



ISS GROUP LIMITED

(ABN 27 109 443 852)

ANNUAL REPORT

30 JUNE 2007

CORPORATE DIRECTORY

DIRECTORS

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

AUDITORS

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

COMPANY SECRETARY

Mr Stuart Usher

REGISTERED AND PRINCIPAL OFFICE

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Nedlands WA 6009
Tel: +61 8 9386 0800
Fax: +61 8 9386 5941

SHARE REGISTRY

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110 Stirling Highway
Nedlands WA 6009
Tel: +61 8 9389 8033
Fax: +61 8 9389 7871

WEBSITE

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SOLICITORS

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16 Milligan Street
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CORPORATE ADVISER

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Chairman's Report

Dear Shareholders

As forecast in my last report, 2007 has been another very successful year for the ISS Group with further expansion of our international activities and measurable successes in all of our international offices. It is now quite noticeable that ISS is coming to the attention of the major global companies as information disseminates about the effectiveness of our BabelFish product range in maximising production, profits and return on investment.

ISS has established offices in Southampton and Aberdeen in the UK / Europe and Houston in the US. Our Asia region office based in Singapore, which has been running for two years, increased its profit to \$ 226,435.

Our client list now boasts such majors as Shell, Aramco, Rio Tinto, BP, BHP, British Gas, and Woodside to mention just a few. What is especially pleasing is the broadening of our client base from purely oil, gas and minerals to other verticals in the manufacturing space.

There is a growing recognition that the BabelFish product is a key component to any large production or manufacturing facility where information is stored in a variety of diverse sources. Our production application software suites, such as the Oil, Gas and Minerals Suite, are also gaining recognition internationally. Our product range is continuing to be enhanced with our development of BabelFish into the exploration/geospatial area. This R&D was recognised by ISS being issued with an AusIndustry grant to assist with this development.

There is also a pleasing trend of other vendor companies such as Microsoft to work with ISS on key projects. Such alliances should continue to develop.

Turnover is again up by 25% to \$9.9 million, and whilst we try to remain conservative about projections we are quietly optimistic that the year ahead will also be strong. The \$936,304 after tax profit is pleasing in light of the contract delays we experienced and announced prior to the year end.

ISS Group Ltd is still very much in the growth phase with exciting prospects for the years ahead. The major task before the company is to ensure that growth is balanced with the resources to implement the contracts. ISS is very much linked to the current global resource boom. We expect continued growth in our profits and revenues over the next financial year.

On behalf of the board we thank you all for your continued support.

Yours truly,

John Yeudall
Chairman
ISS Group Limited
Perth, WA

DIRECTORS' REPORT

THE Board of Directors of ISS Group Limited has pleasure in presenting its annual report in respect of the financial year ended 30 June 2007.

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 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).

Independent non-executive director of Advanced Ocular Systems Limited (director since 18 July 2007)

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

DIRECTORS' REPORT (Continued)

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:

Non-executive director – Advanced Ocular Systems Limited (appointed 30 May 2007).

Former directorships in last 3 years:

None.

Special responsibilities:

Member of the Audit Committee
Chairman of the Remuneration Committee

Mr Ian Spence
B.Com, C.A.

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 Australia and 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.

DIRECTORS' REPORT (Continued)

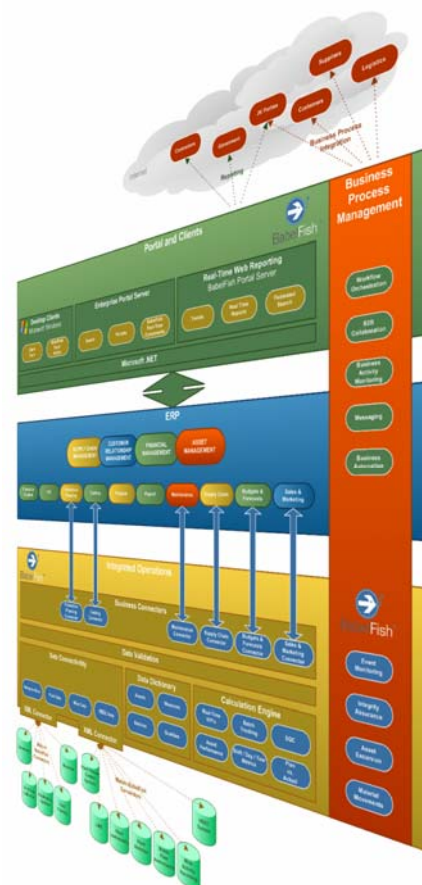
Operations Report

ISS Group is again pleased to report an increase in revenue over last financial year reflecting a strong demand for its products and services across the globe. Revenues for financial year 2006/7 are \$ 9.9 million, a significant increase of 25%. This is a clear indication that the strategies adopted by the ISS GROUP, as well as its growing global reputation as an innovative solutions provider of choice, are starting to show returns.

Gross margin increased by 6.5% to \$ 3.5 million, reflecting the costs of the current phase of the ISS Group's global expansion. Operating profit before tax (2007 - \$1.03 million) was marginally lower than last year (2006 - \$1.13 million), as a result of the continued investment in expanding markets (North America and Europe) as well as an increase (on last year) in product development. Profit after Tax is down by 37% to \$ 0.9 million, due mainly to the booking of tax loss credits in the 2006 year. An analysis of the Operating Profit compared to last year is provided below.

ISS had significant start up investment costs in Europe and North America, reflecting branch losses of \$208,248 and \$578,237 respectively. As a contrast, the now established Asia branch increased its profit to \$226,435.

Investment in our core products continues with an increase of 16% as a percent of revenue last year to a total of \$2.23 million for 2007. We expect that this will reduce in the first 6 months of the new fiscal year as we reach the end of this initiative. The feedback received from existing and potential customers on the advanced functionality which will be offered, has been very positive. We expect this to help ISS Group to break into new markets as well as generate new sales from existing customers.



Profit breakdown:

| | This Year – 2007 | Last Year – 2006 | Change |
|---|---------------------|---------------------------|--------|
| Operating Profit before tax and before the following items: | \$ 3,484,712 | \$ 3,273,605 | 6% |
| R&D spend ¹ | \$ 2,225,543 | \$ 1,925,308 | 16% |
| Depreciation | \$ 164,355 | \$ 151,101 | 9% |
| Prov'n for doubtful debts | \$ 60,000 | \$ 64,407 | -7% |
| Profit/(Loss) before tax | \$ 1,034,814 | \$ 1,132,789 | -9% |
| Income Tax Expense (Income Tax Benefit) | \$ 98,510 | \$ (352,191) ² | |
| Profit/(Loss) after tax | \$ 936,304 | \$ 1,484,980 | -37% |

1. Based on un-audited R&D Tax Claim

2. Accounting of previous year's tax losses as an income tax benefit.

DIRECTORS' REPORT (Continued)

