



# annual report 05

ISS Group Limited  
ACN 109 443 852



## corporate directory

### directors

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

### company secretary

Mr Stuart Usher

### registered and principal office

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

### solicitors

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

### auditors

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

### Share registry

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

### website

[www.issgroup.com.au](http://www.issgroup.com.au)

### corporate adviser

HealthTec Growth Partners Pty Ltd  
Ground Floor, 117 Stirling Highway  
Nedlands WA 6009  
Tel: +61 8 9389 5933  
Fax: +61 8 9389 5944

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# Chairman's Report

Dear Shareholder,

ISS Group Limited listed on the Australian Stock Exchange in September 2004 but it has a ten year history in the provision of Information Technology "solutions" to the oil and gas industry. In that time, both the company and the product range have evolved and matured to allow further expansion to the world market.

The ASX listing was designed for just such an undertaking and in the short time since its listing, the company has invested in both product development and market expansion. ISS is taking advantage of the need for on-line, real-time information using a web based environment. ISS is not just an IT company. To meet our objective of managing knowledge to optimize production processes, we need to stay up to date with client needs and respond to them in a timely way.

In order to prepare for international expansion, in 2005 the company invested heavily in product development with the aim of taking our product range to markets in Asia, North America and the Middle East. This expansion plan has commenced in the Middle East and Asia, drawing upon the experience of the new Board in conjunction with the skills already available within the company.

On the domestic front, ISS Group is having added success in broadening its client base from the oil and gas industry to the minerals sector, both of which are enjoying a boom in Western Australia and the rest of the world. The new clients in iron ore, nickel and alumina have recognized the return on investment delivered by ISS Group products. Having substantial Australian reference sites now opens up new international marketing opportunities.

To support the projected rapid expansion in turnover, the company has invested both in new people and in managerial skills development. This is to ensure that we have systems and processes to manage rapid growth in a structured way.

The Board recognises that some shareholders may be concerned at the lack of first year dividend but we believe the decision to invest in the future is in the best long-term interests of all the shareholders. ISS Group accounts show the fundamentals of the business to be sound, with recent government agency audits on R and D plus market expenditure demonstrating satisfaction with our progress. This year's amortisation of goodwill should be noted as a non-recurring item of expense.

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

Yours truly,

John Yeudall  
**Chairman**  
Perth, WA

# Directors' Report

THE Board of Directors of ISS Group Limited has pleasure in presenting its report in respect of the financial year ended 30 June 2005.

## 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 most of the last 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 term as Australia's Consul General based in Dubai.

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

Mr Yeudall 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.

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

**Former directorships in last 3 years:** None.

**Special responsibilities:** Chairman of the Board, Chairman of the remuneration committee, Member of the audit committee

### Mr Shane Attwell

*B.Eng, GD Bus*

**Position:** Managing Director – (appointed 5 April 2004)

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

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

**Other current directorships:** None

**Former directorships in last 3 years:** None

**Special responsibilities:** Managing Director

### Mr Evan Cross

*B.Bus, C.A.*

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

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

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

**Other current directorships:** None.

**Former directorships in last 3 years:** None.

**Special responsibilities:** Member of the Audit Committee, Member of the remuneration committee

## Mr Ian Spence

*B.Com*

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

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

**Other current directorships:** Independent non-executive director of RCR Tomlinson Ltd (director since 1998).

**Former directorships in last 3 years:** None.

**Special responsibilities:** Chairman of the Audit Committee, Member of the remuneration Committee

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*Past directors who held office during the year:*

## Mr Anthony Fitzgerald

Director (appointed 8 June 2004, resigned as director 31 July 2004)

## Mr Vlado Bosanac

Director (appointed 8 June 2004, resigned as director 31 July 2004)

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

## Company Secretary

### Mr Stuart Usher

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

**Position:** Company Secretary (appointed 8 June 2004)

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

## Operations Report

ISS GROUP has had a very busy nine months since listing on the ASX this financial year. The major activities of the year have been in the areas of:

- Developing Overseas Markets
- Establishing global distribution networks
- Product Research and Development

ISS GROUP has concentrated on developing the infrastructure necessary to operate as a global player in the Oil/Gas and Minerals sector, and has increased its distribution leverage both in Australia and overseas. The Company is pleased with its growth to date and is confident that the investments made over the past months will produce tangible returns to shareholders in the medium term.

In April 2005 we established our Singapore office to service the Asian market. In addition to the Asian office, ISS GROUP has set up distribution networks in most major oil and gas locations in the world. The Company has representative organisations in:

- Middle East
- United States
- Canada
- Indonesia
- Malaysia
- Pakistan
- United Kingdom (Post Year end)

The reception in these locations to the ISS GROUP product range has been excellent.

ISS has continued to focus on our domestic market. We have added several new blue chip clients to our customer list and have established an office in Melbourne and post year-end, an office in Adelaide.

## Strategic Alliances

ISS GROUP is in the process of setting up a global distribution network for its products. Since listing on the ASX the Company has signed several strategic alliances:

### Middle East

ISS GROUP has established a distribution agreement with Naizak Corporation, a major trading group in the Middle East. Although not initially in the company's business plan for this financial year, several excellent opportunities presented themselves via ISS GROUP board's contacts in the Middle East. ISS GROUP is currently negotiating contracts to carry out the scoping of projects with one of the major oil and gas companies in the region. Pilot studies successfully demonstrating the concept, could lead to the implementation of several significant projects.

### US and Canada

ISS GROUP has signed a strategic Value Added Resellers Agreement with Industrial Evolution Corporation – A US based production information and hosting company.

This agreement covers the non exclusive distribution and ongoing hosting of ISS GROUP infrastructure and application products into the US and Canadian oil and gas industries.

The arrangement in North America has generated an order to design and pilot systems with a major Canadian oil and gas company. The project design phase was won in a tender process against several major multi-national competitors. The site is an excellent reference for the expansion of the ISS GROUP/IE joint venture in North America.

### Malaysia

ISS GROUP is finalising an agency agreement with a Malaysian company to distribute ISS GROUP product. This relationship, even at its early stages, is proving to be fruitful with solid introductions to major producers.

### Indonesia

ISS GROUP has completed an agency agreement with an Indonesia company to distribute ISS GROUP product into Indonesia. Via this agreement we have proposals in place with major Indonesian oil and gas suppliers.

### Pakistan

ISS GROUP has completed an agency agreement with a company based in Pakistan to distribute ISS GROUP products into this country. ISS GROUP has responded to tenders with national oil and gas companies.

### UK and Europe (post end of financial year):

ISS GROUP is finalising an agreement to market and implement the Company's product suite in the UK and Europe.



### Well Technology

ISS GROUP and a partner company Advanced Well Technologies have entered into an arrangement for the co-development of well construction and integrity modules to expand the suite of products available to the respective client bases of both companies. It is anticipated that this arrangement will add significant value to our clients in the effective management of their oil and gas assets, from the sand face to the market.

