PACIFIC TURBINE BRISBANE LIMITED

ABN 99 098 390 991

ANNUAL REPORT

30 JUNE 2006

Your directors present the financial report of Pacific Turbine Brisbane Limited ("the Company") and its controlled entities ("the Group") for the year ended 30 June 2006.

Directors

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

Name	Position
CL Baker	Managing Director
SG Smith	Sales and Marketing Director
HR Jones	Director (non-executive) – resigned 25 August 2006
H Parker	Director (non-executive), Chairman
RJ David	Director (non-executive)
APS Kemp	Alternate Director (for RJ David) – until 25 August 2006 Director (non-executive) – appointed 25 August 2006

Principal Activities

The principal activities of the Group during the financial year were the provision of the following services in relation to the Pratt & Whitney PT6A and Honeywell TPE331 aircraft turbine engines:

- a specialist turbine engine repair and overhaul business based at Brisbane Airport, Australia;
- trading operations in Australia and internationally in aircraft turbine engines and related parts;
- the provision of finance for turbine engines sold to customers; and
- the rental of turbine engines to customers.

There have been no significant changes in the nature of those activities during the year.

Review of Operations

Background

Pacific Turbine Brisbane Ltd ("PTB") was established in 2001, when it was incorporated to acquire the Brisbane assets of Pacific Turbine Pty Ltd ACN 079 166 653. It focused on providing services in relation to the Pratt & Whitney PT6A and Honeywell TPE331 light turbine engines. The Company undertook:

- specialist turbine engine repair and overhaul based at Brisbane Airport, Australia;
- trading operations in Australia and internationally in aircraft turbine engines and related parts; and
- the provision of finance for PT6A and TPE331 turbine engines for customers.

Pacific Turbine raised approximately $4 million in equity in November 2004 (pursuant to an information memorandum) and February 2005 (pursuant to a prospectus) and listed on Newcastle Stock Exchange Ltd in March 2005. The funds raised were used to acquire the National Flight Services, Inc's TPE 331 engine pool and for working capital.

During the year, PTB undertook an unsecured note financing with sophisticated investors. At the close of the subscription, the Company had received $4,589,000 cash from the issue. Attached to the notes issue is an equity incentive of one Pacific Turbine Brisbane Limited Option with an exercise price of $1.60 per share for every $3.00 invested in the Notes. The proceeds from the issue were used to fund the expanding engine pool and provide engine finance.

Initiatives in Current Period

The Dallas Airmotive and Landmark Aviation initiatives (below) have provided PTB with access to additional market opportunities not previously available -

- *Dallas Airmotive*: PTB has been appointed as sales representative for Australia and the surrounding region and a Dallas Airmotive Authorised Service Centre for Dallas Airmotive (DAI) of Dallas, Texas. As a sales representative PTB focuses primarily on the PT6A powered aircraft that dominate the region and also represents DAI's full range of engine product lines and associated services. As an authorised service center, PTB offers PT6A hot section inspection services and support DAI field service efforts in the region. DAI supplies engine overhaul services and net parts support to PTB. DAI services 86% of the turbine engine models used in the business and general aviation.

- *Landmark Aviation*: PTB has contracted with Landmark Aviation to jointly provide fixed price TPE331 overhauls. Landmark Aviation is a major USA based aviation company owned by the Carlyle Group.

Operating Results
The consolidated profit for the financial year, after providing for income tax, was $1,861,000 (2005: $1,420,000), an increase of 31%.

Operating profit before taxation for the year was $2,666,000 (2005: $2,077,000) an increase of 28% above the previous year.

The increase in both profit after tax and operating profit is due in part to the increase in the engine rental and trading pool (refer below). Rental revenue increased by 174 per cent while sale of engines was up 110 per cent from the previous year.

Financial Position
The net assets of the Group have increased by 20% from 30 June 2005 to $9,889,000 as at 30 June 2006. This increase has largely resulted from the increase in the number of engines in the rental and trading pool.

Dividends

During the financial year, PTB paid a fully franked final dividend of 6 cents per fully paid ordinary share totaling $702,000. Since year end the directors have recommended the payment of a final dividend of 6 cents per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 30 November 2006 out of retained profits, but not recognised as a liability at year end is $893,000.

Significant Changes in State of Affairs

- During the year, the Group undertook an unsecured note financing with sophisticated investors. At the close of the subscription, the Company had received $4,589,000 cash from the issue. Transaction costs relating to the issue amounted to $47,000.
- PTB incorporated three 100% owned subsidiaries.

Other than the above there were no significant changes in the state of affairs of the Group.

After Balance Date Events

No matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future years other than as follows:

Purchase of IAP Group
On 1 August 2006 PTB entered into a conditional contract to acquire all of the shares in IAP Group Australia Pty Ltd ('IAP Group'). IAP Group is a niche aviation asset management company providing aircraft inventory support, encompassing:

- global supply of aviation parts; and
- global aircraft and engine financing and sales.

IAP's business operations are highly complementary to PTB's business.

The acquisition of IAP Group will enable PTB to expand into new engine types in which IAP Group has considerable expertise and in aircraft in which IAP Group has airframe and in-house engineering expertise. The merger will create a larger and more diverse business and management team. Steve Ferris, the founder of IAP Group will take approximately 80 per cent of his consideration in the form of Pacific Turbine Brisbane Limited shares. He will hold approximately 25 per cent of the expanded group after further capital raising and the planned move to ASX.

The acquisition is subject to the fulfilment of several conditions, including shareholder approval. An Extraordinary General Meeting is being held on 20 September 2006 to obtain the required shareholder approval. It is anticipated that completion of the acquisition will take place shortly after this meeting.

Issue of Shares
1,741,400 shares were issued in August 2006. These shares were placed with sophisticated and professional investors with the funds raised of $2.6 million (net transaction costs of $83,000) to be used to fund part of the proposed IAP Group acquisition and for working capital.

Proposed capital raisings
At the general meeting of shareholders on 20 September 2006 shareholders will be asked to approve the issue of a prospectus to raise up to $8 million from the public and transition the listing of the parent entity's shares from Newcastle Stock Exchange Limited to the Australian Stock Exchange Limited. In addition, shareholders will also be asked to approve a capital raising of $2.155 million by the issue of 1,408,620 fully paid ordinary shares in the parent entity at $1.53 per share to directors and/or related parties or associates of directors. Funds from the proposed capital raisings are to be used to provide additional working capital for the consolidated entity and IAP Group post acquisition.

Future Developments, Prospects and Business Strategies

Trading conditions continue to be buoyant and the prospects for the continuing performance and growth of the Group remain sound. The Group is maintaining a very strong focus on its core competencies and had identified a number of further initiatives that are expected to enhance its prospects.

Upon the acquisition of IAP Group in September 2006 the expanded Group will provide services in the following broad areas:

Aircraft Engine and Airframe Rental and Financing
The Group will continue to build its recurring earnings from rental and financing, areas which has earned returns of 25 to 30 per cent on assets employed. Activities will include:

- Short or medium term rental or financing of engines including: Pratt & Whitney PT6A; Honeywell TPE331; Rolls Royce Dart prop jet; Rolls Royce Tay turbo fan; Rolls Royce Spey turbo fan.
- Airframe financing for aircraft including: Metro 23; EMB 110 Bandeirante; Hawker Siddley 748; BAE ATP; F27; Twin Otter; Beechcraft King Air.

Asset Management
These services will include:
- PTB:
  - Rebuilding PT6 and TP331 engines at PTB's engine repair and overhaul facilities in Brisbane;
  - Managing the rebuilding of engines at Dallas Airmotive and Landmark Aviation;
  - Trading in spare parts for engines;
  - Trading in parts (other than engines) for PTB clients.

- IAP Group:
  - Spare Parts Supply: Acquisition of redundant spares from airlines which have changed their aircraft types and then remarketing to other operators of that type. IAP Group is by far the largest surplus spare parts dealer in the southern hemisphere. Its purchasing systems are well-honed over many years and its network of contacts enables maximum exposure both for purchasing opportunities and selling. IAP Group also has a strong parts brokering business, particularly with its Asian contacts.

  - Acquisition and Sale of Aircraft/ Parting out Aircraft: As a sideline to spares support IAP Group has bought and sold many aircraft. The aircraft traded in this way range in size from an Islander to a Boeing 737 and Airbus A300. Its engineering operation at Bankstown airport has significant capability to perform aircraft refurbishment. IAP Group also acquires aircraft and parts them out. It might acquire an aircraft in Indonesia, wreck it, sell some parts such as engines immediately to recoup the cost, and containerise the balance as parts and ship them to its warehouse in Sydney for marketing.

Aeropelican Air Services

IAP Group currently owns and operates Aeropelican Air Services, based at Williamtown Airport just north of Newcastle, NSW. It has operated for over 30 years and provides commuter services from Newcastle to Sydney's Kingsford Smith Airport. It is currently operated by using one Metro 23 and one EMB 110 Bandeirante. Aeropelican is not a core asset.

Following completion of the IAP Group acquisition, it is anticipated that a prospectus will be issued to raise a further $8 million for additional working capital. This will coincide with PTB's planned transition from Newcastle Stock Exchange to Australian Stock Exchange in the latter half of calendar year 2006.