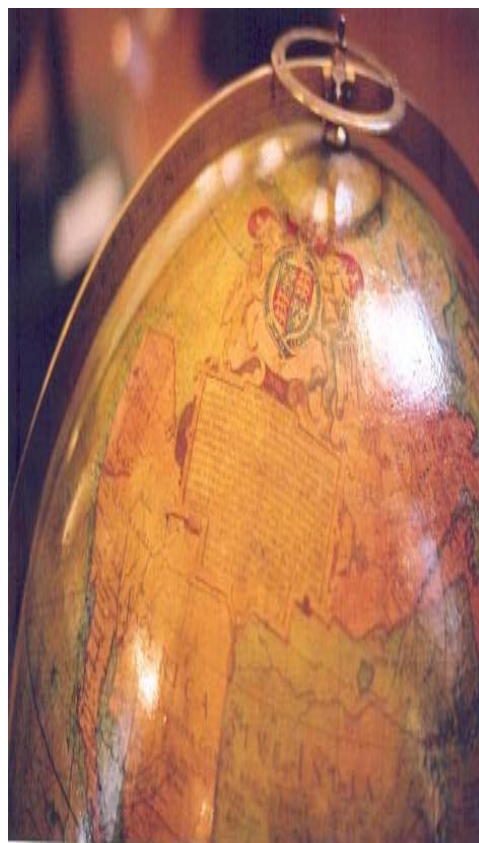
By Region (after tax):

| | 2007 | 2006 | Change |
|---------------|--------------|--------------|--------|
| Australia | \$ 1,496,354 | \$ 1,449,730 | +3% |
| Asia | \$ 226,435 | \$ 35,250 | +550% |
| Europe | \$ (208,248) | \$ - | - |
| North America | \$ (578,237) | \$ - | - |

Looking forward, ISS Group will focus on further developing its regional offices. We expect to move Europe and North America into positive returns, in line with Asia by the end of the 2008 financial year. We expect sales to continue the trend of large multi million dollar deals such as the recently announced Fortescue Metals Group transaction, which will come with long term Maintenance and Support revenue.

ISS GROUP distribution network now spans the globe covering most of the important production regions either through local representation via dedicated offices, or through key partnerships. Locations now covered include:

- ISS Group Australia
 - Perth (Head Office)
 - Adelaide (office)
 - Sydney (office)
- ISS Group Asia
 - Singapore (office)
 - Malaysia (partner)
 - Middle East (partner)
 - Pakistan (partner)
- ISS Group Europe
 - Aberdeen (office)
 - Southampton (office)
 - Africa (partner)
- ISS Group North America
 - Houston (office)
 - Canada (partner)
 - South America (partner)



ISS GROUP's reputation has grown with the expansion of our network, and now imbues the GROUP international credibility and capabilities. Referrals by existing customers are also starting to have a significant impact on our sales opportunities.

Regionally we are also seeing significant growth in opportunities and revenue with Singapore now turning over a healthy profit, which we expect the other offices to follow in the coming year.

We are now seeing the profile of the projects that ISS GROUP is undertaking changing and becoming more strategic in nature. More importantly, customers that are now adopting ISS GROUP solutions are some of the largest production companies in the world such as Shell, Aramco, Rio Tinto, BP, BHP, British Gas, and Woodside to mention a few.

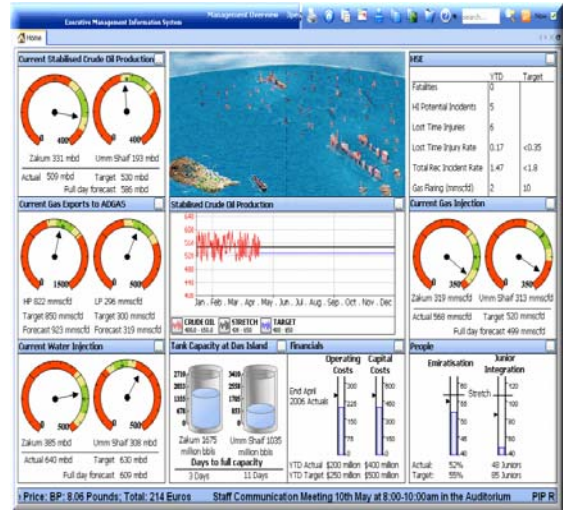
DIRECTORS' REPORT (Continued)

Our financial targets for the new financial year are aggressive but we believe achievable based on the current order book and the proposals that we have in the pipeline. Our confidence is further bolstered by the continued global growth and demand in the resource sector. However as a result of this growth, one of our greatest challenges will be to ensure that ISS Group has the right people on board to meet this expected demand.

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 \$2.2M (22% of revenue) into product development. Whilst there has been a reduction in R & D spend as a percentage of ISS Group revenue (2006 : 24%, 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 production facilities only. However, over the past 18 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 and an AusIndustry Commercial Ready Grant to continue development of this application. 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. Other major R&D developments have been the integration of BabelFish with Microsoft's Dynamics ERP Solution. One of ISS's key target markets is to enhance the interfaces to ERP systems. This, along with the geospatial system R&D expands our market in both the vertical and horizontal aspects of production facilities.



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. ISS is also expanding into the manufacturing markets with several recent projects.

DIRECTORS' REPORT (Continued)

Company Background: • Twelve 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 twelve 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

31/07/2006 Contract to Rio Tinto Pilbara Iron sites
07/08/2006 Contracted to supply BabelFish software to Shell Canada
26/09/2006 ISS receives Commercial Ready Grant
25/10/2006 Expansion - North American Sales Office
07/12/2006 ISS Web Based Technology Streamlines Production Reporting
22/12/2006 Recommended Vendor for Data Integration Tec for Saudi Aramco
19/06/2007 International Offices Generating Revenue
29/06/2007 Contract with Fortescue Metals Group Ltd
05/07/2007 Saudi Aramco to Use ISS Group BabelFish Product
06/08/2007 ISS sign Microsoft contract for Fortescue Metals Group Ltd

DIRECTORS' REPORT (Continued)

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.

Significant Events After Balance Date

There has been a number of unlisted option conversions received since the end of the financial year raising a total of \$4,750,000. The Company expects all options to be converted prior to 30 September 2007.

Since the end of the financial year, the consolidated entity has entered into agreements with senior regional employees giving effect to granting those employees a total of up to 7.25million shares in the parent entity for no consideration upon the attainment of certain milestones. These milestones are based on the future performance of the consolidated entity's overseas operations. In the event that all conditions are satisfied by the year 2011 the grant of these shares will result in the consolidated entity recording a non cash expense for the value of these shares over the period from the date of grant to the date when the shares vest. The Company is arranging for an independent valuation of these shares. No directors of the group are participants in this incentive plan.

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.