### Geospatial Integration Systems

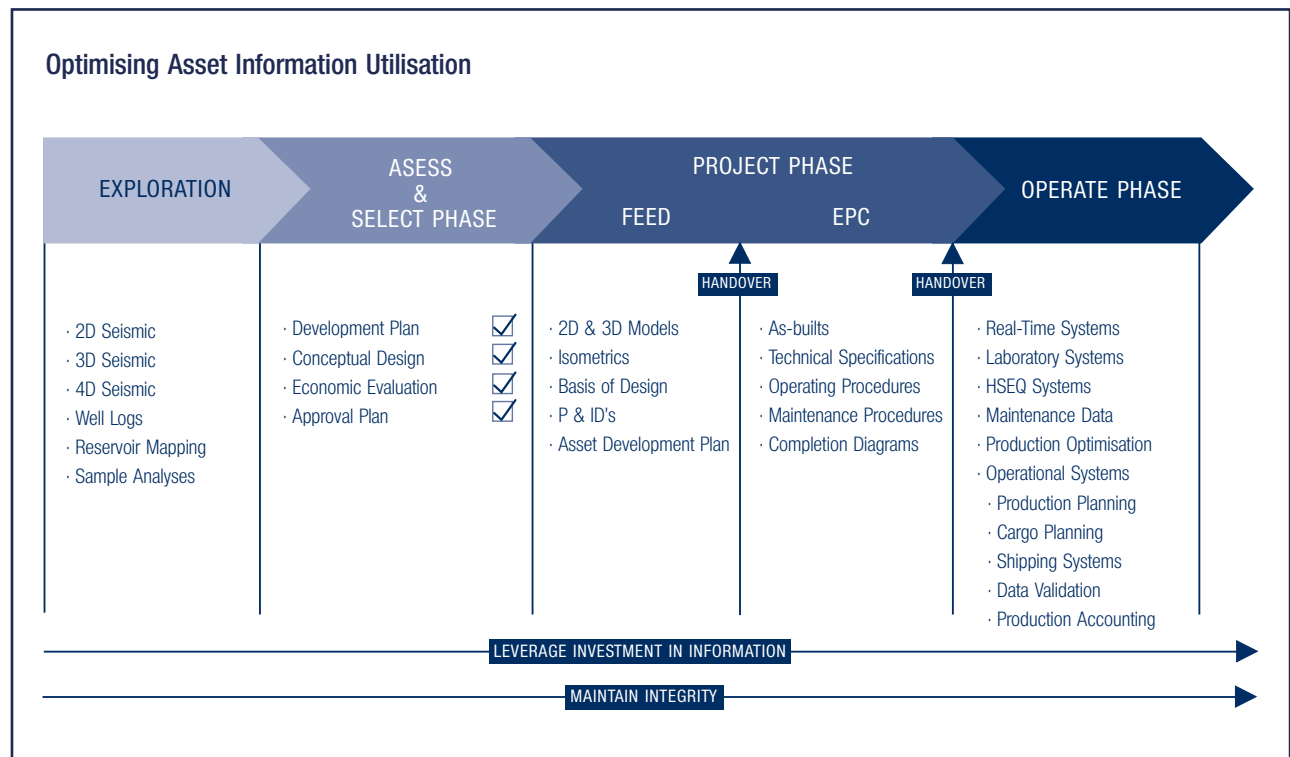
As planned, ISS GROUP established our Geospatial Integration group in February of this year. The objective of this group is to expand the ISS GROUP product portfolio to incorporate sub surface oil and gas data together with a geospatial user interface to information. One of the founding members of the company ISA, specialists in geophysical and geological software, has joined ISS GROUP. He brings significant geophysical and reservoir IP to ISS GROUP which will enable it to expand into new oil and gas domains. Currently the ISS GROUP product suite is aimed at top sides and production facilities only. This will give ISS GROUP access to the sub sea and geospatial segment of the market. Post year-end, ISS GROUP has received an order from a Major Australian oil and gas company to integrate geospatial data in our BabelFish product.

### Product R & D

On the product development front, ISS GROUP has maintained its significant investment in R&D. This financial year ISS GROUP invested approximately \$1.78M (approx 40% of revenue) into product development. ISS GROUP has invested in moving its products to a "shrink wrapped" format that can be distributed and implemented simply by our distributors. We have also developed several new products in response to market demands. The BabelFish Operational Portal received the bulk of development funds. Other products such as our Oil and Gas Suite, Asset Performance Suite and Geospatial systems received the balance of the funds. The main focus of our R&D has been in expanding the scope of our products within the verticals of the existing markets. With the current development of our geospatial systems, ISS GROUP products will cover the full spectrum of production data life cycles from the exploration phase right through the operational phases.

ISS GROUP held a very successful customer user group in May which has given some new directions to our products.

Our R&D expenditure for subsequent years is planned to be reduced significantly as we capitalise on the investment to date by focusing our marketing effort on product sales. Product sales will contribute initial licence fees and ongoing annual software maintenance revenues.



## Financial

ISS GROUP has ended the year on a sound financial footing with cash reserves of \$958,262 and no significant borrowings (minor hire purchase commitments only). The company remains in a strong financial position despite investing significant expenditure in its international business expansion during the year. The directors expect that the investment in global expansion in the 2005 year will begin to convert to positive cash flow and income in the second half of the 2006 year.

After accounting for amortised goodwill of \$404,300 and depreciation of \$114,816, the company incurred an accounting loss for the year of \$1,164,375. Accordingly, the board will not be recommending a dividend for the 2005 year. This loss is largely made up of the expenditure on R&D (approx \$1.78M) and overseas market development. The benefits of both of these expenditures are expected to be returned in future product sales.

In order to accurately assess the full year results, the Directors provide the following analysis of results and commentary.

| <b>ISS GROUP LIMITED<br/>SUMMARY OF RESULTS</b> |                      |
|---|----------------------|
| <b>Net Revenues from operating activities</b>   | <b>\$4,467,011</b>   |
| Operating loss from domestic operation          | (\$327,047)          |
| Less - establishment costs of U.S office        | (\$137,192)          |
| - preliminary Singapore office costs            | (\$181,020)          |
| - amortisation of goodwill**                    | (\$404,300)          |
| - Depreciation expense                          | (\$114,816)          |
| <b>Net loss before income tax</b>               | <b>(\$1,164,375)</b> |
| <b>R&amp;D Expenditure Claim*</b>               | <b>\$1,786,500</b>   |

\* Unaudited R&D tax claim.

\*\* Amortisation of goodwill is an expense item that will no longer impact the profit and loss statement from the 2006 financial year. With the implementation of the new International Financial Reporting Standards, the Company will consider the carrying value of intangibles at each balance date and write off any impairment to the value rather than providing a fixed amortisation amount each year.

While the loss is a disappointing first result for the company, the directors strongly believe that the expansion strategy funded in 2005 will provide greater leverage to earnings for ISS GROUP shareholders commencing in the future years.

### Dividends Paid or Recommended

No dividend was declared or paid for the financial year.



## Market and Industry Outlook

The market outlook for ISS GROUP products is very positive. 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.

Underpinning the demand for ISS GROUP's products and services has been the increasing value of Western Australia's resource production with major clients such as Woodside, Rio Tinto, Santos and Apache Energy all in the process of developing new fields.

Western Australia is one of the world's most productive and diversified oil, gas and mineral regions. Supporting the future growth of ISS GROUP in Western Australia is a range of identifiable oil, gas and mineral projects. With the current oil prices and ISS GROUP's significant exposure to the oil and gas market, ISS is in a strong growth market.

ISS GROUP continues to operate in a favourable market environment, with the resource industry benefiting from robust global economic conditions and surging commodity prices. This leads to resource companies undertaking increased capital expenditure on production equipment and technology (particularly software and IT services) to improve efficiency.

ISS GROUP is confident that it is well placed in terms of its product development, core business and evolving strategic alliances to capitalise on the favourable economic and industry conditions.

## Company Background:

- **Nine year operating history.** ISS GROUP was established in 1995 by Shane Attwell (ISS GROUP Managing Director) and now comprises a team of 52 software developers, process specialists and support engineers. During the past nine 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.
- **Established client base of credit-worthy companies.** ISS GROUP has developed strong relationships with companies undertaking oil and gas production in Western Australia. The relationships have been developed through understanding and meeting the needs of potential customers. The Company's client base includes Santos, Origin Energy, Rio Tinto, BHP Billiton, Woodside Petroleum and Apache Energy.
- **Strong international growth potential.** ISS GROUP has established a large market share among multinational oil and gas producers in Western Australia by staying focused on its core activity of developing and implementing process and information management software. ISS GROUP believes that by building on these relationships the Company can successfully develop markets in the US, Asian, Middle East and UK.

## Conclusion

2006 promises to be another very solid year in the oil and gas sector. Service and solution providers such as ISS GROUP are well positioned to benefit from this activity. In conclusion, the directors are pleased with the growth of the business throughout the period and the underlying strength of the ISS GROUP domestic business. We are using 2005 to consolidate our position as a global supplier of oil, gas and minerals software products. While it is difficult to predict when first revenues will be received from our international initiatives, we are highly confident of the long-term benefit these offices will bring us.

### Significant Changes in State of Affairs

The following significant changes in the state of affairs of the company occurred during the financial year:

- Pursuant to its Prospectus dated 9 August 2004 the company issued 27.5 million ordinary shares of 20 cents each to raise a total of \$5.5 million (before the costs of the issue) and 31,083,333 options to raise an additional \$0.3m.
- On 30 September 2004 ISS Group Limited was admitted to the official list of Australian Stock Exchange and quotation of its securities commenced.
- \$4.1 million of funds raised from the prospectus were used to acquire 100% of the issued share capital of Industrial Software Solutions Pty Ltd.

