Talent2 International Limited

ACN 000 737 744

Preliminary Final Report

For the Year ended June 2005

Results for Announcement to the Market

Revenue and Net Profit				
Revenues from ordinary activities	up	87.7 %	to	$60,342,000
Profit from ordinary activities after tax attributable to members	up	129.1%	to	$5,269,000
Net profit for the period attributable to members	up	129.1%	to	$5,269,000

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend Interim dividend	Nil	N/A
Previous corresponding period	Nil	N/A
Record date for determining entitlements to the dividend, (in the case of a trust, distribution)	N/A	

Commentary:

This was the first full year for Talent2 in its current form, an end to end provider of human resource and managed service solutions. Once again the group produced record performances with revenues of $60.34m, a 87.7% increase from the previous year’s $32.15m, and record after tax profits of $5.27m, a 129.1% increase from the previous year’s $2.30m. The group's cash assets of $9.10m were significantly up on the previous year's $4.18m. Other highlights include net assets now $36.93m from $15.93m in June 2004, and net tangible assets now $10.77m from $4.90m in June 2004. The company has no significant debt other than trade payables and provisions.

The 2005 profit includes a one-off tax credit of $1.81m (2004: $1.54m) on recognition of the remainder of the future income tax benefit of tax losses not previously brought to account. Excluding this once off item, the profit after tax was $3.46m compared to $0.76m last year.

These results reflect continued strong performances from all core areas of the group. The technology division recorded revenue of $19.63m (2004: $20.52m) producing an allocated EBITDA profit of $1.58m (2004: $2.46m). Revenue from the recruitment services division totalled $40.63m (2004: $11.60m) generating an allocated EBITDA profit of $4.12m (2004: Loss of $0.11m). Revenues from managed service customers increased 123.2% to $7.32m from $3.28m the previous year.

During the financial year the group acquired:
- Hansen & Searson, the leading executive search firm in Canberra;
- Wall Street Associates (Hong Kong) a leading recruitment firm in Hong Kong;
- boardSEARCH, a leading search firm focused on the placements of board members and CEO’s;
- Banks Management Group, an emerging HR consultancy group; and
- Southrock, a leading provider of eLearning technology.

These acquisitions produced 5.58% of the group’s revenues in the June 2005 year.

Other financial highlights during the 2005 year included: -
- EBITDA of $5.69m compared to $2.35m in 2004.
- EBIT of $3.75m compared to $1.18 m in 2004. EBIT was $2.00m in the second half of 2005, up from $1.75m in the first half.
- Operating cashflows of $5.99m compared to $0.18m in 2004.
- An increase in cash assets to $9.10m from $4.18m a year earlier. Other than leased assets, the company has no debt.
- Net assets rose from $15.93m to $36.93m.
- Net tangible assets rose to $10.77m, from $4.90m a year earlier.
- Goodwill and acquired software amortisation of $1.03m, up from $0.66m in 2004.

The introduction of Australian International Financial Reporting Standards (AIFRS) comes into effect from 1 July 2005, with a conversion date of 1 July 2004 for comparative reporting purposes. The effect of this change will be to increase the group’s net assets at 1 July 2005 by $4.31m and increase the group’s net tangible assets at 1 July 2005 by $3.46m. Had AIFRS been in effect for the 2005 year, net profit after tax would have been $5.29m. Details are provided in Note 19 to this report.