Dividends

Dividends paid to members during the financial year were as follows:

| | 2007 | 2006 |
|--|----------------|------|
| | \$ | \$ |
| Maiden dividend for the year ended 2006 of 0.5 cents per fully paid share paid on 30 November 2006 - Unfranked | \$0.005 | - |
| Interim ordinary dividend for the year ended 2007 of 0.5 cents (2006 - Nil) per fully paid share paid on 30 April 2007 - Unfranked | \$0.005 | - |

DIRECTORS' REPORT (continued)

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. 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.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Details of Remuneration for Year Ended 30 June 2007

(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:

Details of Remuneration for Year Ended 30 June 2007

(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 | 50,000 | - | 4,500 | - | 54,500 |
| Mr S Attwell – Managing Director | 220,184 | 17,208 | 42,385 | - | 279,777 |
| Mr E Cross – Non-executive Director | 30,000 | - | 2,700 | - | 32,700 |
| Mr I Spence – Non-executive Director | 30,000 | - | 2,700 | - | 32,700 |
| Other key management personnel | | | | | |
| Kevin Fell – Chief Operating Officer – (resigned 14 Nov 2006) | 181,751 | - | 7,606 | - | 189,357 |
| Total Remuneration | 511,935 | 17,208 | 59,891 | - | 589,034 |

Details of Remuneration for Year Ended 30 June 2006

(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 | - | - | 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 |

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

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 2007 | Opening Balance 01.07.06 | Received as Remuneration | Acquired on market | Other changes | Balance 30.6.07 |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------|---|--------------------|
| Directors | | | | | |
| Mr J Yeudall– Non Executive Chairman | 220,000 | - | - | 26,316 [^] 11,796 [#] | 258,112 |
| Mr S Attwell–Managing Director | 23,750,000 | - | - | 52,632 [^] 936,308 [#] | 24,738,940 |
| Mr E Cross – Non-executive Director | 1,830,000 | - | - | 52,632 [^] 80,590 [#] | 1,963,222 |
| Mr I Spence – Non-executive Director | - | - | 200,000 | 26,316 [^] | 226,316 |
| Total | 25,800,000 | - | 200,000 | 1,186,590 | 27,186,590 |

[^] Share Purchase plan

[#] Dividend Reinvestment Plan

| Year ended 30 June 2006 | Opening Balance 01.07.05 | Received as Remuneration | Acquired on market | Other | 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 | - | - | - | - | - |
| Total | 25,800,000 | - | - | - | 25,800,000 |

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

^ 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 ISS Australia Pty Ltd.

(ii) Option holdings

| Year ended 30 June 2007 | Opening Balance 01.07.06 | Received as Remuneration | Other | Balance 30.6.07 |
|---|--------------------------------|-----------------------------|--------------------|--------------------|
| 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 | 4,165,000 | | | 4,165,000 |
| Mr I Spence – Non-executive Director | 200,000 | | | 200,000 |
| Other key management personnel | | | | |
| Mr K Fell – Chief Operating Officer (resigned 14 Nov 2006) | 1,000,000 | | (1,000,000) | - |
| Total | 23,000,000 | | (1,000,000) | 22,000,000 |

| 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 | 4,165,000 | - | - | 4,165,000 |
| 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 | 22,000,000 | 1,000,000 | - | 23,000,000 |

¹ Transferred from Employee Option Scheme

^ 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 ISS Australia Pty Ltd.

DIRECTORS' REPORT (continued)

REMUNERATION REPORT (continued)

Options Issued as Part of Remuneration for the Year Ended 30 June 2007

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.

DIRECTORS' REPORT (continued)

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 2007, 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 | 5 | 5 | 2 | 2 |
| Mr S Attwell | 5 | 5 | 2 | 2 |
| Mr E Cross | 5 | 5 | 2 | 2 |
| Mr I Spence | 5 | 5 | 2 | 2 |

Indemnifying Directors and Officers

During the financial year, ISS Group Limited paid a premium of \$19,707 (2006: \$18,000) 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 21(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.

DIRECTORS' REPORT (continued)

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 2007 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 Code of Conduct APES110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, 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 | |
|---|---------------|---------------|
| | 2007 | 2006 |
| | \$ | \$ |
| HLB Mann Judd | | |
| — Audit and review of the financial reports and other audit work under the Corporations Act 2001. | 40,315 | 31,000 |
| Other services: | | |
| — Taxation compliance services | 40,102 | 26,794 |
| Non-HLB Mann Judd audit firms: | | |
| Remuneration of the auditor of the company for: | | |
| — Auditing or reviewing the financial report | 5,600 | 2,000 |
| | <u>86,017</u> | <u>59,794</u> |

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 19.

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

Mr Evan Cross
Director

Dated this 28th September 2007



Accountants | Business and Financial Advisers

Auditor's Independence Declaration

As lead auditor for the audit of the financial report of ISS Group Limited for the year ended 30 June 2007, 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.

Perth, Western Australia
28 September 2007

L DI GIALONARDO
Partner, HLB Mann Judd

HLB Mann Judd (WA Partnership)

15 Rheola Street West Perth 6005. PO Box 263 West Perth 6872 Western Australia. DX 238 (Perth) Telephone +61 (08) 9481 0977. Fax +61 (08) 9481 3686.

Email: hlb@hlbwa.com.au. Website: <http://www.hlb.com.au>

Partners: Terry M Blenkinsop, Litsa Christodoulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms

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.

CORPORATE GOVERNANCE STATEMENT

Principle 2 (Continued)

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.

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.

Directors 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.

CORPORATE GOVERNANCE STATEMENT

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 its size and operations.

CORPORATE GOVERNANCE STATEMENT

Principle 8

Encourage enhanced performance

The company does conduct performance evaluations of its board and members in accordance with recommendation 8.1.

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.

ISS GROUP LTD.

FINANCIAL REPORT

For the year ended 30 June 2007

INCOME STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| | Note | Consolidated | | Parent | |
|--|------|------------------|------------------|------------------|----------------|
| | | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Revenue | 5 | 9,423,580 | 7,861,526 | 1,209,792 | 336,811 |
| Other income | 6 | 562,238 | 154,419 | 150,815 | - |
| Employee benefits expense | | (6,322,492) | (4,583,844) | (165,757) | (92,287) |
| Consulting and labour hire | | (889,933) | (859,852) | - | - |
| Depreciation | | (164,355) | (151,101) | - | - |
| Rent & outgoings | | (359,352) | (327,431) | - | - |
| Travel | | (346,662) | (294,554) | (4,183) | (3,024) |
| Reversal of impairment of investment in subsidiary | | - | - | - | 760,075 |
| Finance costs | | (5,806) | (7,299) | - | - |
| Other expenses | | (862,404) | (659,075) | (223,751) | (214,711) |
| Profit before income tax | 7 | 1,034,814 | 1,132,789 | 966,916 | 786,864 |
| Income tax (expense)/benefit | 8 | (98,510) | 352,191 | (43,493) | 798 |
| Net Profit for the period | | 936,304 | 1,484,980 | 923,423 | 787,662 |
| Net Profit attributable to members of the parent entity | | 936,304 | 1,484,980 | 923,423 | 787,662 |
| Earnings per share from continuing operations | | Cents | Cents | | |
| Basic earnings per share (cents per share) | 11 | 1.5 | 1.8 | | |
| Diluted earnings per share (cents per share) | 11 | 1.5 | 1.8 | | |

