Consulting and labour hire		(811,159)	-	(811,159)
Depreciation		(114,816)	-	(114,816)
Amortisation	30(d)	(404,300)	404,300	-
Rent & outgoings		(180,704)	(77,988)	(258,692)
Travel (includes international marketing)		(296,798)	-	(296,798)
Other expenses		(437,361)	-	(437,361)
Loss before income tax		**(1,164,375)**	**386,116**	**(778,259)**
Income tax benefit/(expense)		-	-	-
Loss from continuing operations		**(1,164,375)**	**386,116**	**(778,259)**
Loss attributable to members of ISS Group Limited		**(1,164,375)**	**386,116**	**(778,259)**

(c) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(d) Notes to the reconciliations

(1) Share based payments

AASB 2 *Share based Payment* is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005. The Company is required to recognise an expense for those securities that were issued to employees. The effect of this is:

(i) At 1 July 2004

There has been no effect.

(ii) At 30 June 2005

For the Group, there has been an increase in accumulated losses of $18,184 and a corresponding increase in reserves.

(iii) For the year ended 30 June 2005

For the Group there has been an increase in employee benefits expense of $18,184.

NOTE 30: EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS'S (cont'd)

(d) Notes to the reconciliations (con'td)

(2) Goodwill

The Group has made a business acquisition in recent years. The Group has elected to apply the exemption in AASB 1 First Time Adoption of AIFRS for business combinations. As such, AASB 3 Business Combinations has not been applied retrospectively to past business combinations before the date of transition to AIFRS.

Goodwill is not amortised under AASB3 Business Combinations, but was amortised under AGAAP.

(i) At 1 July 2004

There has been no effect.

(ii) At 30 June 2005

For the Group there has been an increase in intangible assets and a decrease in accumulated losses of $404,300.

(iii) For the year ended 30 June 2005

There has been a decrease in amortisation expense of $404,300.

(3) Other

Various other reclassifications to certain balance sheet items and income statement items have been made, with no net effect on either net assets or loss for any period.

(e) Accumulated losses

The effect on accumulated losses on the changes set out above are as follows:

	Notes	1 July 2004 Consolidated $	30 June 2005 Consolidated $
Goodwill	(e)	-	404,300
Share based payment adjustments	(e)	-	(18,184)
Total adjustment		-	386,116

(f) Reserves

The effect on reserves on the changes set out above are as follows:

	Notes	1 July 2004 Consolidated $	30 June 2005 Consolidated $
Share based payments	(e)	-	(18,184)

NOTE 31: CHANGES IN ACCOUNTING STANDARDS

The following amendments to Australian Accounting Standards that have recently been issued or amended are not applicable to the Company and therefore have no impact.

AMENDMENT/ NEW STANDARD	AFFECTED STANDARDS
2005-2	AASB 1023: *General Insurance Contracts*
2005-4	AASB 139: *Financial Instruments: Recognition and Measurement,* AASB 132: *Financial Instruments: Disclosure and Presentation,* AASB 1: *First-time adoption of AIFRS, AASB 1023: General Insurance Contracts* and AASB 1028: *Life Insurance Contracts*
2005-9	AASB 4: *Insurance Contracts,* AASB 1023: *General Insurance Contracts,* AASB 139: *Financial Instruments: Recognition and Measurement* and AASB 132: *Financial Instruments: Disclosure and Presentation*
2005-12	AASB 1038: *Life Insurance Contracts* and AASB 1023: *General Insurance Contracts*
UIG 6	UIG 6 *Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment*
UIG 7	UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*

Australian Accounting Standards and Urgent Issues Group Interpretations that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006:

AMENDMENT / NEW STANDARD	AFFECTED STANDARDS	NATURE OF CHANGE TO ACCOUNTING POLICY	APPLICATION DATE OF STANDARD*	APPLICATION DATE FOR COMPANY
2004-3	AASB 1 First time adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 124 Related Party Disclosures	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-5	AASB 1: First time adoption of AIFRS, AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
2005-6	AASB 3: Business Combinations	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006