The directors have excluded from this report any further information on the likely developments in the operations of the Group and the expected results of those operations in future financial years, as the directors have reasonable grounds to believe that it would be likely to result in unreasonable prejudice to the Group.

Environmental Issues

The Group operates from Brisbane Airport and is required to meet Brisbane Airport Corporation environment regulations and the Commonwealth's Airports (Environment Protection) Regulations 1997. The company is subject to regular audit by these authorities. There have been no non-compliances to date.

Information on Current Directors

Harvey Parker (Non-Executive Chairman)

Harvey Parker was born in 1943 and has had a distinguished career spanning several industries. He has experience in the aviation industry as Managing Director of New Zealand Post and the Airpost Joint Venture. Presently he is the Chairman and also serves on the audit, remuneration and nominations committees of the Company.

He has held no other director positions with other listed companies in the last three years.

Craig Louis Baker CA, BCA (Managing Director)

Craig Baker was born in 1946 and has had extensive experience in the aviation industry. He is a qualified accountant and has been involved in aviation businesses as a General Manager, Director and Finance Manager for over 20 years.

Along with Hugh Jones, he was involved in the development of Airwork (NZ) Limited which has grown to become a major aviation provider in New Zealand with annual sales in excess of $80 million.

Craig's duties involve the overall management of the Group.

He has held no other director positions with other listed companies in the last three years.

Stephen Garry Smith (Sales and Marketing Director)

Stephen Smith was born in 1958 and has 15 years experience in the aviation industry as both a helicopter and fixed wing operator. Prior to joining Pacific Turbine Brisbane Limited, Stephen served as the Commercial Sales Manager for Pacific Turbine Pty Limited, achieving excellent results.

His duties specifically include managing the sales and marketing strategies of the Group.

He has held no other director positions with other listed companies in the last three years.

Ronald James (Dick) David (Non-Executive Director)

Dick David has 35 years experience in the transport industry. He built a business (now known as Australian Fuel Distributors Group) from a small BP fuel distributorship in Katherine, Northern Territory to a substantial Northern Australian transport company with sales revenue of over $100 million. It currently has seven branches across Northern Australia from Kununurra to Cairns. Mr. David sold a majority stake in the company to AMP Henderson Capital Investors. His elder son succeeded him as CEO and he remains on the board. He is a member of the audit and nominations committees of the Company.

He has held no other director positions with other listed companies in the last three years.

Andrew Peter Somerville Kemp B.Com, CA (Alternate Non-Executive Director for Dick David until 25 August 2006 when appointed Non-Executive Director)

Andrew graduated in Commerce from the University of Melbourne and is a chartered accountant. After working for KPMG and Littlewoods Chartered Accountants in Melbourne and Sydney, he joined AIFC, the merchant banking affiliate of the ANZ Banking Group, in Sydney in 1978. From 1979 until 1985, Andrew was Queensland Manager of AIFC.

Andrew joined the North Queensland based Coutts Group as general manager early in 1985, and continued with this group until January 1987 when he formed Huntington Group.

Since 1980, Andrew has been involved in a range of listings, acquisitions and divestments. He has structured and implemented the ASX listing of eleven companies. He has advised clients on a wide range of investments and divestments over the last 20 years.

Andrew is currently a director of the following listed companies: S8 Limited (from February 2004), Silver Chef Limited (from April 2005) and Trojan Equity Limited (from May 2005). He was previously a director of Primelife Corporation Limited (August 1988 to December 2003) and Harbour Capital Limited (November 2002 to June 2004).

Company Secretary

Annette Abrahams held the position of company secretary at the end of the financial year. She is a member of the Institute of Chartered Accountants in Australia and has a B Com and B Compt (Hons). She has 11 years experience as a Finance Controller.

Annette has been employed by the Company since July 2003 and was appointed company secretary on 1 February 2005 replacing Craig Baker.

Remuneration Report

The remuneration report is set out under the following main headings:

A Remuneration policy
B Details of remuneration
C Service contracts
D Share-based payment compensation
E Additional information

The information provided under headings A-D includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the *Corporations Act 2001* and the *Corporations Regulations 2001* which have not been audited.

A. Remuneration Policy (audited)

Non-executive Directors

Directors are to be paid out of Company funds as remuneration for their services, such sum as accrues on a daily basis as the Company in general meeting determines to be divided among them as agreed, or failing agreement, equally. The maximum aggregate amount which has been approved by shareholders for payment to non-executive directors is $50,000 per annum.

Directors' remuneration for their services as directors is by a fixed sum and not a commission or a percentage of profits or operating revenue. It may not be increased except at a general meeting in which particulars of the proposed increase have been provided in the notice convening the meeting to shareholders. There is provision for directors who devote special attention to the business of the Company or who perform services which are regarded as being outside the scope of their ordinary duties as directors, or who at the request of the board engage in any journey on Company business, to be paid extra remuneration determined by the board. Directors are also entitled to their reasonable travel, accommodation and other expenses incurred in attending Company or board meetings, or meetings of any committee engaged in the Company's business.

Any director may be paid a retirement benefit as determined by the board, consistent with the Corporations Act 2001 and the NSX Listing Rules.

Executive Pay

The remuneration committee is responsible for advising the board on remuneration and issues relevant to remuneration policies and practices including those of senior management and executive directors. The committee has responsibility for reviewing and evaluating market practices and trends in relation to remuneration, recommending remuneration policies, overseeing the performance and making recommendations on remuneration of members of senior management and executive directors.

Remuneration in each case is taken as including not only monetary payments (salaries), but all other non-monetary emoluments and benefits, retirement benefits, superannuation and incentive programs.

In each case the committee refers to the general market and industry practice (as far as directly relevant bench marks can be identified for comparative purposes) and the need to attract and retain high calibre personnel.

Compensation in the form of cash bonuses are designed to reward key management personnel for meeting or exceeding financial and non-financial objectives. There are no fixed performance criteria. After the end of the financial year the remuneration committee assess the performance of individuals and where appropriate approve discretionary cash bonuses to be paid to the individuals. Cash bonuses are paid in cash following approval by the remuneration committee.

In order to provide a long-term incentive to the executives and employees of the Company, an Employee Share Option Scheme ("the Scheme") is in place. The incentive provided by the scheme will be of material benefit to the Company in encouraging the commitment and continuity of service of the recipients. By providing executives and employees with a personal financial interest in the Company, the Company will be able to attract and retain executive directors, key executives and employees in a highly competitive market. This is expected to result in future benefits accruing to the shareholders of the Company.

The establishment of the Scheme was approved by shareholders on 3 June 2005. All staff are eligible to participate in the scheme, including executive directors (since they take part in the management of the company).

The options issued to key management personnel were issued pursuant to the Scheme whereby options were issued to all employees (excluding executive directors) on the same basis and the entitlements are not linked to performance. The number of options issued to employees was determined by the remuneration committee and approved by the board in accordance with the terms of the Scheme.

Options are granted under the Scheme for no consideration. The exercise price is the amount specified by the remuneration committee at the time of issue. The exercise period is the period specified by the remuneration committee at the time of issue. Options under the plan may not exceed 5% of the total number of issued shares of the company at the date of issue.

Options lapse if prior to or during the exercise period the employee is terminated or resigns. If a person dies, becomes disabled, or is made redundant prior to the exercise period the option lapses. If a person dies, becomes disabled, or is made redundant during the exercise period special rules apply that allow options to be exercised.

Options granted under the Scheme carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share in Pacific Turbine Brisbane Limited. Amounts receivable on the exercise of options are recognised as share capital.

The above remuneration policy together with the options package is to encourage the alignment of personal and shareholder interest.

Company Performance, Shareholder Wealth and Directors' and Executive Remuneration

There is no specific relationship between the remuneration policy and company performance. Furthermore, no element of the compensation of key management personnel is specifically dependent on satisfaction of performance conditions. The base salaries for the executives are substantially in accordance with the market for executives of similar levels.

The incentive for the executives was and is delivered through the options referred to above. The share price at 30 June 2006 and at the date of this report is greater than the exercise price for the options.

	2006	**2005**	**2004**
Revenue ($'000)	16,982	10,135	10,715
Net profit ($'000)	1,861	1,420	1,043
Share price at year-end ($)	1.60	1.15	*
Dividend paid per share in respect of each financial year	6 cents	6 cents	Nil

* The Company listed on Stock Exchange of Newcastle Limited on 10 March 2005.

