EXIT NEXT

There's a revolution taking place...

around the globe

The world's fastest growing outsourcing market.

Human Resources Outsourcing (HRO), though still a comparatively new phenomenon, has already reached the US$90 billion mark.

What's more, the worldwide HRO market is set to grow to US$113 billion by 2009 – a compounded annual growth rate of 8% – making HRO the fastest growing of all outsourcing markets worldwide.

[**Intelligence, ambition, vision, dynamism, talent, flexibility;** the irreplaceable qualities of the world's most in-demand resource.]

Human resources outsourcing (HRO) is the world's [**fastest growing**] outsourcing market

SOCIAL FACTORS DRIVING THE REVOLUTION

1	Globalisation – work moves to people
2	Business growth faster than population growth
3	The internet – connecting workforce with global opportunity
4	Increasingly mobile workforce
5	Decreasing employee/company loyalty
6	RESULT: Demand (replacement and new position needs) is far outstripping supply

BUSINESS FACTORS DRIVING THE REVOLUTION

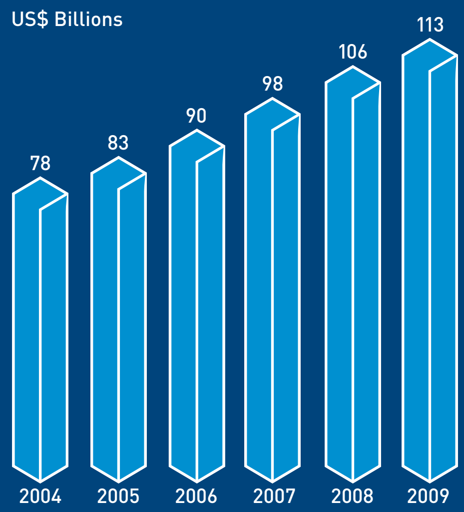
1	Improving corporate focus
2	Reducing and controlling expenses
3	Gaining access to world class capabilities
4	Streamlining processes
5	Winning the war for talent

[**80% of companies**] that outsource HR functions would do so again

Expected worldwide market [**US$113 billion**] by 2009

GLOBAL MARKET SIZE

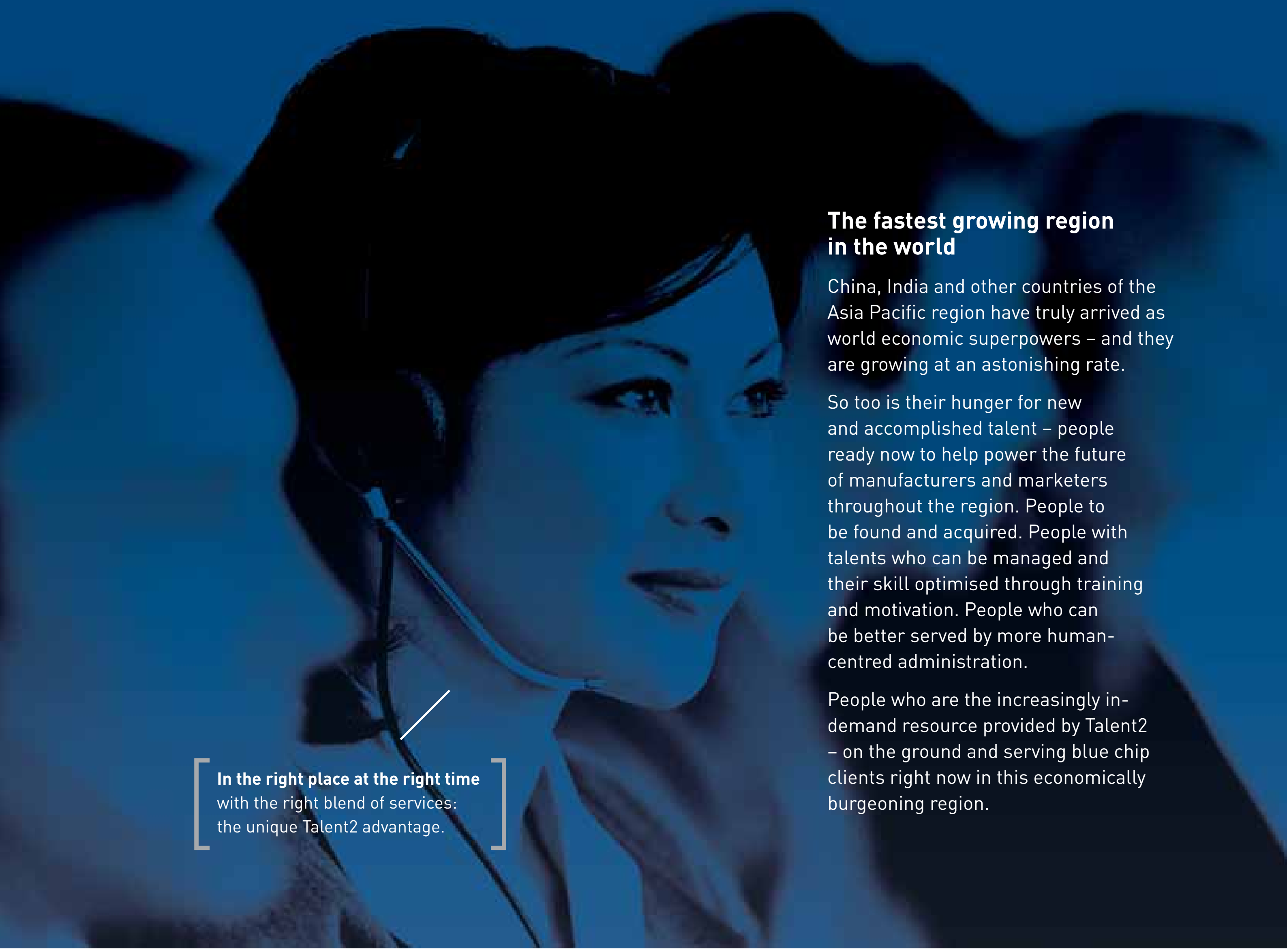
US$ Billions



Source: Nelson Hall 2005

There's a revolution taking place...

in the Asia Pacific Region



The fastest growing region in the world

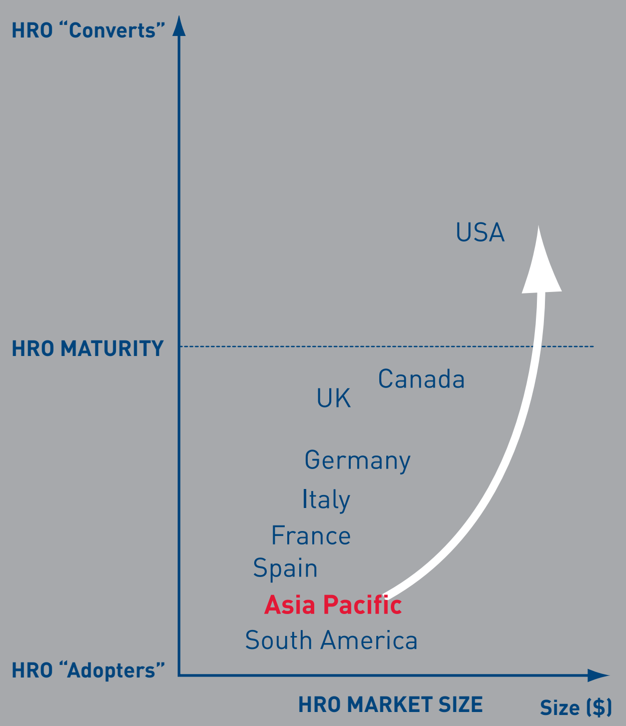
China, India and other countries of the Asia Pacific region have truly arrived as world economic superpowers – and they are growing at an astonishing rate.

So too is their hunger for new and accomplished talent – people ready now to help power the future of manufacturers and marketers throughout the region. People to be found and acquired. People with talents who can be managed and their skill optimised through training and motivation. People who can be better served by more human-centred administration.

People who are the increasingly in-demand resource provided by Talent2 – on the ground and serving blue chip clients right now in this economically burgeoning region.

In the right place at the right time with the right blend of services: the unique Talent2 advantage.

MARKET POTENTIAL



TALENT2 AND TALENTPRO IN THE REGION

GLOBAL MARKET BY SEGMENT

	Talent2 Coverage	2005 US$ Billion	2009 US$ Billion
Recruitment	✔	26.1	38.0
Workforce development	✔	24.2	29.4
Benefits administration		10.6	15.4
Multi-process HRO	✔	10.2	13.3
Payroll administration	✔	8.7	9.8
Other services	✔	3.6	7.4
Total		**$83.4**	**$113.3**

Source: Nelson Hall 2005

There's a revolution taking place...

in managing talent. This is where we are unique

[**We found him, support him with services that help him each day,** and are preparing him for a new level of performance.]

We are unique in the region in offering every facet of total talent management.

Our approach is a holistic one that encompasses:

Talent Acquisition. Through identifying and obtaining the right people for the right jobs.

Talent Management. Through a variety of information, payroll and support services that allow people and companies to focus on core functions.

Talent Optimisation. Through ongoing training, eLearning and motivational tools that lead to continual improvement in performance.

We are more than a recruitment company – we are a company that provides, nurtures and improves human talent.

THE TALENT2 STRATEGY FOR GROWTH

1	**Optimise first-mover advantage** We are first in the region with a truly end-to-end approach to talent management. As such we can successfully approach new clients in new ways, with an offering that gives us a clear point of difference.
2	**Be first in actively growing markets** We are quick to establish ourselves in markets where demand is flourishing. Demand not just for prospective employees, but for the specialist expertise we bring to the table.
3	**Expand existing client relationships** We are successful in expanding our clients' horizons and, in turn the range of services we provide to them.
4	**Extend and improve our services** We know that it is imperative that we constantly find new and better ways to serve our clients. We do not settle for standing still.

"Talent2 eLearn was willing to work hard to find a win-win proposal that met our requirements and our budget. We selected a Talent2 eLearn solution because the company offered flexibility in both the system it provided and in the approach to rolling out the project.

Victoria Baxter, Learning and Education Manager – Sales, Ricoh Asia Pacific

"After an extensive and exhaustive selection process, we chose Talent2 to partner with us in creating an innovative, service oriented on-site recruitment solution. Talent2 initially impressed us with their flexibility and willingness to explore all alternatives in helping us devise the best solution. Since implementing the solution in early 2006, feedback so far from both our line managers and candidates has been overwhelmingly positive, and the on-site Talent2 team should be commended for their expertise and professionalism.

Gautam Dev, General Manager Recruitment, Coles Myer Ltd

"Talent2 is a critical part of our business strategy. They have an intimate understanding of our business, our culture, our people and our challenges. This has led to our hire time being reduced from 45 days to 8 days. In addition to this, Talent2 has delivered some exceptional talent to Unisys West. The benefits to the business are obvious.

Peter Price, General Manager, Unisys West

"Labour force growth is anticipated to slow to a crawl in the next decade. It is forecast to be as little as 0.2% in 2020, which has fallen considerably from the peak of 2.6% in the 1970s. As a leading global property services firm, Jones Lang LaSalle's access to and management of good talent is crucial. We selected Talent2 to ensure continued access to the highest calibre of talent. We were particularly attracted to the firm for their innovative employment branding solutions, flexibility and adaptability to our business culture.

Christine Bartlett, Australian CEO, Jones Lang LaSalle

"Talent2 is a results driven organisation. They are contemporary in their thinking, have an open and honest approach and have quality energetic people working for them. We believe that they understand our business, the markets in which we operate and the Cement Australia culture. We also believe that as an organisation, they are closely aligned to our Vision and Guiding Principles.

Wayne Beel, General Manager, Cement Australia

"Talent2's Alesco system with Web Self Service access, provided through their Managed Services, met all of Sydney Airport's requirements. Most importantly, it was able to be implemented quickly and with no disruption to employees or managers.

Peter Jones, Manager, Human Resources, Sydney Airports Corporation Limited

There's a revolution taking place...

and Talent2's people are leading the way

She's smart, motivated, knowledgeable, professional, enthusiastic, getting better every day – and 100% Talent2.

Attracting, retaining and training the best

We employ the best people in the field, make sure we keep the best of the best and, finally, help them to become even better.

In other words, we practise what we preach.

Ours is, after all, a people business. We provide Talent2 people with an exciting and rewarding working environment – one where they can grow as individuals – and as providers of the world's best HR services.

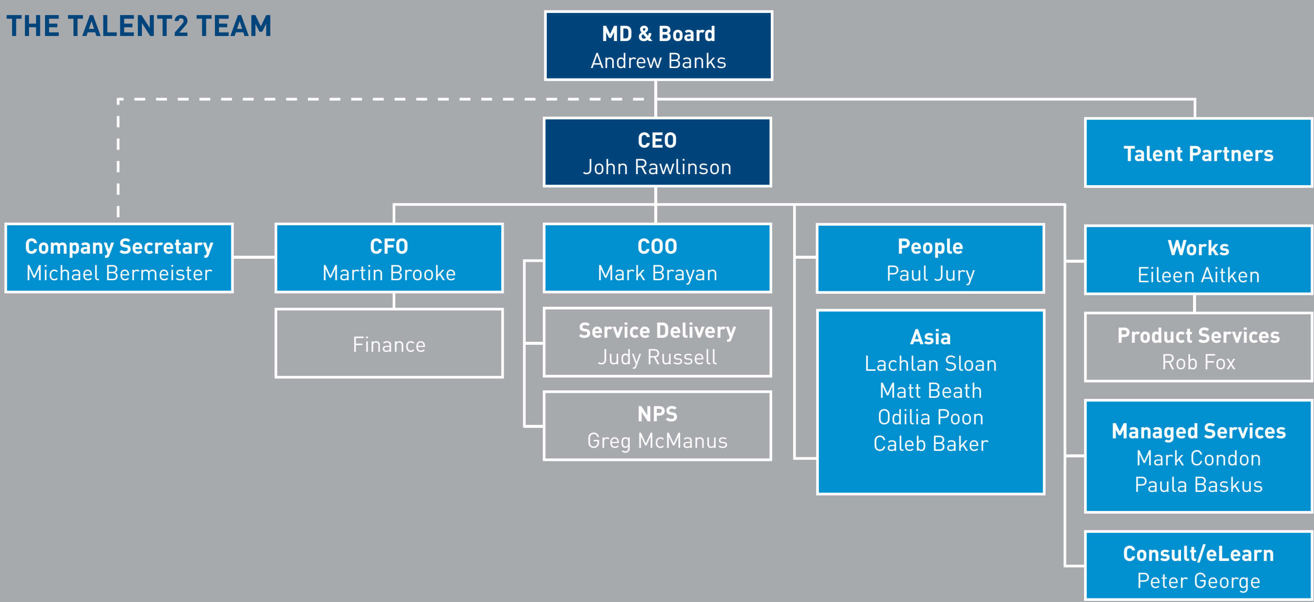
500 people in
[9 countries]

Our people also help the community

At Talent2 we encourage each and every one of our people to contribute one day per year of personal activity to the charity of their choice.

In this way, Talent2 puts over 4,000 hours back into worthwhile community activities.

THE TALENT2 TEAM



People-based values

We feel fortunate that our endeavours genuinely benefit individuals and society. We are not a 'body shop'. We don't 'sell' people as a commodity. We help people achieve their dreams.

The region's
[employer of choice]
in the HRO industry

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Who we are

Around the world, companies seeking competitive advantage are outsourcing their HR requirements. To meet this demand, Talent2 has emerged as Australia's first end-to-end Human Resources Outsourcing (HRO) solutions business.

We are Asia Pacific's leading HR solutions, recruitment and technology company. We provide innovative and effective services and integrated HR solutions for talent management, helping our customers leverage their resources to acquire, manage and optimise their talent.

There's a revolution taking place...

and a year of extraordinary growth for investors

To cap off an extraordinary year of growth, Talent2 is now the recognised leader in human resources outsourcing in Asia Pacific, the fastest growing global outsourcing market in the world's fastest growing region.

This amazing growth is the result of your company taking a bold first-mover position and then growing that advantage to the position of leadership we now enjoy.

We successfully exploited our first-mover positioning through strategic investment and well-placed acquisitions. Our success in talent acquisition, talent management and talent optimisation provided a strong foundation for expansion into the exciting new arenas of **outsourced managed services** and **human resources outsourcing**. During the past 18 months we rounded off our product offerings by acquiring **Southrock** and **NPS** and increased our reach with new operations and acquisitions in the **Gold Coast, New Zealand, Singapore, Dubai, Hong Kong** and **China**. This was achieved **without** impacting our profitability and **without** absorbing our cash.

The growth of your company has been fuelled in part by early synergies between the company and its acquisitions – forces that continue to propel our growth today. This translated into one of the highlights of our year, the cross-selling of managed service offerings into Asia.

Indeed, your company is now generating sufficient working capital to fund future expansion **without** the need for existing cash reserves. So your company recently paid a 3c per share special dividend and, following tax authority clearance, will pay a further 3c per share return of capital.

None of this would be possible without the efforts of all the team. My thanks go to Andrew Banks, John Rawlinson, their executive, their staff and my fellow Directors for another year of outstanding effort and first rate execution.

We thank you for your confidence in our team and our vision.