Talent2 International Limited

Statement of Financial Performance
for the Financial Year ended 30 June 2005

		Economic Entity	
		2005 $000	2004 $000
Sales Revenue	2a	60,342	32,153
Cost of sales			
On hired labour and advertising costs		(14,481)	(3,798)
Distributor commissions and licence fees		(2,308)	(2,808)
Gross Profit		43,553	25,547
Employee benefits expense		(29,881)	(18,877)
Operating lease rental expense	2b	(3,191)	(607)
Advertising and marketing expense		(987)	(511)
Depreciation and amortisation expense	2b	(1,947)	(1,166)
Borrowing costs expense	2b	(42)	(60)
Other expenses from ordinary activities	2b	(3,533)	(3,083)
Profit From Ordinary Activities Before Income Tax		3,972	1,243
Income tax benefit relating to ordinary activities		1,297	1,057
Profit From Ordinary Activities After Related Income Tax		5,269	2,300
Net Profit and Total Revenue, Expense and Valuation Adjustments Attributable to Members of the Parent Entity		5,269	2,300
Earnings Per Share - Basic (cents per share)	4	5.50c	2.83c
- Diluted (cents per share)	4	5.33c	2.73c

The earnings per share numbers above have been adjusted to reflect the 1:5 share consolidation in November 2004.

Talent2 International Limited

Statement of Financial Position
as at 30 June 2005

	Note	Economic Entity 2005 $000	Economic Entity 2004 $000
Current Assets			
Cash assets		9,095	4,175
Receivables	5	10,526	7,577
Other	6	1,765	979
Total Current Assets		21,386	12,731
Non-Current Assets			
Property, plant and equipment	7	2,649	1,918
Deferred tax assets	8	3,005	1,207
Intangible assets	9	26,166	11,031
Total Non-Current Assets		31,820	14,156
Total Assets		53,206	26,887
Current Liabilities			
Payables	10	13,364	8,779
Interest-bearing liabilities	11	162	170
Current tax liabilities	12	414	131
Provisions	13	1,379	1,213
Total Current Liabilities		15,319	10,293
Non-Current Liabilities			
Interest bearing liabilities	11	69	182
Deferred tax liabilities	12	66	-
Provisions	13	819	482
Total Non-Current Liabilities		954	664
Total Liabilities		16,273	10,957
Net Assets		36,933	15,930
Equity			
Contributed equity	14	57,514	41,790
Reserves	15	115	105
Accumulated losses	16	(20,696)	(25,965)
Total Equity		36,933	15,930

Talent2 International Limited

Statement of Cash Flows
for the Financial Year ended 30 June 2005

	Note	Economic Entity Inflows (Outflows) 2005 $000	2004 $000
Cash Flows From Operating Activities			
Receipts from customers		64,620	30,238
Payments to suppliers and employees		(58,580)	(30,033)
Interest received		267	121
Interest and other costs of finance paid		(42)	(148)
Income Tax paid		(277)	-
Net cash provided by operating activities	18a	5,988	178
Cash Flows From Investing Activities			
Purchase of plant and equipment		(1,269)	(1,299)
Payment for net business assets acquired	18b	146	4,060
Purchase of other non-current assets		(6)	-
Net cash (used in) / provided by investing activities		(1,129)	2,761
Cash Flows From Financing Activities			
Proceeds from issues of equity securities		108	47
Payment of transaction costs relating to share issues		(47)	(56)
Net cash provided by / (used in) financing activities		61	(9)
Net Increase In Cash Held		4,920	2,930
Cash At The Beginning Of The Financial Year		4,175	1,245
Cash At The End Of The Financial Year		9,095	4,175

1. Basis of Preparation

The preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.
The accounting policies adopted in the preparation of the preliminary final report are consistent with those adopted and disclosed in the 2004 annual financial report.

Details of changes in accounting policies:

N/A

This report is based on accounts that are in the process of being audited.

