

# **AUSTRALIAN PROPERTY SYSTEMS LIMITED**

**A.B.N. 93 096 925 610**

## **INTERIM FINANCIAL REPORT**

**31 DECEMBER 2005**

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Australian Property Systems Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Australian Property Systems Limited (APSL) and the entities it controlled at the end of, or during, the half-year ended 31 December 2005.

### 1. Directors

The following persons were directors of APSL during the whole of the half-year and up to the date of this report, except as noted:

GA Thomas (appointed 16 August 2005)

GS Jamieson

BB Wilkie

BR Noye (appointed 16 August 2005, resigned 1 November 2005)

### 2. Review of operations and results

The company recorded an operating loss after tax for the half-year ended 31 December 2005 of \$252,536 (2004: \$754,139 loss) but now is concentrating on licensing its technology to third parties which should result in a return to profitability in the future. The transition phase of changing from a Development Manager to a Licensing and Training Manager has mostly been completed and main focus of management is to consolidate on its learning experience associated with training our current licensee Napier Blakely in delivering projects under our system. An important part of the platform is in the delivery by our licensees of Affordable Housing to Institutions and Super Funds.

During the period our licensee, Napier Blakely along with the management of APSL has been working on the delivery of a high rise project in Ferry Road West End for the Australian Affordable Housing Association Inc (AAHA) utilising the APSL System. The Directors report that Friday, 3 March 2006 AAHA settled the sale of the 37 subdivided lots in the Ferry Road high rise to the project investors and their financiers prior to construction commencing. This is another major milestone for the company, a first for Queensland and we believe a first for Australia.

The project is the first high rise Volumetric subdivision where settlements with end purchasers has occurred on the individual subdivided lots where two major banks have funded the individual lot purchases, the building contracts attached to those lots and with a Brisbane City Council 10 year affordable housing covenant registered on the titles.

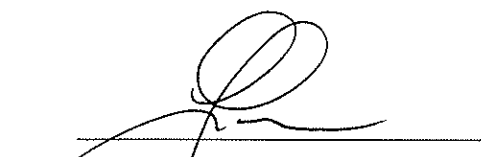
The project also initiated the first Investment Grade Rated affordable housing residential property which has enabled institutional investment in the AAHA affordable housing product (quality housing that is affordable to rent for low to middle income persons at no more than 30% of their income).

The settlement of this project has delivered the company license fees that should result in a profit for the second half.

### 3. Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* accompanies this report.

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



Director

Dated this 15th day of March, 2006

Chartered Accountants

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Australian Property Systems Limited  
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BRISBANE QLD 4000

#### **Auditor's Independence Declaration**

As lead engagement partner for the review of the half-year financial report of Australian Property Systems Limited for the half-year ended 31 December 2005, I declare that, to the best of my knowledge and belief, there have been:

- i. no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- ii. no contraventions of any applicable code of professional conduct in relation to the review.

**JOHNSTON RORKE**  
Chartered Accountants



**R.C.N. WALKER**  
Partner

Brisbane, Queensland  
15 March 2006

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**CONSOLIDATED INCOME STATEMENT**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	<b>Half-year</b>	
	<b>31 Dec 2005</b>	<b>31 Dec 2004</b>
	<b>\$</b>	<b>\$</b>
<b>Revenue</b>		
Services	91,309	93,142
Interest	7,227	28,682
Other	-	135,544
	<u>98,536</u>	<u>257,368</u>
<b>Expenses</b>		
Project management expenses	-	(2,028)
Licensing expenses	(34,721)	(190,170)
Employee benefits	(168,539)	(565,412)
Depreciation and amortisation	(6,882)	(18,735)
Finance costs	(7,313)	(5,525)
Bad and doubtful debts	(9,331)	(117,698)
Professional costs	(63,820)	(39,695)
Other expenses	(60,447)	(62,744)
	<u>(351,053)</u>	<u>(1,002,007)</u>
<b>Loss before income tax</b>	(252,517)	(744,639)
Income tax expense	-	-
<b>Loss for the half-year</b>	(252,517)	(744,639)
Profit attributable to minority interests	(19)	(9,500)
<b>Loss attributable to members of the parent entity</b>	<u>(252,536)</u>	<u>(754,139)</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	(0.6)	(3.0)
Diluted earnings per share	(0.6)	(3.0)

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

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**CONSOLIDATED BALANCE SHEET**