B. Details of Remuneration (audited)

The remuneration for each director and other key management personnel of the Group was as follows:

2006 Year	**Short-term benefits**			**Post-employment**	**Other**	**Share-based payment**	**Total**
	Cash salary and fees	**Cash bonus**	**Non-monetary benefits**	**Super-annuation**	**Long-term benefits***	**Options**	
Directors	**$**	**$**	**$**	**$**	**$**	**$**	**$**
CL Baker (Managing Director)	137,628	-	14,136	97,158	4,887	-	253,809
SG Smith (Sales and Marketing Director)	232,031	-	4,839	19,800	4,887	-	261,557
HR Jones (Non-Executive Director)	14,000	-	-	-	-	-	14,000
H Parker (Non-Executive Director)	14,000	-	-	-	-	-	14,000
RJ David (Non-Executive Director)	22,000	-	-	-	-	-	22,000
APS Kemp (1) (Non-Executive Director)	42,000	-	-	-	-	-	42,000
Total Directors	**461,659**	**-**	**18,975**	**116,958**	**9,774**	-	**607,366**
Other Key Management Personnel							
AL Abrahams (Company Secretary and Finance Manager)	75,665	6,000	-	7,333	-	3,545	92,543
2005 Year							
Directors							
CL Baker (Managing Director)	170,483	-	4,947	83,156	-	27,420	286,006
SG Smith (Sales and Marketing Director)	217,173	-	8,798	18,000	-	27,420	271,391
HR Jones (Non-Executive Director)	7,000	-	-	-	-	-	7,000
H Parker (Non-Executive Director)	7,000	-	-	-	-	-	7,000
RJ David(3) (Non-Executive Director)	10,000	-	-	-	-	-	10,000
APS Kemp(1) (Non-Executive Director)	57,653	-	-	-	-	20,565	78,218
GD Hills(2) (Non-Executive Director)	-	-	-	-	-	-	-
Total Directors	**469,309**	**-**	**13,745**	**101,156**	**-**	**75,405**	**659,615**
Other Key Management Personnel							
AL Abrahams(4) (Company Secretary and Finance Manager)	69,091	4,000	-	6,386	-	-	79,477

* comprising long service leave

(1) APS Kemp's remuneration comprises amounts paid for services provided in respect of corporate advisory and capital raising strategy services. He was appointed alternative director on 17 December 2004 and Director on 25 August 2006.
(2) GD Hills resigned as director on 14 December 2004.
(3) RJ David was appointed as non-executive director on 17 December 2004.
(4) AL Abrahams was appointed company secretary on 1 February 2005 but was the Finance Manager for all of 2005.

There were no other executives in the current or prior year. All directors and other key management personnel are employed by Pacific Turbine Brisbane Limited.

Cash bonuses were paid during the current and prior year. No specific service or performance criteria were used to determine the amount of the bonus.

Share-based payment compensation benefits were granted in the current and prior year. Details of these benefits which were in the form of share options are given in section D below. No specific service or performance criteria were used to determine the amount of the grant.

C. Service Contracts (audited)

Major provisions of service agreements with executive directors and other key management personnel as at 30 June 2006 are set out below.

CL Baker (Managing Director)
- *Term of agreement* – Minimum of three years commencing 17 December 2004
- *Base annual salary* – $220,000 plus 9% superannuation plus vehicle to be reviewed annually by the remuneration committee
- *Notice period* – Termination by a minimum of 12 months notice in writing by either party other than for gross misconduct. Termination payment is equivalent to one year's salary plus superannuation as noted above.

SG Smith (Sales and Marketing Director)
- *Term of agreement* – Minimum of three years commencing 17 December 2004
- *Base annual salary* – $220,000 plus 9% superannuation plus vehicle to be reviewed annually by the remuneration committee
- *Notice period* – Termination by a minimum of 12 months notice in writing by either party other than for gross misconduct. Termination payment is equivalent to one year's salary plus superannuation as noted above.

AL Abrahams (Company Secretary and Finance Manager)
- *Term of agreement* – Indefinite with a notice period of one month
- *Base annual salary* – $84,000 plus 9% superannuation to be reviewed annually by the remuneration committee
- *Notice period* – Termination by one months notice in writing by either party other than for gross misconduct.

No other key management personnel are subject to service agreements.

D. Share-based Payment Compensation (audited)

In 2006 options were granted to certain staff under the Employee Share Option Scheme. Refer Section A above for details of the Scheme. The options are not dependent upon the satisfaction of a performance condition as they depend upon service vesting conditions (the options vest one third each).

During the 2005 financial year options were granted to directors by the Company. The options were issued free of charge. Each option granted is convertible into one ordinary share in Pacific Turbine Brisbane Limited. The options were issued upon listing pursuant to the prospectus dated 4 January 2005. Options granted carry no dividend or voting rights.

The options were granted upon listing on 10 March 2005 and include no vesting conditions but are considered to be a reasonable financial benefit to be applied as part of the reasonable remuneration applicable for their services having regard to the benefits the Company has and will gain from their continuing involvement with the Company.

The terms and conditions of each grant of options affecting remuneration in the previous, current or future reporting periods are as follows:

Grant date	Expiry Date	Exercise price	Value per option at grant date	Date exercisable
10 March 2005	10 March 2008	$1.15	$0.137	10 March 2006
30 September 2005	19 November 2008	$1.00	$0.35	33% after 19 August 2006, 33% after 19 August 2007, 33% after 19 August 2008

Details of options over ordinary shares in the Company provided to each director of Pacific Turbine Brisbane Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Pacific Turbine Brisbane Limited.

	Number of options granted during the year		Number of options vested during the year	
	2006	2005	2006	2005
Directors				
CL Baker	-	200,000	-	200,000
SG Smith	-	200,000	-	200,000
APS Kemp	-	150,000	-	150,000
Other key management personnel				
AL Abrahams	20,000	-	-	-

The amounts disclosed for remuneration relating to options above are the assessed fair values at grant date of options granted, allocated equally over the period from grant date to vesting date. Fair values at grant date are determined using a Binomial option pricing model which 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. Refer note 24 of the financial report for the inputs into the model.

No remuneration options have been exercised or lapsed during this or the prior financial year.

E. Additional Information (unaudited)

Details of remuneration: cash bonuses and options
As both the grant of options and cash bonuses during the year were discretionary, no part of the grants were forfeited and no part is payable in future years. For details of option vesting conditions and number vested refer to Section D.

Share-based compensation: Options
Further details relating to options granted during the year are set out below.

Name	A Remuneration consisting of options	B Value at grant date $	C Value at exercise date $	D Value at lapse date $	E Total of columns B-D $
AL Abrahams	3.8%	7,066	-	-	7,066

No options granted in this or prior years have been exercised or have lapsed during the year.

A = The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.
B = The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted during the year as part of remuneration.
C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.
D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Loans to Directors and Executives

There are no loans to directors and executives.

Meetings of Directors

Attendances by each director during the financial year were as follows:

	Number of Meetings Held While a Director	Number of Meetings Attended
Full Board		
CL Baker	8	8
SG Smith	8	8
HR Jones	8	7
H Parker	8	8
RJ David	8	5
APS Kemp	8	8
Remuneration Committee		
H Parker	2	2
HR Jones	2	2
Audit and Risk Management Committee		
H Parker	4	4
RJ David	4	4

Nominations Committee
Members of the committee are H Parker and RJ David. No meetings of the nominations committee were held during the year ended 30 June 2006.

Share Options

Shares Issued on Exercise of Options
No options have been exercised during the year and up to the date of the report.

Shares Under Option
At the date of this report, Pacific Turbine Brisbane Limited has unissued ordinary shares under option as follows:

Issue price	No. of ordinary shares	Expiry date of options
$1.15	550,000	10 March 2008
$1.00	140,000	19 November 2008
$1.60	1,529,600	30 November 2008

Directors' Interests

Directors' shares and options in the Company at the date of this report are as follows:

	Number	
	Ordinary Shares	Share Options
CL Baker	1,807,355	200,000
SG Smith	1,778,500	200,000
H Parker	296,000	-
RJ David	212,000	-
APS Kemp	96,000	188,267

Indemnification and Insurance of Directors, Officers and Auditors

During or since the end of the financial year, the Company has not given any indemnity or entered into any agreement to indemnify, or paid or agreed to pay insurance premiums in relation to an officer or auditor, except as detailed below.

The company has Director and Officers insurance in place for all directors and officers of the company.

The insurance insures any person who is or has been an officer of the Company against certain liabilities in respect of their duties as an officer of the Company, and any other payments arising from or in connection with such proceedings, other than where such liabilities arise from conduct involving a willful breach of duty.

The policy prohibits disclosure of details of the cover and the amount of the premium paid.

Proceedings on behalf of the Company

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

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Non-Audit Services

The Company may decide to employ the auditor on assignments additional to statutory audit duties where the auditor's expertise and experience with the Company are important.

The board of directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

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

A copy of the auditor's signed independence declaration as required under section 307C of the Corporations Act 2001 is attached to this report.

During the year the following non-audit service fees were paid or payable for services provided by the auditor of the company, Johnston Rorke.

	2006 **$**
Other assurance services	
Provision of due diligence services in relation to potential purchase of IAP Group Australia Pty Ltd	25,000
Non-audit services	
Taxation advice and compliance	8,650

Rounding of Amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

H Parker
Chairman

Brisbane
19 September 2006

The Directors
Pacific Turbine Brisbane Limited
47-51 Pandanus Avenue
BRISBANE AIRPORT QLD 4007

Auditor's Independence Declaration

As lead engagement partner for the audit of the financial report of Pacific Turbine Brisbane Limited for the year ended 30 June 2006, 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 audit; and

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

JOHNSTON RORKE
Chartered Accountants

R.C.N. WALKER
Partner

Brisbane, Queensland
19 September 2006

Scope of responsibility of the Board

Responsibility for the Company's proper corporate governance rests with the Board. The Board's guiding principle in meeting this responsibility is to act honestly, conscientiously and fairly, in accordance with the law, in the interests of Pacific Turbine Brisbane Limited's (PTB) shareholders (with a view to building sustainable value for them) and those of employees and other stakeholders.