### After Balance Date Events

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

### Environmental Regulations

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

### Likely developments and expected results of operations

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

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

## Remuneration Report

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

### Remuneration Policy

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

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

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

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

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

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

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

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

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

**Remuneration Report** *Continued*

**Details of Remuneration for Year Ended 30 June 2005 (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:

| (a)   | Primary        |                   | Post employment              | Equity               | Total          |
|---|----------------|-------------------|------------------------------|----------------------|----------------|
|   | Salary & Fees  | Non-cash benefits | Superannuation Contributions | Options <sup>^</sup> |                |
| Specified Directors                             | \$             | \$                | \$                           | \$                   | \$             |
| Mr J Yeudall ( <i>Non Executive Chairman</i> )  | 47,917         | -                 | 4,312                        | 1,455                | 53,684         |
| Mr S Attwell ( <i>Managing Director</i> )       | 162,718        | 8,310             | 14,645                       | -                    | 185,673        |
| Mr E Cross ( <i>Non Executive Director</i> )    | -              | -                 | -                            | -                    | -              |
| Mr I Spence ( <i>Non Executive Director</i> )   | 27,500         | -                 | 2,475                        | 727                  | 30,702         |
| Past directors who held office during the year: |                |                   |                              |                      |                |
| Mr T Fitzgerald                                 | -              | -                 | -                            | -                    | -              |
| Mr V Bosanac                                    | -              | -                 | -                            | -                    | -              |
| <b>Total Remuneration</b>                       | <b>238,135</b> | <b>8,310</b>      | <b>21,432</b>                | <b>2,182</b>         | <b>270,059</b> |

*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%

A specified director means a person who was, at any time during the reporting period, a director of the company.

(b) Specified Executives

"Specified Executives" are those directly accountable and responsible for the operational management and strategic direction of the Company and the consolidated entity. Accordingly there is only one employee in this category who is the Managing Director Mr Shane Attwell who is classified above as a specified director. Being a working Board, strategic direction and decision is exercised through the Board.

**Remuneration Report** Continued

**Options Issued as Part of Remuneration for the Year Ended 30 June 2005**

Options are issued to directors and specified executives as part of their remuneration. The options are not issued based on performance criteria.

Details of options over ordinary shares in the company provided as remuneration to each director of ISS Group Limited are set out below. When exercisable, each option is convertible into one ordinary share. Further information on the options is set out in note 17 (b)(ii).

| Name   | Number of options granted during the year | Number of options vested during the year |
|--|---|--|
| Mr J Yeudall ( <i>Non-executive Chairman</i> ) | 400,000                                   | 400,000                                  |
| Mr I Spence ( <i>Non-executive Director</i> )  | 200,000                                   | 200,000                                  |

|   | Number Granted | Options Granted as Part of Remuneration | Total Remuneration Represented by Options | Options Exercised | Options Lapsed | Total   |
|---|----------------|---|---|-------------------|----------------|---------|
|   |                | \$                                      | %   | Number            | Number         | Number  |
| <b>Directors</b>                                  |                |   |   |                   |                |         |
| Mr J Yeudall<br>( <i>Non-executive Chairman</i> ) | 400,000        | 1,455                                   | 2.7%                                      | -                 | -              | 400,000 |
| Mr I Spence<br>( <i>Non-executive Director</i> )  | 200,000        | 727                                     | 2.4%                                      | -                 | -              | 200,000 |
|   | 600,000        | 2,182                                   | 5.1%                                      | -                 | -              | 600,000 |

**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 and a motor vehicle.

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.

## 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 2005, 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               | 1                         | 1               |
| Mr S Attwell   | 5                         | 5               | -                         | -               |
| Mr E Cross   | 6                         | 5               | 1                         | 1               |
| Mr I Spence  | 5                         | 5               | 1                         | 1               |
| <i>Past directors who held office during the year:</i> |                           |                 |                           |                 |
| Mr T Fitzgerald  | 1                         | 1               | -                         | -               |
| Mr V Bosanac   | 1                         | 1               | -                         | -               |

## Directors' and Executives' Shareholdings

Disclosures relating to directors' and executives' shareholdings have been included in Note 5 to the financial statements. No movements in these shareholdings have occurred between 30 June 2005 and the date of this report.

## Indemnifying Directors and Officers

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

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

## Options

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

## Corporate Governance

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

## Proceedings on Behalf of Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

**Non-audit Services**

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditors' independence for the following reasons:

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

The following fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2005:

|  | \$                 |
|--|--------------------|
| Taxation compliance services                 | 24,644             |
| Independent Accountant's report - Prospectus | 15,000             |
|  | <hr/> 39,644 <hr/> |

**Auditors' Independence Declaration**

A copy of the auditors' independence declaration for the year ended 30 June 2005, as required under section 307C of the Corporations Act 2001, has been received and can be found on page 19 of the directors' report.

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

**Mr John Yeudall**

Chairman

Dated this day of September 2005.



**Auditors' Independence Declaration**

As lead auditor for the audit of the financial report of ISS Group Limited for the year ended 30 June 2005, 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.

*HLB Mann Judd*

**L DI GIALONARDO**  
**Partner, HLB Mann Judd**

Perth, Western Australia  
September 2005

# Corporate Governance Statement

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

## Principle 1

### Lay solid foundations for management and oversight

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

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

The primary responsibilities of the Board include:

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

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

## Principle 2

### Structure the Board to add value

The composition of the Board has been determined on the basis of providing the Company with the benefit of a broad range

of technical, administrative and financial skills, combined with an appropriate level of experience at a senior corporate level. Details of each Directors' skills and experience are set out in the Directors' report.

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

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

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

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

### Principle 3

#### Promote ethical and responsible decision-making

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

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

#### Trading in the company's shares

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

### Principle 4

#### Safeguard integrity in financial reporting

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

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

The members of the audit committee during the year were:

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

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

### Principle 5

#### Make timely and balanced disclosure

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

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

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

### Principle 6

#### Respect the rights of shareholders

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

### Principle 7

#### Recognise and manage risk

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

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

### Principle 8

#### Encourage enhanced performance

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

To enable the performance of their duties, all directors:

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

## Principle 9

### **Remunerate fairly and responsibly**

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

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

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

## Principle 10

### **Recognise the legitimate interests of stakeholders**

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

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

# financial statements

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# statements of financial performance

for the year ended 30 June 2005

|  | Note | Consolidated<br>2005<br>\$ | Parent<br>2005<br>\$ |
|--|------|----------------------------|----------------------|
| <b>Revenues from ordinary activities</b>   | 2    | <u>4,467,011</u>           | <u>195,397</u>       |
| <b>Expenses from ordinary activities</b>   |      |                            |                      |
| Employee benefits expense  |      | (3,386,248)                | (86,919)             |
| Consulting and labour hire   |      | (811,159)                  | -                    |
| Depreciation   |      | (114,816)                  | -                    |
| Amortisation of goodwill on consolidation  |      | (404,300)                  | -                    |
| Rent & outgoings   |      | (180,704)                  | -                    |
| Travel (includes international marketing)  |      | (296,798)                  | (9,258)              |
| Provision for diminution of investment in controlled entity  |      | -                          | (1,164,375)          |
| Other expenses from ordinary activities  |      | (437,361)                  | (99,220)             |
| Loss from ordinary activities before income tax  | 3    | (1,164,375)                | (1,164,375)          |
| Income tax benefit/(expense) relating to ordinary activities                                       | 4    | -                          | -                    |
| <b>Net loss from ordinary activities after income tax attributable to members of ISS Group Ltd</b> |      | <u>(1,164,375)</u>         | <u>(1,164,375)</u>   |
| <b>Total changes in equity other than those resulting in transactions with owners as owners</b>    |      | <u>(1,164,375)</u>         | <u>(1,164,375)</u>   |
| Basic loss per share (cents per share)   | 7    | (2.37)                     |                      |

The above statements of financial performance should be read in conjunction with the accompanying notes.