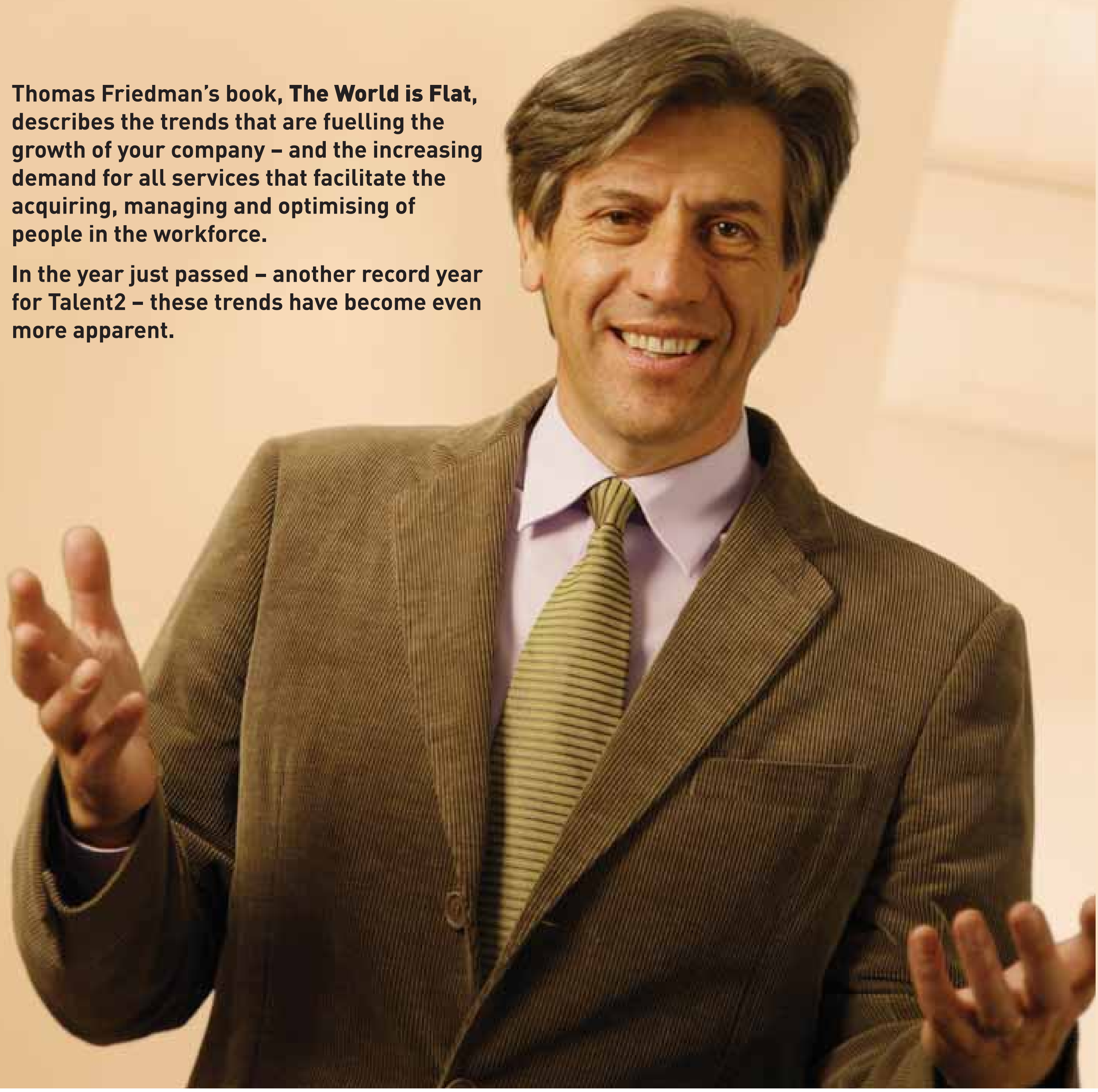
Mary Beth Bauer **Chairman**

There's a revolution taking place…

a revolution driven by talent

Thomas Friedman's book, The World is Flat, describes the trends that are fuelling the growth of your company – and the increasing demand for all services that facilitate the acquiring, managing and optimising of people in the workforce.

In the year just passed – another record year for Talent2 – these trends have become even more apparent.



Today, technology has indeed made the world both flatter and smaller. As a result, global operations now 'move work to people' – a phenomenon we see at work in countries such as India and China. Mothers can be part of a 'virtual' call centre in Utah, Dublin or Wollongong. Employees from virtually anywhere in the world can access training and information at any time. And increasingly, **'loyalty is out and learning is in'** – as more and more employees at all levels become more attached to their profession or area of expertise rather than a particular employer.

More than ever, therefore, the availability and utilisation of talent is a defining factor – one that is changing business models and organisational structures in companies large and small.

The "war for talent" is over – and, talent has won!

Thus, smart employers around the globe, including those in Australia, are asking themselves tough, margin-sensitive questions on how they can benchmark on Employee Productivity rather than just Return on Assets.

As a result, talent management has taken centre stage – and whether that means hiring the best CEO and leadership teams, minimising turnover at a call centre, paying people correctly and on time, allowing them to access their own details to reduce costs, or ensuring that they get the best in HR services and learning – talent management means Talent2.

'Talent' is our business and, as such we are propelled by today's most powerful 'megatrends', unstoppable forces that dictate world economies and the structures of companies. **These forces are at our backs, helping us drive forward, irrespective of the ebbs and flows of the business cycle!**

In review

This year saw the **Talent2 Works** division exceed budget and provide an excellent contribution to the Managed Services business. The acquisition of **NPS** broadened out that service offering to small and medium sized companies, **adding to our recurring revenue model!**

Talent2 People, our traditional recruitment service, had another phenomenal year of rapid growth, cementing its position as a premium brand in that space. This was enhanced by equally strong growth by both **Talent Partners**, our pure 'search' practice for the private sector and **Hansen & Searson** which serves the public sector.

Our **Talent2 eLearn** and **HR Consult** teams also made inroads with a number of our customers, helping optimise their employees' productivity and development – functions directly related to the retention of key talent.

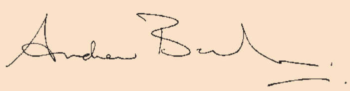
Perhaps most significantly, last year we launched our Asian operations in Hong Kong, Singapore, Macau, Shanghai and Dubai, coupled with the very clear and obvious momentum of the acceptance of HR Outsourcing in both Australasian and Asian companies alike. The synergy of these two developments gives us a dynamic, double-barrelled engine for growth.

With every HR Outsourced contract signing up for renewal and a dozen more new ones coming on stream, together with annuity income from many hundred payroll and eLearning customers, **we start this new year with a significant percentage of last year's revenue already committed**.

While this is cause for satisfaction, it is no grounds for complacency. We are determined to keep growing quickly to ensure we strengthen our position as the leading brand for HR Outsourcing and related services in the Australasian Region!

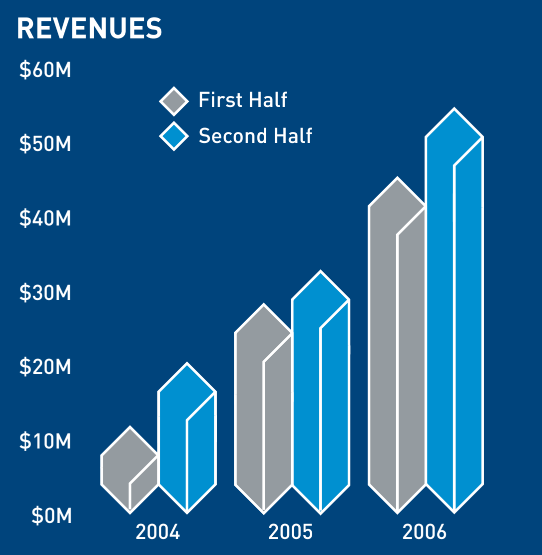
So while the world may be flat, our revenue trajectory continues to climb to new heights – and promises to remain strong for the foreseeable future.

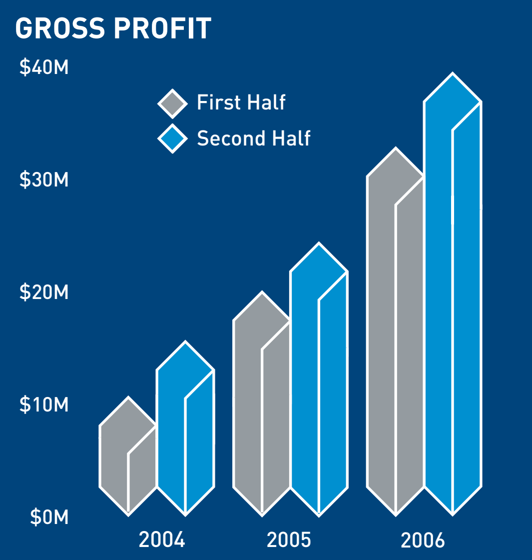
My sincere thanks to John Rawlinson, our outstanding CEO, and his wonderful team for their dedication, passion and execution. **They are the best and it shows in their results, in their faces and in those of our customers and candidates!**

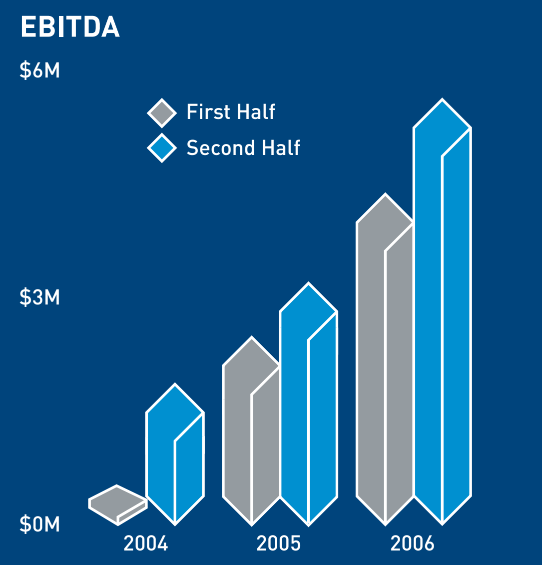


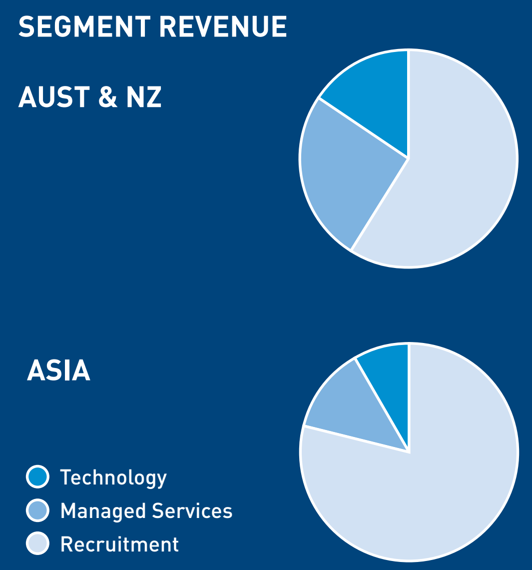
Andrew Banks **Managing Director**

Financial Highlights









	FY 2006	FY 2005	Growth
Revenues	$99.6m	$60.3m	+65%
Gross profit	$71.8m	$43.6m	+65%
EBITDA	$10.0m	$6.0m	+68%
Return on gross profit	13.9%	13.8%	
Earnings before tax	$5.16m*	$4.19m	+23%
Reported earnings after tax	$3.72m	$4.91m**	(24%)
EPS	3.29¢	5.13¢	(36%)
Cash on hand	$14.6m	$9.1m	+60%

* FY 2006 result includes additional intangible asset amortisation for business acquisitions under AIFRS.
** FY 2005 result includes a positive taxation adjustment to account for historical tax losses and timing differences.

There's a revolution taking place...

and our 'revolution' is going to plan

Looking back on these past few years at Talent2 and comparing them to my experience while in senior positions at other concerns, what is strikingly clear is how well – and how uniquely – Talent2 has been able to stick to the vision that senior management initially wrote for the company's development and growth.

Two conclusions become apparent from this observation:

First, the vision is based on sound business realities and achievable goals.

Second, that those given the task of implementing the vision have trusted its wisdom, accepted its challenges and believed in our ultimate success.

It is increasingly clear that their belief is well founded.

For example, one of our primary stated objectives this past year was to become even more strongly established in Asia. This goal has been more than met.

> We have expanded and strengthened our operations in China, while broadening our service offering.

> We have successfully integrated operations in Hong Kong.

> Starting from scratch, Talent2 in Singapore is already profitable.

Through a strong strategic alliance with InterPro we have established TalentPro in key sites throughout India. Plus, we are now well positioned in New Zealand and already doing business in Dubai.

Financial performance: according to plan

Continuing with our vision, all financial expectations have been met or exceeded. Cash flow is consistently healthy and, as this report is being written, all divisions are not only vigorous and growing strongly but operating profitably.

Looking at the numbers, our performance in 2006 was outstanding. Revenues increased by 65% to $99.56 million for the 2006 financial year, up from $60.34 million for the corresponding year. This growth curve reinforces Talent2's position as one of the fastest growing companies in the services sector. Even with this continued growth, the business was able to maintain margins of just over 10%, achieving earnings before interest, tax, depreciation and amortisation (EBITDA) of $10.04 million for the full year, a 68% increase on the $5.97 million EBITDA achieved in the previous year.

Each division also performed well

> The Managed Services business expanded revenue over threefold to $24.23 million for the year, with strategic wins with major national and international companies, including several significant wins in Asia. While this growth is strong, the best is yet to come and the pipeline for Managed Services remains strong with the revenue build of previous deals starting to kick in.

> Talent2 People, the executive recruitment and search business, had another year of strong growth, increasing revenue by 60% to $60.08 million with steady organic growth and solid contribution from offices in Hong Kong, Singapore, New Zealand and Dubai.

> Revenue for the technology arm of the Talent2 Works business came in at $14.81 million, just ahead of budget. This was pleasing for the Works division given their additional excellent contribution to the Managed Services business.

> Talent2 eLearn and HR Consult established more traction and had some major new customer wins helping companies to optimise their productivity and development.

Other financial highlights during the 2006 year included:

> EBITDA of $10.04 million compared to $5.97 million in 2005.

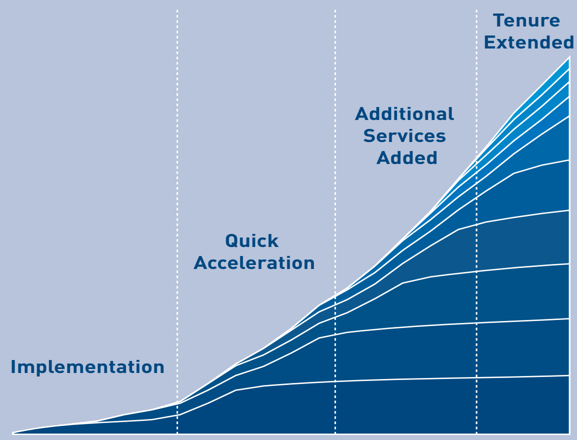
> EBIT of $4.78 million compared to $3.96 million in 2005. EBIT was $2.86 million in the second half of 2006, up from $1.92 million in the first half.

> Operating cashflows of $8.75 million compared to $5.99 million in 2005.

> An increase in cash assets to $14.57 million from $9.10 million a year earlier. Other than leased assets, the company has no debt.

> Net assets rose from $40.61 million to $62.11 million.

> Net tangible assets rose to $20.23 million, from $13.93 million a year earlier.



Changing the mindset of the market

We're spreading the message of HRO and ongoing talent management – and leading companies around the globe are more receptive than ever.

The nurturing of valuable talent is now a top line issue, well and truly on the agenda for CEOs and corporate boards. Whereas recruitment (and we make no apologies for being top level recruiting professionals) was once an event that occurred on an as-needs basis, today it's an ongoing process. What's more, the capabilities of the right administrative and payroll processes are being recognised not just for efficiencies and cost-saving, but as real contributors to morale and productivity. So too is the development, motivation and continual improvement of staff through ongoing training.

Increasingly then, understanding of the need for real expertise in talent-oriented services is energising our market, broadening our prospective client base and increasing our perceived value to decision makers.

The world's best companies have chosen Talent2

In the short time since we began operations, we have been selected as the HR supplier of choice by a long list of blue chip companies. This is true for all Talent2 divisions.

As the old adage says, 'the cream rises to the top'. The cream of the world's companies have done just that – and at the top of the HRO field, they have found Talent2.

Walking the walk – a key to our success

When it comes to our fundamentals of 'Acquire', 'Manage' and 'Optimise', we practise what we preach. We actively seek out the best people in the field – and increasingly the best people seek us out as well. We are recognised as the region's HR 'employer of choice' because we provide challenge, personal and career growth and a rewarding, exciting environment. As we help make our own people better they, in turn, make us better – an ongoing process that means our clients get top level service from people who proactively find better ways of doing things.

"Punching above our weight" – with everything we need to deliver

If sceptics once doubted our prospects, they must now think otherwise. Our growth, our strike rate – often in competition with global giants – and our growing reputation are enviable. Analyse what we have to offer and this should not be surprising. We are at the forefront of the industry in being able to offer services grounded on the best of intellectual property, systems and processes.

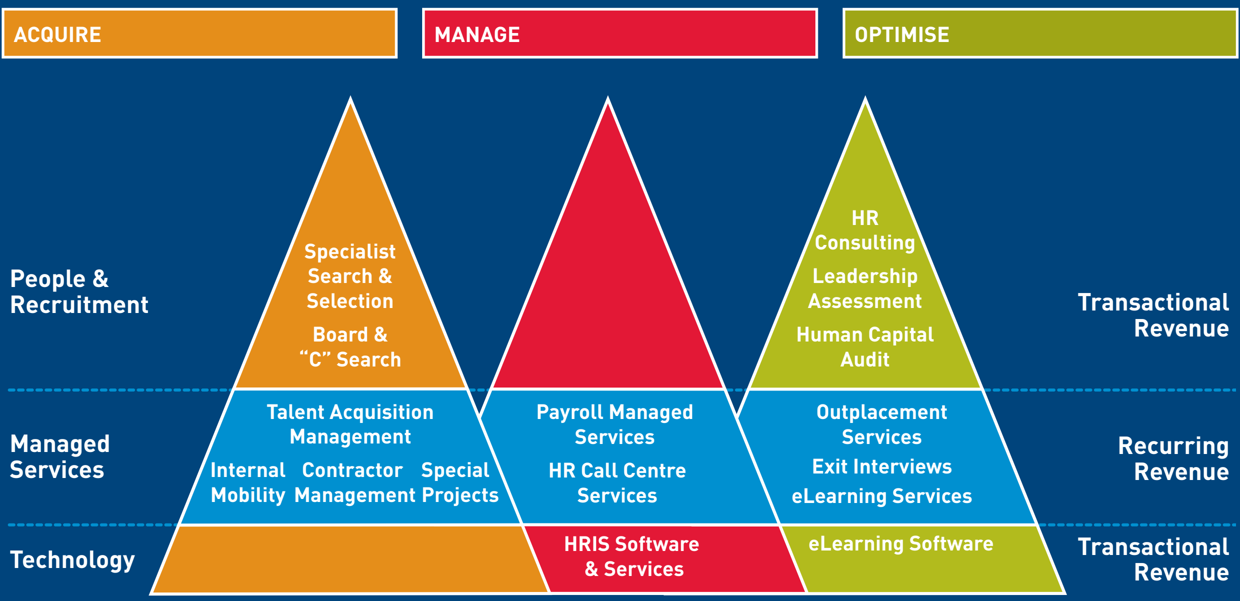
And, most importantly, people are the essence of our business.