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

BALANCE SHEETS
AS AT 30 JUNE 2007

| | Note | Consolidated | | Parent | |
|--------------------------------------|------|-------------------|-------------------|-------------------|-------------------|
| | | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Current Assets | | | | | |
| Cash and cash equivalents | 12 | 3,325,724 | 568,509 | 2,587,090 | 16,971 |
| Trade and other receivables | 13 | 2,782,959 | 2,511,353 | 26,162 | 24,051 |
| Total Current Assets | | 6,108,683 | 3,079,862 | 2,613,252 | 41,022 |
| Non-Current Assets | | | | | |
| Property, plant and equipment | 14 | 370,841 | 354,458 | - | - |
| Other financial assets | 15 | - | - | 8,850,000 | 8,850,000 |
| Receivables | 13 | - | - | 1,469,664 | 1,421,798 |
| Deferred tax asset | 8 | 499,342 | 550,491 | 342,691 | 195,344 |
| Intangible assets | 16 | 8,115,903 | 8,115,903 | - | - |
| Total Non-Current Assets | | 8,986,086 | 9,020,852 | 10,662,355 | 10,467,142 |
| Total Assets | | 15,094,769 | 12,100,714 | 13,275,607 | 10,508,164 |
| Current Liabilities | | | | | |
| Trade and other payables | 17 | 1,015,583 | 762,691 | 59,627 | 48,096 |
| Interest bearing liabilities | 18 | 22,939 | 21,334 | - | - |
| Current tax liabilities | 19 | 3,782 | - | - | - |
| Total Current Liabilities | | 1,042,304 | 784,025 | 59,627 | 48,096 |
| Non-Current Liabilities | | | | | |
| Provisions | 20 | 94,108 | 89,533 | - | - |
| Deferred tax liability | 8 | 4,013 | 4,008 | - | 150 |
| Interest bearing liabilities | 18 | 45,106 | 68,045 | - | - |
| Total Non-Current Liabilities | | 143,227 | 161,586 | - | 150 |
| Total Liabilities | | 1,185,531 | 945,611 | 59,627 | 48,246 |
| Net Assets | | 13,909,238 | 11,155,103 | 13,215,980 | 10,459,918 |
| Equity | | | | | |
| Issued capital | 21 | 12,654,095 | 10,121,498 | 12,654,095 | 10,121,498 |
| Reserves | 22 | 350,735 | 326,884 | 367,676 | 329,017 |
| Retained earnings | 23 | 904,408 | 706,721 | 194,209 | 9,403 |
| Total Equity | | 13,909,238 | 11,155,103 | 13,215,980 | 10,459,918 |

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

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

| 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 |
| Consolidated | | | | | | |
| Balance as at 1 July 2006 | 10,121,498 | 706,721 | (2,133) | 18,184 | 310,833 | 11,155,103 |
| Contributions of equity, net of transaction costs | 2,140,079 | - | - | - | - | 2,140,079 |
| Tax benefit of share issue costs | 40,175 | - | - | - | - | 40,175 |
| Dividend paid | - | (738,617) | - | - | - | (738,617) |
| Dividend reinvestment plan | 352,343 | - | - | - | - | 352,343 |
| Profit attributable to members of the parent entity | - | 936,304 | - | - | - | 936,304 |
| Share based payments | - | - | - | 38,658 | - | 38,658 |
| Adjustment from translation of foreign controlled entities | - | - | (14,807) | - | - | (14,807) |
| Balance at 30 June 2007 | 12,654,095 | 904,408 | (16,940) | 56,842 | 310,833 | 13,909,238 |

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

STATEMENTS OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2007

| 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 |
| Parent | | | | | | |
| Balance as at 1 July 2006 | 10,121,498 | 9,403 | - | 18,184 | 310,833 | 10,459,918 |
| Contributions of equity, net of transaction costs | 2,140,079 | - | - | - | - | 2,140,079 |
| Tax benefit of share issue costs | 40,175 | - | - | - | - | 40,175 |
| Dividend paid | - | (738,617) | - | - | - | (738,617) |
| Dividend reinvestment plan | 352,343 | - | - | - | - | 352,343 |
| Profit attributable to members of the parent entity | - | 923,423 | - | - | - | 923,423 |
| Share based payments | - | - | - | 38,659 | - | 38,659 |
| Balance at 30 June 2007 | 12,654,095 | 194,209 | - | 56,843 | 310,833 | 13,215,980 |

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

CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

| | Note | Consolidated | | Parent | |
|---|------|--------------|-------------|------------|------------|
| | | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Cash flows from operating activities | | | | | |
| Receipts from customers (inclusive of goods and services tax) | | 9,170,585 | 6,810,864 | - | - |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (8,632,505) | (7,126,545) | (411,575) | (311,231) |
| Government grants received | | 562,238 | 150,000 | - | - |
| Interest received | | 131,595 | 32,007 | 98,390 | 11,299 |
| Interest paid | | (5,806) | (4,094) | - | - |
| Income tax (paid) refunds | | - | (54,515) | - | - |
| Net cash used in operating activities | 24 | 1,226,107 | (192,283) | (313,185) | (299,932) |
| Cash flows from investing activities | | | | | |
| Payments for plant and equipment | | (180,739) | (168,197) | - | - |
| Repayments received from controlled entities | | - | - | 1,529,499 | - |
| Advances to controlled entities | | - | - | (400,000) | (444,579) |
| Net cash used in investing activities | | (180,739) | (168,197) | 1,129,499 | (444,579) |
| Cash flows from financing activities | | | | | |
| Proceeds from issue of shares | | 2,273,484 | - | 2,273,484 | - |
| Payments for share issue costs | | (133,404) | - | (133,404) | - |
| Dividends paid to company's shareholders | | (386,275) | - | (386,275) | - |
| Repayment of borrowings | | (27,151) | (27,140) | - | - |
| Net cash (used in) / provided by financing activities | | 1,726,654 | (27,140) | 1,753,805 | - |
| Net increase/(decrease) in cash and cash equivalents | | 2,772,022 | (387,620) | 2,570,119 | (744,511) |
| Cash and cash equivalents at the beginning of the year | | 568,509 | 958,262 | 16,971 | 761,482 |
| Effect of exchange rates on cash holdings in foreign currencies | | (14,807) | (2,133) | - | - |
| Cash and cash equivalents at the end of the year | | 3,325,724 | 568,509 | 2,587,090 | 16,971 |

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 2007

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.

Statement of compliance

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Advanced Ocular Systems Ltd comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs.

The financial report was authorised for issue in accordance with a resolution of directors on 28 September 2007.

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.

(b) Adoption of new and revised standards

In the year ended 30 June 2007, the Group has reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for annual reporting periods beginning on or after 1 July 2006. It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change in necessary to Group accounting policies.

(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 2007 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.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(j) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets 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 inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**(o) Intangible assets (cont'd)****(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.

(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 29.

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.