2. Profit from Ordinary Activities

The operating profit before income tax includes the following items of revenue and expense:

	Economic Entity 2005 $000	Economic Entity 2004 $000
2a.Operating Revenue		
Technology services	19,572	20,479
Recruitment services	40,503	11,553
	60,075	32,032
Interest Revenue:		
Other entities	267	121
Total Revenue	60,342	32,153
2b.Operating Expenses		
Borrowing costs:		
Interest	1	5
Finance lease finance charges	41	55
	42	60
Net provision for doubtful debts in respect of amounts receivable from:		
Other entities	176	(447)

	Economic Entity 2005 $000	Economic Entity 2004 $000
2. Profit from Ordinary Activities (cont'd)		
Net transfer to provisions:		
Employee entitlements	581	498
Depreciation of non-current assets:		
Plant and equipment	785	398
Amortisation of non-current assets:		
Goodwill	986	658
Acquired software intellectual property	46	-
Leased assets	130	110
	1,162	768
Operating lease rental expenses:		
Provision for surplus leased space	-	(400)
Minimum lease payments	3,191	1,007
	3,191	607

In the year ended 30 June 2003, following the restructure of the Economic Entity's administrative operations, the Economic Entity re-assessed its space requirements and made a provision for Surplus Leased Space in accordance with UIG Abstract 1 Lessee Accounting for Surplus Leased Space Under a Non-Cancellable Operating Lease.

In the year ended 30 June 2004, due to the expansion of the Economic Entity's Recruitment Operations, the Surplus Leased Space was no longer considered surplus and the provision no longer considered appropriate, and therefore was reversed.

3. Comparison of half year profits

	2005 $000	2004 $000
Consolidated profit from ordinary activities after tax attributable to members reported for the *1st* half year	3,734	3
Consolidated profit from ordinary activities after tax attributable to members reported for the *2nd* half year	1,535	2,297

	Economic Entity	
	2005 $000	2004 $000
4. Ratios		
Profit before tax / revenue		
Consolidated profit from ordinary activities before tax as a percentage of revenue	6.6%	3.9%
Profit after tax / equity interests		
Consolidated net profit from ordinary activities after tax attributable to members as a percentage of equity (similarly attributable) at the end of the period	14.3%	14.4%
NTA Backing		
Net tangible asset backing per ordinary security	10.37c	5.35c
Earnings per Share		
a. Basic EPS	5.50c	2.83c
b. Diluted EPS	5.33c	2.73c
c. Weighted average number of ordinary shares outstanding during the period used in the calculation of the basic EPS	95,725,852	81,139,618
d. Weighted average number of options outstanding	3,082,991	3,020,536
e. Weighted average number of ordinary shares outstanding during the year used in the calculations of dilutive earnings per share	98,808,843	84,160,154

The number of ordinary shares and options have been adjusted to reflect the 1:5 share consolidation in November 2004

5. Current Receivables

	2005 $000	2004 $000
Trade receivables	10,737	7,612
Provision for doubtful debts	(211)	(35)
	10,526	7,577

6. Other Current Assets

	2005 $000	2004 $000
Prepayments	747	396
Other	1,018	583
	1,765	979

	Economic Entity 2005 $000	Economic Entity 2004 $000
7. Plant and Equipment		
Leasehold Improvements		
At cost	1,301	511
Accumulated depreciation	(351)	(114)
	950	397
Plant and Equipment		
At cost	3,429	2,178
Accumulated depreciation	(2,003)	(997)
	1,426	1,181
Leased Plant and Equipment		
At cost	553	489
Accumulated amortisation	(280)	(149)
	273	340
Total Plant and Equipment	2,649	1,918

Movements in Carrying Amounts

	Leasehold Improvements	Plant and Equipment	Leased Plant and Equipment	Total
Balance at the beginning of the year	397	1,181	340	1,918
Additions	619	650	63	1,332
Disposals	-	(12)	-	(12)
Additions through acquisitions	157	180	-	337
Depreciation / amortisation charged against restructuring provision	(5)	(6)	-	(11)
Depreciation / amortisation charged against operating profit	(218)	(567)	(130)	(915)
	950	1,426	273	2,649