It's because of them, combined with the faith of our investors, that we can deliver such a positive report this year. It is because of them that I look forward to even more exciting results in the future.

John Rawlinson **Chief Executive Officer**

HRO Outsourcing

Our holistic offering of 'Acquire', 'Manage' and 'Optimise' makes us uniquely placed to take full advantage of the growing business needs for Human Resources Outsourcing. More and more, Talent2 is solidifying its leadership in the fastest growing, most dynamic market on the planet.



	ACQUIRE	MANAGE	OPTIMISE
BRANDS	– Talent2 People – Talent Partners – Hansen & Searson	– Talent2 Works – National Payroll Systems (NPS)	– Talent2 Consult – Talent2 eLearn
SERVICES	– Executive Search – Board Search – Executive Recruiting – Executive Contracting – Talent Acquisition Management – Project Recruitment	– Rostering – Employee Self Service – HR/Payroll Implementation Services – HR/Payroll Function Reviews	– Learning & Development Diagnostics – Psychological Assessment – Outplacement & Career Management – Learning Management Systems – Learning Content Development
MARKETS	– Multi-national companies either growing operations in Asia Pacific or just entering the market. – Emerging small to medium sized enterprises needing to cope with growth.	– Multi-national companies and small to medium sized enterprises recognising the need to focus on core business rather than 'back office' operations.	– Multi-national companies and small to medium sized enterprises looking to add to intellectual property and competitive edge.
KEY STATISTICS	– Revenue UP **60**% – Profits UP **133**%	**2,000+** customers paying **900,000+** people	Servicing **25** customers and **100,000** employees
KEY DRIVERS	– The demand for qualified talent is outstripping supply.	– Businesses need to streamline operations, improve efficiency and contain costs.	– Increasing employee productivity.

Acquire

We provide a full range of talent acquisition services.

Our recruitment services, Talent2 People and Talent Partners, focus on middle and senior level executive positions. We provide an integrated service combining extensive hiring manager support, research, innovative sourcing techniques, advertising and comprehensive screening and selection.

Talent2 Managed Services provides businesses with fully integrated, in-house careers centres to manage all internal and external recruitment needs.

Cost savings, improved services to managers and, importantly, more time for companies to focus on core business are all included in our deliverables.

Specialist services:

- Executive Search
- Executive Recruitment
- Executive Contracting
- Project Recruitment
- Board Search
- Talent Acquisition Management
- Internal Mobility
- Contractor Management Services
- Recruitment Projects
- Recruitment Systems Implementation
- Recruitment Function Reviews
- Graduate Recruitment
- Employer Branding & Careers Website Development
- Online Induction Programs

Manage

Talent2 provides state-of-the-art HR systems, specialist consulting and a variety of support services – all designed to make talent management more effective and efficient.

Our services are proven and reliable with the flexibility needed to expand and evolve with changing businesses. Our Payroll Service alone has over 2,000 customers paying more than 900,000 people every month.

Our Talent Management services alleviate companies from 'back office' duties, enabling our clients and their own HR professionals to direct more focus on the growth of their people and their company.

Specialist Services:

- HR & Payroll Systems
- Time & Attendance
- Rostering
- Employee Self Service
- HR/Payroll Implementation Services
- HR/Payroll Function Reviews
- Application Service Provision (ASP)
- Payroll Bureau Services
- HR/Payroll Managed Services
- HR/Payroll Call & Support Centres
- Multi-process HR BPO

Optimise

With the demand for talent outstripping supply, it is incumbent on companies to provide a career and workplace environment that motivates, enthuses, retains and develops their employees.

Employers providing this environment unlock the vital yet often untapped resource of 'discretionary effort' that is within every employee, effort that when combined with enhanced knowledge and skill sets, makes enormous differences in the daily operation and long term progress of the modern business.

Talent2's optimising services have, as their platform, diagnostic tools which quickly identify and address the issues associated with aligning human resource strategies with broader corporate strategies.

With rigorous assessment processes, tailored performance management techniques and ongoing development programs we then turn strategy into action – and action into measurable results.

Specialist Services:

- Board Reviews
- HR Diagnostics
- Leadership & Cultural Diagnostics
- Learning & Development Diagnostics
- Psychological Assessment
- Outplacement & Career Management
- Learning Management Systems
- Learning Content Development
- Learning Management & Administration
- Talent Assessment & Development
- Cultural Transformation Programs
- Restructuring & Change Management Projects
- Company-wide Surveys & Exit Interviews
- Leadership Assessment & Succession Management
- Performance Management Solutions

Board of Directors and Chief Financial Officer

Mary Beth Bauer
Chairman (Non-Executive)

Mary Beth brings to the Talent2 Board extensive experience in corporate finance, investor relations and mergers and acquisitions. In addition to her corporate financial expertise, Mary Beth is also founder and CEO of Value Enhancement Management Pty Ltd, the boutique investor relations and stakeholder communications consultancy where she uses her proprietary business model to provide strategies to help some of Australia's largest and most successful public companies align their business imperatives with stakeholders' needs. Mary Beth previously held senior executive investor relations positions with Coles Myer and Mayne Nickless. Her credentials include a Bachelor of Economics (University of California), Australian Chartered Accountant, Certified Public Accountant (US) and fellow of the Australian Institute of Company Directors.

Mary Beth joined the Talent2 Board in November 2001 and was appointed Chairman in 2002. She is the Chairman of the Remuneration Committee, Chairman of the Nominations Committee and a member of the Audit and Risk Committee. She presently holds no directorships in other listed companies.

Andrew Banks
Managing Director (Executive)

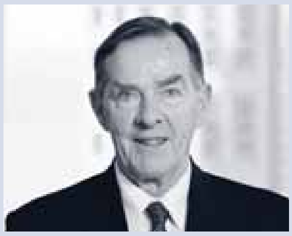
Andrew provides the Board with more than 20 years' experience in managing service businesses across the Asia Pacific region, and is widely regarded as a dynamic thought leader in the area of human capital management. Andrew is an active principal of Morgan & Banks Investments, one of Talent2's significant shareholders. In partnership with fellow Director Geoff Morgan, he built up the Morgan & Banks recruitment business to generate more than A$700 million in sales before it was sold to TMP/Monster.com in 1999.

Andrew has been a Board member since September 2002. He is the company's Managing Director and a member of the Nomination Committee. He has no directorships in other listed companies.

Geoff Morgan
Director (Non-Executive)

Geoff's extensive experience in sales and marketing as well as global experience in all aspects of human capital services are substantive adjuncts to the Board. Geoff is currently Chairman of LinkMe, an internet-based medium for individual networking and job hunting. Geoff is a principal of Morgan & Banks Investments, a significant shareholder of the company. With Andrew Banks, Geoff founded Morgan & Banks in early 1985, listed it in 1994 and grew group sales to more than A$700 million before it was acquired by US-listed company TMP/Monster.com in 1999. Like Andrew, Geoff spent several years with TMP in senior global executive roles.

Geoff has been a Board member since September 2003. His current responsibilities include membership of the Remuneration Committee and Nominations Committee. He also holds a directorship in Allco Equity Partners Ltd.



Brian Gibson
Director (Non-Executive)

Brian's managerial experience spans both the public (government) and private sectors. He served as a Liberal Senator for Tasmania for nine years and, in 1996 was Parliamentary Secretary to the Treasurer. Before entering politics, he had been Managing Director of Australian Newsprint Mills Ltd and Chairman of the Hydro Electric Commission of Tasmania. Brian's qualifications include a Science & Forestry and Arts degree (University of Melbourne) and a Graduate of Harvard Business School's senior international program.

Brian joined the Board in 2003. His current responsibilities include Chairman of the Audit and Risk Committee and a member of the Nominations Committee. He has no directorships in other listed companies.

Albert (Bud) Hawk
Director (Non-Executive)

Bud's expertise and experience in the human resources services sector overseas is of great benefit to the company. Bud has considerable international experience serving on a number of Boards in Europe, Asia and the USA.

Living in the USA, Bud is a co-founder and Managing Partner of Corstone Capital Corporation and specialises in high growth investments and services. He is Chairman of InterPro Holdings Inc., an international business process outsourcing company with principal operations in Europe, India, China and Singapore. InterPro also operates under the trade name "Prolease", where it is one of the largest human resources business process outsourcing companies in the USA.

Bud has a law degree from the American University and has chaired various committees of the American Bar Association. He is a renowned speaker before business groups and is active in his community.

Bud joined the Board in October 2005. He has no directorships in other listed companies.

Hans Neilson
New Director (Non-Executive)

Hans' extensive international IT and HR experience is invaluable to the company as it expands its operations into Asia. Until recently Hans was a Vice President of Hewlett-Packard Company, leading their Human Resources for the Technology Solutions Group in Asia Pacific. Since joining Hewlett-Packard in 1976, Hans has held numerous management positions including Interim Australia Managing Director (2000) and Managing Director New Zealand (1986 – 1992). He was also a Director for Hewlett-Packard Australia and New Zealand from 1987 to 2006.

For over 10 years Hans was an evaluator for the Australian Quality Awards and a member of the Victorian State Committee for the Australian Quality Council. Hans has participated in numerous community and industrial forums, and holds a Bachelor of Engineering Degree.

Hans joined the Board in August 2006 and is a new member of the Remuneration Committee. He has no directorships in other listed companies.

Martin Brooke
Chief Financial Officer

Martin has over 14 years' experience in senior financial positions both within the Accounting Profession and the Human Resources industry. Prior to joining Talent2 in June 2003 Martin held the position of Group Controller – Asia Pacific for TMP Worldwide, with responsibility for the group's finance team throughout the region.

As Chief Financial Officer, Martin has responsibility for all finance and accounting matters and the group's IT infrastructure.

Martin has a BA in Accounting and is a member of the Institute of Chartered Accountants in England and Wales.

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The Board of Directors ("the Board") is responsible for the corporate governance practices of Talent2 International Limited ("the Company") and its controlled entities. As with all its business activities, the Company is proactive in respect of corporate governance and puts in place those arrangements that it believes are in the best interests of the Company and its shareholders. It actively reviews corporate governance developments in Australia and overseas, and where appropriate, modifies its policies and practices to comply with best practice. As detailed in this statement, the Company complies with most Australian Stock Exchange Corporate Governance Council Guidelines (ASX Guidelines), and reasons and explanations are provided below for any departures from those Guidelines. A table summarising the Company's compliance with the ASX Guidelines is available on the Company's website www.talent2.com.

In addition, the Company has posted all copies of its charters, policies and processes on its website www.talent2.com in accordance with the ASX Guidelines.

Responsibilities of the Board

The Board has adopted a formal charter that sets out the responsibilities reserved by the Board. This charter is reviewed annually to ensure it remains consistent with accepted practice in the context of the Board's objectives and responsibilities.

The most significant responsibilities of the Board are to:

> Report to shareholders and the market;
> Ensure regulatory compliance;
> Review corporate risks, internal controls and external audit reports;
> Monitor and influence the culture, reputation and ethical standards of the Company;
> Monitor and review Board composition, director selection and Board processes and performance;
> Approve key executive appointments;
> Review the performance of the Managing Director, Chief Financial Officer and executive management;
> Review and approve executive remuneration;
> Ensure the Board has an in-depth understanding of each substantial segment of the Company;
> Validate and approve corporate strategy;
> Review the assumptions and rationale of annual budgets and approve such budgets;
> Review business results and monitor corrective action where applicable; and
> Authorise and monitor major investments and strategic commitments.

The Board may delegate any of its responsibilities to its various committees. All matters not specifically reserved for the Board and necessary for the day to day management of the Company are delegated to the Managing Director and the executive management team.

Directors may enter into arrangements with the Company. Directors or their firms may act in a professional capacity for the Company. These arrangements are subject to the restrictions of the Corporations Act 2001.

Composition of the Board

The Board believes that its membership should comprise directors with an appropriate mix of skills, experience and personal attributes that allow the Board collectively to discharge their duties, understand the business risks and enhance the Company's opportunities and vision. The Board currently consists of six directors; one executive director and five non-executive directors, two of whom, Brian Gibson and Hans Neilson are independent. The remaining non-executive directors, have a direct or indirect relationship with significant shareholders of the Company.

This is a departure from the ASX Guidelines which recommends that the majority of the Board should be independent. However given the size and extent of operations of the Company, the Board believes that the number and degree of independence of the directors is at this stage appropriate. The Board also believes that at this stage it has a good representation of skills and adequate scope for the independent directors to balance the interests of shareholders.

This situation is constantly monitored by the Board with all directors on its Nomination Committee, actively engaged in finding suitable candidates to enhance the size and skills of the Board as the Company evolves and grows.

The executive director is the Managing Director, Andrew Banks.

The Chairman, Mary Beth Bauer, is a non-executive director and is currently the CEO of an entity associated with the Company's largest shareholder. The ASX Guidelines recommend that the Chairman should be an independent director. The Company does not consider the indirect association between the Chairman and its largest shareholder as compromising the contribution or independence of the Chairman. She was an independent director at the time of her appointment as Chairman in 2002 and has since then successfully steered the Company through a period of transition and growth. The Board believes that she provides it with sound advice founded on her qualifications and extensive experience in corporate finance, investor relations and chartered accounting.

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the directors' report.

Independent Professional Advice

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.

Audit and Risk Committee

The company has an Audit and Risk Committee under the authority and governance of the Company's Audit and Risk Committee Charter, approved by the Board. This committee consists of two non-executive directors, one of whom is independent. This is a departure from the ASX Guidelines which recommends a minimum of three members, with a majority independent.

The Chair of the Audit and Risk Committee is Brian Gibson, an independent non-executive director. The other member of this Committee is Mary Beth Bauer, the Chairman of the Board and a qualified Chartered Accountant. The qualifications and responsibilities of the members of the Audit and Risk Committee are set out in the directors' report.

The Board considers a two person Audit and Risk Committee to be appropriate at this stage given the size of the Board, the size of the Company, the extent of its operations and the qualifications of its members.

The Audit and Risk Committee meets at least twice every year, with authority to convene additional meetings as circumstances require. Its responsibilities include:

> Review of management information systems and systems of internal control;

> Review of the external audit function including the audit plans and audit reviews;

> Review of financial reports prior to their approval by the Board;

> Monitoring financial and liquidity aspects of the Company's activities;

> Requiring the Managing Director and Chief Financial Officer to state in writing to the Board that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards;

> Review of the systems for monitoring the Company's compliance with laws and regulation; and

> Consideration and investigation of financial and operational risks identified by management and the external auditors.

On a regular basis, the Chair of the Audit and Risk Committee is required to meet separately with the external auditors to discuss any matter that either believes should be discussed privately. In addition, the external auditor is requested to attend all shareholder meetings of the Company, including the annual general meeting.

The number of Audit and Risk Committee meetings and attendance at those meetings are set out in the directors' report.

Remuneration Committee

The Company has a Remuneration Committee under the authority and governance of the Company's Remuneration Committee Charter, approved by the Board. This committee currently consists of three non-executive directors. Mary Beth Bauer, who is not an independent director, is currently the acting Chair of this committee. The other members include Geoff Morgan and Hans Neilson. This is a departure from the ASX Guidelines which recommends that a majority of members be independent and the chair be independent.

The Board considers the composition of the Remuneration Committee to be appropriate at this stage given the size of the Board, the size of the Company, the extent of its operations and the qualifications of its members. The Board also believes that given there are only two independent directors on the Board and Mary Beth Bauer's knowledge and experience in the area of executive remuneration, it is appropriate for Mary Beth Bauer to be the acting Chair of the Remuneration Committee.

The Remuneration Committee's responsibilities include:

> The establishment and review of appropriate remuneration and incentive plans for all directors and executive employees; and

> The establishment and granting of all equity based incentive plans under the Directors, Executive and Employee Share Option Plan.

Share Options granted to Directors are described in detail in the directors' report and were approved by shareholders by ordinary resolution on 20 September 2002 and 29 September 2003. Shareholder approval of share options to executive employees has not been sought, and hence the Company does not comply with the ASX Guidelines. Given that:

> All executive and employee share options are based on current market price at time of grant;

> Option vesting is dependant upon future years of employment tenure; and

> A detailed description and summary of these share options have been provided in the Company's financial reports each year and in regular Appendix 3B submissions to the ASX which include details of options on issue, options exercised, details of vesting and expiry dates;

the Company considers it has provided and will continue to provide sufficient information to shareholders to assess the financial impacts of these incentive plans.

There are no schemes for retirement benefits other than statutory superannuation for non-executive directors.

The number of Remuneration Committee meetings and attendance at those meetings are set out in the directors' report.