Share 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)****(w) Earnings per share (cont'd)****(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 29.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

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 | |
|---|------------|------------|-----------|-----------|--------------|------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Sales to external customers | 8,197,441 | 7,009,057 | 1,226,139 | 1,002,469 | 9,423,580 | 8,011,526 |
| Other revenue | 562,238 | 4,419 | - | - | 562,238 | 4,419 |
| Total segment revenue | 8,759,679 | 7,013,476 | 1,226,139 | 1,002,469 | 9,985,818 | 8,015,945 |
| Segment assets | 14,766,919 | 11,484,328 | 327,850 | 616,386 | 15,094,769 | 12,100,714 |
| Segment liabilities | 1,051,785 | 904,731 | 133,746 | 40,880 | 1,185,531 | 945,611 |
| Segment result | 818,722 | 1,449,730 | 117,582 | 35,250 | 936,304 | 1,484,980 |
| Acquisitions of property, intangibles and other non-current segment assets | 173,400 | 123,121 | 7,339 | 38,852 | 180,739 | 161,973 |
| Depreciation & amortisation | 135,365 | 127,315 | 28,990 | 23,786 | 164,355 | 151,101 |

(b) 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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 4: Dividends

Dividends paid to members during the financial year were as follows:

| | 2007 \$ | 2006 \$ |
|--|------------|------------|
| Maiden dividend for the year ended 2006 of 0.5 cents per fully paid share paid on 30 November 2006 - Unfranked | \$0.005 | - |
| Interim ordinary dividend for the year ended 2007 of 0.5 cents (2006 - Nil) per fully paid share paid on 30 April 2007 - Unfranked | \$0.005 | - |

| | Consolidated | | Parent | |
|--|--------------|------------|------------|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| NOTE 5: Revenue | | | | |
| Sales revenue | | | | |
| — Consulting and licensing revenues | 9,198,295 | 7,738,580 | - | - |
| Other revenue | | | | |
| — Interest received | 131,595 | 32,007 | 98,390 | 11,298 |
| — Sub-lease rentals | 93,690 | 90,939 | - | - |
| — Cost recovery from controlled entities | - | - | 1,111,402 | 325,513 |
| | 9,423,580 | 7,861,526 | 1,209,792 | 336,811 |

NOTE 6: Other income

| | | | | |
|--------------------------------|---------|---------|---------|---|
| — Governments grants received | 562,238 | 150,000 | - | - |
| — Distribution from subsidiary | - | - | 150,815 | - |
| — Other | - | 4,419 | - | - |
| | 562,238 | 154,419 | 150,815 | - |

NOTE 7: Expenses

Profit before income tax includes the following specific expenses:

Depreciation of non-current assets:

| | | | | |
|--------------------------|---------|---------|---|---|
| — Fixtures and equipment | 149,114 | 132,344 | - | - |
| — Motor vehicles | 15,241 | 18,757 | - | - |
| | 164,355 | 151,101 | - | - |

Other charges against assets

| | | | | |
|------------------|--------|--------|---|---|
| — Doubtful debts | 60,000 | 64,407 | - | - |
|------------------|--------|--------|---|---|

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

| | Consolidated | | Parent | |
|--|--------------|-----------|-----------|-----------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| NOTE 8: 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) | 98,510 | (313,312) | 43,493 | 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/(expense) | 98,510 | (352,191) | 43,493 | (798) |
| 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 before income tax | 1,034,814 | 1,132,789 | 966,916 | 786,864 |
| Income tax expense calculated at 30% | 310,444 | 339,837 | 290,075 | 236,059 |
| Non-deductible expenses | 23,600 | 4,102 | 359 | 1,988 |
| Non-assessable income | - | - | (221,585) | (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 | (5,705) | (435,584) | - | (41,437) |
| Difference in tax rate of subsidiaries operating in other jurisdictions | (28,110) | - | - | - |
| Difference from change in tax rate of subsidiaries operating in other jurisdictions | (636) | - | - | - |
| Tax exempt income | (21,107) | - | - | - |
| Foreign tax credits claimed by subsidiaries | (26,105) | - | - | - |
| R & D tax concessions | (180,761) | (214,319) | - | - |
| Attributed income | 7,518 | - | 7,518 | - |
| Under provision for income tax of subsidiaries | 4,049 | - | - | - |
| Other | 15,323 | (7,348) | (32,874) | 69,493 |
| Income tax benefit/(expense) | 98,510 | (352,191) | 43,493 | (798) |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

| | Consolidated | | Parent | |
|---|----------------|----------------|----------------|----------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| NOTE 8: INCOME TAX (continued) | | | | |
| The following deferred amounts were charged directly to equity during the period: | | | | |
| Deferred tax: | | | | |
| • Share issue expenses | 234,571 | 116,637 | 234,571 | 116,637 |
| | <u>234,571</u> | <u>116,637</u> | <u>234,571</u> | <u>116,637</u> |
| Deferred tax assets comprise: | | | | |
| Share issue expenses | 109,899 | 116,637 | 109,899 | 116,637 |
| Losses available for offset against future taxable income | 221,392 | 276,218 | 221,392 | 69,354 |
| Other temporary differences | 168,051 | 157,636 | 11,400 | 9,353 |
| | <u>499,342</u> | <u>550,491</u> | <u>342,691</u> | <u>195,344</u> |
| Deferred tax liabilities comprise: | | | | |
| Depreciation timing differences | 4,013 | - | - | - |
| Other temporary differences | - | 4,008 | - | 150 |
| | <u>4,013</u> | <u>4,008</u> | <u>-</u> | <u>150</u> |

The Group has tax losses arising in Australia of \$Nil (2006: \$920,730) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 9: Key management disclosures

(a) The company has applied the relief available under the Corporations Amendment Regulations 2006 (No. 4) 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 (resigned 14 Nov 2006)

(d) Key management personnel compensation

| | Consolidated | | Parent entity | |
|------------------------------|----------------|----------------|----------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Short-term employee benefits | 529,143 | 435,097 | 110,000 | 30,000 |
| Post-employment benefits | 59,891 | 114,873 | 9,900 | 57,200 |
| Share-based payments | - | - | - | - |
| | <u>589,034</u> | <u>549,970</u> | <u>119,900</u> | <u>87,200</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 9: Key management disclosures (continued)

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 Specified Directors

| 30 June 2007 | Balance 01.07.06 | Acquired on market | Other changes | Balance 30.06.07 |
|--------------------------------------|---------------------|-----------------------|---|---------------------|
| <i>Directors</i> | | | | |
| Mr J Yeudall– Non Executive Chairman | 220,000 | - | 26,316 [^] 11,796 [#] | 258,112 |
| Mr S Attwell–Managing Director | 23,750,000 | - | 52,632 [^] 936,308 [#] | 24,738,940 |
| Mr E Cross – Non-executive Director | 1,830,000 | - | 52,632 [^] 80,590 [#] | 1,963,222 |
| Mr I Spence – Non-executive Director | - | 200,000 | 26,316 [^] | 226,316 |
| Total | 25,800,000 | 200,000 | 1,186,590 | 27,186,590 |

| 30 June 2006 | Balance 01.07.05 | Received as Remuneration | Other | Balance 30.06.06 |
|--------------------------------------|---------------------|-----------------------------|----------|---------------------|
| <i>Directors</i> | | | | |
| 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 | - | - | - | - |
| Total | 25,800,000 | - | - | 25,800,000 |

[^] Share purchase plan.