# statements of financial position

for the year ended 30 June 2005

|                                      | Note | Consolidated<br>2005<br>\$ | Parent<br>2005<br>\$ |
|--------------------------------------|------|----------------------------|----------------------|
| <b>Current Assets</b>                |      |                            |                      |
| Cash assets                          | 8    | 958,262                    | 761,482              |
| Receivables                          | 9    | 741,477                    | 6,294                |
| Other                                | 10   | 44,660                     | 20,350               |
| <b>Total Current Assets</b>          |      | <b>1,744,399</b>           | <b>788,126</b>       |
| <b>Non-Current Assets</b>            |      |                            |                      |
| Property, plant and equipment        | 11   | 343,586                    | -                    |
| Investments                          | 12   | -                          | 7,685,625            |
| Receivables                          | 9    | -                          | 651,706              |
| Intangible assets                    | 13   | 7,711,603                  | -                    |
| <b>Total Non-Current Assets</b>      |      | <b>8,055,189</b>           | <b>8,337,331</b>     |
| <b>Total Assets</b>                  |      | <b>9,799,588</b>           | <b>9,125,457</b>     |
| <b>Current Liabilities</b>           |      |                            |                      |
| Payables                             | 14   | 390,937                    | 28,570               |
| Interest bearing liabilities         | 15   | 19,841                     | -                    |
| Provisions                           | 16   | 184,079                    | -                    |
| <b>Total Current Liabilities</b>     |      | <b>594,857</b>             | <b>28,570</b>        |
| <b>Non Current Liabilities</b>       |      |                            |                      |
| Interest bearing liabilities         | 15   | 89,379                     | -                    |
| Provisions                           | 16   | 18,465                     | -                    |
| <b>Total Non Current Liabilities</b> |      | <b>107,844</b>             | <b>-</b>             |
| <b>Total Liabilities</b>             |      | <b>702,701</b>             | <b>28,570</b>        |
| <b>Net Assets</b>                    |      | <b>9,096,887</b>           | <b>9,096,887</b>     |
| <b>Equity</b>                        |      |                            |                      |
| Contributed equity                   | 17   | 9,950,429                  | 9,950,429            |
| Option reserve                       | 17b  | 310,833                    | 310,833              |
| Accumulated losses                   | 18   | (1,164,375)                | (1,164,375)          |
| <b>Total Equity</b>                  |      | <b>9,096,887</b>           | <b>9,096,887</b>     |

The above statements of financial position should be read in conjunction with the accompanying notes.

# statements of cash flows

for the year ended 30 June 2005

|   | Note     | Consolidated<br>2005<br>\$<br>Inflows/(Outflows) | Parent<br>2005<br>\$<br>Inflows/(Outflows) |
|---|----------|--|--|
| <b>Cash flows from operating activities</b>         |          |  |  |
| Receipts from customers                             |          | 5,073,034  | -  |
| Payments to suppliers and employees                 |          | (5,430,851)                                      | (193,466)                                  |
| Income tax refunds                                  |          | 161,406  | -  |
| Interest received                                   |          | 57,192   | 35,469                                     |
| Net cash used in operating activities               | 20(a)    | (139,219)  | (157,997)                                  |
| <b>Cash flows from investing activities</b>         |          |  |  |
| Cash paid on acquisition of controlled entity       |          | (4,100,000)                                      | (4,100,000)                                |
| Payments for property, plant and equipment          |          | (201,104)  | -  |
| Loans to controlled entities                        |          | -  | (491,778)                                  |
| Cash introduced on acquisition of controlled entity | 20(b)    | 409,719  | -  |
| Payments for intellectual property                  |          | (30,000)   | -  |
| Net cash used in investing activities               |          | (3,921,385)                                      | (4,591,778)                                |
| <b>Cash flows from financing activities</b>         |          |  |  |
| Proceeds from issue of securities                   |          | 6,135,920  | 6,135,920                                  |
| Payment of share issue costs                        |          | (624,663)  | (624,663)                                  |
| Repayment of borrowings                             |          | (492,391)  | -  |
| Net cash provided by financing activities           |          | 5,018,866  | 5,511,257                                  |
| Net increase in cash held                           |          | 958,262  | 761,482                                    |
| Cash at the beginning of the financial year         |          | -  | -  |
| <b>Cash at the end of the financial year</b>        | <b>8</b> | <b>958,262</b>                                   | <b>761,482</b>                             |

# notes to the financial statements

for the year ended 30 June 2005

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

## NOTE 1: Statement of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report covers the consolidated entity of ISS Group Limited ("company" or "parent entity") and its controlled entities. ISS Group Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

ISS Group was registered on 8 June 2004 and this financial report covers the period from that date to 30 June 2005. References to "year" and "financial year" refer to the period from 8 June 2004 to 30 June 2005.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### (a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by ISS Group Limited ("company" or "parent entity") as at 30 June 2005 and the results of all controlled entities for the year then ended. ISS Group Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences.

### (b) Intangibles

#### *Acquisition Goodwill.*

Acquisition goodwill, representing the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired on the acquisition of businesses, is amortised on a straight line basis over the period of time during which benefits are expected to arise, which is currently 20 years.

The unamortised balance of acquisition goodwill is reviewed at least at each reporting date. Where the balance exceeds the value of expected future benefits, the goodwill is written

down and the difference is charged to the Statement of Financial Performance.

#### *Licenses and patents.*

Licenses and patents are valued in the financial statements at cost of acquisition and are amortised over the period in which their benefits are expected to be realised.

### (c) Income Tax

The company adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit/loss from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit/loss and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### (d) Plant and Equipment

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

#### *Depreciation*

Items of property, 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. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items. The expected useful lives are as follows:

|                     |              |
|---------------------|--------------|
| Plant and equipment | 3 – 10 years |
|---------------------|--------------|

# notes to the financial statements

for the year ended 30 June 2005

## (e) Investments

Investments are stated at cost. Where there has been a permanent diminution in the value of an investment a provision for diminution is made.

Investments in controlled entities are carried in the company's financial statements at the lower of cost and recoverable amount.

## (f) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. The amounts are unsecured and are usually paid within 30 days of recognition.

## (g) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit/loss in equal instalments over the lease term.

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the consolidated entity, are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

## (h) Earnings per share

Basic EPS is calculated as net profit/loss attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit/loss attributable to members, adjusted for:

- Costs of servicing equity (other than dividends) and preference share dividends;
- The after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and

- Other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

and divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## (i) Share capital

Ordinary share capital is recognised at 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.

## (j) Research and Development Expenditure

Research and Development costs are charged to profit/loss from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs. To date no research and development costs have been deferred.

## (k) Foreign Currency Transactions and Balances

Foreign currency transactions during the year are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

The assets and liabilities of the overseas controlled entities, which are self-sustaining, are translated at year-end rates and operating results are translated at the rates ruling at the end of each month. Gains and losses arising on translation are taken directly to the foreign currency translation reserve.

## (l) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

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.

#### **(m) Cash**

For the purposes of the Statements of Cash Flows, cash includes deposits at call with financial institutions with short periods to maturity which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value.

#### **(n) 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.

#### **(o) Revenue**

Revenue on contracts is recognised based on the stage of completion, which is measured by way of labour hours incurred to date for each contract.

Occasionally contracts are entered into when revenue is received in advance. This is deferred on the Statements of Financial Position and recognised as revenue as the work is completed.

Interest revenue is recognised as it accrues taking into account the interest rates applicable to the financial assets.

Revenue from service agreements is recognised upon delivery of the service to the customers.

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

#### **(p) Trade debtors**

Trade debtors are recognised on an accrual basis as the services to which they relate are performed. Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off.