AMENDMENT / NEW STANDARD	AFFECTED STANDARDS	NATURE OF CHANGE TO ACCOUNTING POLICY	APPLICATION DATE OF STANDARD*	APPLICATION DATE FOR COMPANY
2005-10	AASB 132: *Financial Instruments: Disclosure and Presentation,* AASB 101: *Presentation of Financial Statements,* AASB 114: *Segment Reporting,* AASB 117: *Leases,* AASB 133: *Earnings per Share,* AASB 139: *Financial Instruments: Recognition and Measurement,* AASB 1: *First time adoption* AIFRS, AASB 4: *Insurance Contracts,* AASB 1023: *General Insurance Contracts* and AASB 1038: *Life Insurance Contracts*	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
2006-1	AASB 121 The Effects of Change in Foreign Currency Rates	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
AASB 7	AASB 7 *Financial Instruments: Disclosures*	No change to accounting policy required. Therefore no impact	1 January 2007	1 July 2007
AASB 119	AASB 119 *Employee Benefits*	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
UIG 4	UIG 4 *Determining whether an Arrangement contains a Lease*	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
UIG 5	UIG 5 *Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds*	No change to accounting policy required. Therefore no impact	1 January 2006	1 July 2006
UIG 8	UIG 8 *Scope of AASB 2*	No change to accounting policy required. Therefore no impact	1 May 2006	1 July 2006
UIG 9	UIG 9 *Reassessment of Embedded Derivatives*	No change to accounting policy required. Therefore no impact	1 June 2006	1 July 2006

*Application date is for the annual reporting periods beginning on or after the date shown in the above table.

directors' declaration

1. In the opinion of the directors:
   a. the financial statements and notes of the company and of the consolidated entity are 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 2006 and of their performance for the year then ended; and
      ii. complying with Accounting Standards and Corporations Regulations 2001; and
   b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with Section 295A of the Corporations Act 2001 for the financial year ended 30 June 2006.

This declaration is made in accordance with a resolution of the Board of Directors.

On behalf of the Board

Mr J Yeudall
Chairman

Place: Perth, WA
Dated: 29 day of September 2006

independent audit report

HLB Mann Judd
Chartered Accountants

To the members of ISS Group Limited

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet as at 30 June 2006, and the income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements and the directors' declaration for the year then ended for both ISS Group Limited ('the company') and the consolidated entity. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls designed to prevent and detect fraud and error, for the accounting policies and for the accounting estimates within the financial report.

Audit Approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance that the financial report is free of material misstatement. The nature of an audit is influenced by several factors including the use of professional judgement, selective testing, the inherent limitations of internal control and the availability of audit evidence which may be persuasive rather than conclusive. Accordingly, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether, in all material respects, the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

When determining the nature and extent of our procedures we considered the effectiveness of management's internal controls over financial reporting. Our audit was not designed to provide assurance in relation to internal controls.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

The Directors' Report attached to the financial statements includes a copy of the Independence Declaration given to the Directors by the lead auditor for the audit. That Declaration would be on the same terms if it had been given to the Directors at the time this audit report was made.

Audit Opinion

In our opinion, the financial report of ISS Group Limited is in accordance with:

(a) the Corporations Act 2001, including:
  (i) giving a true and fair view of the company's and consolidated entity's financial position at 30 June 2006 and of their performance for the year then ended; and
  (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

HLB MANN JUDD
Chartered Accountants

L DI GIALLONARDO
Partner

Perth, Western Australia 29 September 2006
15 Rheola Street, West Perth WA 6005

additional information for listed public companies

The following additional information is disclosed in accordance with Section 4.10 of the Australian Stock Exchange Ltd Listing rules in respect of listed public companies only.