The Board's broad function is to:

(a) chart strategy and set financial targets for the Company;
(b) monitor the implementation and execution of strategy and performance against financial targets; and
(c) appoint and oversee the performance of executive management and generally to take and fulfil an effective leadership role in relation to the Company.

Power and authority in certain areas is specifically reserved to the Board - consistent with its function as outlined above. These areas include:

(a) composition of the Board itself including the appointment and removal of Directors;
(b) oversight of the Company including its control and accountability system;
(c) appointment and removal of senior management and the Company secretary;
(d) reviewing and overseeing systems of risk management and internal compliance and control, codes of ethics and conduct, and legal and statutory compliance;
(e) monitoring senior management's performance and implementation of strategy; and
(f) approving and monitoring financial and other reporting and the operation of committees.

Composition of Board

The Board performs its role and function, consistent with the above statement of its overall corporate governance responsibility, in accordance with the following principles:

(a) the Board should comprise at least five directors;
(b) at least half of the Board should be non-executive directors independent from management; and
(c) the chairman of the Board should be one of the independent non-executive directors.

Board charter and policy

The Board has adopted a charter (which will be kept under review and amended from time to time as the Board may consider appropriate) to give formal recognition to the matters outlined above. This charter sets out various other matters that are important for effective corporate governance including the following:

i. a detailed definition of ‘independence';
ii. a framework for the identification of candidates for appointment to the Board and their selection;
iii. a framework for individual performance review and evaluation;
iv. proper training to be made available to Directors both at the time of their appointment and on an on-going basis;
v. basic procedures for meetings of the Board and its committees - frequency, agenda, minutes and private discussion of management issues among non-executive Directors;
vi. ethical standards and values - formalised in a detailed code of ethics and values;
vii. dealings in securities - formalised in a detailed code for securities transactions designed to ensure fair and transparent trading by Directors and senior management and their associates; and
viii. communications with shareholders and the market.

These initiatives, together with the other matters provided for in the Board's charter, are designed to ‘institutionalise' good corporate governance and generally, to build a culture of best practice in PTB's own internal practices and in its dealings with others.

Audit and risk management committee

The purpose of this committee is to advise on the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. Its current members are Harvey Parker and Dick David.

The committee performs a variety of functions relevant to risk management and internal and external reporting and reports to the Board following each meeting. Among other matters for which the committee is responsible are the following:

(a) Board and committee structure to facilitate a proper review function by the Board;
(b) internal control framework including management information systems;
(c) corporate risk assessment and compliance with internal controls;
(d) internal audit function and management processes supporting external reporting;
(e) review of financial statements and other financial information distributed externally;
(f) review of the effectiveness of the audit function;
(g) review of the performance and independence of the external auditors;
(h) review of the external audit function to ensure prompt remedial action by management, where appropriate, in relation to any deficiency in or breakdown of controls;
(i) assessing the adequacy of external reporting for the needs of shareholders; and
(j) monitoring compliance with the Company's code of ethics.

Meetings are held at least three times each year. A broad agenda is laid down for each regular meeting according to an annual cycle. The committee invites the external auditors to attend each of its meetings.

Remuneration committee

The purpose of this committee is to assist the Board and report to it on remuneration and issues relevant to remuneration policies and practices including those for senior management and non-executive Directors. Its current members are Harvey Parker and Hugh Jones.

Among the functions performed by the committee are the following:

(a) review and evaluation of market practices and trends on remuneration matters;
(b) recommendations to the Board in relation to the Company 's remuneration policies and procedures;
(c) oversight of the performance of senior management and non-executive Directors; and
(d) recommendations to the Board in relation to the remuneration of senior management and non-executive Directors.

Meetings are held at least twice each year.

Nominations committee

The purpose of this committee is to assist the Board and make recommendations to it in relation to the appointment of new Directors. Its current members are Harvey Parker and Dick David.

Functions performed by the committee include the following:

(a) development of suitable criteria (as regards skills, qualifications and experience) for Board candidates;
(b) identification and consideration of possible candidates, and recommendation to the Board accordingly;
(c) establishment of procedures, and recommendations to the Chairman, for the proper oversight of the Board and management; and
(d) ensuring the performance of each Director is reviewed and assessed each year in accordance with procedures adopted by the Board.

Meetings are held at least annually.

Best practice commitment

The Company is committed to achieving and maintaining the highest standards of conduct and has undertaken various initiatives, as outlined in this section, that are designed to achieve this objective. PTB's corporate governance charter is intended to ‘institutionalise' good corporate governance and, generally, to build a culture of best practice both in the Company's own internal practices and in its dealings with others.

The following are a tangible demonstration of the Company's corporate governance commitment.

Independent professional advice

With the prior approval of the Chairman, which may not be unreasonably withheld or delayed, each Director has the right to seek independent legal and other professional advice concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors. Any costs incurred are borne by the Company.

Code of ethics and values

The Company has developed and adopted a detailed code of ethics and values to guide Directors in the performance of their duties.

Code of conduct for transactions in securities

The Company has developed and adopted a formal code to regulate dealings in securities by Directors and senior management and their associates. This is designed to ensure fair and transparent trading in accordance with both the law and best practice.

Charter

The code of ethics and values and the code of conduct for transactions in securities (referred to above) both form part of the Company's corporate governance charter which has been formally adopted, which complies with NSX corporate governance guidelines and best practice recommendations.

The ASX document, ‘Principles of Good Corporate Governance and Best Practice Recommendations' (‘Guidelines') applying to listed entities was published in March 2003 by the ASX Corporate Governance Council with the aim of enhancing the credibility and transparency of Australia's capital markets.

The Board has assessed the Company's current practice against the Guidelines and outlines its assessment below:

Principle 1 - Lay solid foundations for management and oversight

The role of the Board and delegation to management have been formalised as described above in this section and will continue to be refined, in accordance with the Guidelines, in light of practical experience gained in operating as a listed company. PTB complies with the Guidelines in this area.

Principle 2 - Structure the Board to add value

Of the five Company Directors, Harvey Parker, Hugh Jones and Dick David are non-executive Directors.

Together, the Directors have a broad range of experience, expertise, skills, qualifications and contacts relevant to the business of the Company.

Principle 3 - Promote ethical and responsible decision making

The Board has adopted a detailed code of ethics and values and a detailed code of conduct for transactions in securities as referred to above. The purpose of these codes is to guide Directors in the performance of their duties and to define the circumstances in which both they and management, and their respective associates, are permitted to deal in securities.

The Board will ensure that restrictions on dealings in securities are strictly enforced. Both codes have been designed with a view to ensuring the highest ethical and professional standards, as well as compliance with legal obligations, and therefore compliance with the Guidelines.

Principle 4 - Safeguard integrity in financial reporting

The audit and risk committee (with its own charter) complies with the Guidelines. All the members of the audit committee are financially literate.

Principle 5 - Make timely and balanced disclosure

PTB's current practice on disclosure is consistent with the Guidelines. Policies and procedures for compliance with NSX Listing Rules disclosure requirements are included in the Company's corporate governance charter.

Principle 6 - Respect the rights of shareholders

The Board recognises the importance of this principle and strives to communicate with shareholders both regularly and clearly - both by electronic means and using more traditional communication methods. Shareholders are encouraged to attend and participate at general meetings. The Company's auditors will always attend the annual general meeting and will be available to answer shareholders' questions. The Company's policies comply with the Guidelines in relation to the rights of shareholders.

Principle 7 - Recognise and manage risks

The Board, together with management, has constantly sought to identify, monitor and mitigate risk. Internal controls are monitored on a continuous basis and, wherever possible improved. The whole issue of risk management is formalised in the Company's corporate governance charter (which complies with the Guidelines in relation to risk management) and will continue to be kept under regular review. Review takes place at both committee level (audit and risk management committee), with meetings at least three times each year and at Board level.

Principle 8 - Encourage enhanced performance

The corporate governance charter adopted by the Board requires individual performance review and evaluation to be conducted formally on an annual basis. The Board acknowledges that performance can always be enhanced and will continue to seek and consider ways of further enhancing performance both individually and collectively. PTB's practice complies with the Guidelines in this area.

Principle 9 - Remunerate fairly and responsibly

PTB's current practices in this area are reviewed regularly and comply with the Guidelines. Remuneration of Directors and executives is fully disclosed in the annual report. The remuneration committee, which advises and reports to the Board, is appropriately constituted in that members of the remuneration committee are non-executive directors with experience in corporate governance best practice.

Principle 10 - Recognise the legitimate interests of stakeholders

The Board recognises the importance of this principle (which it believes represents not only sound ethics but also good business sense and commercial practice) and continues to develop and implement procedures to ensure compliance with legal and other obligations to legitimate stakeholders. The Company and its policies and practices comply with the Guidelines in this area.