#### **(q) Comparative Figures**

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

# notes to the financial statements

for the year ended 30 June 2005

|  | Consolidated<br>2005<br>\$ | Parent<br>2005<br>\$ |
|--|----------------------------|----------------------|
| <b>NOTE 2: Revenue from operating activities</b> |                            |                      |
| Consulting and licensing revenues                | 4,409,546                  | -                    |
| Interest received                                | 57,192                     | 35,469               |
| Cost recovery from controlled entities           | -                          | 159,928              |
| Other  | 273                        | -                    |
| <b>Total Revenue from operating activities</b>   | <b>4,467,011</b>           | <b>195,397</b>       |

## NOTE 3: Expenses

Operating Loss from ordinary activities before income tax has been determined after charging as expenses:

### Depreciation of non-current assets:

|                        |                |          |
|------------------------|----------------|----------|
| Fixtures and equipment | 100,592        | -        |
| Motor vehicles         | 14,224         | -        |
|                        | <u>114,816</u> | <u>-</u> |

### Amortisation

|                          |         |   |
|--------------------------|---------|---|
| Amortisation of goodwill | 404,300 | - |
|--------------------------|---------|---|

### Borrowing costs

|                                   |       |   |
|-----------------------------------|-------|---|
| Interest and finance charges paid | 5,751 | - |
|-----------------------------------|-------|---|

### Other charges against assets

|   |        |           |
|---|--------|-----------|
| Doubtful debts                                | 35,713 | -         |
| Diminution of investment in controlled entity | -      | 1,164,375 |

## NOTE 4: Income tax benefit

The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax benefit as follows:

|   |                    |                    |
|---|--------------------|--------------------|
| <b>Loss from ordinary activities</b>  | <b>(1,164,375)</b> | <b>(1,164,375)</b> |
| Prima facie tax payable on loss from ordinary activities before income tax at 30% | (349,312)          | (349,312)          |
| <i>Tax effect on permanent differences:</i>                                       |                    |                    |
| Amortisation not deductible   | 121,290            | -                  |
| Income tax adjusted for permanent differences                                     | (228,022)          | (349,312)          |
| Benefit of income tax losses not brought to account                               | 228,022            | 349,312            |
| <b>Income tax benefit attributable to loss from ordinary activities</b>           | <b>-</b>           | <b>-</b>           |

Future income tax benefit from tax losses amounting to \$228,022 (calculated at 30%) is not brought to account at balance date as realisation of the benefit is not regarded as virtually certain.

The future income tax benefit will only be obtained if:

- future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;
- the conditions for deductibility imposed by tax legislation continue to be complied with; and no changes in tax legislation adversely affect the company in realising the benefit.

## NOTE 5: Director and executive disclosures

(a) The Company has applied the exemption under Corporations Amendments Regulation 2005 which exempts listed companies from providing remuneration disclosures in relation to Directors and Executives in the Financial Report by Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities. These remuneration disclosures are provided in the Remuneration Report section of the Directors' Report under Details of Remuneration and are designated as audited.

(b) Shareholdings

### Number of Shares held by Specified Directors

|   | Opening Balance | Received as Remuneration | Acquired on market and from initial public offering (IPO) | Other                   | Balance 30.6.05        |
|---|-----------------|--------------------------|---|-------------------------|------------------------|
| <b>Specified Directors</b>                      |                 |                          |   |                         |                        |
| Mr J Yeudall ( <i>Non Executive Chairman</i> )* | -               | -                        | -   | 220,000 <sup>^</sup>    | 220,000                |
| Mr S Attwell ( <i>Managing Director</i> )*      | -               | -                        | -   | 11,874,852 <sup>#</sup> | 23,750,000             |
| Mr E Cross ( <i>Non-executive Director</i> )*   | -               | -                        | -   | 11,875,148 <sup>#</sup> | 1,830,000              |
| -   | -               | -                        | -   | 200,000 <sup>*</sup>    | 1,630,000 <sup>*</sup> |
| Mr I Spence ( <i>Non-executive Director</i> )*  | -               | -                        | -   | -                       | -                      |
| <b>Total</b>                                    | <b>-</b>        | <b>-</b>                 | <b>-</b>  | <b>25,800,000</b>       | <b>25,800,000</b>      |

<sup>^</sup> "Other" represents those shares where there is an indirect beneficial interest.

<sup>\*</sup> "Other" represents those shares that were issued during the year representing initial subscriber and promoter shares.

<sup>#</sup> "Other" represents those shares that were issued during the year for part consideration for the acquisition of shares in Industrial Software Solutions Pty Ltd.

(c) Option holdings

### Number of options held by Specified Directors

|   | Opening Balance | Received as Remuneration | Acquired on market and from initial public offering (IPO) | Other                   | Balance 30.6.05   |
|---|-----------------|--------------------------|---|-------------------------|-------------------|
| <b>Specified Directors</b>                      |                 |                          |   |                         |                   |
| Mr J Yeudall ( <i>Non Executive Chairman</i> )* | -               | 400,000                  | -   | 110,000 <sup>^</sup>    | 510,000           |
| Mr S Attwell ( <i>Managing Director</i> )*      | -               | -                        | -   | 17,125,000 <sup>#</sup> | 28,999,852        |
| Mr E Cross ( <i>Non-executive Director</i> )*   | -               | -                        | -   | 800,000 <sup>*</sup>    | 1,615,000         |
| -   | -               | -                        | -   | 815,000 <sup>*</sup>    | 200,000           |
| Mr I Spence ( <i>Non-executive Director</i> )*  | -               | 200,000                  | -   | -                       | 200,000           |
| <b>Total</b>                                    | <b>-</b>        | <b>600,000</b>           | <b>-</b>  | <b>30,724,852</b>       | <b>31,324,852</b> |

<sup>^</sup> "Other" represents those options where there is an indirect beneficial interest

<sup>\*</sup> "Other" represents those shares that were issued during the year representing initial subscriber and promoter shares.

<sup>#</sup> "Other" represents those options that were issued during the year for part consideration for the acquisition of shares in Industrial Software Solutions Pty Ltd.

# notes to the financial statements

for the year ended 30 June 2005

|  | Consolidated | Parent |
|--|--------------|--------|
|  | 2005         | 2005   |
|  | \$           | \$     |

## NOTE 6: Auditors' remuneration

During the year the following fees were paid or payable to the auditor:

*Remuneration of the auditor of the company for:*

|  |        |        |
|--|--------|--------|
| Auditing or reviewing the financial report | 22,000 | 22,000 |
|--|--------|--------|

*Other services:*

|  |        |        |
|--|--------|--------|
| Taxation compliance services                   | 24,644 | 2,066  |
| Investigating accountant's report - prospectus | 15,000 | 15,000 |

|  |               |               |
|--|---------------|---------------|
|  | <b>61,644</b> | <b>39,066</b> |
|--|---------------|---------------|

## NOTE 7: Earnings/(loss) per share

(a) Reconciliation of earnings used in calculating earnings/(loss) per share

|          |            |
|----------|------------|
| Net loss | (1164,375) |
|----------|------------|

(b) Weighted average number of shares used as the denominator

Number

|  |            |
|--|------------|
| Weighted average number of ordinary shares used as the denominator in calculating basic loss per share | 49,118,265 |
|--|------------|

(c) Classification of securities.

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

## NOTE 8: Cash assets

|                          |                |                |
|--------------------------|----------------|----------------|
| Cash at bank and on hand | 258,262        | 61,482         |
| Deposits at call         | 700,000        | 700,000        |
|                          | <b>958,262</b> | <b>761,482</b> |

## NOTE 9: Receivables

*Current*

|                                    |                |              |
|------------------------------------|----------------|--------------|
| Trade debtors                      | 720,323        | -            |
| Less: Provision for doubtful debts | (35,713)       | -            |
|                                    | 684,610        | -            |
| Other debtors                      | 56,867         | 6,294        |
|                                    | <b>741,477</b> | <b>6,294</b> |

*Non Current*

|                             |   |                |
|-----------------------------|---|----------------|
| Loan to controlled entities | - | 651,706        |
|                             | - | <b>651,706</b> |

## NOTE 10: Other assets

### Current

|             | Consolidated<br>2005<br>\$ | Parent<br>2005<br>\$ |
|-------------|----------------------------|----------------------|
| Prepayments | 44,660                     | 20,350               |
|             | <b>44,660</b>              | <b>20,350</b>        |

## NOTE 11: Property, plant and equipment

### Fixtures and equipment

|                                |                |          |
|--------------------------------|----------------|----------|
| At cost                        | 572,579        | -        |
| Less: Accumulated depreciation | (329,031)      | -        |
| <b>Net book value</b>          | <b>243,548</b> | <b>-</b> |

### Motor Vehicles

|  |                |          |
|--|----------------|----------|
| At cost                                    | 114,262        | -        |
| Less: Accumulated depreciation             | (14,224)       | -        |
| Net book value                             | 100,038        | -        |
| <b>Total Property, plant and equipment</b> | <b>343,586</b> | <b>-</b> |

## Reconciliations

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

| 2005 Consolidated entity               | Fixtures and Equipment | Motor Vehicles | Total     |
|--|------------------------|----------------|-----------|
|  | \$                     | \$             | \$        |
| Balance at the beginning of the year   | -                      | -              | -         |
| Additions through acquisition          | 143,623                | -              | 143,623   |
| Additions                              | 200,517                | 114,262        | 314,779   |
| Disposals                              | -                      | -              | -         |
| Depreciation expense                   | (100,592)              | (14,224)       | (114,816) |
| Carrying amount at the end of the year | 243,548                | 100,038        | 343,586   |

### 2005 Parent Entity

|  |   |   |   |
|--|---|---|---|
| Balance at the beginning of the year   | - | - | - |
| Additions through acquisition          | - | - | - |
| Additions                              | - | - | - |
| Disposals                              | - | - | - |
| Depreciation expense                   | - | - | - |
| Carrying amount at the end of the year | - | - | - |

# notes to the financial statements

for the year ended 30 June 2005

|   | Consolidated<br>2005<br>\$ | Parent<br>2005<br>\$ |
|---|----------------------------|----------------------|
| <b>Note 12: Investments</b>                           |                            |                      |
| <i>Non-Current</i>                                    |                            |                      |
| Investment in controlled entities – at cost (Note 22) | -                          | 8,850,000            |
| Less: Provision for diminution                        | -                          | (1,164,375)          |
|   | <u>-</u>                   | <u>7,685,625</u>     |

The carrying value of the investment in controlled entities is dependent on the successful development and commercialisation of the technology or realisation by sale, by the company's controlled entities.