[#] Dividend reinvestment plan

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 9: Key management disclosures (continued)

Equity instrument disclosures relating to key management personnel

(ii) Option holdings

Number of options held by Specified Directors

| 30 June 2007 | Balance 01.07.06 | Received as Remuneration | Other | Balance 30.6.07 |
|--|---------------------|-----------------------------|--------------------------|--------------------|
| <i>Directors</i> | | | | |
| 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 | 4,165,000 | - | - | 4,165,000 |
| Mr I Spence – Non-executive Director | 200,000 | - | - | 200,000 |
| <i>Other key management personnel</i> | | | | |
| Mr. Kevin Fell – Chief Operating Officer (resigned 14 Nov 2006) | 1,000,000 | - | (1,000,000) ² | - |
| Total | 23,000,000 | - | (1,000,000) | 22,000,000 |

| 30 June 2006 | Balance 01.07.05 | Received as Remuneration | Other | Balance 30.6.06 |
|--|---------------------|-----------------------------|----------|--------------------|
| <i>Directors</i> | | | | |
| 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 | 4,165,000 | - | - | 4,165,000 |
| Mr I Spence – Non-executive Director | 200,000 | - | - | 200,000 |
| <i>Other key management personnel</i> | | | | |
| Mr. Kevin Fell – Chief Operating Officer | - | 1,000,000 ¹ | - | 1,000,000 |
| Total | 22,000,000 | 1,000,000 | - | 23,000,000 |

¹ Transferred from the Employee Scheme

² Balance at date of resignation

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 10: 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 | |
|---|---------------|---------------|---------------|---------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| HLB Mann Judd | | | | |
| — Audit and review of the financial reports and other audit work under the Corporations Act 2001. | 40,315 | 31,000 | 40,315 | 31,000 |
| Other services: | | | | |
| — Independent Accountant's report - Prospectus | - | - | - | - |
| — Taxation compliance services | 40,102 | 26,794 | 20,382 | 8,185 |
| — Other services | - | - | - | - |
| Non-HLB Mann Judd audit firms: | | | | |
| Remuneration of the auditor of the company for: | | | | |
| — Auditing or reviewing the financial report | 5,600 | 2,000 | - | - |
| | <u>86,017</u> | <u>59,794</u> | <u>60,697</u> | <u>39,185</u> |

NOTE 11: Earnings per share

| | Consolidated | Consolidated |
|--|-------------------|-------------------|
| | 2007 | 2006 |
| (a) Basic earnings per share | 1.5 cents | 1.8 cents |
| Diluted earnings per share | 1.5 cents | 1.8 cents |
| (b) Reconciliation of earnings used in calculating earnings per share | | |
| Net Profit | <u>1,034,814</u> | <u>1,132,789</u> |
| | Number | Number |
| (c) Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | <u>69,596,995</u> | <u>62,166,667</u> |
| (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 earnings per share.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

| | Consolidated | | Parent | |
|---|--------------|---------|-----------|--------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| NOTE 12: Cash and cash equivalents | | | | |
| Cash at bank and on hand | 3,325,724 | 568,509 | 2,587,090 | 16,971 |

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

NOTE 13: Receivables

Current

| | | | | |
|------------------------------------|-----------|-----------|--------|--------|
| Trade debtors | 2,859,853 | 2,450,123 | - | - |
| Less: Allowance for doubtful debts | (160,120) | (100,120) | - | - |
| | 2,699,733 | 2,350,003 | - | - |
| Other receivables | 14,078 | 102,848 | 4,171 | 7,628 |
| Prepayments | 69,148 | 58,502 | 21,991 | 16,423 |
| | 2,782,959 | 2,511,353 | 26,162 | 24,051 |

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 25) | - | - | 1,469,664 | 1,421,798 |
|---------------------------------------|---|---|-----------|-----------|

NOTE 14: Property, plant and equipment

Total property, plant and equipment

| | | | | |
|--------------------------------|-----------|-----------|---|---|
| At cost | 1,016,913 | 848,812 | - | - |
| Less: Accumulated depreciation | (646,072) | (494,354) | - | - |
| | 370,841 | 354,458 | - | - |

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 | 273,177 | 243,548 | - | - |
| Additions | 180,738 | 161,973 | - | - |
| Depreciation expense | (149,114) | (132,344) | - | - |
| Carrying amount at the end of the period | 304,801 | 273,177 | - | - |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 14: Property, plant and equipment (Continued)

| | Consolidated | | Parent | |
|--|---------------------|------------|---------------|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| <i>Motor Vehicles</i> | | | | |
| Balance at the beginning of the period | 81,281 | 100,038 | - | - |
| Additions | - | - | - | - |
| Depreciation expense | (15,241) | (18,757) | - | - |
| Carrying amount at the end of the period | 66,040 | 81,281 | - | - |

NOTE 15: Non-current assets - Other financial assets

| | | | | |
|--|---|---|-----------|-----------|
| Investment in subsidiaries – at cost (Note 26) | - | - | 8,850,000 | 8,850,000 |
| Less: Impairment | - | - | - | - |
| | - | - | 8,850,000 | 8,850,000 |

NOTE 16: Non-current assets - Intangible assets

| | | | | |
|--|-----------|-----------|---|---|
| Goodwill – at cost | 8,085,903 | 8,085,903 | - | - |
| Licenses, patents and other rights – at cost | 30,000 | 30,000 | - | - |
| | 8,115,903 | 8,115,903 | - | - |

There were no movements in intangible assets during the year.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 17: Current liabilities - Payables

| | Consolidated | | Parent | |
|------------------------------|------------------|----------------|---------------|---------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Current | | | | |
| Trade creditors | 245,254 | 166,203 | - | - |
| Other creditors and accruals | 770,329 | 596,488 | 59,627 | 48,096 |
| | <u>1,015,583</u> | <u>762,691</u> | <u>59,627</u> | <u>48,096</u> |

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

NOTE 18: Interest bearing liabilities

| | | | | |
|---------------------------|---------------|---------------|----------|----------|
| Current | | | | |
| Hire purchase liabilities | 22,939 | 21,334 | - | - |
| | <u>22,939</u> | <u>21,334</u> | <u>-</u> | <u>-</u> |
| Non-Current | | | | |
| Hire purchase liabilities | 45,106 | 68,045 | - | - |
| | <u>45,106</u> | <u>68,045</u> | <u>-</u> | <u>-</u> |

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 19: Current tax liabilities

| | | | | |
|-------------------------|--------------|----------|----------|----------|
| Current tax liabilities | 3,782 | - | - | - |
| | <u>3,782</u> | <u>-</u> | <u>-</u> | <u>-</u> |

NOTE 20: Provisions

| | | | | |
|-----------------------|---------------|---------------|----------|----------|
| Non-Current | | | | |
| Employee entitlements | 94,108 | 89,533 | - | - |
| | <u>94,108</u> | <u>89,533</u> | <u>-</u> | <u>-</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 21: Contributed equity

| | 2007 | | 2006 | |
|--|-------------------|-------------------|-------------|-------------------|
| | Number | \$ | Number | \$ |
| (a) Issued and paid up capital | | | | |
| 75,614,502 ordinary shares | | | | |
| 30 June 2006: | | | | |
| 62,166,667 ordinary shares | <u>75,614,502</u> | <u>12,654,095</u> | 62,166,667 | <u>10,121,498</u> |
| Movements during the period | | | | |
| Ordinary shares | | Number | Issue price | \$ |
| Balance at the beginning of the financial year | | <u>62,166,667</u> | | <u>10,121,498</u> |
| Share purchase plan | | 11,100,000 | \$0.19 | 2,108,998 |
| Option conversions | | 660,000 | \$0.25 | 165,000 |
| Dividend reinvestment plan (Paid Nov-06) | | 1,027,386 | \$0.189 | 193,934 |
| Dividend reinvestment plan (Paid Apr-07) | | 660,449 | \$0.239 | 158,409 |
| Share issue costs | | - | - | (133,919) |
| Tax benefit of share issue costs | | - | - | 40,175 |
| Balance at end of financial year | | <u>75,614,502</u> | | <u>12,654,095</u> |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 21: Contributed equity (continued)

(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) 21,606,667 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. During the reporting period 660,000 options were exercised. Subsequent to the end of the reporting period up to the date of this report further options have been exercised and converted into ordinary shares with proceeds from these conversions totalling \$4,750,000.