**AS AT 31 DECEMBER 2005**

	Notes	31 December 2005 \$	30 June 2005 \$
<b>Current Assets</b>			
Cash and cash equivalents		241,010	124,292
Receivables		95,356	22,745
Other		5,272	-
Total Current Assets		341,638	147,037
<b>Non-Current Assets</b>			
Plant and equipment		11,594	18,476
Total Non-Current Assets		11,594	18,476
Total Assets		353,232	165,513
<b>Current Liabilities</b>			
Payables		84,400	42,118
Current tax liabilities		-	102,046
Total Current Liabilities		84,400	144,164
Total Liabilities		84,400	144,164
<b>Net Assets</b>		268,832	21,349
<b>Equity</b>			
Contributed capital		2,572,000	2,072,000
Accumulated losses		(2,304,956)	(2,052,420)
Parent entity interest		267,044	19,580
Minority interest	6	1,788	1,769
Total Equity		268,832	21,349

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

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	Notes	Half-year 31 Dec 2005 \$	31 Dec 2004 \$
<b>Total equity at the beginning of the half-year</b>		21,349	1,165,716
Loss for the half-year		(252,517)	(744,639)
Transactions with equity holders in their capacity as equity holders			
- Reduction of minority interest		-	(10,255)
- Contributions of equity		500,000	-
		500,000	(10,255)
<b>Total equity at the end of the half-year</b>		268,832	410,822
Total recognised income and expense for the half-year is attributable to:			
- Members of APSL		(252,536)	(754,139)
- Minority interest		19	9,500
		(252,517)	(744,639)
Effect of correction of error in previous year, being a :			
- Reduction in contributed capital attributable to members of the parent entity		-	83,320

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

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**CONSOLIDATED CASH FLOW STATEMENT**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

	<b>Half-year</b>	
	<b>31 Dec 2005</b>	<b>31 Dec 2004</b>
	<b>\$</b>	<b>\$</b>
<b>Cash Flows From Operating Activities</b>		
Cash receipts in the course of operations	32,049	93,142
Cash payments in the course of operations	(313,199)	(925,492)
Interest received	7,227	27,154
Finance costs paid	(7,313)	(5,524)
Income taxes paid	(102,046)	-
Net cash provided by/(used in) operating activities	(383,282)	(810,720)
<b>Cash Flows From Investing Activities</b>		
Payments for plant and equipment	-	(86,320)
Net cash provided by/(used in) investing activities	-	(86,320)
<b>Cash Flows From Financing Activities</b>		
Finance lease payments	-	(8,101)
Proceeds from issue of shares	500,000	-
Net cash provided by/(used in) financing activities	500,000	(8,101)
Net increase/(decrease) in cash and cash equivalents	116,718	(905,141)
Cash and cash equivalents at the beginning of the reporting period	124,292	1,349,477
Cash and cash equivalents at the end of the reporting period	241,010	444,336

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

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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### 1. Summary of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Australian Property Systems Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

#### (a) Basis of preparation of half-year financial report

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

This interim financial report is the first Australian Property Systems Limited interim financial report to be prepared in accordance with AIFRSs. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Australian Property Systems Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Australian Property Systems Limited interim financial report for the half-year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The consolidated entity has taken the exemption under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the consolidated entity's equity and its net profit/(loss) are given in note 5.

##### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

#### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Australian Property Systems Limited (APSL) as at 31 December 2005 and the results of all controlled entities for the half-year then ended. APSL and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.



**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

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**1. Summary of significant accounting policies (cont)**

**(c) Revenue recognition**

Revenue is recognised as follows:

Revenue from licensing is recognised on an accruals basis in accordance with the substance of the relevant agreement.

Interest revenue is recognised on a proportional basis taking into account the effective yield on the financial asset.

**(d) Income tax**

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

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

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

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

*Tax consolidation legislation*

Australian Property Systems Limited and its wholly owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2003. The Australian Taxation Office has been notified of this decision.

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

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**1. Summary of significant accounting policies (cont)**

**(e) Impairment of assets**

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

**(f) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

**(g) Receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

**(h) Investments and other financial assets**

*From 1 July 2004 to 30 June 2005*

The consolidated entity has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The consolidated entity has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

*Adjustments on transition date: 1 July 2005*

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Changes in fair value are either taken to the income statement or an equity reserve. At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

*From 1 July 2005*

The consolidated entity is required to classify its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

1. Summary of significant accounting policies (cont)

(h) Investments and other financial assets (cont)

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

The consolidated entity has no financial assets at fair value through profit and loss, held to maturity investments and no available-for-sale financial assets.

Loans and receivables are initially recognised at fair value and subsequently are carried at amortised cost using the effective interest method.