## NOTE 13: Intangible assets

|                                |                         |          |
|--------------------------------|-------------------------|----------|
| Goodwill on consolidation      | 8,085,904               | -        |
| Accumulated amortisation       | (404,301)               | -        |
| Total                          | <u>7,681,603</u>        | <u>-</u> |
| Licenses and patents – at cost | 30,000                  | -        |
| <b>Total intangibles</b>       | <u><b>7,711,603</b></u> | <u>-</u> |

|  | Consolidated<br>2005<br>\$ | Parent<br>2005<br>\$ |
|--|----------------------------|----------------------|
|--|----------------------------|----------------------|

## NOTE 14: Payables

|                               |                |               |
|-------------------------------|----------------|---------------|
| <i>Current</i>                |                |               |
| Trade creditors               | 157,930        | -             |
| Sundry creditors and accruals | 233,007        | 28,570        |
|                               | <u>390,937</u> | <u>28,570</u> |

|  |              |              |
|--|--------------|--------------|
| Included in the trade creditors amount above is an amount payable to related parties | <u>5,000</u> | <u>5,000</u> |
|--|--------------|--------------|

Details of the related party payables are set out in Note 21.

## NOTE 15: Interest bearing liabilities

|                         |               |          |
|-------------------------|---------------|----------|
| <i>Current</i>          |               |          |
| Hire purchase liability | 19,841        | -        |
|                         | <u>19,841</u> | <u>-</u> |
| <i>Non Current</i>      |               |          |
| Hire purchase liability | 89,379        | -        |
|                         | <u>89,379</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.

|                            | Consolidated<br>2005<br>\$ | Parent<br>2005<br>\$ |
|----------------------------|----------------------------|----------------------|
| <b>NOTE 16: Provisions</b> |                            |                      |
| <i>Current</i>             |                            |                      |
| Income tax                 | 12,562                     | -                    |
| Employee entitlements      | 171,517                    | -                    |
|                            | <b>184,079</b>             | <b>-</b>             |
| <i>Non Current</i>         |                            |                      |
| Employee entitlements      | 18,465                     | -                    |
|                            | <b>18,465</b>              | <b>-</b>             |

#### NOTE 17: Contributed equity

##### (a) Issued and paid up capital

|  | 2005<br>Number    |                    | 2005<br>\$       |
|--|-------------------|--------------------|------------------|
| <i>Issued and paid up capital</i>                        |                   |                    |                  |
| 62,166,667 ordinary shares                               | 62,166,667        |                    | 9,950,429        |
| <i>Movements during the period</i>                       |                   |                    |                  |
| <b>Ordinary shares</b>                                   | <b>Number</b>     | <b>Issue price</b> | <b>\$</b>        |
| <b>Balance at the beginning of the financial year</b>    | <b>-</b>          |                    | <b>-</b>         |
| Shares issued:   |                   |                    |                  |
| Issue of subscriber shares                               | 8,750,000         | \$0.00001          | 87               |
| Shares issued to various parties                         | 2,166,667         | \$0.15             | 325,000          |
| Shares issued on acquisition of shares in ISSPL          | 23,750,000        | \$0.20             | 4,750,000        |
| Shares issued pursuant to prospectus dated 9 August 2005 | 27,500,000        | \$0.20             | 5,500,000        |
| Share issue expenses                                     | -                 | -                  | (624,658)        |
| <b>Balance at end of financial year</b>                  | <b>62,166,667</b> |                    | <b>9,950,429</b> |

# notes to the financial statements

for the year ended 30 June 2005

## NOTE 17: 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 \$0.30 if exercised prior to 31 March 2006. For the period 1 April 2006 to the expiry date of the options (30 September 2008), the exercise price will increase to \$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 Statements of Financial Position.

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

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

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

### (c) Terms and conditions of ordinary shares

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

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

### (d) Employee option scheme

Information relating to the employee option scheme are set out in note 25.

### (e) Dividend reinvestment plan

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

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

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

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

## NOTE 18: Accumulated losses

|  | Consolidated<br>2005<br>\$ | Parent<br>2005<br>\$ |
|--|----------------------------|----------------------|
| Accumulated losses at the beginning of the financial year  | -                          | -                    |
| Net loss attributable to the members of ISS Group Limited  | (1,164,375)                | (1,164,375)          |
| <b>Accumulated losses at the end of the financial year</b> | <b>(1,164,375)</b>         | <b>(1,164,375)</b>   |

## NOTE 19: Segment reporting

Business and Geographical 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 and geographical segment.

An overseas subsidiary company was established during the second half of the year in Singapore (ISS Group (Asia) Pte Ltd), however the activities are immaterial and do not warrant separate financial disclosure.

## NOTE 20: Cash flow information

### (a) Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax

|   |                  |                  |
|---|------------------|------------------|
| Loss from ordinary activities after income tax          | (1,164,375)      | (1,164,375)      |
| <i>Non-cash flows in loss from ordinary activities:</i> |                  |                  |
| Depreciation  | 114,816          | -                |
| Amortisation of goodwill on consolidation               | 404,300          | -                |
| Diminution of investment in controlled entity           | -                | 1,164,375        |
| <i>Changes in operating assets and liabilities:</i>     |                  |                  |
| (Increase)/decrease in receivables                      | 295,991          | -                |
| (Increase)/decrease in other assets                     | (43,574)         | (186,567)        |
| Increase/(decrease) in creditors and borrowings         | 166,219          | 28,570           |
| Increase/(decrease) in provisions                       | 87,404           | -                |
| <b>Net cash used in operating activities</b>            | <b>(139,219)</b> | <b>(157,997)</b> |

### (b) Acquisition of controlled entity

The company acquired 100% of the issued capital of Industrial Software Solutions Pty Ltd on 1 July 2004 pursuant to a Share Sale Agreement.

The operating results of this newly controlled entity have been included in the consolidated Statement of Financial Position since the date of acquisition.

*Outflow of cash to acquire the controlled entity and components of the acquisition cost were:*

|   |                  |
|---|------------------|
|   | <b>\$</b>        |
| Cash paid   | 4,100,000        |
| Issue of shares (fair value based on the price of the shares issued as a result of the IPO) | 4,750,000        |
|   | <b>8,850,000</b> |

*Fair Value of identifiable net assets of Industrial Software Solutions Pty Ltd at acquisition date:*

|                           |                  |
|---------------------------|------------------|
| Cash                      | 409,719          |
| Receivables               | 898,742          |
| Plant and equipment       | 143,623          |
| Creditors and borrowings  | (514,560)        |
| Provisions                | (173,428)        |
|                           | 764,096          |
| Goodwill on consolidation | 8,085,904        |
|                           | <b>8,850,000</b> |

### (c) Non-Cash Financing and Investing Activities

The consideration for the acquisition mentioned in Note 20(b) above comprised of the issue of 23,750,000 fully paid ordinary shares in the company at an issue price of 20 cents per share.

|   | Consolidated | Parent |
|---|--------------|--------|
|   | 2005         | 2005   |
|   | \$           | \$     |
| Acquisition of motor vehicles by means of hire purchase | 114,262      | -      |

# notes to the financial statements

for the year ended 30 June 2005

## NOTE 21: 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:

### *Specified Directors' and Specified Executives' Remuneration*

Details of specified directors' and specified executives' remuneration are set out in the Directors' Report under the section titled 'Remuneration Report'.