Nomination Committee

The Company has a Nomination Committee under the authority and governance of the Company's Nomination Committee Charter, approved by the Board. This committee currently consists of all directors, two of whom are independent. The Board believes that until such time as the Board has expanded to include additional independent directors, it is appropriate for all directors to be on the Nomination Committee, and chaired by the Chairman.

In summary, the Nomination Committee:

> Reviews current and desirable competencies of the Board;

> Evaluates Board performance;

> Recommends appointment and removal of directors based on performance review and assessment of competencies; and

> Manages Board succession plan.

Board performance and that of individual directors is subject to annual review by external consultants based on structured interviews with all directors. Performance evaluations of the Board and its members took place in accordance with this procedure during the current reporting period.

The number of Nomination Committee meetings and attendance at those meetings are set out in the directors' report.

Code of Conduct

As part of the Board's commitment to the highest standard of conduct, the Company adopts a code of conduct to guide directors, executives, management and employees in carrying out their duties and responsibilities. The code of conduct covers:

> Responsibilities to shareholders, customers and employees;

> Compliance with laws and regulations;

> Conflicts of interest;

> Confidentiality of company and client's information;

> Fair dealing with all legitimate stakeholders;

> The promotion of ethical behaviour;

> Good employment practices; and

> Respect for privacy.

Disclosure Policy

The Company has a Disclosure Policy premised on its core values of honesty and integrity and to ensure compliance with ASX and ASIC requirements. The policy also requires an authorised disclosure officer to immediately release to the market all material and price sensitive information.

Trading Policy

Share trading and procurement of share trading by directors, managers and employees possessing price sensitive information is prohibited.

In addition, no share purchases or sales may be made by directors, managers and employees outside clearly designated four to six week trading windows following material announcements to the ASX and following shareholder meetings. Internal communications regularly remind directors, managers and employees of their obligations under this policy, including the timing of "open" and "closed" periods.

Short-selling or the use of derivative strategies with this effect, is not permitted by directors, managers and employees. Directors, managers and employees who are granted options are not permitted to hedge those options until they have met relevant timing and/or performance hurdles and those options have vested.

Share purchases and divestments by directors, or companies associated with directors, are notified to the ASX within two days.

Shareholder Communication

The Company is passionate about what it does and wants its shareholders to share in that passion. It's Shareholder Communications Policy is designed to:

> Ensure effective communication with shareholders;

> Provide shareholders with ready access to balanced and understandable information about the Company and corporate proposals; and

> Make it easier for shareholders to participate in general meetings.

The Company Secretary is responsible for overseeing and coordinating disclosure of information to the ASX, shareholders, analysts and brokers. The Company maintains an up to date investor relations section on its corporate website www.talent2.com which includes all financial reports, ASX announcements, recent news articles and press releases, investor newsletters and all relevant contact details. Investors can register through this website to automatically receive newsletters and significant announcements immediately upon release to the market.

Other Information

Any further information relating to the Company's corporate governance practices and policies has been made publicly available on the Company's web site at www.talent2.com.

Your directors present their report on the Company and its controlled entities for the financial year ended 30 June 2006.

Directors

The names of directors in office at any time during or since the end of the financial year are:

Mary Beth Bauer
Non-Executive Chairman

Mary Beth brings to the Talent2 Board extensive experience in corporate finance, investor relations and mergers and acquisitions. In addition to her corporate financial expertise, Mary Beth is also founder and CEO of Value Enhancement Management Pty Ltd, the boutique investor relations and stakeholder communications consultancy where she uses her proprietary business model to provide strategies to help some of Australia's largest and most successful public companies align their business imperatives with stakeholders' needs. Mary Beth previously held senior executive investor relations positions with Coles Myer and Mayne Nickless Pty. Her credentials include a Bachelor of Economics (University of California), Australian Chartered Accountant, Certified Public Accountant (US) and fellow of the Australian Institute of Company Directors.

Mary Beth joined the Talent2 Board in November 2001 and was appointed Chairman in 2002. She is the Chairman of the Remuneration Committee, the Chairman of the Nomination Committee and a member of the Audit and Risk Committee. She presently holds no directorships in other listed companies.

Andrew Banks
Managing Director

Andrew provides the Board with more than 20 years' experience in managing service businesses across the Asia Pacific region, and is widely regarded as a dynamic thought leader in the area of human capital management. Andrew is an active principal of Morgan & Banks Investments, one of Talent2's significant shareholders. In partnership with fellow Director Geoff Morgan, he built up the Morgan & Banks recruitment business to generate more than A$700 million in sales before it was sold to TMP/Monster.com in 1999.

Andrew has been a Board member since September 2002. He is the Company's Managing Director and a member of the Nomination Committee. He has no directorships in other listed companies.

Geoff Morgan
Non-Executive Director

Geoff's extensive experience in sales and marketing as well as global experience in all aspects of human capital services are substantive adjuncts to the Board. Geoff is currently Chairman of LinkMe, an internet-based medium for individual networking and job hunting. Geoff is a principal of Morgan & Banks Investments, a significant shareholder of the company. With Andrew Banks, Geoff founded Morgan & Banks in early 1985, listed it in 1994 and grew group sales to more than A$700 million before it was acquired by US-listed company TMP/Monster.com in 1999. Like Andrew, Geoff spent several years with TMP in senior global executive roles.

Geoff has been a Board member since September 2003. His current responsibilities include membership of the Remuneration Committee and Nomination Committee. He also holds a directorship in Allco Equity Partners Ltd.

Brian Gibson
Non-Executive Director

Brian's managerial experience spans both the public (government) and private sectors. He served as a Liberal Senator for Tasmania for nine years and in 1996 was Parliamentary Secretary to the Treasurer. Before entering politics, he had been Managing Director of Australian Newsprint Mills Ltd and Chairman of the Hydro Electric Commission of Tasmania. Brian's qualifications include a Science & Forestry and Arts degree (University of Melbourne) and a Graduate of Harvard Business School's senior international program.

Brian joined the Board in 2003. His current responsibilities include Chairman of the Audit and Risk Committee and a member of the Nomination Committee. He has no directorships in other listed companies.

Albert "Bud" Hawk
Non-Executive Director

Bud's expertise and experience in the human resources services sector overseas is of great benefit to the Company. Bud has considerable international experience serving on a number of Boards in Europe, Asia and the USA.

Living in the USA, Bud is a co-founder and Managing Partner of Corstone Capital Corporation and specialises in high growth investments and services. He is Chairman of InterPro Holdings Inc., an international business process outsourcing company with principal operations in Europe, India, China and Singapore. InterPro also operates under the trade name "Prolease", where it is one of the largest human resources business process outsourcing companies in the USA.

Bud has a law degree from the American University and has chaired various committees of the American Bar Association. He is a renowned speaker before business groups and is active in his community. Bud joined the Board in October 2005. He has no directorships in other listed companies.

Hans Neilson
Non-Executive Director

Hans' extensive international IT and HR experience is invaluable to the company as it expands its operations into Asia. Until recently Hans was a Vice President of Hewlett-Packard Company, leading their Human Resources for the Technology Solutions Group in Asia Pacific. Since joining HP in 1976, Hans has held numerous management positions including Interim Australia Managing Director (2000) and Managing Director New Zealand (1986–1992). He was also a Director for Hewlett-Packard Australia and New Zealand from 1987 to 2006.

For over 10 years Hans was an evaluator for the Australian Quality Awards and a member of the Victorian State Committee for the Australian Quality Council. Hans has participated in numerous community and industrial forums, and holds a Bachelor of Engineering Degree. Hans joined the Board in August 2006 and is a new member of the Remuneration Committee. He has no directorships in other listed companies.

The following person held the position of company secretary at the end of the financial year:

Michael Bermeister
Company Secretary

Michael is a registered Chartered Accountant in both Australia and South Africa. His qualifications include Bachelor of Commerce and Bachelor of Accounting (Witwatersrand University, South Africa). He has been an employee of Talent2 since February 2001 and served as the Company's Chief Financial Officer until August 2005. Michael was appointed Company Secretary in March 2001 and was a director of the Company between 2001 and 2003.

Albert "Bud" Hawk was appointed to the Board in October 2005. Hans Neilson was appointed to the Board in August 2006. The other directors and the Company Secretary have been in office since the start of the financial year to the date of this report.

Principal Activities

The principal activities of the group during the financial year were the development, sale and support of people management software, executive recruitment and contracting, and the provision of human resources managed services solutions. There were no significant changes in the nature of the economic entity's principal activities during the financial year.

Operating Results

The consolidated profit of the economic entity after providing for income tax amounted to $3.72 million.

Capital Repayment

At a special meeting held on 27 June 2006, shareholders unanimously approved (subject to the receipt of appropriate Australian Tax Office approvals), a Capital Repayment of up to 3 cents per ordinary share. At the date of this report, such Australian Tax Office approval had not been received and hence it has not been distributed to shareholders.

Dividends

Subsequent to the year end, the economic entity declared and paid a special dividend in relation to the year ended 30 June 2006 of 3 cents per ordinary share. This special dividend was paid on 1 August 2006 and amounted to $3.53 million franked to 46%. It has not been accrued in the attached financial statements.

Review of Operations

The 2006 financial year was another record year for the Talent2 International Limited group. Revenues increased by 65% to $99.56 million up from $60.34 million for the previous year.

> The Managed Services business expanded revenue over threefold to $24.23 million for the year, with strategic wins with major national and international companies, including several significant wins in Asia.

> Talent2 People, the executive recruitment and search business, had another year of strong growth, increasing revenue by 60% to $60.08 million with steady organic growth and solid contribution from new offices in the Gold Coast, Perth, Hong Kong, Singapore and New Zealand.

> Revenue for the technology arm of the Talent2 Works business came in at $14.81 million, just ahead of budget. This was pleasing for the Works division given their additional excellent contribution to the Managed Services business.

> Talent2 elearning and HR Consulting established more traction and had some major new customer wins helping companies to optimize their productivity and development.

During the year, key strategic acquisitions were made. National Payroll Systems (NPS) a leading Australian payroll services business gives the group broad exposure to the very important SME market and adding to the recurring revenue model. Stonyer & Associates enhances the group's executive recruitment offering in New Zealand. These acquisitions produced 7.9% of the group's revenues in the June 2006 year.

Earnings before interest and tax (EBIT) for the full year was $4.78 million, compared to $3.96 million in the previous year. This result was generated after allowance for acquired intangible amortisation of $2.86 million compared to $0.38 million in the previous year. The company recorded a full-year net profit after tax (NPAT) of $3.72 million, compared to $4.91 million ($3.14 million excluding a one-off tax adjustment of $1.77 million) for the year ended June 2005.

Strong cash flows allowed Talent2 to also pay a special dividend of 3 cents per share on 1 August 2006, and the company is waiting on a pending tax ruling to return up to an additional 3 cents per share to its shareholders.

Financial highlights during the 2006 year included:

> EBITDA of $10.04m compared to $5.97m in 2005.

> EBIT of $4.78m compared to $3.96m in 2005. EBIT was $2.86m in the second half of 2006, up from $1.92m in the first half.

> Operating cashflows of $8.75m compared to $5.99m in 2005.

> An increase in cash assets to $14.57m from $9.10m a year earlier. Other than leased assets, the company has no debt.

> Net assets rose from $40.61m to $62.11m.

> Net tangible assets rose to $20.23m, from $13.93m a year earlier.

All figures quoted above in relation to the 2005 financial year are after adjustments arising on transition to Australian equivalents to International Financial Reporting Standards (see below).

Adoption of Australian Equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards (AIFRS), the Company's financial report has been prepared in accordance with those Standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to this report.

After Balance Date Events

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

Future Developments, Prospects and Business Strategies

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

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the economic entity during the financial year other than those referred to in this report, the financial statements or notes thereto.

Environmental Issues

The economic entity's operations are not subjected to significant environmental regulations under the law of the Commonwealth or any State.

Remuneration Report

This report details the nature and amount of remuneration for each director of Talent2 International Limited, and for the executives receiving the highest remuneration.

(i) Remuneration policy

The remuneration policy of the Group has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component, a variable remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The Board of the Company 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 economic 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 economic entity is set out below.

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. All executives receive a base salary package (which includes a minimum 9% superannuation guarantee contribution, fringe benefits and attributable fringe benefits taxation) determined on factors such as position and experience, and performance incentives. Individuals may choose to sacrifice part of their salary to increase payments towards superannuation. The executive directors and executives do not receive any other retirement benefits. The Remuneration Committee reviews executive packages annually by reference to the economic 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 annually with each executive and is based predominantly on the performance of the economic entity and growth in shareholders' value. All bonuses and incentives are 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 option arrangements.

All remuneration paid to directors and executives is valued at the cost to the Company and expensed. Shares 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 using the binomial methodology.

The Board's policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the economic entity. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the Company and are able to participate in the employee share option plan.

(ii) Performance based remuneration

As part of each executive director's and executives' remuneration package there is a performance-based component, based on achievement of key performance indicators (KPIs). The intention of this program is to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs are set annually, with consultation with directors/executives to ensure buy-in. The measures are specifically tailored to the areas each director/executive is involved in and has a level of control over. The KPIs target areas the Board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short- and long-term goals.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on KPIs achieved. Following the assessment, the KPIs are reviewed by the Remuneration Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, the Group bases the assessment on management accounts that form the basis for audited figures.

(iii) Company performance, shareholder wealth and directors' and executives' remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the issue of options to the directors and executives to encourage the alignment of personal and shareholder interests. The Company believes this policy to have been effective in increasing shareholder wealth over the past five years.

The following table shows the gross revenue and profits for the last five years for the economic entity, as well as the share price and market capitalisation at the end of the respective financial years. Analysis of the actual figures shows an increase in profits each year as well as an increase in shareholder value. The improvement in the Company's performance over the last four years has been reflected in the Company's share price with an increase each year. The Board is of the opinion that these results can be attributed in part to the previously described remuneration policy and is satisfied that this continued improvement has lead to increased shareholder wealth over the past five years.

	2002*	2003*	2004*	2005	2006
Revenue	$17.5m	$16.7m	$32.3m	$60.3m	$99.6m
Net Profit before taxation	($9.97m)	($1.81m)	$1.24m	$4.19m	$5.16m
Share Price** at year-end	$0.15	$0.85	$1.00	$1.29	$1.30
Market capitalisation at year end	$3.7m	$37.2m	$91.5m	$133.9m	$152.7m

* Australian GAAP as reported in previous Annual Reports
** Share Prices have been adjusted after taking into account the 1:5 share consolidation in November 2004

				Share based payment			
	Cash, Salary and Commissions	Super-annuation	Cash Bonus	Options	Long Term Incentive	Total	Performance Related
	$000	$000	$000	$000	$000	$000	%
Directors							
Mary Beth Bauer	76	7	–	–	–	83	–
Andrew Banks	229	21	220	–	–	470	47%
Geoff Morgan	51	–	–	–	–	51	–
Brian Gibson	51	5	–	–	–	56	–
Albert "Bud" Hawk	23	–	–	–	–	23	–
	430	**33**	**220**	**–**	**–**	**683**	**32%**
Other Key Management Personnel							
John Rawlinson	291	26	145	48	46	556	43%
Martin Brooke	192	15	100	24	15	346	40%
Mark Brayan	263	12	50	–	16	341	19%
Paul Jury	202	18	185	30	20	455	52%
Eileen Aitken	180	12	140	15	38	385	50%
Michael Bermeister	180	12	20	–	–	212	9%
	1,308	**95**	**640**	**117**	**135**	**2,295**	**39%**

(iv) Performance income as a proportion of total remuneration

Executive directors and executives are paid performance based bonuses based on set monetary figures, rather than proportions of their salary. This has led to the proportions of remuneration related to performance varying between individuals.

(v) Options issued as part of remuneration for the year ended 30 June 2006

Options are issued to directors and executives as part of their remuneration. Pre existing Director options will vest based on performance criteria linked to the entity's annual earnings per share calculations.

	Granted	Options Granted as Part of Remuneration	Total Remuneration Represented by Options	Options Exercised	Options Lapsed	Total
	No.	**$000**	**%**	**$000**	**$000**	**$000**
Directors						
Mary Beth Bauer	–	–	–	7	(7)	–
Andrew Banks	–	–	–	7	(7)	–
Geoff Morgan	–	–	–	22	(22)	–
Brian Gibson	–	–	–	7	(7)	–
Albert "Bud" Hawk	–	–	–	–	–	–
	–	**–**	**–**	**43**	**(43)**	**–**
Other Key Management Personnel						
John Rawlinson	80,000	48	8.6%	–	–	48
Martin Brooke	40,000	24	6.9%	–	–	24
Mark Brayan	–	–	–	25	(25)	–
Paul Jury	50,000	30	6.6%	–	–	30
Eileen Aitken	25,000	15	3.9%	10	–	25
Michael Bermeister	–	–	–	16	(16)	–
	195,000	**117**	**5.1%**	**51**	**(41)**	**127**

(vi) Employment contracts of directors and senior executives

The employment conditions of the specified executives are formalised in contracts of employment. The managing director, Andrew Banks, has no formal contract of employment. Other than the managing director, all executives are permanent employees of the Group.

The employment contracts stipulate a one to three month resignation period. The Company may terminate an employment contract by providing written notice or making payment in lieu of notice, based on the individual's annual salary component together with a redundancy payment calculated in accordance with the Company's standard redundancy calculations applicable to all employees. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Any options not vested before or on the date of termination will lapse.

Meetings of Directors

During the financial year, 10 meetings of directors (including committees of directors) were held. Attendances by each director during the year were:

	COMMITTEE MEETINGS							
	DIRECTORS' MEETINGS		AUDIT AND RISK COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE*	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
Mary Beth Bauer	7	7	2	2	1	1	–	–
Andrew Banks	7	7	–	–	–	–	–	–
Geoff Morgan	7	7	–	–	1	1	–	–
Brian Gibson	7	7	2	2	–	–	–	–
Albert "Bud" Hawk	5	4	–	–	–	–	–	–

* The Nomination Committee consists of all Board Members and matters associated with the Nomination Committee have been dealt with during normal Directors' meetings.