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 29

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 22: Reserves

| | Consolidated | | Parent | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Reserves | | | | |
| Option reserve | 310,833 | 310,833 | 310,833 | 310,833 |
| Share based payments reserve | 56,842 | 18,184 | 56,843 | 18,184 |
| Foreign currency translation reserve | (16,940) | (2,133) | - | - |
| | <u>350,735</u> | <u>326,884</u> | <u>367,676</u> | <u>329,017</u> |

Movements:

| | | | | |
|--------------------------------|----------------|----------------|----------------|----------------|
| Option reserve (Note 21(b)(i)) | | | | |
| Balance 1 July | 310,833 | 310,833 | 310,833 | 310,833 |
| Movements | - | - | - | - |
| Closing balance | <u>310,833</u> | <u>310,833</u> | <u>310,833</u> | <u>310,833</u> |

| | | | | |
|------------------------------|---------------|---------------|---------------|---------------|
| Share based payments reserve | | | | |
| Balance 1 July | 18,184 | 18,184 | 18,184 | 18,184 |
| Options | 38,658 | - | 38,659 | - |
| Closing balance | <u>56,842</u> | <u>18,184</u> | <u>56,843</u> | <u>18,184</u> |

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 29 for further details of these plans.

| | | | | |
|--------------------------------------|-----------------|----------------|----------|----------|
| Foreign currency translation reserve | | | | |
| Balance 1 July | (2,133) | - | - | - |
| Movements | (14,807) | (2,133) | - | - |
| Closing balance | <u>(16,940)</u> | <u>(2,133)</u> | <u>-</u> | <u>-</u> |

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

| NOTE 23: Retained earnings/(losses) | Consolidated | | Parent | |
|---|--------------|------------|------------|------------|
| | 2007 \$ | 2006 \$ | 2007 \$ | 2006 \$ |
| Retained earnings/(losses) at the beginning of the financial year | 706,721 | (778,259) | 9,403 | (778,259) |
| Net Profit attributable to the members of ISS Group Limited | 936,304 | 1,484,980 | 923,423 | 787,662 |
| Dividends paid | (738,617) | - | (738,617) | - |
| Retained earnings at the end of the financial year | 904,408 | 706,721 | 194,209 | 9,403 |

NOTE 24: Cash flow information

(a) Reconciliation of Profit to net cash used in operating activities for the period after income tax

| | | | | |
|--|-----------|-------------|-----------|-----------|
| Profit from ordinary activities after income tax | 936,304 | 1,484,980 | 923,423 | 787,662 |
| Non-cash flows in profit from ordinary activities: | | | | |
| Depreciation | 164,355 | 151,101 | - | - |
| Doubtful debts | 60,000 | 64,407 | - | - |
| Non-cash dividend received | - | - | (738,617) | - |
| Non-cash transactions with subsidiaries | - | - | (589,412) | - |
| Reversal of impairment of investment in subsidiary | - | - | - | (760,075) |
| Non-cash employee benefits expense - | | | | |
| Share based payments | 38,658 | - | 38,658 | - |
| Changes in operating assets and liabilities: | | | | |
| (Increase)/decrease in receivables | (331,600) | (1,789,623) | (2,111) | (347,045) |
| Increase/(decrease) in tax provisions | 95,106 | (364,649) | 43,494 | - |
| Increase/(decrease) in employee benefits provision | 4,575 | 71,068 | - | - |
| Increase/(decrease) in creditors and borrowings | 258,709 | 190,433 | 11,380 | 19,526 |
| Net cash used in operating activities | 1,226,107 | (192,283) | (313,185) | (299,932) |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 25: 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 \$60,390 (2006: \$60,000) net of GST.
- (b) The rental lease on the premises occupied by ISS Group Ltd is paid to a related entity of Mr Attwell on normal terms and conditions. During the year, rent of \$209,296 was paid (2006: \$176,635).

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 ISS Australia Pty Ltd totalling \$1,469,664 (2006: \$1,421,798) with no fixed repayment date.

NOTE 26: 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):

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

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 27: 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 Average Effective Interest Rate | |
|------------------------------------|---|---------------|--|---------------|------------------------|----------------|----------------------|------------------|------------------|------------------|---|-------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % | % |
| Financial Assets: | | | | | | | | | | | | |
| Cash and cash equivalents | - | - | - | - | 3,325,724 | 568,509 | - | - | 3,325,724 | 568,509 | 5.50% | 5.50% |
| Receivables | - | - | - | - | - | - | 2,782,959 | 2,511,353 | 2,782,959 | 2,511,353 | | |
| Total Financial Assets | - | - | - | - | 3,325,724 | 568,509 | 2,782,959 | 2,511,353 | 6,108,683 | 3,079,862 | | |
| Financial Liabilities: | | | | | | | | | | | | |
| Payables | - | - | - | - | - | - | 1,015,583 | 762,691 | 1,015,583 | 762,691 | | |
| Lease liability | 22,939 | 21,334 | 45,106 | 68,045 | - | - | - | - | 68,045 | 89,379 | | |
| Total Financial Liabilities | 22,939 | 21,334 | 45,106 | 68,045 | - | - | 1,015,583 | 762,691 | 1,083,628 | 852,070 | | |

(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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 28: 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 contracts have terms of renewal but no purchase options and escalation clauses. Renewals are at the option of the specific entity that holds the hire purchase contract.

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

| CONSOLIDATED | Consolidated | | Parent | |
|---|--------------|------------|------------|------------|
| | 2007 \$ | 2006 \$ | 2006 \$ | 2005 \$ |
| Payable | | | | |
| Within one year | 27,140 | 27,140 | - | - |
| After one year but not more than five years | 48,001 | 75,140 | - | - |
| Total minimum hire purchase payments | 75,141 | 102,280 | - | - |
| Less amounts representing finance charges | (7,096) | (12,901) | - | - |
| Total hire purchase liability | 68,045 | 89,379 | - | - |

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

| | | | | |
|---|---------|---------|---|---|
| Payable | | | | |
| Within one year | 96,879 | 96,680 | - | - |
| After one year but not more than five years | 129,360 | 194,040 | - | - |
| More than five years | - | - | - | - |
| | 226,239 | 290,720 | - | - |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 29: Employee Benefits

| | Consolidated | | Parent | |
|--|--------------|------|--------|------|
| | 2007 | 2006 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |

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 | 240,000 | 359,750 | - | - |
|---------------|---------|---------|---|---|

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 | 74 | 63 | - | - |

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.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 29: Employee Benefits (continued)

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%

- (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 entity | |
|---|--------------|------|---------------|------|
| | 2007 | 2006 | 2007 | 2006 |
| | \$ | \$ | \$ | \$ |
| Options issued under the employee option scheme | 38,658 | - | 38,658 | - |

NOTE 30: Amounts receivable and payable denominated in foreign currencies

| | Consolidated | | Parent | |
|--|--------------|---------|--------|------|
| | 2007 | 2006 | 2006 | 2005 |
| Exposures on items not effectively hedged, expressed in Australian dollars | \$ | \$ | \$ | \$ |
| Amounts receivable - current, not effectively hedged | | | | |
| Singapore dollars | 66,827 | 48,995 | - | - |
| U.S. dollars | 346,699 | 245,311 | - | - |
| Amounts payable - current, not effectively hedged | | | | |
| Singapore dollars | 51,300 | 4,093 | - | - |

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2007

NOTE 31: Events subsequent to reporting date

There has been a number of unlisted option conversions received since the end of the financial year raising a total of \$4,750,000. The Company expects all options to be converted prior to 30 September 2007.