(i) Fair value estimation

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

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

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The consolidated entity uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date.

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

(j) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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 consolidated entity 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 is calculated on the straight line basis to allocate the cost of each item of property, plant and equipment (excluding land) over its expected useful life to the consolidated entity. The depreciation rates used for each class of depreciable asset are:

Class	Rate
Office furniture and equipment	7.5%-20%%
Leased plant and equipment	25%

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

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

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**1. Summary of significant accounting policies (cont)**

**(j) Property, plant and equipment (cont)**

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 carrying amount. These are included in the income statement.

**(k) Acquisition of assets**

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

**(l) Trade and other payables**

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30-60 days of recognition.

**(m) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

**(n) Provisions**

Provisions are recognised when:

- the consolidated entity has a present legal or constructive obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses.

AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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1. Summary of significant accounting policies (cont)

(o) Employee benefits

**Wages and salaries, annual leave and sick leave**

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

**Long service leave**

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

**Superannuation**

Contributions are made by the consolidated entity to accumulation superannuation funds. Contributions are charged as expenses as they are incurred.

**Share-based payments**

Share-based compensation benefits are provided to employees and other related parties as approved by members from time to time.

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

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

*Share options granted after 7 November 2002 and vested after 1 January 2005*

The fair value of options granted by APSL are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using an option pricing model that takes into account the exercise price, the term of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets and performance and service criteria). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

**Bonus plans**

The consolidated entity recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

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**1. Summary of significant accounting policies (cont)**

**(p) Leases**

Leases of property, plant and equipment where the consolidated entity has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the estimated useful life and the lease term. Where there is no reasonable certainty that the lessee will obtain ownership, the asset is depreciated over the shorter of the lease term and the asset's useful life.

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

**(q) Earnings per share**

*Basic earnings per share*

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

*Diluted earnings per share*

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

**(r) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

**(s) Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2005**

**2. Segment information**

**Business segments**

The consolidated entity operates in the following identifiable business segments:

- Property development management – the provision of property development management services,
- Wealth management – the provision of wealth creation services,
- Licensing – the provision of licensing agreements with licensees to use the APSL system, and
- Transaction management – the provision of transaction management services.

**Geographical segment**

The consolidated entity operates in Australia.

**Primary Reporting – Business Segments**

	<b>Development Management</b>	<b>Wealth Management</b>	<b>Licensing</b>	<b>Transaction Management</b>	<b>Consolidated</b>
<b>Half-year 31 December 2005</b>					
Segment revenue	-	-	86,614	4,695	91,309
Unallocated					7,227
					98,536
Segment result – loss before income tax	-	-	(249,307)	(3,210)	(252,517)
Income tax expense					-
Net loss					(252,517)
<b>Half-year 31 December 2004</b>					
Segment revenue	101,890	16,378	-	-	118,268
Unallocated					139,100
					257,368
Segment result – loss before income tax	(625,468)	(119,171)	-	-	(744,639)
Income tax expense					-
Net loss					(744,639)

There are no inter-segment transfers.

**3. Equity securities issued**

	<b>Half-Year</b>		<b>Half-Year</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
	<b>Shares</b>	<b>Shares</b>	<b>\$</b>	<b>\$</b>
Issues of ordinary shares during the half-year issued for cash at 2 cents per share	25,000,000	-	500,000	-
	25,000,000	-	500,000	-

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

### 4. Contingent Liabilities

As at 31 December 2005 the directors are not aware of any significant changes in contingent liabilities since the last annual report.

### 5. Explanation of Transition to Australian Equivalents to IFRSs

#### (a) AASB 1 transition exemptions

The consolidated entity has made its election in relation to the transitional exemptions allowed by AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' as follows:

##### *Business combinations*

AASB 3 'Business Combinations' was not applied retrospectively to past business combinations (ie business combinations that occurred before the date of transition to AIFRS).