PACIFIC TURBINE BRISBANE LIMITED AND CONTROLLED ENTITIES

INCOME STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Revenue	2	16,982	15,959	10,135
Other income	3	677	564	297
Changes in inventories		2,782	2,782	219
Purchase of inventories		(14,346)	(14,160)	(6,220)
Employee benefits expense		(1,176)	(1,176)	(1,140)
Depreciation and amortisation		(582)	(268)	(332)
Finance costs		(426)	(186)	(131)
Other expenses		(1,245)	(1,240)	(751)
Total expenses		(14,993)	(14,248)	(8,355)
Profit before income tax expense	4	2,666	2,275	2,077
Income tax expense	5	(805)	(688)	(657)
Profit for the year	20	1,861	1,587	1,420
		Cents		Cents
Basic earnings per share	22	15.9		15.4
Diluted earnings per share	22	15.8		15.4

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

PACIFIC TURBINE BRISBANE LIMITED AND CONTROLLED ENTITIES

BALANCE SHEETS

AS AT 30 JUNE 2006

	Note	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Current Assets				
Cash and cash equivalents		1,590	504	1,346
Trade and other receivables	6	6,578	6,263	3,300
Inventories	7	4,782	4,782	2,000
Other	8	138	138	90
Total Current Assets		13,088	11,687	6,736
Non-Current Assets				
Trade and other receivables	6	1,329	2,364	658
Other financial assets	9	-	273	-
Property, plant and equipment	10	5,278	638	4,005
Deferred tax assets	11	53	25	-
Intangible assets	12	11	11	17
Total Non-Current Assets		6,671	3,311	4,680
Total Assets		19,759	14,998	11,416
Current Liabilities				
Trade and other payables	13	1,670	1,609	826
Borrowings	14	2,082	2,082	1,003
Current tax liabilities		445	292	244
Provisions	16	159	159	137
Other	17	43	43	88
Total Current Liabilities		4,399	4,185	2,298
Non-Current Liabilities				
Borrowings	14	5,312	1,031	522
Deferred tax liabilities	15	70	-	44
Provisions	16	89	89	70
Total Non-Current Liabilities		5,471	1,120	636
Total Liabilities		9,870	5,305	2,934
Net Assets		9,889	9,693	8,482
Equity				
Contributed equity	18	4,171	4,249	3,948
Reserves	19	100	100	75
Retained profits	20	5,618	5,344	4,459
Total Equity		9,889	9,693	8,482

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

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

Consolidated	Contributed Equity		Reserve – Share Based Payments	Retained Profits	Total
	Issued Capital $'000	Other Equity Securities $'000	$'000	$'000	$'000
At 1 July 2004*	4	-	-	3,039	3,043
Profit for the period	-	-	-	1,420	1,420
Director options	-	-	75	-	75
Issue of share capital (net of transaction costs)	3,944	-	-	-	3,944
At 30 June 2005*	3,948	-	75	4,459	8,482
Profit for the period	-	-	-	1,861	1,861
Employee share options	-	-	25	-	25
Dividends paid	40	-	-	(702)	(662)
Value of conversion rights on notes (net of tax)	-	183	-	-	183
At 30 June 2006	3,988	183	100	5,618	9,889

Parent Entity	Contributed Equity		Reserve – Share Based Payments	Retained Profits	Total
	Issued Capital $'000	Other Equity Securities $'000	$'000	$'000	$'000
At 1 July 2004	4	-	-	3,039	3,043
Profit for the period	-	-	-	1,420	1,420
Director options	-	-	75	-	75
Issue of share capital (net of transaction costs)	3,944	-	-	-	3,944
At 30 June 2005	3,948	-	75	4,459	8,482
Profit for the period	-	-	-	1,587	1,587
Employee share options	-	-	25	-	25
Dividends paid	40	-	-	(702)	(662)
Value of conversion rights on notes (net of tax)	-	261	-	-	261
At 30 June 2006	3,988	261	100	5,344	9,693

* Represents parent entity balances.

The statements of changes in equity should be read in conjunction with the accompanying notes.

PACIFIC TURBINE BRISBANE LIMITED AND CONTROLLED ENTITIES

CASH FLOW STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Cash Flow From Operating Activities				
Cash receipts in the course of operations		14,739	13,805	10,626
Cash payments in the course of operations		(17,981)	(17,522)	(8,687)
Interest received		243	222	199
Finance costs		(391)	(186)	(131)
Income taxes paid		(709)	(709)	(520)
Net cash provided by/(used in) operating activities	21	(4,099)	(4,390)	1,487
Cash Flow From Investing Activities				
Payments for property, plant and equipment		(3,669)	(2,250)	(4,592)
Payments for intangible assets		-	-	(1)
Proceeds on disposal of property, plant and equipment		2,497	5,919	928
Payments for investments in subsidiaries		-	(12)	-
Loans to subsidiaries		-	(6,005)	-
Repayment of loans to subsidiaries		-	4,970	-
Net cash provided by/(used in) investing activities		(1,172)	2,622	(3,665)
Cash Flow From Financing Activities				
Proceeds from borrowings		3,217	3,217	1,152
Repayment of borrowings		(1,937)	(1,937)	(1,184)
Repayment of lease liabilities		(20)	(20)	(44)
Proceeds from issue of shares		-	-	4,108
Share issue transaction costs		-	-	(234)
Proceeds from issue of notes		4,589	-	-
Dividends paid		(662)	(662)	-
Net cash provided by financing activities		5,187	598	3,798
Net increase/(decrease) in cash and cash equivalents		(84)	(1,170)	1,620
Cash and cash equivalents at the beginning of the year		1,260	1,260	(360)
Cash and cash equivalents at the end of the year	21	1,176	90	1,260

The cash flow statements should be read in conjunction with the accompanying notes.

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for Pacific Turbine Brisbane Limited as an individual entity and the consolidated entity consisting of Pacific Turbine Brisbane Limited and its subsidiaries.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRSs), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001.*

Compliance with IFRSs
Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of Pacific Turbine Brisbane Limited comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Disclosure and Presentation.*

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards
These financial statements are the first Pacific Turbine Brisbane Limited financial statements 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 Pacific Turbine Brisbane 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 Pacific Turbine Brisbane Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. The comparative figures in respect of 2005 were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net profit are given in note 32.

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 at fair value through profit or loss and certain classes of property, plant and equipment.

Critical accounting estimates
The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1(ae).

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pacific Turbine Brisbane Limited ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Pacific Turbine Brisbane Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity. For details of the subsidiaries refer note 30.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

1. Summary of Significant Accounting Policies (continued)

(b) Principles of consolidation (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer note 1(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of Pacific Turbine Brisbane Limited.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Pacific Turbine Brisbane Limited's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and amounts collected on behalf of third parties. Revenue is recognised for the major business activities as follows:

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at time of delivery to customers.

Revenue from repairs is recognised at the time the service is performed.

1. Summary of Significant Accounting Policies (continued)

(e) Revenue recognition (continued)

Revenue from sale of goods and provision of services under maintenance contracts is recognised in accordance with the stage of completion method unless the outcome of the contract cannot be reliably estimated. When the outcome of the contract cannot be reliably estimated, contract costs are recognised as an expense as incurred, and where it is probable that costs will be recovered, revenue is recognised to the extent of costs incurred.

Interest on extended credit receivables (under hire purchase agreements) is recognised progressively by the Group over the hire purchase term to achieve a constant periodic rate of return on the carrying amount of the receivable (being the Group's net investment in the hire purchase arrangement).

Rental income from engines is recognised on a basis representative of the pattern of service rendered through the provision of the relevant engine. In other words, rental income is based on an hourly rate and hours of usage.

(f) Unearned revenue

Unearned revenue includes amounts received in advance from customers. Such amounts are recorded as revenue in the income statement when goods and services are provided.

(g) 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Tax consolidation legislation
Pacific Turbine Brisbane Limited and its wholly-owned Australian controlled entities are yet to decide whether or not to implement the tax consolidation legislation. Accordingly, the income tax expense, tax payable and deferred tax assets and liabilities of each entity are calculated on a standalone basis and are recognised in the entity to which they relate.

1. Summary of Significant Accounting Policies (continued)

(h) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

As lessor
Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the net investment in the lease. Finance lease payments receivable are allocated between interest revenue and reduction of the lease receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

For operating leases, the leased asset (rental engines) is classified as a non-current asset and depreciated in accordance with the depreciation policy set out in note 1(q). Rental income from operating leases is recognised as set out in note 1(e).

As lessee
Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs. Refer to note 1(u).

Finance leased assets are amortised on a diminishing value basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(i) Business combinations

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable 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.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

1. Summary of Significant Accounting Policies (continued)

(j) Impairment of assets

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

(k) Cash and cash equivalents

For cash flow statement presentation purposes, 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.

(l) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement in 30 to 60 days.

Collectability of 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 Group 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 original effective interest rate. The amount of the provision is recognised in the income statement.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are assigned to individual items of stock by specific identification. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

1. Summary of Significant Accounting Policies (continued)

(n) Other financial assets

The Group classifies 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.

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

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

(o) Fair value estimation

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

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

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

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

(p) Leasehold improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the Group, whichever is the shorter.