Since the end of the financial year, the consolidated entity has entered into agreements with senior regional employees giving effect to granting those employees a total of up to 7.25million shares in the parent entity for no consideration upon the attainment of certain milestones. These milestones are based on the future performance of the consolidated entity's overseas operations. In the event that all conditions are satisfied by the year 2011 the grant of these shares will result in the consolidated entity recording a non cash expense for the value of these shares over the period from the date of grant to the date when the shares vest. The Company is arranging for an independent valuation of these shares. No directors of the group are participants in this incentive plan.

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.

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 2007 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 2007.

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

On behalf of the Board

Mr Evan Cross
Director

Place: Perth, WA

Dated: 28th day of September 2007



Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT

To the members of ISS GROUP LIMITED

We have audited the accompanying financial report of ISS Group Limited ("the company"), which comprises the balance sheet as at 30 June 2007, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the year then ended and the directors' declaration for both the company and the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the end of the financial year or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124: Related Party Disclosures, under the heading "remuneration report" in the directors' report and not in the financial report. We have audited these remuneration disclosures.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1 (a), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, and the remuneration disclosures contained in the directors' report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report and the remuneration disclosures contained in the directors' report.

HLB Mann Judd (WA Partnership)

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Partners: Terry M Blenkinsop, Litsa Christodoulou, Wayne M Clark, Lucio Di Giallonardo, Colin D Emmott, Trevor G Hoddy, Norman G Neill, Peter J Speechley

HLB Mann Judd (WA Partnership) is a member of  HLB International and the HLB Mann Judd National Association of independent accounting firms

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of ISS Group Limited and included in the Directors' Report, would be on the same terms if provided to the directors as at the date of this auditor's report.

Auditor's Opinion

In our opinion:

- (a) the financial report of ISS Group Limited is 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 2007 and of their performance for the year then ended; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1 (a).

Auditor's Opinion on the AASB 124 Disclosures Contained in the Directors' Report

In our opinion the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

HLB MANN JUDD
Chartered Accountants

Perth, Western Australia
28 September 2007

L DI GIALONARDO
Partner

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 01 September 2007

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 | 38 | 7,100 |
| 1,001 – 5,000 | 103 | 332,071 |
| 5,001 – 10,000 | 132 | 1,121,402 |
| 10,001 – 100,000 | 494 | 18,483,943 |
| 100,001 – and over | 98 | 59,058,051 |
| | 865 | 79,002,567 |

There 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 | 1 | 1 |
| 1,001 – 5,000 | 50 | 244,500 |
| 5,001 – 10,000 | 30 | 261,298 |
| 10,001 – 100,000 | 204 | 6,764,614 |
| 100,001 – and over | 30 | 23,812,920 |
| | 315 | 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

3. Twenty Largest Shareholders of quoted Ordinary Shares

| | Name | Number of Ordinary Shares | Percentage of Total |
|-----|--|---------------------------|---------------------|
| 1. | Shane Patrick Attwell | 12,369,624 | 15.66 |
| 2. | Robyn Susanne Johnston | 12,369,316 | 15.66 |
| 3. | ANZ Nominees Limited <Cash Income A/C> | 5,382,131 | 6.81 |
| 4. | National Nominees Limited | 2,449,900 | 3.10 |
| 5. | Graeme Edmund Moir | 1,600,000 | 2.02 |
| 6. | T R B Management Pty Ltd <Bowden Super Fund A/C> | 1,111,978 | 1.41 |
| 7. | Ross Asset Management Ltd | 1,087,985 | 1.38 |
| 8. | Manhattan Investments Pty Ltd | 1,075,472 | 1.36 |
| 9. | Citicorp Nominees Pty Limited | 1,050,000 | 1.33 |
| 10. | UBS Nominees Pty Ltd | 850,000 | 1.08 |
| 11. | Exwere Investments Pty Ltd | 740,777 | 0.94 |
| 12. | Sante Holdings Pty Ltd <DEC Family Account> | 656,314 | 0.83 |
| 13. | Grant Eggleton | 523,948 | 0.66 |
| 14. | Tim Haywood | 500,000 | 0.63 |
| 15. | Edenholme Investments Pty Ltd | 496,564 | 0.63 |
| 16. | Eva Xiradis | 486,315 | 0.62 |
| 17. | S&M Streeter Investment Co Pty Ltd | 450,000 | 0.57 |
| 18. | Christopher James Kincaid | 440,000 | 0.56 |
| 19. | CATL Pty Ltd <The Minto A/C> | 407,366 | 0.52 |
| 20. | Jack Grace | 400,000 | 0.51 |
| | | 44,447,690 | 56.28% |

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. | Murrey Ken Payne | 2,662,501 | 8.56 |
| 3. | ANZ Nominees Limited <Cash Income A/C> | 1,974,998 | 6.35 |
| 4. | Clodene Pty Ltd | 1,272,667 | 4.09 |
| 5. | National Nominees Limited | 1,000,000 | 3.21 |
| 6. | Christopher James Kincaid | 950,000 | 3.05 |
| 7. | Kevin Harvey Payne & Ruth Linda Payne <KP Super Fund A/C> | 682,302 | 2.19 |
| 9. | Ross Asset Management Ltd | 645,000 | 2.07 |
| 9. | Manhattan Investments Pty Ltd | 500,000 | 1.61 |
| 10. | Integrated Healthcare Investments Pty Ltd | 300,000 | 0.96 |
| 11. | Sante Holdings Pty Ltd <DEC Family Account> | 300,000 | 0.96 |
| 12. | Georges Providores Holdings Pty Limited <Superannuation Fund A/C> | 262,500 | 0.84 |
| 13. | Grant Eggleton | 250,000 | 0.80 |
| 14. | Succession Planners Pty Ltd <LET Discretionary Account> | 212,500 | 0.68 |
| 15. | Randal Gavin Payne | 205,000 | 0.66 |
| 16. | T R B Management Pty Limited <Bowden Superannuation Fund> | 200,000 | 0.64 |
| 17. | CATL Pty Ltd <The Minto A/C> | 200,000 | 0.64 |
| 18. | Beachstone Nominees Pty Ltd <Kwaolwa A/C> | 185,000 | 0.59 |
| 19. | Health & Technology Developments Pty Ltd <The Dunne & May S/F A/C> | 159,500 | 0.51 |
| 20. | Gwillim & Kathleen Rutledge | 158,000 | 0.51 |
| | | 22,994,968 | 73.97% |

ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

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 2007, 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.