Indemnifying Officers or Auditor

During or since the end of the financial year the Company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

> The company has paid premiums to insure all directors and officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director or officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company.

Options

At the date of this report, the unissued ordinary shares of Talent2 International Limited under option are as follows:

Parcel	Grant Date	Date of Expiry	Exercise Price	Number Under Option	Vested Units	Non-Vested Units
J	20 Sep 02	30 Jun 08	$0.225	880,000	–	880,000
K	29 Sep 03	30 Jun 08	$0.375	160,000	–	160,000
L	29 Sep 03	30 Jun 08	$0.350	150,000	–	150,000
M	1 Sep 03	12 Jun 08	$0.450	615,500	407,000	208,500
N	26 May 04	6 May 09	$1.050	150,000	75,000	75,000
O	1 Jul 04	1 Jul 09	$1.000	1,167,000	547,500	619,500
Q	5 Aug 04	5 Aug 09	$1.350	24,000	12,000	12,000
R	16 Feb 05	16 Feb 10	$1.400	130,000	32,500	97,500
S	24 Jun 05	24 Jun 10	$1.220	1,582,725	385,838	1,196,887
T	31 Jan 06	31 Jan 11	$1.080	71,000	–	71,000
U	15 Jun 06	15 Jun 11	$1.180	55,000	–	55,000
V	17 Jul 06	17 Jul 11	$1.370	1,324,000	–	1,324,000
				6,309,225	1,459,838	4,849,387

During the year ended 30 June 2006, the following ordinary shares of Talent2 International Limited were issued on the exercise of options granted under the Talent2 International Limited Employee Option Plan. No amounts are unpaid on any of the shares.

Parcel	Grant Date	Exercise Price	Number of Shares Issued
J	20 Sep 02	$0.225	220,000
K	29 Sep 03	$0.375	40,000
L	29 Sep 03	$0.350	37,500
M	1 Sep 03	$0.450	148,500
O	1 Jul 04	$1.000	34,750
P	1 Jul 04	$0.050	30,120
			510,870

The following shares have been issued after 30 June 2006.

Parcel	Grant Date	Exercise Price	Number of Shares Issued
M	1 Sep 03	$0.450	114,500
O	1 Jul 04	$1.000	71,750
S	24 Jun 05	$1.220	13,125
			199,375

Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or 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 and Risk 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 auditor's independence for the following reasons:

> all non-audit services are reviewed and approved by the Audit and Risk Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

> the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

No fees for non-audit services were paid/payable to the external auditors during the year ended 30 June 2006.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 37 and forms part of the Directors' Report.

Rounding of Amounts

The company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.

MB Bauer

Mary Beth Bauer
Director

Dated this 21st day of September 2006

Chartered Accountants
Business Advisers and Consultants

Grant Thornton

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF TALENT2 INTERNATIONAL LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Talent2 International Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

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

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

GRANT THORNTON NSW
Chartered Accountants

M A ADAM-SMITH
Partner

Sydney 21 September 2006

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Income Statement
for the year ended 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$000	$000	$000	$000
Revenue	3	99,557	60,342	7,918	1,288
Cost of Sales					
On hired labour and advertising costs	4	(25,857)	(14,481)	–	–
Distributor commissions and license fees	4	(1,897)	(2,308)	–	–
Gross profit		**71,803**	**43,553**	**7,918**	**1,288**
Employee benefits expense		(49,368)	(30,254)	(693)	(933)
Operating lease rental expense		(5,716)	(3,243)	–	–
Advertising and marketing expense		(1,474)	(987)	–	(173)
Amortisation of acquired intangible assets		(2,862)	(376)	–	–
Amortisation of software development		(863)	(713)	–	–
Depreciation of plant and equipment		(1,533)	(915)	–	–
Finance costs		(65)	(42)	–	–
Other expenses		(4,765)	(2,835)	(1,424)	(490)
Profit/(loss) before income tax	**4**	**5,157**	**4,188**	**5,801**	**(308)**
Income tax (expense)/benefit	5	(1,439)	719	(195)	1,297
Profit attributable to members of the parent entity		**3,718**	**4,907**	**5,606**	**989**
Basic earnings per share (cents per share)	8	3.29c	5.13c		
Diluted earnings per share (cents per share)	8	3.24c	4.97c		

The earnings per share comparatives above have been adjusted to reflect the 1:5 share consolidation in November 2004.
These financial statements should be read in conjunction with the accompanying notes.

Balance Sheet
as at 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$000	$000	$000	$000
Current Assets					
Cash and cash equivalents	9	14,565	9,095	287	108
Trade and other receivables	10	17,446	10,526	34,104	27,580
Other assets	11	2,128	1,590	180	161
Total Current Assets		**34,139**	**21,211**	**34,571**	**27,849**
Non-Current Assets					
Financial assets	12	–	–	40,206	23,398
Plant and equipment	13	5,000	2,649	–	–
Deferred tax assets	14	5,569	6,469	2,392	3,005
Intangible assets	15	41,879	26,681	–	–
Total Non-Current Assets		**52,448**	**35,799**	**42,598**	**26,403**
Total Assets		**86,587**	**57,010**	**77,169**	**54,252**
Current Liabilities					
Trade and other payables	16	19,920	13,364	307	154
Short-term borrowings	17	293	162	–	–
Current tax liabilities	14	367	414	–	737
Short-term provisions	18	2,240	1,509	–	–
Total Current Liabilities		**22,820**	**15,449**	**307**	**891**
Non-Current Liabilities					
Long-term borrowings	17	525	69	–	–
Deferred tax liabilities	14	–	66	–	66
Long-term provisions	18	1,132	819	–	–
Total Non-Current Liabilities		**1,657**	**954**	**–**	**66**
Total Liabilities		**24,477**	**16,403**	**307**	**957**
Net Assets		**62,110**	**40,607**	**76,862**	**53,295**
Equity					
Issued capital	19	75,434	57,514	75,434	57,514
Reserves		3,844	450	4,010	440
Accumulated losses		(17,168)	(17,357)	(2,582)	(4,659)
Total Equity		**62,110**	**40,607**	**76,862**	**53,295**

These financial statements should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

for the year ended 30 June 2006

			Reserves				
	Share Capital Ordinary	Accumu-lated Losses	Capital Profits Reserves	Equity Incentive Plans	Dividend Distribution Reserve	Foreign Exchange Movement	Total
	$000	$000	$000	$000	$000	$000	$000
Economic Entity							
Balance at 1 July 2004	**41,790**	**(22,264)**	**105**	**137**	**–**	**–**	**19,768**
Foreign Exchange movement	–	–	–	–	–	10	10
Net Profit	–	4,907	–	–	–	–	4,907
Total recognised income and expense	–	4,907	–	–	–	10	4,917
Shares and Options issued	15,724	–	–	373	–	–	16,097
Elimination of treasury shares	–	–	–	(175)	–	–	(175)
Balance at 30 June 2005	**57,514**	**(17,357)**	**105**	**335**	**–**	**10**	**40,607**
Balance at 1 July 2005	**57,514**	**(17,357)**	**105**	**335**	**–**	**10**	**40,607**
Foreign Exchange movement	–	–	–	–	–	(176)	(176)
Net Profit	–	189	–	–	3,529	–	3,718
Total recognised income and expense	–	189	–	–	3,529	(176)	3,542
Shares and Options issued	17,920	–	–	601	–	–	18,521
Elimination of treasury shares	–	–	–	(560)	–	–	(560)
Balance at 30 June 2006	**75,434**	**(17,168)**	**105**	**376**	**3,529**	**(166)**	**62,110**

Parent Entity							
Balance at 1 July 2004	**41,790**	**(5,648)**	**105**	**137**	**–**	**–**	**36,384**
Net Profit	–	989	–	–	–	–	989
Total recognised income and expense	–	989	–	–	–	–	989
Shares and Options issued	15,724	–	–	373	–	–	16,097
Elimination of treasury shares	–	–	–	(175)	–	–	(175)
Balance at 30 June 2005	**57,514**	**(4,659)**	**105**	**335**	**–**	**–**	**53,295**
Balance at 1 July 2005	**57,514**	**(4,659)**	**105**	**335**	**–**	**–**	**53,295**
Net Profit	–	2,077	–	–	3,529	–	5,606
Total recognised income and expense	–	2,077	–	–	3,529	–	5,606
Shares and Options issued	17,920	–	–	601	–	–	18,521
Elimination of treasury shares	–	–	–	(560)	–	–	(560)
Balance at 30 June 2006	**75,434**	**(2,582)**	**105**	**376**	**3,529**	**–**	**76,862**

These financial statements should be read in conjunction with the accompanying notes.

Statement of Cash Flows

for the year ended 30 June 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$000	$000	$000	$000
Cash Flows From Operating Activities					
Receipts from customers		103,594	64,620	–	1,415
Payments to suppliers and employees		(95,174)	(58,580)	(2,390)	(1,051)
Interest received		437	267	18	2
Finance costs		(65)	(42)	–	–
Income tax paid		(39)	(277)	–	–
Net cash provided by/(used in) operating activities	24(a)	**8,753**	**5,988**	**(2,372)**	**366**
Cash Flows From Investing Activities					
Purchase of plant and equipment		(2,750)	(1,269)	–	–
Payment for subsidiaries, net of cash acquired	24(b)	(635)	146	(822)	(68)
Purchase of other non-current assets		–	(6)	–	–
Net cash (used in) investing activities		**(3,385)**	**(1,129)**	**(822)**	**(68)**
Cash Flows From Financing Activities					
Proceeds from issue of shares		181	108	181	108
Payment of transaction costs relating to share issues		(79)	(47)	(79)	(47)
Loans repaid by/(advanced to) related entities		–	–	3,271	(291)
Net cash provided by/(used in) financing activities		**102**	**61**	**3,373**	**(230)**
Net increase in cash held		5,470	4,920	179	68
Cash at beginning of financial year		9,095	4,175	108	40
Cash at end of financial year	**9**	**14,565**	**9,095**	**287**	**108**

These financial statements should be read in conjunction with the accompanying notes.

1. Statement of Significant Accounting Policies

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

The financial report covers the economic entity of the Company and controlled entities, and the Company as an individual parent entity. The Company is a listed public company, incorporated and domiciled in Australia.

The financial report of Talent2 International Limited and controlled entities, and Talent2 International Limited as an individual parent entity, complies with Australian Accounting Standards, which include Australian equivalent to International Financial Reporting Standards (AIFRS), in their entirety. Compliance with AIFRS ensures that the financial report also complies with International Financial Reporting Standards (IFRS) in their entirety.

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

Basis of Preparation

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

The Company and controlled entities, and the Company as an individual parent entity have prepared financial statements in accordance with the Australian Equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of the Company to be prepared in accordance with Australian equivalents to IFRS.

The accounting policies set out below have been consistently applied to all years presented.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting Policies

(a) Principles of Consolidation

A controlled entity is any entity the Company has the power to control the financial and operating policies of so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 12 to the financial statements. All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered the economic entity during the year, their operating results have been included from the date control was obtained.

(b) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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 economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The Company and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. Each entity in the group recognises its own current and deferred tax assets and liabilities except for any deferred tax assets resulting from unused tax losses and tax credits, which are immediately assumed by the parent entity. The current tax liabilities of each group entity is then subsequently assumed by the parent entity. The group formed an income tax consolidated group to apply from October 2003. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(c) Plant and Equipment

Each class of plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

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 that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including capitalised lease assets, is depreciated on a straight-line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Leasehold improvements	15% – 31%
Plant and equipment	7% – 25%
Leased plant and equipment	25%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount.

(d) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over their estimated useful lives.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses on a straight line basis over the life of the lease term.

Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(e) Financial Instruments

Recognition

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(f) Impairment of Assets

At each reporting date, the group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(g) Intangibles

Goodwill

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technically feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a straight line basis matched to the future economic benefits of the project. It is the group's practise to fully amortise software development costs in the financial period incurred which also corresponds to the useful life of the asset.

Software Intellectual Property

Acquired software intellectual property is recorded at fair value as at the effective date of the relevant acquisition and then amortised on a straight line basis over their useful life to the economic entity commencing from the time the software is held ready for use. Software intellectual property is amortised between 12.5% and 33.3% p.a.

Candidate Databases

Acquired candidate databases are recorded at fair value as at the date of the relevant acquisition and then amortised on a straight line basis over their useful life to the economic entity commencing from the time the database is held ready for use. Candidate databases are amortised at 20% p.a.

(h) Investments in Subsidiaries

Investments in subsidiaries are carried at cost in the accounts of the parent entity.

(i) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the group's presentation currency are translated as follows:

> assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;

> income and expenses are translated at average exchange rates for the period; and

> retained profits are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(j) Employee Benefits

Provision is made for the economic entity's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. 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.

Equity-settled compensation

The group operates a number of share-based compensation plans. These include both a share option arrangement and an employee share purchase scheme. The bonus element of the employee services rendered in exchange for the grant of shares and options is recognised as an expense in the income statement. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or the options granted.

Executive Long Term Incentives

In the group's financial statements, the transactions of the company sponsored employee share plan trust are treated as being executed directly by the company (as the trust acts as the company's agent). Accordingly unexpensed escrowed (unvested) shares held by the trust are recognised as treasury shares and deducted from equity.

(k) Provisions

Provisions are recognised when the group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(l) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of twelve months or less, and bank overdrafts. Bank overdrafts, if applicable, are shown within short-term borrowings in current liabilities on the balance sheet.

(m) Revenue

Licence Sales and Disposal of Assets

Revenue from licence sales and disposal of assets is recognised when the economic entity has passed control of the goods to the buyer.

Rendering of Technology Services

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. Where services relate to maintenance of software, revenue is recognised over the maintenance period. Unexpired revenue received in advance is recorded as unearned income.

Permanent Placements

Revenue is recognised once the outcome of a placement can be reliably estimated which is considered to be when the appointment is accepted by both the client and the candidate.

Contract Placements

Revenue is recognised when the services are provided.

Royalties

Royalty revenue is recognised on an accruals basis in accordance with the substance of the relevant agreement.

Interest

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividends

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

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

(n) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(o) 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 balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(p) Comparative Figures

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

(q) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report have been rounded off to the nearest $1,000.

(r) Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key estimates — Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

No impairment has been recognised in respect of goodwill for the year ended 30 June 2006. Should the projected turnover figures be materially outside of budgeted figures incorporated in value-in-use calculations, an impairment loss would be recognised up to the maximum carrying value of goodwill at 30 June 2006 amounting to $23,767,000.

2. First-time Adoption of Australian Equivalents to International Financial Reporting Standards

Economic Entity

Reconciliation of Equity at 1 July 2004

	Note	Previous GAAP at 1 July 2004	Adjustments on introduction of Australian Equivalents to IFRS	Australian Equivalents to IFRS at 1 July 2004
		$000	$000	$000
Current Assets				
Cash and cash equivalents		4,175	–	4,175
Trade and other receivables		7,577	–	7,577
Other assets		979	–	979
Total Current Assets		**12,731**	**–**	**12,731**
Non-Current Assets				
Plant and equipment		1,918	–	1,918
Deferred tax assets	2(a)	1,207	3,916	5,123
Intangible assets		11,031	–	11,031
Total Non-Current Assets		**14,156**	**3,916**	**18,072**
Total Assets		**26,887**	**3,916**	**30,803**
Current Liabilities				
Trade and other payables		8,779	–	8,779
Short-term borrowings		170	–	170
Current tax liabilities		131	–	131
Short-term provisions	2(b)	1,213	78	1,291
Total Current Liabilities		**10,293**	**78**	**10,371**
Non-Current Liabilities				
Long-term borrowings		182	–	182
Deferred tax liabilities		–	–	–
Long-term provisions		482	–	482
Total Non-Current Liabilities		**664**	**–**	**664**
Total Liabilities		**10,957**	**78**	**11,035**
Net Assets		**15,930**	**3,838**	**19,768**
Equity				
Issued capital		41,790	–	41,790
Reserves	2(c)	105	137	242
Accumulated losses	2(d)	(25,965)	3,701	(22,264)
Total Equity		**15,930**	**3,838**	**19,768**

Economic Entity

Reconciliation of Equity at 30 June 2005

	Note	Previous GAAP at 30 June 2005	Adjustments on introduction of Australian Equivalents to IFRS	Australian Equivalents to IFRS at 30 June 2005
		$000	$000	$000
Current Assets				
Cash and cash equivalents		9,095	–	9,095
Trade and other receivables		10,526	–	10,526
Other assets	2(c)	1,765	(175)	1,590
Total Current Assets		**21,386**	**(175)**	**21,211**
Non-Current Assets				
Plant and equipment		2,649	–	2,649
Deferred tax assets	2(a)	3,005	3,464	6,469
Intangible assets	2(e)	26,166	515	26,681
Total Non-Current Assets		**31,820**	**3,979**	**35,799**
Total Assets		**53,206**	**3,804**	**57,010**
Current Liabilities				
Trade and other payables		13,364	–	13,364
Short-term borrowings		162	–	162
Current tax liabilities		414	–	414
Short-term provisions	2(b)	1,379	130	1,509
Total Current Liabilities		**15,319**	**130**	**15,449**
Non-Current Liabilities				
Long-term borrowings		69	–	69
Deferred tax liabilities		66	–	66
Long-term provisions		819	–	819
Total Non-Current Liabilities		**954**	**–**	**954**
Total Liabilities		**16,273**	**130**	**16,403**
Net Assets		**36,933**	**3,674**	**40,607**
Equity				
Issued capital		57,514	–	57,514
Reserves	2(c)	115	510	450
	2(c)		(175)	
Accumulated losses	2(d)	(20,696)	3,339	(17,357)
Total Equity		**36,933**	**3,674**	**40,607**