### *Transactions with Specified Directors*

- (a) Mr Cross is a principal of HealthTec Growth Partners Pty Ltd which has provided corporate advisory services and company secretarial services to the consolidated entity on normal commercial terms amounting to \$186,350 net of GST. Of this amount \$20,550 was paid for development of the Prospectus dated 9 August 2004, co-ordination of the due diligence process and related matters, \$80,000 for the provision of corporate advisory services, \$45,000 for the provision of company secretarial services and \$40,800 for sub-underwriting fees. The amount outstanding to HealthTec Growth Partners Pty Ltd at 30 June 2005 is disclosed in Note 14.

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

## NOTE 22: Investments in controlled entities

| Name of entity                        | Country of incorporation | Class of shares | Equity holding | Parent Carrying Value<br>\$ |
|---------------------------------------|--------------------------|-----------------|----------------|-----------------------------|
| Industrial Software Solutions Pty Ltd | Australia                | Ordinary        | 100%           | 7,685,625                   |
| ISS Group (Asia) Pte Ltd              | Singapore                | Ordinary        | 100%           | -                           |
|                                       |                          |                 |                | <hr/> 7,685,625             |

### **Acquisition of controlled entities:**

As disclosed in the Company's prospectus dated 9 August 2004 and 31 December 2004 half-year accounts the company acquired 100% of the issued capital of Industrial Software Solutions Pty Ltd 1 July 2004 pursuant to a share sale agreement. Further details of this acquisition are set out in Note 20(b).

On 23 February 2005 the Company acquired 100% of the issued share capital of ISS Group (Asia) Pte Ltd for consideration of \$2.

## NOTE 23: Financial instruments

### (a) Terms, conditions and accounting policies

The company's accounting policies, including the terms and conditions of each class of financial asset, financial liability and equity instrument, both recognised and unrecognised at the balance date, are as follows:

| Recognised Financial Instruments  | Notes | Accounting Policies  | Terms and Conditions  |
|-----------------------------------|-------|--|---|
| <i>(i) Financial assets</i>       |       |  |   |
| Cash                              | 8     | Cash is carried at the lower of cost and net realisable value.   | Cash balances in bank accounts receive the bank benchmark interest rates. Cash is at call.  |
| Receivables – other               | 9     | Other receivables are carried at nominal amounts due.  |   |
| <i>(ii) Financial liabilities</i> |       |  |   |
| Trade creditors and accruals      | 14    | Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity. | Trade liabilities are normally settled on 30 day terms.   |
| Finance lease liability           | 15    | The lease liability is accounted for in accordance with AASB 1008.   | As at balance date, the consolidated entity had finance hire purchase liability with an average term of 4 years. The average discount rate implicit in the liabilities is 7.3%. |

|                                    | Fixed interest<br>rate maturing in<br>1 year | Fixed interest<br>rate maturing<br>1 to 5 years | Floating Interest<br>Rate | Non-interest<br>Bearing | Total            | Weighted Average<br>Effective Interest<br>Rate |
|------------------------------------|--|---|---------------------------|-------------------------|------------------|--|
| <i>Financial Assets:</i>           |  |   |                           |                         |                  |  |
| Cash                               | -  | -   | 958,262                   | -                       | 958,262          | 5.23%  |
| Receivables                        | -  | -   | -                         | 741,477                 | 741,477          |  |
| Other                              | -  | -   | -                         | 44,660                  | 44,660           |  |
| <b>Total Financial Assets</b>      | <b>-</b>                                     | <b>-</b>  | <b>958,262</b>            | <b>786,137</b>          | <b>1,744,399</b> |  |
| <i>Financial Liabilities:</i>      |  |   |                           |                         |                  |  |
| Payables                           | -  | -   | -                         | 390,937                 | 390,937          |  |
| Lease liability                    | 19,841                                       | 89,379  | -                         | -                       | 109,220          | 7.3%   |
| <b>Total Financial Liabilities</b> | <b>19,841</b>                                | <b>89,379</b>                                   | <b>-</b>                  | <b>390,937</b>          | <b>500,157</b>   |  |

# notes to the financial statements

for the year ended 30 June 2005

## NOTE 23: Financial instruments Continued

### (b) Interest Rate Risk

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

### (c) 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 provisions for doubtful debts, as disclosed in the Statements of Financial Position 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.

### (d) 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 Statements of Financial Position and Notes to the Financial Statements.

## NOTE 24: Capital, hire purchase and leasing commitments

|  | Consolidated   | Parent   |
|--|----------------|----------|
|  | 2005           | 2005     |
|  | \$             | \$       |
| Commitments in relation to motor vehicle hire purchase contracts are payable as follows:   |                |          |
| <i>Payable</i>   |                |          |
| - not later than 1 year  | 27,140         | -        |
| - later than 1 year but not later than 5 years   | 102,280        | -        |
| Minimum payments   | 129,420        | -        |
| Less: future finance charges   | (20,200)       | -        |
| <b>Total hire purchase liability</b>   | <b>109,220</b> | <b>-</b> |
| Commitments for minimum payments in relation to non-cancellable operating leases for the office premises are payable as follows: |                |          |
| <i>Payable</i>   |                |          |
| - not later than 1 year  | 62,050         | -        |
| - later than 1 year but not later than 5 years   | -              | -        |
| <b>Total lease liability</b>   | <b>62,050</b>  | <b>-</b> |

## Note 25: Employee Benefits

### Remuneration commitments

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

|   |                |   |
|---|----------------|---|
| <b>Within 1 year</b>  | <b>240,000</b> | - |
| 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. |                |   |
| <b>Aggregate employee benefits liability</b>  | <b>189,982</b> | - |
| <b>Number of employees at balance date</b>  | <b>53</b>      | - |

### Employee Option Scheme

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

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

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

Options are granted under the plan for no consideration.

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

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

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

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

- (1) between 17 June and 30 June;
- (2) between 17 September and 30 September;
- (3) between 18 September and 31 December; and
- (4) between 18 March and 31 March.

To the date of this report no options have been granted to employees of the scheme and remain registered in the name of the scheme.

# notes to the financial statements

for the year ended 30 June 2005

## NOTE 26: Amounts receivable and payable denominated in foreign currencies

|   | Consolidated | Parent |
|---|--------------|--------|
|   | 2005         | 2005   |
|   | \$           | \$     |
| <b>Exposures on items not effectively hedged, expressed in Australian dollars</b> |              |        |
| <i>Amounts receivable - current, not effectively hedged</i>                       |              |        |
| Singapore dollars   | 29,643       | -      |
| <i>Amounts payable - current, not effectively hedged</i>                          |              |        |
| Singapore dollars   | 20,116       | -      |

## NOTE 27: Events subsequent to reporting date

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

## **NOTE 28: Impact of Adopting Australian Equivalents to International Financial Reporting Standards**

The company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the consolidated entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004. The opening Statements of Financial Position will form the basis of accounting for AIFRS in the future, and is required when ISS prepares its first fully AIFRS compliant financial report for the year ending 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit / (loss) for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the consolidated entity's AIFRS committee.

### **Goodwill on Consolidation**

Under AASB 3: Business Combinations, goodwill is capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is prohibited. Current accounting policy of the entity is to amortise goodwill on a straight-line basis over a period of 20 years. The Group has not elected to apply AASB 3 retrospectively and hence, current year amortisation would not be written-back as at the date of transition.

### **Impairment of Assets**

Under AASB 136: Impairment of Assets, the recoverable amount of an asset is determined as the higher of fair value less costs to sell, and value in use. In determining value in use, projected future cash flows are discounted using a risk adjusted pre-tax discount rate and impairment is assessed for the individual asset or at the 'cash generating unit' level. A 'cash generating unit' is determined as the smallest group of assets that generates cash flows that are largely independent of the cash inflows from other assets or groups of assets. The current policy is to determine the recoverable amount of an asset on the basis of discounted net cash flows that will be received from the asset's use and subsequent disposal. It is likely that this change in accounting policy will lead to impairments being recognised more often.

The consolidated entity has reassessed its impairment testing policy and tested all assets for impairment as at 1 July 2005. Based upon the results of this testing, the company has determined that there will be no material impact on its financial reports.