	Economic Entity	
	2005 $000	2004 $000
8. Deferred Tax Assets		
Future Income Tax Benefits	3,005	1,207
Future income tax benefits are made up of the following estimated tax benefits		
Tax losses	1,772	1,207
Timing differences	1,233	-
	3,005	1,207
9. Intangible Assets		
Goodwill	27,405	13,963
Accumulated amortisation	(3,944)	(2,958)
	26,461	11,005
Acquired software intellectual property	2,720	-
Accumulated amortisation	(46)	-
	2,674	-
Other	31	26
	26,166	11,031
10. Current Payables		
Trade payables	9,293	5,613
Unearned income	4,071	3,145
Other	-	21
	13,364	8,779

	Economic Entity 2005 $000	Economic Entity 2004 $000
11. Interest-Bearing Liabilities		
Current		
Secured:		
Finance lease liabilities *(i)*	162	170
Non-Current		
Secured:		
Finance lease liabilities (*i*)	69	182
(i) Secured by the assets leased		
12. Tax Liabilities		
Current		
Income Tax	414	131
Non-Current		
Deferred tax liabilities	66	-
13. Provisions		
Current		
Employee benefits	1,353	1,031
Restructuring costs	26	182
	1,379	1,213
Non-Current		
Employee benefits	741	482
Other	78	-
	819	482
a)Aggregate employee benefits liability	2,094	1,513
b)Number of employees at the end of the financial year	285	209

14.Contributed Equity

14.a Issued Capital

	2005	2004
	$000	$000
Balance at the beginning of the Financial Year	41,790	30,624
Issued on conversion of convertible notes	-	1,250
Options exercised	108	47
Issued on acquisition of controlled entities	11,899	9,325
Issued on acquisition of business	3,764	600
Transaction costs relating to share issues	(47)	(56)
Balance at the end of the Financial Year	57,514	41,790

14.b Ordinary securities

	Total Number	Number Quoted
Balance at the beginning of the Financial Year	457,574,866	457,574,866
Adjustment to reflect the 1:5 share consolidation in November 2004	(366,060,290)	(366,060,290)
	91,514,576	91,514,576
Changes During the Year		
Options exercised	199,000	199,000
Issued on acquisition of controlled entities	9,504,357	9,504,357
Issued on acquisition of business'	2,588,808	2,588,808
Balance at the end of the Financial Year	103,806,741	103,806,741

14.c Options

Non Quoted Options	Balance 01/07/04	Issued	Exercised	Expiry/ Cancellations	Balance 30/06/05	Vested	Non Vested	Exercise Price (c)	Expiry
Parcel C (Employee Share Option Plan)	226,000	-	-	226,000	-	-	-	150.0	01/03/05
Parcel D	200,000	-	-	200,000	-	-	-	150.0	26/03/05
Parcel E	200,000	-	-	200,000	-	-	-	250.0	26/03/05
Parcel F	20,000	-	20,000	-	-	-	-	100.0	13/08/05
Parcel J	520,000	-	-	520,000	-	-	-	22.5	30/06/05
(Director Conditional Option Plan)	520,000	-	-	-	520,000	-	520,000	22.5	30/06/06
	520,000	-	-	-	520,000	-	520,000	22.5	30/06/07
	520,000	-	-	-	520,000	-	520,000	22.5	30/06/08
Parcel K	80,000	-	-	80,000	-	-	-	37.5	30/06/05
(Director Conditional Option Plan)	80,000	-	-	-	80,000	-	80,000	37.5	30/06/06
	80,000	-	-	-	80,000	-	80,000	37.5	30/06/07
	80,000	-	-	-	80,000	-	80,000	37.5	30/06/08
Parcel L	75,000	-	37,500	37,500	-	-	-	35.0	30/06/05
(Director Conditional Option Plan)	75,000	-	-	-	75,000	-	75,000	35.0	30/06/06
	75,000	-	-	-	75,000	-	75,000	35.0	30/06/07
	75,000	-	-	-	75,000	-	75,000	35.0	30/06/08
Parcel M	1,162,000	-	121,500	127,000	913,500	405,500	508,000	45.0	12/06/08
(Employee Share Option Plan)	50,000	-	20,000	30,000	-	-	-	100.0	12/06/08
Parcel N (Employee Share Option Plan)	150,000	-	-	-	150,000	37,500	112,500	105.0	06/05/09
Parcel O (Employee Share Option Plan)	-	1,553,000	-	121,000	1,432,000	-	1,432,000	100.0	01/07/09
Parcel P	-	30,120	-	-	30,120	15,060	15,060	5.0	01/07/09
Parcel Q (Employee Share Option Plan)	-	24,000	-	-	24,000	-	24,000	135.0	05/08/09
Parcel R (Employee Share Option Plan)	-	244,000	-	-	244,000	-	244,000	140.0	16/02/10
Total	4,708,000	1,851,120	199,000	1,541,500	4,818,620	458,060	4,360,560		
Percentage of ordinary shares at the end of the Financial Year					4.64%	0.44%	4.20%		