Parent Entity

Reconciliation of Equity at 1 July 2004

	Note	Previous GAAP at 1 July 2004	Adjustments on introduction of Australian Equivalents to IFRS	Australian Equivalents to IFRS at 1 July 2004
		$000	$000	$000
Current Assets				
Cash and cash equivalents		40	–	40
Trade and other receivables	2(f)	2,301	13,000	15,301
Other assets		171	–	171
Total Current Assets		**2,512**	**13,000**	**15,512**
Non-Current Assets				
Financial assets		19,830	–	19,830
Plant and equipment		–	–	–
Deferred tax assets		1,207	–	1,207
Total Non-Current Assets		**21,037**	**–**	**21,037**
Total Assets		**23,549**	**13,000**	**36,549**
Current Liabilities				
Trade and other payables		19	–	19
Short-term borrowings		–	–	–
Current tax liabilities		146	–	146
Short-term provisions		–	–	–
Total Current Liabilities		**165**	**–**	**165**
Non-Current Liabilities				
Long-term borrowings		–	–	–
Deferred tax liabilities		–	–	–
Long-term provisions		–	–	–
Total Non-Current Liabilities		**–**	**–**	**–**
Total Liabilities		**165**	**–**	**165**
Net Assets		**23,384**	**13,000**	**36,384**
Equity				
Issued capital		41,790	–	41,790
Reserves	2(c)	105	137	242
Accumulated losses	2(d)	(18,511)	12,863	(5,648)
Total Equity		**23,384**	**13,000**	**36,384**

Parent Entity

Reconciliation of Equity at 30 June 2005

	Note	Previous GAAP at 30 June 2005	Adjustments on introduction of Australian Equivalents to IFRS	Australian Equivalents to IFRS at 30 June 2005
		$000	**$000**	**$000**
Current Assets				
Cash and cash equivalents		108	–	108
Trade and other receivables	2(f)	14,755	13,000	27,580
	2(c)		(175)	
Other assets		161	–	161
Total Current Assets		**15,024**	**12,825**	**27,849**
Non-Current Assets				
Financial assets		23,398	–	23,398
Plant and equipment		–	–	–
Deferred tax assets		3,005	–	3,005
Total Non-Current Assets		**26,403**	**–**	**26,403**
Total Assets		**41,427**	**12,825**	**54,252**
Current Liabilities				
Trade and other payables		154	–	154
Short-term borrowings		–	–	–
Current tax liabilities		737	–	737
Short-term provisions		–	–	–
Total Current Liabilities		**891**	**–**	**891**
Non-Current Liabilities				
Long-term borrowings		–	–	–
Deferred tax liabilities		66	–	66
Long-term provisions		–	–	–
Total Non-Current Liabilities		**66**	**–**	**66**
Total Liabilities		**957**	**–**	**957**
Net Assets		**40,470**	**12,825**	**53,295**
Equity				
Issued capital		57,514	–	57,514
Reserves	2(c)	105	510	440
	2(c)		(175)	
Accumulated losses	2(d)	(17,149)	12,490	(4,659)
Total Equity		**40,470**	**12,825**	**53,295**

Economic Entity

Reconciliation of Profit or Loss for 2005

	Note	Previous GAAP	Effect of transition to Australian Equivalents to IFRS	Australian Equivalents to IFRS
		$000	$000	$000
Revenues		60,342	–	60,342
Cost of sales				
On hired labour and advertising costs		(14,481)	–	(14,481)
Distributor commissions and licence fees		(2,308)	–	(2,308)
Gross Profit		**43,553**	**–**	**43,553**
Employee benefits expense	2(c)	(29,881)	(373)	(30,254)
Operating lease rental expense	2(b)	(3,191)	(52)	(3,243)
Advertising and marketing expense		(987)	–	(987)
Amortisation of acquired intangible assets	2(e)	(1,032)	986	(376)
	2(e)		(330)	
Amortisation of software development		(713)	–	(713)
Depreciation of plant and equipment		(915)	–	(915)
Borrowing costs expense		(42)	–	(42)
Other expenses from ordinary activities	2(e)	(2,820)	(15)	(2,835)
Profit from ordinary activities before income tax expense		**3,972**	**216**	**4,188**
Income tax benefit/(expense) relating to ordinary activities	2(a)	1,297	(578)	719
Profit attributable to members of the parent entity		**5,269**	**(362)**	**4,907**

Parent Entity

Reconciliation of Profit or Loss for 2005

Revenues from ordinary activities		1,288	–	1,288
Employee benefits expense	2(c)	(560)	(373)	(933)
Depreciation and amortisation expense		–	–	–
Borrowing costs expense		–	–	–
Advertising and marketing expenses		(173)	–	(173)
Impairment of property, plant and equipment		–	–	–
Other expenses from ordinary activities		(490)	–	(490)
Profit/(loss)from ordinary activities before income tax expense		**65**	**(373)**	**(308)**
Income tax benefit/(expense) relating to ordinary activities		1,297	–	1,297
Profit attributable to members of the parent entity		**1,362**	**(373)**	**989**

(a) Deferred tax assets adjustments comprise:

	Note	Economic Entity		Parent Entity	
		30 June 2005	1 July 2004	30 June 2005	1 July 2004
		$000	$000	$000	$000
Deferred tax on recognition of acquired software intellectual property		4,350	4,350	–	–
Deferred tax on recognition of acquired candidate databases		126	–	–	–
Less tax amounts expensed to income statement prior to adoption of AIFRS		(1,012)	(434)	–	–
		3,464	**3,916**	**–**	**–**

(b) Operating lease payments:

Under AASB117 Leases, the group now charges on a straight line basis all operating lease costs over the life of the lease term.					
Charge to income statement		52	–	–	–
Adjustment to accumulated losses		(130)	(78)	–	–

(c) Share based employee payments:

Under AASB2 Share Based Payments, the group now recognises as an expense all share based remuneration, including deferred shares and options, and amortises these expenses over the relevant vesting period.					
Charge to income statement		373	–	373	–
Adjustment to reserves		510	137	510	137
Under AIFRS shares held on behalf of employees that have not been vested at balance date are classified as treasury shares and offset against equity					
Impact of treasury shares to reserves		(175)	–	(175)	–

(d) Adjustments to accumulated losses comprise:

Recognition of deferred tax asset on acquired intellectual property prior to June 2004	(refer 2a)	3,338	3,916	–	–
Reversal of goodwill previously amortised	(refer 2e)	986	–	–	–
Operating lease adjustment	(refer 2b)	(130)	(78)	–	–
Expensing of employee share options	(refer 2c)	(510)	(137)	(510)	(137)
Additional amortisation of acquired identifiable intangible assets recognised on acquisitions under AIFRS	(refer 2e)	(330)	–	–	–
Write off of trademark costs previously capitalised	(refer 2e)	(15)	–	–	–
Reversal of doubtful debts provision	(refer 2f)	–	–	13,000	13,000
		3,339	**3,701**	**12,490**	**12,863**

(e) Adjustments to intangible assets comprise:

	Note	Economic Entity		Parent Entity	
		30 June 2005	1 July 2004	30 June 2005	1 July 2004
		$000	$000	$000	$000
Temporary differences arising from valuations of acquired candidate databases	(refer 2a)	(126)	–	–	–
Reversal of goodwill previously amortised	(refer 2d)	986	–	–	–
Additional amortisation of acquired identifiable intangible assets recognised on acquisitions under AIFRS	(refer 2d)	(330)	–	–	–
Reversal of trademark costs previously capitalised	(refer 2d)	(15)	–	–	–
		515	–	–	–

(f) Adjustment to receivables from wholly owned subsidiaries:

Under AASB 139 Financial Instruments: Recognition and Measurement, no impairment writedown was required against inter-company debtors at 1 July 2004 and hence the provision has been reversed.					
Reversal of doubtful debts provision		–	–	13,000	13,000

3. Revenue

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Operating activities:				
Managed Services	24,225	7,600	–	–
Recruitment Services	60,082	37,496	–	–
Technology Services	14,813	14,979	–	–
Dividends received from wholly owned subsidiaries	–	–	5,700	–
Interest received from other persons	437	267	18	2
Other revenue	–	–	2,200	1,286
Total Revenue	**99,557**	**60,342**	**7,918**	**1,288**

4. Profit from Ordinary Activities

(a) Expenses

Cost of sales:				
On hired labour and advertising costs	25,857	14,481	–	–
Distributor commissions and license fees	1,897	2,308	–	–
Total cost of sales	**27,754**	**16,789**	**–**	**–**
Finance costs:				
External interest	15	1	–	–
External finance lease changes	50	41	–	–
Total finance costs	**65**	**42**	**–**	**–**
Depreciation of non-current assets:				
Plant and equipment	1,319	785	–	–
Amortisation of non-current assets:				
Software development	863	713	–	–
Acquired software intellectual property	2,060	46	–	–
Acquired candidate databases	802	330	–	–
Leased assets	214	130	–	–
	3,939	**1,219**	**–**	**–**
Bad and doubtful debts:				
Trade receivables	42	2	–	–
Rental expense on operating leases:				
Minimum lease payments	4,591	3,191	–	–
Research costs expensed	1,088	638	–	–

5. Income Tax Expense

(a) The components of tax expense comprise:

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Current tax	(8)	–	–	–
Deferred tax (refer note 14c)	(1,431)	719	(195)	1,297
	(1,439)	**719**	**(195)**	**1,297**

(b) The prima facie tax on profit from ordinary activities before income tax, is reconciled to the income tax as follows:

Prima facie tax payable on profit from ordinary activities before income tax at 30%				
Economic entity	1,547	1,256	–	–
Parent entity	–	–	1,740	(92)
	1,547	**1,256**	**1,740**	**(92)**
Add:				
Tax effect of:				
Non-deductible depreciation and amortisation	76	133	–	–
Other non-allowable items	179	57	–	–
Share options expensed during year	165	112	165	112
	1,967	**1,558**	**1,905**	**20**
Less:				
Tax effect of:				
Dividends received from other members of the income tax consolidated group	–	–	(1,710)	–
Research and Development	(30)	(137)	–	–
Deductible amortisation of intangible assets not brought to account as an expense	(498)	(114)	–	–
Recoupment of prior year timing differences not previously brought to account	–	(787)	–	(787)
Recoupment of prior year tax losses not previously brought to account				
Utilised in current financial year	–	(1,239)	–	(530)
Income tax attributable to entity	**1,439**	**(719)**	**(195)**	**(1,297)**
The applicable weighted average effective tax rates are as follows:	27.9%	n/m	3.4%	n/m

6. Directors' and Key Management Personnel Remuneration

(a) Names and positions held of parent entity directors and other key management personnel in office at any time during the financial year are:

Parent Entity Directors	
Mary Beth Bauer	Chairman – Non Executive
Andrew Banks	Managing Director – Executive
Geoff Morgan	Director – Non Executive
Brian Gibson	Director – Non Executive
Albert "Bud" Hawk	Director – Non Executive
Other Key Management Personnel	
John Rawlinson	Chief Executive Officer
Martin Brooke	Chief Financial Officer
Mark Brayan	Chief Operating Officer
Paul Jury	National General Manager – Recruitment
Eileen Aitken	National General Manager – Technology
Michael Bermeister	Company Secretary

(b) Parent Entity Directors' Remuneration

					Share Based Payment		
	Cash, Salary & Commissions	**Super-annuation**	**Cash Bonus**	**Non-Cash Benefits**	**Options**	**Long Term Incentives**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
2006							
Mary Beth Bauer	76	7	–	–	–	–	83
Andrew Banks	229	21	220	–	–	–	470
Geoff Morgan	51	–	–	–	–	–	51
Brian Gibson	51	5	–	–	–	–	56
Albert "Bud" Hawk	23	–	–	–	–	–	23
	430	**33**	**220**	**–**	**–**	**–**	**683**
2005							
Mary Beth Bauer	70	6	–	–	–	–	76
Andrew Banks	229	21	100	–	–	–	350
Geoff Morgan	45	4	–	–	–	–	49
Brian Gibson	45	4	–	–	–	–	49
Albert "Bud" Hawk	–	–	–	–	–	–	–
	389	**35**	**100**	**–**	**–**	**–**	**524**

The service and performance criteria set to determine remuneration are included in Note 6(g).

(c) Other Key Management Personnel Remuneration

					Share Based Payment		
	Cash, Salary & Commissions	Super-annuation	Cash Bonus	Non-Cash Benefits	Options	Long Term Incentives	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2006							
John Rawlinson	291	26	145	–	48	46	556
Martin Brooke	192	15	100	–	24	15	346
Mark Brayan	263	12	50	–	–	16	341
Paul Jury	202	18	185	–	30	20	455
Eileen Aitken	180	12	140	–	15	38	385
Michael Bermeister	180	12	20	–	–	–	212
	1,308	**95**	**640**	**–**	**117**	**135**	**2,295**
2005							
John Rawlinson	250	23	105	–	34	–	412
Martin Brooke	170	13	70	–	20	–	273
Mark Brayan	261	12	40	–	68	–	381
Eileen Aitken	178	12	60	–	20	–	270
Michael Bermeister	180	12	25	4	20	–	241
	1,039	**72**	**300**	**4**	**162**	**–**	**1,577**

The service and performance criteria set to determine remuneration are included in Note 6(g).

(d) Remuneration Options

Options granted as remuneration.

	Vested No.	Granted No.	Grant Date	Value per Option at Grant Date	Exercise Price	First Exercise Date	Last Exercise Date
Parent Entity Directors							
Mary Beth Bauer	40,000	–	–	–	–	–	–
Andrew Banks	40,000	–	–	–	–	–	–
Geoff Morgan	40,000	–	–	–	–	–	–
Brian Gibson	40,000	–	–	–	–	–	–
Albert "Bud" Hawk	–	–	–	–	–	–	–
Other Key Management Personnel							
John Rawlinson	32,500	80,000	24/6/05	$0.60	$1.22	24/6/06	24/6/10
Martin Brooke	17,500	40,000	24/6/05	$0.60	$1.22	24/6/06	24/6/10
Mark Brayan	62,500	–	–	–	–	–	–
Paul Jury	20,000	50,000	24/6/05	$0.60	$1.22	24/6/06	24/6/10
Eileen Aitken	38,750	25,000	24/6/05	$0.60	$1.22	24/6/06	24/6/10
Michael Bermeister	132,500	–	–	–	–	–	–
	303,750	**195,000**					

25% of all employee options vest within one year of the grant date with another 25% vesting per year on each successive anniversary and expire within five years of the grant date.

The exercise price equals the market price at date of the grant.

The service and performance criteria set to determine remuneration are included in Note 6(g).

(e) Options and Rights Holdings

Number of options held by parent entity directors and other key management personnel (Options exercised during the year were granted as remuneration in prior periods).

	Balance 1.7.05	Granted as Remun-eration	Options Exercised	Amount Paid per Share	Net Change Other*	Balance 30.6.06	Total Vested 30.6.06	Total Exer-cisable 30.6.06	Total Unexer-cisable 30.6.06
Parent Entity Directors									
Mary Beth Bauer	240,000	–	(40,000)	$0.225	(40,000)	160,000	–	–	160,000
Andrew Banks	240,000	–	(40,000)	$0.225	(40,000)	160,000	–	–	160,000
Geoff Morgan	240,000	–	(40,000)	$0.375	(40,000)	160,000	–	–	160,000
Brian Gibson	240,000	–	(40,000)	$0.225	(40,000)	160,000	–	–	160,000
Albert "Bud" Hawk	–	–	–	–	–	–	–	–	–
Other Key Management Personnel									
John Rawlinson	50,000	80,000	–	–	–	130,000	32,500	32,500	97,500
Martin Brooke	30,000	40,000	–	–	–	70,000	17,500	17,500	52,500
Mark Brayan	325,000	–	(37,500)	$0.350	(37,500)	250,000	25,000	25,000	225,000
Paul Jury	30,000	50,000	–	–	–	80,000	20,000	20,000	60,000
Eileen Aitken	105,000	25,000	(25,000)	$0.450	–	105,000	38,750	38,750	66,250
Michael Bermeister	730,000	–	(100,000)	$0.225	(100,000)	530,000	82,500	82,500	447,500
Total	**2,230,000**	**195,000**	**(322,500)**	**–**	**(297,500)**	**1,805,000**	**216,250**	**216,250**	**1,588,750**

* The net change other reflected above includes those options that have been forfeited by holders.

(f) Shareholdings

Number of shares held directly or indirectly by parent entity directors and other key management personnel

	Balance 1.7.05	Received as LTI	Options Exercised	* Net Change Other	Balance 30.6.06
Parent Entity Directors					
Mary Beth Bauer	377,713	–	40,000	–	417,713
Andrew Banks**	38,012,969	–	40,000	(140,000)	37,912,969
Geoff Morgan**	38,146,302	–	40,000	(20,000)	38,166,302
Brian Gibson	203,915	–	40,000	–	243,915
Albert "Bud" Hawk	–	–	–	9,586,466	9,586,466
	76,740,899	**–**	**160,000**	**9,426,466**	**86,327,365**
Morgan & Banks Investments**	(37,862,969)	–	–	(50,000)	(37,912,969)
	38,877,930	**–**	**160,000**	**9,376,466**	**48,414,396**
Other Key Management Personnel					
John Rawlinson	2,091,667	85,035	–	8,000	2,184,702
Martin Brooke	240,000	28,633	–	–	268,633
Mark Brayan	40,308	27,764	37,500	–	105,572
Paul Jury	666,667	34,704	–	2,542	703,913
Eileen Aitken	1,684	34,705	25,000	(22,405)	38,984
Michael Bermeister	153,299	–	100,000	31,996	285,295
	3,193,625	**210,841**	**162,500**	**20,133**	**3,587,099**

* Net change other refers to shares purchased or sold during the financial year.
** Shares held by Morgan & Banks Investments, a company associated with both Andrew Banks and Geoff Morgan.