No material impacts are expected to equity, net loss and to cash flows presented under AGAAP on adoption of AIFRS.

### **Equity-based compensation benefits**

Under AASB 2 Share-based Payment, from 1 July 2004 the consolidated entity is required to recognise an expense for those options that were issued to employees under the ISS Group Employee Option Plan.

This will result in a change to the current accounting policy under which no expense is recognised for equity based compensation.

If the policy required by AASB 2 had been applied during the year ended 30 June 2005, consolidated and parent entity retained profits at 30 June 2005 would have been \$18,184 lower, with a corresponding increase in the share-based payment reserve and a corresponding increase in the net loss for the year.

## Directors' Declaration

In the opinion of the directors of the company :

1. the financial statements and notes, as set out on pages 25 to 47 are in accordance with the Corporations Act 2001; and
  - a. comply with Accounting Standards in Australia and the Corporations Regulations 2001; and
  - b. give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of the financial performance for the year ended on that date of the company and consolidated entity; and
2. in the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

This declaration has been made after reviewing the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the year ended 30 June 2005.

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

On behalf of the Board

**Mr J Yeudall**

Chairman

Place: Perth, WA

Dated    day of September 2005

# Independent Audit Report

*To the members of ISS GROUP Limited*

## Scope

*The Financial Report and Directors' Responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both ISS Group Limited ("the company") and the consolidated entity for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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

## *Audit Approach*

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

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

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

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

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

## Independence

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

The Directors' Report attached to the financial statements includes a copy of the Independence Declaration dated \_\_ September 2005 given to the Directors by the lead auditor for the audit. That Declaration would be in the same terms if it had been given to the Directors at the time this audit report was made.

## Audit Opinion

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

**HLB Mann Judd**  
Chartered Accountants

Perth, Western Australia, September 2005

**L Di Giallonardo**  
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 12 September 2005

### 1. Analysis of Shareholdings

#### a. Distribution of Shareholders (ASX Code: ISS)

| Number of Ordinary Shares Held | Ordinary Shares   |                   |
|--------------------------------|-------------------|-------------------|
|                                | Number of holders | Number of shares  |
| 1 – 1,000                      | 2                 | 276               |
| 1,001 – 5,000                  | 23                | 75,673            |
| 5,001 – 10,000                 | 55                | 526,200           |
| 10,001 – 100,000               | 300               | 10,166,172        |
| 100,001 – and over             | 58                | 51,398,346        |
|                                | <b>438</b>        | <b>62,166,667</b> |

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

#### b. Distribution of Optionholders (ASX Code: ISSO) Options

| Number of Options Held | Number of holders | Number of shares  |
|------------------------|-------------------|-------------------|
| 1 – 1,000              | 1                 | 1                 |
| 1,001 – 5,000          | 58                | 287,000           |
| 5,001 – 10,000         | 33                | 284,251           |
| 10,001 – 100,000       | 243               | 6,409,584         |
| 100,001 – and over     | 31                | 24,102,497        |
|                        | <b>366</b>        | <b>31,083,333</b> |

### 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.

### 3. Twenty Largest Shareholders of quoted Ordinary Shares

| Name  | Number of Ordinary Shares | Percentage of Total |
|---|---------------------------|---------------------|
| 1. Shane Patrick Attwell  | 11,875,148                | 19.10               |
| 2. Robyn Susanne Johnston   | 11,874,852                | 19.10               |
| 3. ANZ Nominees Limited (Cash Income A/C)                                 | 8,338,215                 | 13.41               |
| 4. National Nominees Limited  | 2,450,000                 | 3.94                |
| 5. Citicorp Nominees Pty Limited  | 1,025,000                 | 1.65                |
| 6. Manhattan Investments Pty Ltd  | 1,000,000                 | 1.61                |
| 7. Ross Asset Management Ltd  | 1,000,000                 | 1.61                |
| 8. HGF Investments Pty Limited  | 885,541                   | 1.42                |
| 9. Fortis Clearing Nominees P/L (Settlement A/C)                          | 863,690                   | 1.39                |
| 10. Christopher James Kincaid   | 800,000                   | 1.29                |
| 11. UBS Nominees Pty Ltd (Prime Broking A/C)                              | 730,000                   | 1.17                |
| 12. Gary B Branch Pty Ltd (Super Fund A/C)                                | 650,000                   | 1.04                |
| 13. Sante Holdings Pty Ltd (DEC Family Account)                           | 600,000                   | 0.96                |
| 14. Icy Creek Investments Pty Ltd   | 500,000                   | 0.80                |
| 15. Grant Eggleton  | 500,000                   | 0.80                |
| 16. Graeme Edmund Moir  | 450,000                   | 0.72                |
| 17. Christopher Ian Lawrence  | 300,000                   | 0.48                |
| 18. Minton Pty Ltd  | 262,500                   | 0.42                |
| 19. Georges Providores Holdings Pty Limited (Superannuation Fund A/C)     | 260,000                   | 0.42                |
| 20. R Russell & Associates Photogeology Pty Ltd (Richards Super Fund A/C) | 250,000                   | 0.40                |
|   | 44,614,946                | 71.73               |

### 4. Twenty Largest Optionholders of quoted Options

| Name  | Number of Option | Percentage of Total |
|---|------------------|---------------------|
| 1. Robyn Susanne Johnston (The Patacait Family A/C)                   | 10,875,000       | 34.99               |
| 2. ANZ Nominees Limited (Cash Income A/C)                             | 3,652,498        | 11.75               |
| 3. Clodene Pty Ltd  | 1,940,167        | 6.24                |
| 4. National Nominees Limited  | 1,000,000        | 3.22                |
| 5. Dominion Investments Pty Ltd                                       | 867,084          | 2.79                |
| 6. Evan Petridis  | 500,000          | 1.61                |
| 7. Manhattan Investments Pty Ltd                                      | 500,000          | 1.61                |
| 8. Christopher James Kincaid  | 460,000          | 1.48                |
| 9. Integrated Healthcare Investments Pty Ltd                          | 400,000          | 1.29                |
| 10. Sante Holdings Pty Ltd (DEC Family Account)                       | 300,000          | 0.96                |
| 11. Georges Providores Holdings Pty Limited (Superannuation Fund A/C) | 300,000          | 0.96                |
| 12. HealthTec Growth Partners Pty Ltd                                 | 287,500          | 0.92                |
| 13. Gulf Consultancy Corporation                                      | 270,000          | 0.87                |
| 14. Ross Asset Management Ltd   | 450,000          | 1.45                |
| 15. Grant Eggleton  | 250,000          | 0.80                |
| 16. HGF Investments Pty Limited                                       | 249,498          | 0.80                |
| 17. Succession Planners Pty Ltd (LET Discretionary Account)           | 200,000          | 0.64                |
| 18. T R B Management Pty Limited (Bowden Superannuation Fund)         | 200,000          | 0.64                |
| 19. Fortis Clearing Nominees P/L (Settlement A/C)                     | 155,000          | 0.50                |
| 20. Minton Pty Ltd  | 131,250          | 0.42                |
|   | 22,987,997       | 73.94               |

# notes to the financial statements

for the year ended 30 June 2005

*Additional information for listed public companies continued*

## 5. Escrowed and unquoted Securities

The number and class of restricted securities and date of escrow are:

|   | Number of holders | Number     | Date escrow period ends   |
|---|-------------------|------------|---|
| Ordinary Shares:  | 2                 | 23,750,000 | The date the Company announces to ASX its audited financial results for the year ended 30 June 2005 |
|   | 1                 | 500,000    | 30 September 2005   |
| Total Ordinary Shares   | 3                 | 24,250,000 |   |
| Shane Attwell holds 11,875,148 of the escrowed unquoted ordinary shares representing 49% of the total escrowed unquoted ordinary shares on issue. |                   |            |   |
| Unquoted Options:   | 1                 | 6,250,000  | 30 September 2005   |

Robyn Johnston ATF The Patacait Family Trust holds 100% of the unquoted options

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

The Company believes that for the year ended 30 June 2005 that, 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.



**ISS Group Limited**

ACN 109 443 852

First Floor, 117 Stirling Highway  
Nedlands WA 6009

Telephone: +618 9386 0800

Facsimile: +618 9386 5941

E-mail: [answers@issgroup.com.au](mailto:answers@issgroup.com.au)

[www.issgroup.com.au](http://www.issgroup.com.au)