The above numbers have been adjusted to reflect the 1:5 share consolidation in November 2004.

	Economic Entity 2005 $000	Economic Entity 2004 $000
15. Reserves		
Reserves Comprise:		
Capital profits	115	105
16. Accumulated Losses		
Balance at the beginning of the financial year	(25,965)	(28,265)
Net profit	5,269	2,300
Balance at the end of the financial year	(20,696)	(25,965)

17. Business Segment Information

Primary Reporting – Business Segments

	Technology Services 2005	Technology Services 2004	Recruitment Services 2005	Recruitment Services 2004	Unallocated 2005	Unallocated 2004	Eliminations 2005	Eliminations 2004	Economic Entity 2005	Economic Entity 2004
Revenue										
- External Sales	19,572	20,479	40,503	11,553	267	121	-	-	60,342	32,153
- Other Segments	53	42	130	51	-	-	(183)	(93)	-	-
	19,625	20,521	40,633	11,604	267	121	(183)	(93)	60,342	32,153
EBITDA	1,579	2,459	4,115	(111)	-	-	-	-	5,694	2,348
Depreciation & Amortisation									1,947	1,166
EBIT									3,747	1,182
Net Interest									225	61
Profit from ordinary activities before tax									3,972	1,243
Income tax benefit									1,297	1,057
Net Profit after tax									5,269	2,300
Segment Assets and Liabilities										
Assets	8,371	7,225	15,663	7,450	29,172	12,212	-	-	53,206	26,887
Liabilities	7,558	7,187	8,235	3,639	480	131	-	-	16,273	10,957
Other Segment Information										
Acquisition of non-current segment assets	981	448	351	1,065	17,965	7,555	-	-	19,297	9,068

Secondary Reporting Geographic Segments

	Segment Revenue		Carrying Amount of Segment Assets	
	2005 A$000	2004 A$000	2005 A$000	2004 A$000
Geographical Location:				
Australia	59,500	31,582	51,310	26,473
Asia	842	571	1,896	414
	60,342	32,153	53,206	26,887

The segments above include revenues to managed services customers of $7.32m (2004:$3.28m). Splitting managed services as a stand alone segment reduces technology services revenue by $4.03m (2004: $3.28m) and recruitment services revenue by $3.29m (2004: Nil). Continued success in this high growth sector may result in separate segmented disclosure in future years.

18. Notes to the Statement of Cash Flows

18a *Reconciliation of Operating Profit After Income Tax to Net Cash Flows From Operating Activities*

	Economic Entity	
	2005 $000	2004 $000
Operating profit after income tax	5,269	2,300
Depreciation and amortisation of non-current assets	915	508
(Profit) / Loss on Disposal of non-current assets	-	1
Amortisation of goodwill	986	658
Amortisation of acquired software intellectual property	46	-
Future income tax benefit brought to account	(1,798)	(1,207)
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
(Increase) / Decrease in assets:		
Current receivables	(1,848)	(4,602)
Prepayments and deferred expenses	(866)	133
Increase / (Decrease) in liabilities:		
Current trade payables	1,924	2,287
Income taxes payable	157	131
Unearned income	582	(238)
Deferred taxes liabilities	497	-
Other liabilities	124	207
Net cash from operating activities	5,988	178