(g) Remuneration Practices

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the Company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including position, particular experience of the individual concerned, and overall performance of the economic entity. The contracts for service between the Company and parent entity directors and other key management personnel are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified directors and executives are paid employee benefit entitlements accrued to the date of their retirement. The Company may terminate the respective contracts without cause by providing 1–3 months written notice or making payment in lieu of notice based on the individual's annual salary component together with a standard redundancy payment calculation applicable to all Company employees. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the Company can terminate employment at any time. Any options not vested before or on the date of termination will lapse.

The group seeks to emphasise payment for results through providing various cash bonus reward schemes. Specifically, the incorporation of incentive payments based on the key performance indicators such as sales targets and operating profits. Bonuses included per Note 6(b), 6(c) and 6(d) are based on these targets. The objective of the reward schemes is to both reinforce the short and long-term goals of the Company and to provide a common interest between management and shareholders. The bonuses were granted to both parent entity directors and other key management personnel on 9 August 2006. There has been no alteration to the terms of the bonuses paid since grant date.

7. Auditors' Remuneration

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Remuneration of the auditor of the parent entity for:				
Auditing or reviewing the financial reports	123	87	5	5
Other assurance services	1	2	–	–
	124	**89**	**5**	**5**
Remuneration of overseas affiliates of the auditor for:				
Auditing or reviewing the financial report of subsidiaries	18	4	–	–
	18	**4**	**–**	**–**
Remuneration of other auditors of subsidiaries for:				
Auditing or reviewing the financial report of subsidiaries	2	–	–	–
	2	**–**	**–**	**–**

8. Earnings per Share

(a) Reconciliation of Earnings to Profit or Loss

	Economic Entity	
	2006	2005
	$000	$000
Profit	3,718	4,907
Earnings used in the calculation of basic and dilutive EPS	**3,718**	**4,907**

(b) Weighted average number of Ordinary Shares

	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	112,935,139	95,725,852
Weighted average number of options outstanding	1,927,115	3,082,991
Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	**114,862,254**	**98,808,843**

9. Cash and Cash Equivalents

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Cash at bank and in hand	11,328	9,095	287	108
Short-term bank deposits	3,237	–	–	–
	14,565	**9,095**	**287**	**108**

10. Receivables

Current				
Trade receivables	17,520	10,737	–	–
Provision for impairment of receivables	(74)	(211)	–	–
	17,446	**10,526**	**–**	**–**
Amounts receivable from:				
Wholly-owned subsidiaries	–	–	34,104	27,580
	17,446	**10,526**	**34,104**	**27,580**

11. Other Assets

Current				
Prepayments	796	572	49	21
Security deposits and other current assets	1,332	1,018	131	140
	2,128	**1,590**	**180**	**161**

12. Financial Assets

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Shares in controlled entities – at cost (refer note 12a)	–	–	40,206	23,398
	–	–	40,206	23,398

(a) Controlled Entities

	Country of Incorporation	Percentage Owned (%)	
		2006	2005
Parent Entity:			
Talent2 International Limited	Australia		
Controlled Entities:			
Talent2 Works Pty Ltd	Australia	100%	100%
Talent2 Holdings Limited	Hong Kong	100%	100%
Talent 2 Works Limited (Hong Kong)	Hong Kong	100%	100%
TWO Talent2 Malaysia Sdn Bhd	Malaysia	100%	100%
Talent2 Pty Ltd	Australia	100%	100%
Margot Davis & Company Pty Ltd	Australia	100%	100%
T2 Pty Ltd	Australia	100%	100%
Talent2 Limited (Hong Kong)	Hong Kong	100%	100%
Wall Street Associates Limited	Hong Kong	100%	100%
Wall Street Associates Outsourcing Ltd	Hong Kong	100%	100%
Talent Partners Pty Ltd	Australia	100%	100%
T2 Consult Pty Ltd	Australia	100%	100%
Talent2 HK Limited	Hong Kong	100%	100%
Talent-Pro Limited	Hong Kong	100%	–
Paper Shuffle Pty Limited	Australia	100%	100%
Hansen & Searson Management Services Pty Ltd	Australia	100%	100%
Talent2 Singapore Pte Ltd	Singapore	90%	–
Talent 2 NZ Limited	New Zealand	100%	–
Stonyer & Associates	New Zealand	100%	–
NPS International Pty Ltd	Australia	100%	–
NPS Holdings Pty Ltd	Australia	100%	–
National Payroll Systems Pty Ltd	Australia	100%	–
Inter City Computer Services Pty Ltd	Australia	100%	–
Business Micros Queensland Pty Ltd	Australia	100%	–

13. Plant and Equipment

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Plant and Equipment:				
At cost	7,423	3,429	–	–
Accumulated depreciation	(4,947)	(2,003)	–	–
	2,476	**1,426**	**–**	**–**
Leasehold improvements:				
At cost	2,337	1,301	–	–
Accumulated amortisation	(733)	(351)	–	–
	1,604	**950**	**–**	**–**
Leased plant and equipment:				
Capitalised leased assets	1,412	553	–	–
Accumulated depreciation	(492)	(280)	–	–
	920	**273**	**–**	**–**
Total plant and equipment	**5,000**	**2,649**	**–**	**–**

Movements in Carrying Amounts

Movement in the carrying amounts for each class of plant and equipment between the beginning and the end of the current financial year.

	Leasehold Improve-ments	Plant and Equipment	Leased Plant and Equipment	Total
	2006	2006	2006	2006
	$000	$000	$000	$000
Economic Entity:				
Balance at beginning of year	950	1,426	273	2,649
Additions	1,388	1,362	861	3,611
Disposals	(251)	(70)	–	(321)
Additions through acquisition of entities	–	605	–	605
Depreciation expense charged against operating profit	(479)	(840)	(214)	(1,533)
Depreciation expense charged against restructuring provision	(4)	(7)	–	(11)
Carrying amount at end of year	**1,604**	**2,476**	**920**	**5,000**

14. Taxation

(a) Assets

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Non-Current				
Deferred tax assets comprise:				
Software intellectual property not previously brought to account	–	3,338	–	–
Future income tax benefits attributable to tax losses	2,392	1,772	2,392	1,772
Temporary differences	3,177	1,359	–	1,233
	5,569	**6,469**	**2,392**	**3,005**

(b) Liabilities

Current				
Income Tax	367	414	–	737
Non-Current				
Deferred tax liabilities comprise:				
Provisions	–	66	–	66
	–	**66**	**–**	**66**

(c) Reconciliations

Gross Movements

The overall movement in the deferred tax account is as follows:

Opening balance	6,403	5,123	2,939	1,207
(Charge)/credit to income statement	(1,431)	719	(195)	1,297
Acquisitions through Business Combinations	594	126	365	–
Other	3	435	(717)	435
Closing balance	**5,569**	**6,403**	**2,392**	**2,939**
Represented as:				
Deferred tax assets	5,569	6,469	2,392	3,005
Deferred tax liabilities	–	(66)	–	(66)
	5,569	**6,403**	**2,392**	**2,939**

15. Intangible Assets

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Goodwill				
Cost	23,767	20,344	–	–
Accumulated impairment losses	–	–	–	–
Net carrying value	**23,767**	**20,344**		
Acquired software intellectual property				
Cost	17,304	2,720	–	–
Accumulated amortisation and impairment	(2,105)	(45)	–	–
Net carrying value	**15,199**	**2,675**	**–**	**–**
Acquired candidate databases				
Cost	4,027	3,974	–	–
Accumulated amortisation and impairment	(1,131)	(329)	–	–
Net carrying value	**2,896**	**3,645**	**–**	**–**
Other – at cost	17	17	–	–
Total intangibles	**41,879**	**26,681**	**–**	**–**

	Goodwill	Software Intellectual Property	Candidate Databases	Other
	$000	$000	$000	$000
Economic Entity:				
Year ended 30 June 2005				
Balance at the beginning of year	11,005	–	–	17
Acquisitions through business combinations	9,339	2,720	3,974	–
Amortisation charge	–	(45)	(329)	–
Closing carrying value at 30 June 2005	**20,344**	**2,675**	**3,645**	**17**
Year ended 30 June 2006				
Balance at the beginning of year	20,344	2,675	3,645	17
Acquisitions through business combinations	3,423	14,584	53	–
Amortisation charge	–	(2,060)	(802)	–
Closing carrying value at 30 June 2006	**23,767**	**15,199**	**2,896**	**17**

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges in respect of intangible assets are included under depreciation and amortisation expense in the income statement. Goodwill has an infinite life.

Impairment Disclosures

Goodwill is allocated to cash-generating units which are based on the group's reporting segments as follows:

	Economic Entity	
	2006	2005
	$000	$000
Managed Services	2,335	–
Recruitment Services	15,629	14,578
Technology Services	5,803	5,766
Total	**23,767**	**20,344**

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5 year period with the period extending beyond one year extrapolated using an estimated growth rate. The cash flows are discounted using the yield of 5 year government bonds at the beginning of the budget period.

The following assumptions were used in the value-in-use calculations in respect of each segment:

	Growth Rate	Discount Rate
Managed Services	3% – 20%	12% – 14%
Recruitment Services	5% – 20%	12% – 14%
Technology Services	3%	12% – 14%

Management has based the value-in-use calculations on estimates for each reporting segment. Medium to long term estimates use weighted average growth rates to project revenue. Costs are calculated taking into account historical gross margins as well as estimated inflation rates over the period which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with a particular segment.

16. Payables

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Current				
Trade payables	15,677	9,293	307	154
Unearned Income	4,243	4,071	–	–
	19,920	**13,364**	**307**	**154**

17. Borrowings

Current				
Finance lease liabilities secured by the assets leased	293	162	–	–
Non-Current				
Finance lease liabilities secured by the assets leased	525	69	–	–

The parent entity has an unused loan facility of $1,000,000 with Westpac Banking Corporation. The loan is secured by a registered first mortgage over the economic entity.

18. Provisions

Economic Entity

	Employee Entitlements	Restructuring Costs	Operating Lease Costs	Other	Total
	$000	$000	$000	$000	$000
Opening balance at 1 July 2005	2,094	26	130	78	2,328
Additional provisions	1,014	18	52	44	1,128
Amounts used	–	(44)	–	(40)	(84)
Balance at 30 June 2006	**3,108**	**–**	**182**	**82**	**3,372**

Analysis of Total Provisions

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
Current	2,240	1,509	–	–
Non-Current	1,132	819	–	–
	3,372	**2,328**	**–**	**–**

Provision for Employee Entitlements

A provision has been recognised for employee entitlements relating to annual and long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

19. Issued Capital

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
117,442,466 (2005: 103,806,741) fully paid ordinary shares	75,434	57,514	75,434	57,514
	75,434	**57,514**	**75,434**	**57,514**

(a) Ordinary Shares

	No.	No.	No.	No.
At the beginning of reporting period	103,806,741	457,574,866	103,806,741	457,574,866
Adjustment to reflect the 1:5 share consolidation in November 2004	–	(366,060,290)	–	(366,060,290)
	103,806,741	**91,514,576**	**103,806,741**	**91,514,576**
Shares issued during the year:				
16 August 2004	–	3,294,544	–	3,294,544
7 March 2005	–	2,760,886	–	2,760,886
10 June 2005	–	6,037,735		6,037,735
26 October 2005	12,593,985	–	12,593,985	–
15 November 2005	385,027	–	385,027	–
30 June 2006	145,843	–	145,843	–
Share options exercised during year	510,870	199,000	510,870	199,000
At reporting date	**117,442,466**	**103,806,741**	**117,442,466**	**103,806,741**

(b) Options

(i) For information relating to the Company employee option plan, including details of options issued, exercised and lapsed during the financial year and the options outstanding at year-end, refer to Note 25.

(ii) For information relating to share options issued to executive directors during the financial year, refer to Note 25.

20. Reserves

The Statement of Changes in Equity includes the following reserves:

(a) Capital Profits Reserve

The capital profits reserve records non-taxable profits on sale of investments.

(b) Equity Incentive Plans

The equity incentive plans reserve records items recognised as expenses on valuation of employee share options and the elimination of employee long term incentive shares not yet vested.

(c) Dividend Distribution Reserve

The dividend distribution reserve records funds set aside from current year earnings for distribution by way of future period dividends by the parent entity.

(d) Foreign Exchange Movement Reserve

The foreign exchange movement reserve records exchange differences arising on translation of a foreign controlled subsidiary.

21. Capital and Leasing Commitments

(a) Finance Lease Commitments

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Payable – minimum lease payments				
not later than 1 year	354	192	–	–
between 2 years and 5 years	569	69	–	–
greater than 5 years	–	–	–	–
Minimum lease payments	**923**	**261**	**–**	**–**
Less future finance charges	(105)	(30)	–	–
Present value of minimum leave payments	**818**	**231**	**–**	**–**

(b) Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable – minimum lease payments				
not later than 1 year	5,376	3,004	–	–
between 2 years and 5 years	7,945	3,022	–	–
greater than 5 years	16	3,880	–	–
	13,337	**9,906**	**–**	**–**

22. Contingent Liabilities

The directors believe there are no Contingent Liabilities at the reporting date.

23. Segment Reporting

Primary Reporting — Business Segments

	Managed Services		Recruitment Services		Technology Services		Unallocated Interest		Eliminations		Economic Entity	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Sales Revenue												
External sales	24,225	7,600	60,082	37,496	14,813	14,979	437	267	–	–	99,557	60,342
Other segments	74	55	398	182	539	82	–	–	(1,011)	(319)	–	–
	24,299	**7,655**	**60,480**	**37,678**	**15,352**	**15,061**	**437**	**267**	**(1,011)**	**(319)**	**99,557**	**60,342**
Cost Of Sales												
External Sales	(8,282)	(2,506)	(18,086)	(12,168)	(1,386)	(2,115)	–	–	–	–	(27,754)	(16,789)
Other Segments	(15)	–	(163)	(21)	(497)	–	–	–	675	21	–	–
Gross Profit	**16,002**	**5,149**	**42,231**	**25,489**	**13,469**	**12,946**	**437**	**267**	**(336)**	**(298)**	**71,803**	**43,553**
EBITDA	**115**	**(420)**	**7,673**	**3,343**	**2,254**	**3,044**	**–**	**–**	**–**	**–**	**10,042**	**5,967**
Depreciation and amortisation	(2,627)	(174)	(1,524)	(423)	(1,107)	(1,407)	–	–	–	–	(5,258)	(2,004)
EBIT	**(2,512)**	**(594)**	**6,149**	**2,920**	**1,147**	**1,637**	**–**	**–**	**–**	**–**	**4,784**	**3,963**
Net Interest											373	225
Profit before income tax											**5,157**	**4,188**
Income tax (expense) benefit											(1,439)	719
Profit after income tax											**3,718**	**4,907**
Assets												
Segment assets	24,937	6,629	46,130	38,035	15,520	12,346	–	–	–	–	86,587	57,010
Liabilities												
Segment liabilities	4,002	1,280	12,148	7,845	8,327	7,278	–	–	–	–	24,477	16,403
Other												
Acquisitions of non-current segment assets	1,141	44	1,500	956	970	332	–	–	–	–	3,611	1,332

Secondary Reporting – Geographical Segments

	Segment Revenues from External Customers		Carrying Amount of Segment Assets		Acquisitions of Non-Current Segment Assets	
	2006	2005	2006	2005	2006	2005
	$000	$000	$000	$000	$000	$000
Geographical location:						
Australia and New Zealand	91,789	59,500	82,553	55,114	3,248	1,298
Asia	7,768	842	4,034	1,896	363	34
	99,557	**60,342**	**86,587**	**57,010**	**3,611**	**1,332**

Accounting Policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, intangibles and plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of payables, employee benefits, accrued expenses, provisions and borrowings.

Intersegment Transfers

Segment revenues, expenses and results include transfers between segments. The prices charged on intersegment transactions are the same as those charged for similar goods to parties outside of the economic entity at discounted arm's length. These transfers are eliminated on consolidation.

Business and Geographical Segments

Business segments

The economic entity has the following three business segments:

> Managed Services division provides recurring Human Resource Outsourcing services (HRO) including talent acquisition management services, payroll and human resource administration services, elearning and training management services, plus software Application Service Provider (ASP) services.

> Recruitment Services division includes executive recruitment, executive search and specialised human resource consulting services.

> Technology Services division includes the licence sale, support and implementation services for human resource and payroll software.

Geographical segments

The economic entity's business segments are located in many countries within Asia Pacific.
The most significant country of operation is within Australia.

24. Cash Flow Information

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

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Profit from ordinary activities after income tax	3,718	4,907	5,606	989
Non-cash flows in profit from ordinary activities:				
Share options expensed	551	373	551	373
Amortisation of acquired software intellectual property and candidate databases	2,862	376	–	–
Depreciation of plant and equipment	1,533	915	–	–
Net gain on disposal of plant and equipment and trademarks	48	15	–	–
Deferred tax asset utilised (brought to account)	1,431	(1,220)	–	(1,798)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:				
Decrease/(increase) in trade and term receivables	(5,733)	(1,848)	(8,473)	–
Decrease/(increase) in prepayments	(538)	(866)	(19)	10
Increase/(decrease) in trade payables and accruals	4,390	1,924	153	135
Increase/(decrease) in income taxes payable	(47)	157	(737)	591
Increase/(decrease) in unearned income	172	582	–	–
Increase/(decrease) in deferred taxes payable	–	497	547	66
Increase/(decrease) in provisions	366	176	–	–
Cash flow from operations	**8,753**	**5,988**	**(2,372)**	**366**

(b) Acquisition of Entities

During the year the parent entity acquired 100% of the NPS group including its distributor Access Payroll Services. The purchase was satisfied by a cash payment of $565,000 plus the issue of 12,593,985 ordinary shares at an effective price of $1.36 each, being the opening share price of the security on the effective date of the acquisition (1 August 2005). The purchase consideration includes $257,000 in transaction costs.