##### *Share-based payment transactions*

AASB 2 'Share-based Payment' is applied only to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

##### *Exemption from the requirement to restate comparative information for AASB 132 and AASB 139*

The consolidated entity has elected to adopt this exemption and has not applied AASB 132 'Financial Instruments: Disclosure and Presentation' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

#### (b) Impact of adoption of AIFRS

##### (i) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Notes	30 Jun 05 \$	31 Dec 04 \$	01 Jul 04 \$
Total equity under AGAAP		141,900	2,709,027	3,555,455
<i>Adjustments to equity:</i>				
Reverse increment on revaluation of technology licences	A	-	(3,389,475)	(3,389,475)
Impairment of intangible assets	B	-	(89,288)	(89,288)
Correction of prior year errors	C	(109,811)	(83,320)	-
Reversal of Technology licences amortisation	D	-	1,274,618	1,099,764
Reclassification of treasury shares	E	(10,740)	(10,740)	(10,740)
Total equity under AIFRS		21,349	410,822	1,165,716

##### (ii) Reconciliation of profit / (loss) after tax under AGAAP to that under AIFRS

	Notes	Year ended 30 Jun 05 \$	Half-year ended 31 Dec 04 \$
Loss after tax as previously reported		(421,402)	(919,493)
<i>AIFRS adjustments:</i>			
- Reversal of amortisation	D	-	174,854
Correction of prior year errors	C	(1,010,476)	-
Loss under AIFRS		(1,431,878)	(744,639)



# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

### 5. Explanation of Transition to Australian Equivalents to IFRSs (cont)

#### A Intangible asset – Technology licences

Under AASB 138 Intangible Assets, an intangible asset can only be carried at revalued amount where an active market exists for the sale of the asset. In June 2001 the consolidated entity entered into a 20 year licence agreement for the exclusive use of a patented property management system. Under the terms of the agreement the consolidated entity paid initial licence fees of \$89,228 and may pay a further licence fee of \$1.7 million subject to the company completing a capital raising of \$5 million. In the June 2002 financial year the consolidated entity revalued its technology licences.

An active market exists where the items traded in the market are homogenous, willing buyers and sellers can normally be found at any time and prices are available to the public. Under AASB 138 technology licences, do not meet the criteria to be carried at the revalued amount as there is no active market. Accordingly, the revaluation component of \$3,389,475 at 1 July 2004 and 31 December 2004 has been de-recognised under AIFRS. At 30 June 2005, the asset had been de-recognised under AGAAP.

#### B Impairment Test

Under AIFRS assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The losses recorded by the consolidated entity at the AIFRS transition date indicated that the carrying value of the intangible assets may have been impaired. Accordingly, as a result of impairment testing, at 1 July 2004 the cost of technology licences of \$89,288 (after reversing the revaluation component – see A above) was written off. At 30 June 2005, the asset had been de-recognised under AGAAP.

#### C Correction of Errors Made Under Previous AGAAP

The 30 June 2005 financial report disclosed a write-down in the carrying amount of technology licences of \$2,378,999, a decrement of \$3,389,475 to asset revaluation reserve, and a credit \$1,010,476 being recorded in the income statement. This credit was in effect a direct transfer from asset revaluation reserve which was not permitted under AGAAP (nor under AIFRS).

During previous financial years, the consolidated entity incurred costs to patent technology licences in New Zealand, Sri Lanka and India. Under AGAAP these costs were originally expensed or capitalised and written off. At 30 June 2005 the consolidated entity reversed this accounting treatment and processed an adjustment directly to accumulated losses and recognised an intangible asset (Standard Patents and Innovation Patents) of \$109,811. This treatment was not permitted under AGAAP.

At 31 December 2004, contributed capital was overstated by \$83,320. This overstatement was due to the non-elimination of inter-company contributions of capital, contrary to previous AGAAP requirements.

Under previous AGAAP these errors would have been corrected in the period they were discovered. Under AIFRS, the comparatives have been adjusted to reflect the correction of the errors.

#### D Amortisation – Technology Licences

As stated in A and B above, revalued technology licences were de-recognised as at 1 July 2004 as part of the AIFRS transition adjustments. Therefore accumulated amortisation of \$1,099,764 at 1 July 2004 and \$1,274,618 at 30 June 2005 has been reversed. Amortisation expense of \$174,854 previously charged during the period ended 31 December 2004 has been reversed under AIFRS.

No amortisation expense was recorded as at 30 June 2005. Refer C above.

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2005

### 5. Explanation of Transition to Australian Equivalents to IFRSs (cont)

#### E Employee Share Scheme

A special purpose entity, APSLSP Pty Ltd was incorporated in August 2002 to operate an Employee Share Scheme (Scheme). The consolidated entity established the Scheme in February 2003 and acquired 1,074,000 ordinary shares in Australian Property Systems Limited at \$0.01 per share. This share purchase was funded by way of a loan to APSLSP Pty Ltd.

Under AGAAP funding for these shares was recognised in the balance sheet of the consolidated entity under "receivables". On the transition to AIFRS this balance has been reclassified as treasury shares reducing contributed capital.