	Economic Entity	
	2005 $	2004 $

18b *Businesses Acquired*

During the year the Group acquired 100% of

- Papershuffle Pty Ltd (trading as Hansen and Searson Executive Search) effective 01/08/04,
- Hansen and Searson Management Services Pty Ltd effective 01/08/04,
- The Banks Management Group Pty Ltd effective 01/03/05,
- Wall Street Associates Limited effective 01/06/05,
- Wall Street Associates Outsourcing Limited effective 01/06/05.

The economic entity also acquired the business'

- Boardsearch acquired 01/08/04
- Southrock acquired 01/03/05

Details of the transactions are:

	2005 $	2004 $
Purchase Consideration	16,152	10,633
Cash Consideration	489	784
Cash Acquired	635	4,844
Net Cash Inflow	146	4,060
Assets and Liabilities held at Acquisition Dates		
Cash Assets	635	4,844
Receivables	1,202	542
Property, Plant and Equipment	337	132
Software Intellectual Property	2,720	-
Creditors	(2,234)	(1,020)
Restructuring Provision (i)	50	(213)
	2,710	4,285
Goodwill on consolidation	13,442	6,348
	16,152	10,633

(i) On the acquisition of Talent2 Pty Limited the Economic Entity recognised a restructuring provision amounting to $213,000 in relation to the closure of certain leased office space. This amount was re-assessed during the Financial year and reduced by $50,000.

19. Impact of adopting Australian equivalents to International Financial Reporting Standards (AIFRS)

The company is preparing and managing the transition to AIFRS effective for the financial year commencing 1 July 2005. The adoption of AIFRS will be reflected in the economic entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. AIFRS transitional adjustments are to be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management, in consultation with its auditors, has assessed the significance of the expected changes and is preparing for their implementation. The audit and risk committee is overseeing and managing the economic entity's transition to AIFRS. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, are as follows. Use of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard – setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work of the economic entity's audit and risk committee.

a) Research and Development Expenditure

Under AASB 138: Intangible Assets, costs associated with the research phase of the development of an asset must be expensed. Costs associated with the development of that asset must be capitalized and amortised over the life of that asset. This will result in a change of accounting policy, whereby the economic entity capitalizes all research and development costs and then fully amortises that cost in the year incurred.

On transition, the effect of this impact is assessed as nil, as the economic entity will continue to expense research costs when incurred, expense technology maintenance costs which keep existing products updated, and depreciate development costs over the useful life of the relevant asset. The economic entity does not believe that any of its current research and development cost would meet the definition of development cost under AASB 138.

b) Impairment of Assets

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

The economic entity has reassessed its impairment testing policy and tested all assets for impairment as at 1 July 2004 and 30 June 2005. The immediate impact of the change is a $15,000 reduction in current year profits with respect to trademark costs previously capitalised.

c) Goodwill on Consolidation

Under AASB 3: Business Combinations, goodwill is capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is prohibited. Current accounting policy of the entity is to amortise goodwill on a straight line basis over a period of no greater than 20 years.

Impairment testing as at 1 July 2004 confirmed no impairment of the $13,963,000 goodwill less accumulated amortisation of $2,958,000 as disclosed in the economic entity's financial statements at 30 June 2004. The previously amortised goodwill will not be reversed resulting in no change in retained earnings at 1 July 2004. Goodwill amortisation during the current year will be reversed resulting in an increase in profit of $986,000 for the year ended 30 June 2005.

Goodwill arising from business acquisitions made during the year ended 30 June 2005 has been recalculated under AIFRS. The effect of these recalculations will be to reduce the value of Goodwill at 1 July 2005 by $126,000, and increase the value of Deferred Tax Assets by $126,000.