The following information is supplied as at 13 September 2006

1. Analysis of Shareholdings

a. Distribution of Shareholders (ASX Code: ISS)

Number of Ordinary Shares Held	Ordinary Shares Number of holders	Number of shares
1 – 1,000	2	276
1,001 – 5,000	23	77,070
5,001 – 10,000	48	455,510
10,001 – 100,000	269	9,497,065
100,001 – and over	61	52,136,746
	403	62,166,667

The were 11 holders of less than a marketable parcel of ordinary shares.

b. Distribution of Optionholders (ASX Code: ISSO)

Number of Options Held	Options Number of holders	Number of shares
1 – 1,000	2	1
1,001 – 5,000	52	257,000
5,001 – 10,000	29	244,251
10,001 – 100,000	209	5,937,084
100,001 – and over	28	24,644,997
	319	31,083,333

2. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

– Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Options

–No voting rights.

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES (cont'd)

3. Twenty Largest Shareholders of quoted Ordinary Shares

	Name	Number of Ordinary Shares	Percentage of Total
1.	Shane Patrick Attwell	11,875,148	19.10
2.	Robyn Susanne Johnston	11,874,852	19.10
3.	ANZ Nominees Limited <Cash Income A/C>	8,184,215	13.16
4.	National Nominees Limited	2,450,000	3.94
5.	Citicorp Nominees Pty Limited	1,119,888	1.80
6.	Janro Pty Ltd	1,085,541	1.75
7.	Ross Asset Management Ltd	1,015,976	1.63
8.	Manhattan Investments Pty Ltd	1,000,000	1.61
9.	Graeme Edmund Moir	800,000	1.28
10.	T R B Management Pty Ltd <Bowden Super Fund A/C>	640,000	1.03
11.	Exwere Investments Pty Ltd	609,500	0.98
12.	Sante Holdings Pty Ltd <DEC Family Account>	600,000	0.96
13.	Christopher James Kincaid	600,000	0.96
14.	Gary B Branch Pty Ltd <Super Fund A/C>	550,000	0.88
15.	Fortis Clearing Nominees P/L <Settlement A/C>	515,816	0.83
16.	Icy Creek Investments Pty Ltd	500,000	0.80
17.	Grant Eggleton	500,000	0.80
18.	UBS Nominees Pty Ltd	393,000	0.63
19.	Graeme Moir Holdings Pty Ltd	300,000	0.48
20.	Christopher Ian Lawrence	300,000	0.48
		44,913,936	72.20

4. Twenty Largest Optionholders of quoted Options

	Name	Number of Option	Percentage of Total
1.	Robyn Susanne Johnston <The Patacait Family A/C>	10,875,000	34.99
2.	ANZ Nominees Limited <Cash Income A/C>	3,569,998	11.48
3.	Clodene Pty Ltd	1,940,167	6.24
4.	National Nominees Limited	1,000,000	3.22
5.	Christopher James Kincaid	897,500	2.88
6.	Dominion Investments Pty Ltd	867,084	2.79
7.	Integrated Healthcare Investments Pty Ltd	550,000	1.77
8.	Murrey Ken Payne	505,000	1.62
9.	Evan Petridis	500,000	1.61
10.	Manhattan Investments Pty Ltd	500,000	1.61
11.	Ross Asset Management Ltd	450,000	1.45
12	Fortis Clearing Nominees P/L <Settlement A/C>	357,500	1.15
13.	Sante Holdings Pty Ltd <DEC Family Account>	300,000	0.96
14.	Georges Providores Holdings Pty Limited <Superannuation Fund A/C>	300,000	0.96
15.	Grant Eggleton	250,000	0.80
16.	Janro Pty Ltd	249,498	0.80
17	Succession Planners Pty Ltd <LET Discretionary Account>	212,500	0.68
18.	Randal Gavin Payne	205,000	0.66
19.	T R B Management Pty Limited <Bowden Superannuation Fund>	200,000	0.64
20.	Health & Technology Developments Pty Ltd	147,000	0.47
		23,876,247	76.78

5. **Escrowed and unquoted Securities**

   There are no restricted securities or unquoted securities.

6. **Statement in accordance with ASX Listing Rule 4.10.19**

   The Company believes that for the year ended 30 June 2005, it used its cash and assets in a form readily convertible to cash, that it held at the time of admission in a way consistent with its business objectives.

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