1. Summary of Significant Accounting Policies (continued)

(q) 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 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 is generally calculated on a straight-line (SL) or diminishing value (DV) basis so as to allocate the cost, net of residual values, of each item of property, plant and equipment (excluding land and rental engines) over its estimated useful life to the Group. For rental engines, depreciation is based on the estimated operating hours. The line item in the income statement in which the depreciation and amortisation of property, plant and equipment is included is Depreciation and Amortisation expense.

The estimated useful lives are as follows:

Class	**Life**	**Basis**
Leasehold improvements	5 years	SL
Leasehold improvements - leased	6 years	SL
Plant and equipment	3 - 10 years	DV
Plant and equipment – leased	6 - 8 years	DV
Rental engines	5,500 - 7,000 hours	Actual hours as a proportion of estimated total operating hours

Certain items of plant and equipment, primarily rental engines, are required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with the above. Other routine operating maintenance, repair and minor renewal costs are also charged as expenses as incurred.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1 (j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(r) Intangibles – computer software

Computer software has a finite life and is carried at cost less any accumulated amortisation and any impairment losses. Computer software is amortised on a straight-line basis over its estimated useful life of 7 years. The line item in the income statement in which the amortisation of computer software is included is Depreciation and Amortisation expense.

(s) Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost.

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

1. Summary of Significant Accounting Policies (continued)

(t) 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.

The fair value of the liability portion of a note (with an attached option to convert into ordinary shares) is determined using a market interest rate for an equivalent non-convertible note. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the note. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects.

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

(u) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

(v) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in the employee benefits provision 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.

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

(iii) Superannuation
The Group makes contributions to defined contribution superannuation funds. Contributions are recognised as an expense as they become payable.

(iv) Share-based payments
Share-based compensation benefits are provided to employees via the Pacific Turbine Brisbane Limited Employee Share Option Plan.

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.

1. Summary of Significant Accounting Policies (continued)

(v) Employee benefits (continued)

Share options granted after 7 November 2002 and vested after 1 January 2005
The fair value of options granted under the Pacific Turbine Brisbane Limited Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Binomial 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.

(w) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

(x) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the year but not distributed at balance date.

(y) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

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

1. Summary of Significant Accounting Policies (continued)

(z) 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 amounts of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

(aa) Rounding of amounts

The company is of a kind referred to in class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that class order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ab) General

Pacific Turbine Brisbane Limited is a public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

47-51 Pandanus Avenue
BRISBANE AIRPORT QLD 4007

The company changed status from a proprietary company to a public company on 13 December 2004 resulting in a change in name from Pacific Turbine Brisbane Pty Ltd to Pacific Turbine Brisbane Limited.

(ac) Comparatives

The parent entity established its subsidiaries during the 2006 financial year (refer note 30). As such, the 2005 comparatives for the consolidated entity comprise the parent entity's 2005 comparatives.

1. Summary of Significant Accounting Policies (continued)

(ad) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods and have not been early adopted. These new standards and interpretations are set out below.

AASB Amendment	Affected Standard(s)	Application Date
2004-3	AASB 1 *First-time adoption of AIFRS*, AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*	1 January 2006
2005-1	AASB 139 *Financial Instruments: Recognition and Measurement*	1 January 2006
2005-4	AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time adoption of AIFRS*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*	1 January 2006
2005-5	AASB 1 *First-time adoption of AIFRS* and AASB 139 *Financial Instruments: Recognition and Measurement*	1 January 2006
2005-6	AASB 3 *Business Combinations*	1 January 2006
2005-9	AASB 4 I*nsurance Contracts*, AASB 1023 *General Insurance Contracts*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 132 *Financial Instruments: Disclosure and Presentation*	1 January 2006
2005-10	AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 133 *Earnings per Share*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time adoption of AIFRS*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*	1 January 2007
2006-1	AASB 121 *The Effects of Changes in Foreign Exchange Rates*	1 January 2006

The implementation of the above AASB amendments is not expected to materially affect the Group's accounting policies.

New Standard/UIG	Application Date
AASB 119 *Employee Benefits*	1 January 2006
AASB 7 *Financial Instruments: Disclosures*	1 January 2007
UIG 4 *Determining whether an Arrangement contains a Lease*	1 January 2006
UIG 5 *Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds*	1 January 2006
UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*	1 March 2006
UIG 8 *Scope of AASB 2*	1 May 2006
UIG 9 *Reassessment of Embedded Derivatives*	1 June 2006

The implementation of the above new AASB Standards and UIGs is not expected to materially affect the Group's accounting policies.

1. Summary of Significant Accounting Policies (continued)

(ae) Critical accounting estimates and judgements

The Group evaluates estimates and judgements 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 company. Key estimates and judgements impacting the financial statements are as follows:

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 assets is determined. No impairment trigger was identified for the current or prior years and, accordingly, no detailed impairment test was performed.

	Consolidated	Parent entity	
	2006	2006	2005
2. Revenue	$'000	$'000	$'000
Sales revenue			
Sale of engines	9,477	9,056	4,530
Sale of parts	4,930	5,151	3,978
Services	570	570	329
	14,977	14,777	8,837
Other revenue			
Rental of engines	1,696	894	620
Interest			
- Extended credit receivables (hire purchase agreements)	199	196	165
- Other	44	26	34
Insurance recovery	-	-	330
Debt forgiveness – shareholders loans *	-	-	123
Other	66	66	26
	16,982	15,959	10,135

* Director/shareholder loans were forgiven during the 2005 financial year. These loans were previously unsecured, interest free and with no fixed repayment date. The loans were provided at around the time the parent entity began trading for the purpose of funding initial working capital. It was agreed during the 2005 financial year that the loans would not be repaid.

3. Other Income

Net gain on disposal of property, plant and equipment	677	564	297

4. Expenses

Profit before income tax expense includes the following specific items:			
Cost of sale of goods	11,564	11,377	6,001
Depreciation			
- Plant and equipment	37	37	31
- Rental engines	504	190	249
Amortisation			
- Leasehold improvements	21	21	21
- Leased leasehold improvements	12	12	13
- Leased plant and equipment	2	2	7
- Computer software	6	6	11
Operating lease rentals – minimum lease payments			
- Premises	47	47	46
- Equipment	1	1	3
Bad and doubtful debts – trade debtors	325	325	-
Net foreign exchange loss	3	3	38
Defined contribution superannuation expense	165	165	184

	Consolidated	Parent entity	
	2006	2006	2005
	$'000	$'000	$'000
5. Income Tax Expense			
(a) Income tax expense			
Current tax	883	730	464
Deferred tax	(105)	(69)	193
Under (over) provided in prior years	27	27	-
	805	688	657
(b) Numerical reconciliation of income tax expense to prima facie tax payable			
Profit before income tax expense	2,666	2,275	2,077
Tax the Australian tax rate at 30% (2005: 30%)	800	683	623
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:			
- Share-based payments	7	7	23
- Sundry items	(29)	(29)	11
	778	661	657
Under/(over) provided in prior years	27	27	-
Income tax expense	805	688	657
(c) Amounts recognised directly in equity			
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity			
Net deferred tax – debited (credited) directly to equity (notes 11 and 15)	78	-	(70)

(d) Tax consolidation legislation

Pacific Turbine Brisbane Limited and its wholly-owned Australian controlled entities are yet to decide whether or not to implement the tax consolidation legislation as stated in note 1(g).

6. Trade and Other Receivables

	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Current			
Trade debtors	4,597	4,590	2,328
Allowance for doubtful debts	(360)	(360)	(40)
	4,237	4,230	2,288
Maintenance contract receivables	343	343	63
Extended credit receivables (hire purchase agreements)	1,998	1,690	905
Other debtors	-	-	44
	6,578	6,263	3,300
Non-Current			
Maintenance contract receivables	388	388	148
Extended credit receivables (hire purchase agreements)	941	941	510
Amounts receivable from controlled entities	-	1,035	-
	1,329	2,364	658

Trade debtors
Trade debtors are generally unsecured and due 30 to 60 days from date of recognition.

Maintenance contract receivables
Maintenance contract receivables are generally unsecured. The relevant agreements require fixed monthly payments over the term of the contracts which are generally 5 years.

Extended credit receivables
Extended credit receivables (hire purchase agreements) represent amounts owed by customers for engines sold to those customers. The amounts owed by customers are secured under hire purchase agreements between the Group and the customer. The amounts are repayable by the customers by monthly instalments of principal and fixed interest over periods of 1 to 5 years with no unguaranteed residual value. Furthermore the agreements do not include any contingent rentals. The receivables are secured as the rights to the engine revert to the Group in event of default. The engines are maintained and insured by the customers and at the end of the term of the agreement are retained by the customers.

Payments in relation to the hire purchase agreements are receivable as follows:

	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Within one year	2,201	1,887	971
Later than one year but not later than five years	987	987	534
	3,188	2,874	1,505
Future finance revenue			
Within one year	(203)	(197)	(66)
Later that one year but not later than five years	(46)	(46)	(24)
	(249)	(243)	(90)
	2,939	2,631	1,415
Representing receivables			
Current	1,998	1,690	905
Non-current	941	941	510
	2,939	2,631	1,415

Amounts receivable from controlled entities
Refer note 31 for information on amounts receivable from controlled entities.