#### F Explanation of material adjustments to the cash flow statements

There are no material differences between the cash flow statements presented under AIFRS and those presented under AGAAP.

### 6. Minority Interest

	31 December 2005 \$	30 June 2005 \$
Interest in:		
Share capital	77,415	77,415
Accumulated losses	(75,627)	(75,646)
	<u>1,788</u>	<u>1,769<sup>(i)</sup></u>

(i) Note that the balance of minority interest as previously reported under AGAAP at 30 June 2005 was \$173,113. This error has been corrected under AIFRS as a restatement of the 30 June 2005 comparatives as follows:

- a reduction to minority interest of \$171,344
- a reduction to accumulated losses (attributable to members of the parent entity) at \$171,344.

### 7. Events Occurring After the Balance Sheet Date

The Directors report that on Friday, 3 March 2006 Australian Affordable Housing Association Inc (AAHA) and our licensee Napier Blakely utilising the APSL System settled the sale of the 37 subdivided lots in the Ferry Road high rise to the project investors and their financiers prior to construction commencing. This is another major milestone for the company, a first for Queensland and we believe a first for Australia.

The project is the first high rise Volumetric subdivision where settlements with end purchasers has occurred on the individual subdivided lots where two major banks have funded the individual lot purchases, the building contracts attached to those lots and with a Brisbane City Council 10 year affordable housing covenant registered on the titles.

The project also initiated the first Investment Grade Rated affordable housing residential property which has enabled institutional investment in the AAHA affordable housing product (quality housing that is affordable to rent for low to middle income persons at no more than 30% of their income).

Since 31 December 2005, the economic entity has issued tax invoices for approximately \$423,000 (excluding GST) in licensing fees with respect to the Ferry Road project.

AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

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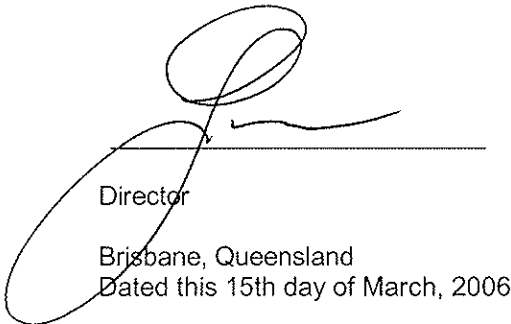
In the opinion of the directors the attached financial statements and notes:

- (a) comply with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the *Corporations Act 2001*; and
- (b) there are reasonable grounds to believe that Australian Property Systems Limited 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 directors.



Director

Brisbane, Queensland

Dated this 15th day of March, 2006

## **Independent Review Report**

### **To the Members of Australian Property Systems Limited**

#### **Scope**

We have reviewed the financial report being the Directors' Declaration, Consolidated Income Statement, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement and Notes to the Consolidated Financial Statements of Australian Property Systems Limited (the company) for the half-year ended 31 December 2005. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year. The company's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory professional reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the company to lodge the financial report with the Newcastle Stock Exchange and the Australian Securities & Investments Commission.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

#### **Independence**

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of the company would be in the same terms if provided to the directors at the date of this review report.

#### **Qualification**

The financial report for the half-year ended 31 December 2004 was subject to review and the financial report for the year ended 30 June 2005 was subject to audit. The review and audit reports thereon were qualified. Johnston Rorke was appointed auditor of the company on 15 December 2005. The previous auditor, Williams Partners, stated in their review report for the half-year ended 31 December 2004 dated 16 March 2005 that they were unable to provide a moderate level of assurance (inability to form an opinion) due to not obtaining supporting evidence for all financial report disclosures as well as other reasons stated therein. In addition, the previous financial reports contained a number of errors. We have been unable to obtain sufficient audit evidence to ensure all of the matters noted by the previous auditor and the errors noted in the prior periods have been properly corrected. Accordingly, we are not in a position to and do not provide assurance on the comparatives for 31 December 2004 and 30 June 2005, except for the consolidated balance sheet.

### Qualified Review Statement

Based on our review, which is not an audit, except for the effects on the comparatives for 31 December 2004 and 30 June 2005 of such adjustments, if any, as might have been required had the limitation referred to in the qualification paragraph not existed, we have not become aware of any matter that makes us believe that the half-year financial report of Australian Property Systems Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance for the half-year ended on that date; and
  - (ii) complying with Accounting Standard AASB 134: *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

**JOHNSTON RORKE**  
Chartered Accountants



**R.C.N. WALKER**  
Partner

Brisbane, Queensland  
15 March 2006