Under AASB 1047, if a company is unable to reliably estimate the effects of adoption of AIFRS, a statement to the effect should be made. At date of this report, the company has not finalised the valuations on consolidation of all acquired intangible assets, including the values, if any of trademarks, customer lists and candidate lists of entities acquired since 1 July 2004. In this report, such values have been attributed to goodwill.

d) Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Under AASB112: Income taxes, the economic entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit.

The most significant impact will be the recognition of a deferred tax asset at 1 July 2004 of approximately $3,916,000 in relation to the valuation of acquired intellectual property on tax consolidation and an additional $126,000 at 30 June 2005 in relation to acquired intellectual property on business acquisitions during the current year. This adjustment will have the effect of increasing the taxation expense in the current year by $578,000 in respect of income tax benefits previously taken up in the income statement, under AIFRS being charged to the deferred taxation asset account. The total effect on 1 July 2005 will be to increase the deferred tax assets by $3,464,000, increase retained earnings by $3,338,000 and reduce goodwill by $126,000.

e) Share Based Employee Payments

The group does not currently recognise an expense for options issued to staff, under the Directors' and Employee Share Option Plan. Under AASB2: Share Based Payments, the group will recognise an expense for all share-based remuneration, including deferred shares and options, and amortises those expenses over the relevant vesting periods.

The effect of this charge at 1 July 2004 is to decrease retained earnings by $137,000 and increase equity by $137,000. The impact in the year to 30 June 2005 would have been an additional $373,000 in employment expenses and therefore would have lowered earnings by $373,000. On adoption of AIFRS on 1 July 2005, total Retained Earnings will be reduced by $510,000 and Equity will be increased by $510,000.

Summary of impact of adopting AIFRS

Profit and Loss Statement for the Year Ended 30 June 2005

	Profit & Loss A$ 000	Adjustment A$ 000		AIFRS A$ 000
Sales Revenue	60,342			60,342
Cost of Sales	(16,789)			(16,789)
Gross Profit	43,553			43,553
Employee benefits expense	(29,881)	(373)	e)	(30,254)
Operating lease rental expense	(3,191)			(3,191)
Advertising and marketing	(987)			(987)
Depreciation and amortisation	(1,947)	986	c)	(961)
Borrowing costs	(42)			(42)
Other operating costs	(3,533)	(15)	b)	(3,548)
Net Profit before tax	3,972			4,570
Taxation	1,297	(578)	d)	719
Net Profit after Tax	5,269			5,289

Balance Sheet

	Current 2005 A$ 000	Current 2004 A$ 000	Adjust. 2005 A$ 000		Adjust. 2004 A$ 000		AIFRS 2005 A$ 000	AIFRS 2004 A$ 000
Current Assets	21,386	12,731					21,386	12,731
Plant and equipment	2,649	1,918					2,649	1,918
Deferred tax assets	3,005	1,207	3,916	d)	3,916	d)	6,469	5,123
			126	d)				
			(578)	d)				
Intangible assets	26,166	11,031	986	c)			27,011	11,031
			(126)	d)				
			(15)	b)				
Total Assets	53,206	26,887					57,515	30,803
Current Liabilities	(15,319)	(10,293)					(15,319)	(10,293)
Non-Current Liabilities	(954)	(664)					(954)	(664)
Net Assets	36,933	15,930					41,242	19,846
Contributed equity	57,514	41,790					57,514	41,790
Share option equity	-	-	373	e)			510	137
			137	e)	137	e)		
Reserves	115	105					115	105
Accumulated losses	(20,696)	(25,965)	3,916	d)	3,916	d)	(16,897)	(22,186)
			(137)	e)	(137)	e)		
			P&L 20					
Total Equity	36,933	15,930					41,242	19,846

20. Subsequent Events

Subsequent to the year end the economic entity entered into heads of agreement to acquire the National Payroll Systems Group, a group specialising in providing payroll managed services. This acquisition will be put to Shareholders for approval in September 2005, and if approved will be satisfied by the issuance of 12,593,985 ordinary shares.