Effective interest rates and credit risk
Information concerning the effective interest rates and credit risks is set out in note 27.

7. Inventories

	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Work in progress – at cost	312	312	190
Finished goods – at cost	4,470	4,470	1,810
	4,782	4,782	2,000

Finished goods includes both completed engines and engine parts ready for sale. Work in progress includes engines undergoing reconditioning in preparation for sale as well as incomplete repair jobs.

	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
8. Other Assets – Current			
Prepayments	84	84	70
Deposits	54	54	20
	138	138	90
9. Other Financial Assets			
Shares in subsidiaries	-	273	-

These financial assets are carried at cost (which comprises cash contributions of $12,000 and an equity contribution of $261,000 as described in note 15). For details of the subsidiaries refer note 30.

10. Property, Plant and Equipment

Parent Entity

	Leasehold Improvements Owned $'000	Leasehold Improvements Under Lease $'000	Plant & Equipment Owned $'000	Plant & Equipment Under Lease $'000	Rental Engines Owned $'000	Total $'000
At 1 July 2004						
Cost	95	74	228	98	-	495
Accumulated depreciation	(1)	(18)	(80)	(31)	-	(130)
Net book value	94	56	148	67	-	365
Year ended 30 June 2005						
Opening net book value	94	56	148	67	-	365
Additions	3	-	16	-	4,573	4,592
Transfers	-	-	25	(25)	-	-
Disposals	-	-	(16)	-	(615)	(631)
Depreciation/ amortisation	(21)	(13)	(31)	(7)	(249)	(321)
Closing net book value	76	43	142	35	3,709	4,005
At 30 June 2005						
Cost	98	74	267	47	3,958	4,444
Accumulated depreciation	(22)	(31)	(125)	(12)	(249)	(439)
Net book value	76	43	142	35	3,709	4,005
Year ended 30 June 2006						
Opening net book value	76	43	142	35	3,709	4,005
Additions	-	-	44	-	2,206	2,250
Transfers	-	-	17	(17)	-	-
Disposals	-	-	-	-	(5,355)*	(5,355)
Depreciation/ amortisation	(21)	(12)	(37)	(2)	(190)	(262)
Closing net book value	55	31	166	16	370	638
At 30 June 2006						
Cost	98	74	339	19	445	975
Accumulated depreciation	(43)	(43)	(173)	(3)	(75)	(337)
Net book value	55	31	166	16	370	638

* includes engines at a written down value of $4,086,000 sold to a subsidiary.

10. Property, Plant and Equipment (continued)

Consolidated Entity

	Leasehold Improvements		Plant & Equipment		Rental Engines	
	Owned $'000	Under Lease $'000	Owned $'000	Under Lease $'000	Owned $'000	Total $'000
At 30 June 2005*						
Cost	98	74	267	47	3,958	4,444
Accumulated depreciation	(22)	(31)	(125)	(12)	(249)	(439)
Net book value	76	43	142	35	3,709	4,005
Year ended 30 June 2006						
Opening net book value	76	43	142	35	3,709	4,005
Additions	-	-	44	-	3,625	3,669
Transfers	-	-	17	(17)	-	-
Disposals	-	-	-	-	(1,820)	(1,820)
Depreciation/ amortisation	(21)	(12)	(37)	(2)	(504)	(576)
Closing net book value	55	31	166	16	5,010	5,278
At 30 June 2006						
Cost	98	74	339	19	5,763	6,293
Accumulated depreciation	(43)	(43)	(173)	(3)	(753)	(1,015)
Net book value	55	31	166	16	5,010	5,278

* represents parent entity balances at 30 June 2005.

Rental Arrangements
Rental engines are generally rented to customers under agreements with rentals payable monthly and no fixed term. As such, the agreements are cancellable. The rent is calculated on the basis of an hourly rate and hours of usage. There are no minimum hours of usage or minimum lease payments set out in the relevant agreements. As such, in accordance with AASB 117 "Leases" the rental income (refer note 2) comprises of contingent rentals not minimum lease payments. Accordingly, there are no fixed lease commitments receivable.

11. Deferred Tax Assets

	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
The balance comprises temporary differences attributable to:			
Amounts recognised in profit or loss			
Doubtful debts	108	108	12
Plant and equipment	28	-	-
Accruals	20	20	17
Employee benefits	74	74	62
Finance leases	2	2	4
Amortisation of share issue expenses	(28)	(28)	(14)
	204	176	81
Amounts recognised directly in equity			
Share issue expenses*	70	70	70
Deferred tax assets	274	246	151
Set-off of deferred tax liabilities (note 15)	(221)	(221)	(151)
Net deferred tax assets	53	25	-

* incurred in 2005 and related tax credited directly to equity with reversal included in deferred tax expense.

	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
12. Intangible Assets			
Opening balance:			
Computer software – at cost	40	40	39
Accumulated amortisation	(23)	(23)	(12)
	17	17	27
Movements:			
Opening balance	17	17	27
Additions	-	-	1
Amortisation	(6)	(6)	(11)
Closing balance	11	11	17
Closing balance:			
Computer software – at cost	40	40	40
Accumulated amortisation	(29)	(29)	(23)
	11	11	17

Computer software has been externally acquired.

13. Trade and Other Payables

	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Trade payables and accruals	1,670	1,609	826

Effective Interest Rates
Information concerning the effective interest rates is set out in note 27.

14. Borrowings

	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Current			
Secured			
Bank overdraft	414	414	86
Bank loans	1,010	1,010	896
Bills payable	650	650	-
Lease liabilities	8	8	21
	2,082	2,082	1,003
Non-Current			
Secured			
Bank loans	1,031	1,031	515
Lease liabilities	-	-	7
	1,031	1,031	522
Unsecured			
Notes	4,281	-	-
	5,312	1,031	522

Unsecured Notes
During the 30 June 2006 year PTB Finance Limited (a subsidiary of Pacific Turbine Brisbane Limited) issued 4,588,800 unsecured notes at $1 per note raising $4,589,000 cash. The notes are repayable on 30 November 2008. Nominal interest of 11.5% per annum is payable monthly in arrears. Noteholders also received one option to acquire shares in Pacific Turbine Brisbane Limited for every $3 invested in the notes (being 1,529,600 options). The options are exercisable between 31 May 2008 and the note expiry date of 30 November 2008 at an exercise price of $1.60 per share. The options are transferable.

14. Borrowings (continued)

The notes are presented in the balance sheet as follows:

	Consolidated 2006 $'000
Face value of notes issued	4,589
Other equity securities – value of conversion rights	(261)
Transaction costs	(83)
	4,245
Interest expense *	222
Interest paid	(186)
Non-current liability	4,281

* interest expense is calculated by applying the effective interest rate of 14% to the liability component.

Bank Overdraft, Bank Loans and Bills Payable
The bank overdraft, bank loans and bills payable are secured by way of a registered mortgage debenture and chattel mortgages over all assets and undertakings of the parent entity.

Lease Liabilities
Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default.

Effective Interest Rates
Information concerning the effective interest rates is set out in note 27.

Finance Facilities
Information concerning the finance facilities is set out in note 21.

Assets Pledged as Security
All the assets of the parent entity are pledged as security for the facilities as noted above.

15. Deferred Tax Liabilities

	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
The balance comprises temporary differences attributable to:			
Amounts recognised in profit or loss			
Maintenance contract receivables	206	206	-
Plant and equipment	15	15	195
Finance cost payable – note	(8)	-	-
	213	221	195
Amounts recognised directly in equity			
Equity component of notes* (note 14)	78	-	-
Deferred tax liabilities	291	221	
Set-off of deferred tax assets (note 11)	(221)	(221)	(151)
Net deferred tax liabilities	70	-	44

* recognised in 2006 and related tax debited directly to equity (as the related note liability has been recognised by a subsidiary the taxable temporary difference has been recognised by the subsidiary and, accordingly, the related tax has been debited directly to equity by the subsidiary – the value of the conversion rights were initially recognised by the parent entity as it issued the options related to the notes and was treated as an equity contribution to the subsidiary).

	Consolidated	Parent entity	
	2006	2006	2005
	$'000	$'000	$'000
16. Provisions			
Current			
Employee benefits	159	159	137
Non-Current			
Employee benefits	89	89	70
Number of employees at end of financial year	13	13	10
17. Other Liabilities – Current			
Deferred revenue	43	43	88

Deferred revenue relates to maintenance contract revenue received in advance of the related maintenance under maintenance contracts which is invoiced based on a pre-determined formula each month over the term of the contract.

18. **Contributed Equity**	**Consolidated 2006 $'000**	**Parent entity 2006 $'000**	**Parent entity 2005 $'000**
Share capital			
11,738,632 ordinary shares fully paid (2005: 11,703,897 ordinary shares fully paid)	3,988	3,988	3,948
Other equity securities			
Value of conversion rights (net of tax) (notes 14 and 15)	183	261	-
	4,171	4,249	3,948

Effective 1 July 1998, the corporations legislation in place abolished the concepts of authorised capital and par value shares. Accordingly, the parent does not have authorised capital nor par value in respect of its issued shares.