	Economic Entity	Parent Entity
	2006	2006
	$'000	$'000
The purchased price was allocated as follows:		
Purchase Consideration	**17,950**	**17,950**
Assets and liabilities acquired at acquisition date:		
Cash	376	–
Receivables	1,084	–
Plant & equipment	551	–
Deferred tax assets	589	–
Payables	(1,569)	–
	1,031	**–**
Value attributable to identifiable intangible assets	14,584	–
Goodwill on consolidation	2,335	–
Total Purchase Consideration	**17,950**	**–**

The assets and liabilities arising from the acquisition are recognised at fair value which is equal to its carrying value at acquisition date. Profit after taxation relating to the NPS group (excluding amortisation of acquired intangible assets of $1,170,000 after taxation) amounting to $691,000 is included in the consolidated income statement.

During the year a subsidiary of the parent entity acquired 100% of Stonyer & Associates. The purchase was satisfied by a cash payment of $340,000 plus the issue of 530,870 ordinary shares at an effective price of $1.30 each being the opening share price of the security on the effective date of the acquisition (1 November 2005). The purchase consideration includes $43,000 in transaction costs.

	Economic Entity	Parent Entity
	2006	2006
	$'000	$'000
The purchased price was allocated as follows:		
Purchase Consideration	**1,073**	**–**
Assets and liabilities acquired at acquisition date:		
Cash	267	–
Receivables	103	–
Plant & equipment	55	–
Deferred tax assets	5	–
Payables	(425)	–
	5	**–**
Value attributable to identifiable intangible assets	53	–
Goodwill on consolidation	1,015	–
Total Purchase Consideration	**1,073**	**–**

The assets and liabilities arising from the acquisition are recognised at fair value which is equal to its carrying value at acquisition date. Profit after taxation relating to Stonyer & Associates (excluding amortisation of acquired intangible assets of $2,000 after taxation) amounting to a loss of $36,000 is included in the consolidated income statement.

Had the results relating to the NPS group and Stonyer & Associates been consolidated from 1 July 2005, total consolidated revenue would have been $101,107,000 and total consolidated profit after taxation $3,915,000 for the year ended 30 June 2006.

The group incurred additional transaction costs during the year that relates to the prior acquisitions of Margot Davis & Co, Southrock and Wall Street Associates. These costs have had the effect of increasing Goodwill on acquisition by an additional $73,000.

25. Share-based Payments

(a) Non quoted options

	Balance 01/07/05	Issued	Exercised	Expiry/ Cancel-lations	Balance 30/06/06	Vested	Non Vested	Exercise Price	Expiry
Parcel J (Director Conditional Option Plan)	520,000 520,000 520,000	– – –	220,000 – –	300,000 80,000 80,000	– 440,000 440,000	– – –	– 440,000 440,000	22.5c 22.5c 22.5c	30/06/06 30/06/07 30/06/08
Parcel K (Director Conditional Option Plan)	80,000 80,000 80,000	– – –	40,000 – –	40,000 – –	– 80,000 80,000	– – –	– 80,000 80,000	37.5c 37.5c 37.5c	30/06/06 30/06/07 30/06/08
Parcel L (Director Conditional Option Plan)	75,000 75,000 75,000	– – –	37,500 – –	37,500 – –	– 75,000 75,000	– – –	– 75,000 75,000	35.0c 35.0c 35.0c	30/06/06 30/06/07 30/06/08
Parcel M (Employee Share Option Plan)	913,500	–	148,500	55,000	710,000	501,500	208,500	45.0c	12/06/08
Parcel N (Employee Share Option Plan)	150,000	–	–	–	150,000	75,000	75,000	105.0c	06/05/09
Parcel O (Employee Share Option Plan)	1,432,000	–	34,750	162,250	1,235,000	305,750	929,250	100.0c	01/07/09
Parcel P	30,120	–	30,120	–	–	–	–	5.0c	01/07/09
Parcel Q (Employee Share Option Plan)	24,000	–	–	–	24,000	6,000	18,000	135.0c	05/08/09
Parcel R (Employee Share Option Plan)	244,000	–	–	114,000	130,000	32,500	97,500	140.0c	16/02/10
Parcel S (Employee Share Option Plan)	–	1,670,825	–	74,975	1,595,850	398,963	1,196,887	122.0c	24/06/10
Parcel T (Employee Share Option Plan)	–	81,000	–	10,000	71,000	–	71,000	108.0c	31/01/11
Total	**4,818,620**	**1,751,825**	**510,870**	**953,725**	**5,105,850**	**1,319,713**	**3,786,137**		
Percentage of ordinary shares at the end of the Financial Year					4.34%	1.12%	3.22%		

	Economic Entity			
	2006		2005	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	4,818,620	0.601	4,288,000	0.389
Granted	1,751,825	1.214	1,851,120	1.042
Forfeited	(953,725)	0.609	(1,141,500)	0.620
Exercised	(510,870)	0.354	(179,000)	0.491
Outstanding at year end	**5,105,850**	**0.834**	**4,818,620**	**0.601**
Exercisable at year end	**1,319,713**	**0.872**	**458,060**	**0.486**

	Parent Entity			
	2006		2005	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	4,818,620	0.601	4,288,000	0.389
Granted	1,751,825	1.214	1,851,120	1.042
Forfeited	(953,725)	0.609	(1,141,500)	0.620
Exercised	(510,870)	0.354	(179,000)	0.491
Outstanding at year end	**5,105,850**	**0.834**	**4,818,620**	**0.601**
Exercisable at year end	**1,319,713**	**0.872**	**458,060**	**0.486**

The weighted average fair value of the options granted during the year was $0.592 per option. This price was calculated by using a binomial option pricing model applying the following inputs:

Weighted average exercise price	$1.214
Weighted average life of the option	4.6 years
Weighted underlying share price	$1.214
Weighted expected share price volatility	46.5%
Weighted risk free interest rate	5.10%

Historical volatility has been the basis for determining expected share price volatility as it assumed that this is indicative of future tender, which may not eventuate.

The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Included under employee benefits expense in the income statement relating to employee share options is $551,000 (2005: $373,000) and relates, in full, to the value of employee share option payments at their grant date.

26. Events After the Balance Sheet Date

Subsequent to the year end, the economic entity declared and paid a special dividend in relation to the year ended 30 June 2006 of 3 cents per ordinary share on 1 August 2006. This special dividend amounted to $3,529,000 and was franked to 46%. It has not been accrued in these financial statements.

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

The financial report was authorised for issue on 21 September 2006 by the Board of Directors.

27. Related Party Transactions

(a) Equity Interests in related parties

Equity Interests in Controlled Entities

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 12 to the financial statements.

(b) Key Management Personnel Remuneration and Retirement Benefits

Details of Directors' and other Key Management Personnel remuneration are disclosed in note 6 to the financial statements

(c) Key Management Personnel Equity Holdings

Details of Directors' and other Key Management Personnel Equity Holding are disclosed in note 6 to the financial statements.

(d) Other Transactions with Key Management Personnel

The operating profit before income tax includes the following items of revenue and expense that resulted from transactions with directors or their director-related entities:

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$000	$000	$000	$000
Revenue:				
Recruitment Services	32	5	–	–
Other Revenue	57	34	2,200	1,286
Expense:				
Professional services	45	176	–	–

During the financial year, Talent2 Pty Ltd provided recruitment services to Linkme (an entity associated with Geoff Morgan) totaling $32,000 (2005: nil). During the financial year, Talent2 Pty Ltd provided recruitment services to Value Enhancement Management Pty Ltd (an entity associated with Mary Beth Bauer, Andrew Banks and Geoff Morgan) totaling $nil (2005: $5,000) and office accommodation services totaling $57,000 (2005: $34,000). All these services were provided on negotiated commercial terms.

During the financial year, Linkme (an entity associated with Geoff Morgan) provided professional services to entities within the group totaling $4,000 (2005: $nil). During the financial year, Value Enhancements Management Pty Ltd (an entity associated with Mary Beth Bauer, Andrew Banks and Geoff Morgan) provided professional services to entities within the group totaling $41,000 (2005: $176,000). All these services were provided on negotiated commercial terms.

(e) Transactions within the Wholly-Owned Group

The wholly-owned group includes:

> The ultimate parent entity in the wholly-owned group;

> Wholly-owned controlled entities; and

> Other entities in the wholly-owned group.

The ultimate parent entity in the wholly-owned group is Talent2 International Limited.
No interest expense, provisions for doubtful receivables and write-downs of receivables in respect of transactions with entities in the wholly-owned group was incurred.

Amounts receivable from entities in the wholly-owned group are disclosed in note 10.

During the financial year Talent2 International Limited received dividends of $5,700,000 (2005: $nil) from entities in the wholly-owned group.

During the financial year Talent2 International Limited provided accounting and administration services to entities in the wholly-owned group and charged $1,100,000 (2005: $643,000) to Talent2 Works Pty Ltd and $1,100,000 (2005: $643,000) to Talent2 Pty Limited for such services.

During the financial year, Talent2 Pty Limited provided recruitment services to Talent2 Works Pty Limited, and Talent2 Works Pty Limited provided technology services to Talent2 Pty Limited. In addition various administrative functions are shared between entities within the wholly-owned group. All such transactions occur within the Australian operations and are undertaken on an at cost basis.

Other transactions that occurred during the financial year between entities in the wholly-owned group were the advancement of interest free loans.

28. Financial Instruments

(a) Financial Risk Management

The group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills, and leases.

Financial Risks
The main risks the group is exposed to through its financial instruments are foreign currency risk, liquidity risk and credit risk.

Foreign currency risk
The group is exposed to fluctuations in foreign currencies arising from the sale and purchase of goods and services in currencies other than the group's measurement currency.

Liquidity risk
The group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities are maintained.

Credit risk
The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

(b) Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Economic Entity											
					Fixed Interest Rate Maturing							
	Weighed Average Effective Interest Rate		Floating Interest Rate		Within 1 Year		1–5 Years		Non-Interest Bearing		Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	%	%	$000	$000	$000	$000	$000	$000	$000	$000	$000	$000
Financial Assets:												
Cash	3.9	5.3	14,565	9,095	–	–	–	–	–	–	14,565	9,095
Receivables	–	–	–	–	–	–	–	–	17,446	10,526	17,446	10,526
Total Financial Assets			14,565	9,095					17,446	10,526	32,011	19,621
Financial Liabilities:												
Trade and sundry payables	–	–	–	–	–	–	–	–	19,920	13,364	19,920	13,364
Lease liabilities	11.0	15.2	–	–	293	162	525	69	–	–	818	231
Total Financial Liabilities			–	–	293	162	525	69	19,920	13,364	20,738	13,595
Total Financial Assets. (Liabilities)			14,565	9,095	(293)	(162)	(525)	(69)	(2,474)	(2,838)	11,273	6,026

29. Impact of New Accounting Standards

The following Australian Accounting Standards have been issued or amended and are applicable to the parent and economic entity but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date.

AASB Amend-ment	AASB Standard Affected	Nature of Change in Accounting Policy and Impact	Application Date of the Standard	Application Date for the Group
2004–3	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 Jan 06	1 Jul 06
	AASB 101: Presentation of Financial Statements	No change, no impact	1 Jan 06	1 Jul 06
	AASB 124: Related Party Disclosures	No change, no impact	1 Jan 06	1 Jul 06
2005–1	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 Jan 06	1 Jul 06
2005–5	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 Jan 06	1 Jul 06
	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 Jan 06	1 Jul 06
2005–6	AASB 3: Business Combinations	No change, no impact	1 Jan 06	1 Jul 06
2005–9	AASB 132: Financial Instruments: Recognition and Measurement	Relates to financial guarantee contracts which may require Talent2 International Limited to recognise a liability in relation to guarantees relating to banking facilities, approved deeds and property lease rentals.	1 Jan 06	1 Jul 06
	AASB 139: Financial Instruments: Disclosure and Presentation	Talent2 International Limited is in the process of evaluating the effect of these changes of which the impact is not reasonably estimable at the date of this financial report.	1 Jan 06	1 Jul 06
2005–10	AASB 139: Financial Instruments: Recognition and Measurement	No change, no impact	1 Jan 07	1 Jul 07
	AASB 101: Presentation of Financial Statements	No change, no impact	1 Jan 07	1 Jul 07
	AASB 114: Segment Reporting	No change, no impact	1 Jan 07	1 Jul 07
	AASB 117: Leases	No change, no impact	1 Jan 07	1 Jul 07
	AASB 133: Earnings per share	No change, no impact	1 Jan 07	1 Jul 07
	AASB 132: Financial Instruments: Disclosure and Presentation	No change, no impact	1 Jan 07	1 Jul 07
	AASB 1: First-time Adoption of AIFRS	No change, no impact	1 Jan 07	1 Jul 07
	AASB 4: Insurance Contracts	No change, no impact	1 Jan 07	1 Jul 07
	AASB 1023: General Insurance Contracts	No change, no impact	1 Jan 07	1 Jul 07
	AASB 1038: Life Insurance Contracts	No change, no impact	1 Jan 07	1 Jul 07
2006–1	AASB 121: The effects of changes in Foreign Exchange Rates	No change, no impact	1 Jan 06	1 Jul 06
New Standard	AASB 7: Financial Instruments: Disclosure	No change, no impact	1 Jan 07	1 Jul 07
New Standard	AASB 119: Employee Benefits: December 2004	No change, no impact	1 Jan 06	1 Jul 06

All other pending Standards issued between the previous financial report and the current reporting dates have no application to either the parent or economic entity.

AASB Amendment	AASB Standard Affected
2005–2	AASB 1023: General Insurance Contracts
2005–4	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation
2005–9	AASB 4: Insurance Contracts
	AASB 1023: General Insurance Contracts
	AASB 139: Financial Instruments: Recognition and Measurement
	AASB 132: Financial Instruments: Disclosure and Presentation

30. Company Details

The registered office of the Company is:

Talent2 International Limited
Level 4, 77 Pacific Highway, North Sydney, NSW,
Australia

Directors' Declaration

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 38 to 78, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the Company and economic entity;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
   (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view.
3. 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 is made in accordance with a resolution of the Board of Directors.

MB Bauer

Mary Beth Bauer
Director

Dated this 21st day of September 2006

Chartered Accountants
Business Advisers and Consultants

Grant Thornton

INDEPENDENT AUDIT REPORT
TO MEMBERS OF TALENT2 INTERNATIONAL LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Talent2 International Limited (the company) and the company and its controlled entities (the consolidated entity), for the year ended 30 June 2006. 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 and Assurance Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, 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, 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.

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Grant Thornton

INDEPENDENT AUDIT REPORT
TO MEMBERS OF TALENT2 INTERNATIONAL LIMITED (cont)

Independence

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

Audit opinion

In our opinion, the financial report of Talent2 International 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 2006, and of their performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Act 2001; and

(b) other mandatory financial reporting requirements in Australia.

Grant Thornton NSW

GRANT THORNTON NSW
Chartered Accountants

M A ADAM-SMITH
Partner

Sydney 21 September 2006

Number of Holders of Equity Securities

Ordinary Share Capital

117,641,841 (2005: 103,910,991) fully paid ordinary shares are held by 2,719 (2005: 2,572) shareholders. No shares are subject to escrow provisions imposed by the Australian Stock Exchange.

All issued ordinary shares carry one vote per share.

Options

6,309,225 (2005: 4,176,870) options are held by 320 (2005: 203) option holders.

Distribution of Holders of Equity Securities

	Fully Paid Ordinary Shares	Number of Shareholders
1–1,000	343,826	527
1,001–5,000	3,110,614	1,073
5,001–10,000	3,534,312	447
10,001–100,000	15,949,446	591
100,001 and over	94,703,643	81
	117,641,841	**2,719**
Holdings less than a marketable parcel (less than 313 fully paid ordinary shares)	8,912	52

Substantial Shareholders

	Fully Paid Ordinary Shares	
Ordinary Shareholders	**Number**	**Percentage**
Morgan and Banks Investments Pty Limited	36,421,637	30.96%
InterPro Global Pte Limited	9,586,466	8.15%
Portfolio Partners Limited	5,105,861	4.34%
	51,113,964	**43.45%**

Top 20 Shareholders

	Name	Number	Percentage
1.	Morgan and Banks Investments Pty Limited	36,421,637	30.96%
2.	InterPro Global Pte Limited	9,586,466	8.15%
3.	Portfolio Partners Limited	5,105,861	4.34%
4.	ANZ Nominees Limited	2,698,769	2.29%
5.	Queensland Investment Corporation	2,687,076	2.28%
6.	Birdsall Pty Limited	2,396,000	2.04%
7.	UBS Nominees Pty Ltd	2,390,680	2.03%
8.	Redwick Pty Limited	2,210,327	1.88%
9.	Gregory Maxwell Mcmanus	2,159,011	1.84%
10.	Colleen Margot Davis	2,124,000	1.81%
11.	Marshall Investments Pty Ltd	2,033,334	1.73%
12.	Nicholas James Tuckfield	1,920,083	1.63%
13.	CPU Share Plans Pty Limited	1,820,064	1.55%
14.	Equity Trustees Limited	1,549,580	1.32%
15.	Rossarden Pty Limited	1,308,454	1.11%
16.	A & B Venture Company Fund Pty Ltd	1,297,902	1.10%
17.	Argo Investments Limited	1,126,374	0.96%
18.	HSBC Custody Nominees (Australia) Limited	886,677	0.75%
19.	Equity Trustees Limited	844,709	0.72%
20.	Australian Executor Trustees Limited	736,870	0.63%
		81,303,874	**69.12%**

Corporate Directory

Company Secretary

Michael Bermeister

Principal Registered Office

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Principal Administration Office

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Auditors

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Stock Exchange Listings

Talent2 International Limited ordinary shares are quoted by the Australian Stock Exchange (symbol "TWO")

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[and Talent2 is leading the charge]

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