Movements in ordinary share capital	**Note**	**No of shares**	**Issue Price $**	**$'000**
Opening balance 1 July 2004		-		-
Conversion of A and C class shares	(a)	4,000		4
Additional shares arising from share split	(a)	7,396,000		-
Private share placement	(b)	1,308,897	0.85	1,113
Public offer	(c)	2,995,000	1.00	2,995
Share issue costs (net of tax)				(164)
Balance 1 July 2005		11,703,897		3,948
Dividend reinvestment scheme	(d)	34,735	1.15	40
Closing balance 30 June 2006		11,738,632		3,988

Notes

(a) In November 2004, the "A" and "C" class shares on issue at the time were converted into ordinary shares. The ordinary shares were then restructured by a 1,850 for 1 share split resulting in the number of shares increasing from 4,000 to 7,400,000 ordinary shares.

(b) In November 2004 1,308,897 ordinary shares were issued at $0.85 per share to private investors raising $1,113,000 cash.

(c) In February 2005 2,995,000 ordinary shares were issued at $1.00 per share pursuant to a prospectus dated 4 January 2005 raising $2,995,000 cash.

(d) Issue of shares pursuant to dividend reinvestment scheme (refer note 29).

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to vote, and upon a poll each share is entitled to one vote.

Options

As at balance date the number of options to purchase ordinary shares in the parent entity was as follows:

	2006 No. of Options	**2005 No. of Options**	**Exercise Price**	**Expiry Date**
Director options	550,000	550,000	$1.15	10 March 2008
Employee share options	140,000	-	$1.00	19 November 2008
Note options	1,529,600	-	$1.60	30 November 2008

The director options were issued upon listing on 10 March 2005. Refer note 24 for further details.

An employee share option scheme was approved by shareholders on 3 June 2005. Refer to note 24 for details.

Note options were granted as part of the unsecured note placement. Refer note 14 for details.

	Consolidated	Parent entity	
	2006	2006	2005
19. Reserves	$'000	$'000	$'000
Share-based payments reserve	100	100	75
Movements:			
Opening balance 1 July	75	75	-
Option expense	25	25	75
Closing balance 30 June	100	100	75

The share-based payments reserve is used to recognise the fair value of the options issued but not exercised.

20. Retained Profits

Retained profits at the beginning of the year	4,459	4,459	3,039
Profit for the year	1,861	1,587	1,420
Dividends (note 29)	(702)	(702)	-
Retained profits at the end of the year	5,618	5,344	4,459

21. Cash Flow Information

(a) Reconciliation of Cash and Cash Equivalents

Cash and cash equivalents at the end of the financial year as shown in the cash flow statements is reconciled to items in the balance sheets as follows:

Cash and cash equivalents assets – cash at bank and on hand	1,590	504	1,346
Bank overdraft	(414)	(414)	(86)
	1,176	90	1,260

(b) Reconciliation of Net Cash Flow from Operating Activities to Net Profit for the Year

Profit for the year	1,861	1,587	1,420
Depreciation and amortisation	582	268	332
(Gain)/loss on disposal of property, plant and equipment	(677)	(564)	(297)
Forgiveness of director/shareholders loans	-	-	(123)
Share-based payments	25	25	75
Other	(47)	-	-
Changes in operating assets and liabilities			
(Increase)/decrease in:			
Receivables**	(3,949)	(3,634)	269
Inventories	(2,782)	(2,782)	(219)
Deferred tax assets*	(53)	(25)	79
Other assets	(48)	(48)	(7)
Increase/(decrease) in:			
Trade payables and accruals	844	783	(209)
Employee benefits	41	41	22
Deferred revenue	(45)	(45)	88
Current tax liabilities	201	48	(57)
Deferred tax liabilities*	(52)	(44)	114
Net cash flow from operating activities	(4,099)	(4,390)	1,487

* net of amounts charged or credited directly to equity

** excluding non-operating items

		Consolidated	Parent entity	
		2006	2006	2005
		$'000	$'000	$'000

21. Cash Flow Information (continued)

(c) Non-cash Investing and Financing Activities

Dividends satisfied by the issue of shares under the dividend reinvestment scheme are shown in note 29. Shares issued to employees under the Employee Share Option Scheme and to Directors are shown in note 24.

(d) Finance Facilities

		Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Available facilities				
Bank overdraft		500	500	500
Bank loans	- chattel mortgage	7,500	7,500	2,500
	- foreign currency	293	293	446
Bills payable	- multi-option	1,000	1,000	1,000
		9,293	9,293	4,446
Amounts utilised				
Bank overdraft		414	414	86
Bank loans	- chattel mortgage	1,748	1,748	965
	- foreign currency	293	293	446
Bills payable	- multi-option	650	650	-
		3,105	3,105	1,497
Unused facilities				
Bank overdraft		86	86	414
Bank loans	- chattel mortgage	5,752	5,752	1,535
	- foreign currency	-	-	-
Bills payable	- multi-option	350	350	1,000
		6,188	6,188	2,949

Bank overdraft

The bank overdraft facility is subject to annual review, may be drawn at any time and may be terminated by the bank without notice. The interest rate is variable and is based on prevailing market rates. The facility are subject to annual review.

Bank loans

The chattel mortgage loans are repayable by monthly instalments of principal and fixed interest over a period of 2 to 4 years from each draw down date.

The foreign currency loan is denominated in US dollars, is repayable by quarterly principal and fixed interest repayments to clear the facility in full by the termination date on 14 January 2008.

Bills payable

The multi-option facility includes variable rate commercial bills. For each drawing of a bill, a rate is quoted by the bank at the time of draw down. The bills have a term of 12 months and the facility is subject to annual review.

22. Earnings Per Share

	Consolidated 2006	Parent entity 2005
Basic earnings per share	15.9 cents	15.4 cents
Diluted earnings per share	15.8 cents	15.4 cents
	$'000	**$'000**
Earnings used to calculate basic and diluted earnings per share – profit for the year	1,861	1,420
	Number of Shares	**Number of Shares**
Weighted average number of ordinary shares used in calculating basic earnings per share	11,725,499	9,236,707
Effect of dilutive securities:		
- Director and employee share options	54,856	-
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	11,780,355	9,236,707

Options granted to directors and to employees under the Pacific Turbine Brisbane Limited Employee Share Option Scheme are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive (2005: none considered dilutive). The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 24.

The 1,529,600 options granted as part of the unsecured notes placement are not included in the calculation of diluted earnings per share because they were not considered dilutive for the year ended 30 June 2006. Details relating to the options are disclosed in note 14.

After year end 1,741,400 ordinary shares were issued – note 33.

In accordance with AASB 133 *Earnings Per Share* the number of shares used as denominator in calculating basic and diluted earnings per share for 2005 is determined on the basis the share split had occurred on 1 July 2004.

23. Key Management Personnel Disclosures

Directors
The following persons were directors of Pacific Turbine Brisbane Limited during the last two financial years:

Chairman – non-executive
H Parker

Executive directors
CL Baker, Managing Director
SG Smith, Sales and Marketing Director

Non-executive directors
HR Jones
RJ David – appointed 17 December 2004
APS Kemp – appointed 17 December 2004
GD Hills – resigned 14 December 2004

HR Jones resigned his position as director on 25 August 2006.

Other key management personnel
The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the last two financial years:

Name	Position	Employer
AL Abrahams	Company Secretary and Finance Manager	Pacific Turbine Brisbane Limited

There were no other key management personnel in either the current or prior year.

23. Key Management Personnel Disclosures (continued)

Key management personnel compensation

	Consolidated	Parent entity	
	2006	2006	2005
	$	$	$
Short-term employee benefits	562,299	562,299	556,145
Post-employment benefits	124,291	124,291	107,542
Other long-term benefits	9,774	9,774	-
Share-based payments	3,545	3,545	75,405
	699,909	699,909	739,092

The company has taken advantage of the relief provided by *Corporations Regulations 2001* and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in sections A to D of the remuneration report in the directors' report.

Equity instrument disclosures relating to key management personnel

Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report in the directors' report.

Option holdings

The numbers of options over ordinary shares in the company held during the financial year by each director of Pacific Turbine Brisbane Limited and other key management personnel of the Group, including their personally-related parties are set out below.

2006						
Name	**Balance at the start of the year**	**Granted during the year as compensation**	**Exercised during the year**	**Issued with unsecured notes***	**Balance at the end of the year**	**Vested and exercisable at the end of the year**
Directors						
CL Baker	200,000	-	-	-	200,000	200,000
SG Smith	200,000	-	-	-	200,000	200,000
HR Jones	-	-	-	-	-	-
H Parker	-	-	-	-	-	-
RJ David	-	-	-	-	-	-
APS Kemp	150,000	-	-	38,267	188,267	150,000
Other key management personnel of the Group						
AL Abrahams	-	20,000	-	-	20,000	-

2005					
Name	**Balance at the start of the year**	**Granted during the year as compensation**	**Exercised during the year**	**Balance at the end of the year**	**Vested and exercisable at the end of the year**
Directors					
CL Baker	-	200,000	-	200,000	-
SG Smith	-	200,000	-	200,000	-
HR Jones	-	-	-	-	-
H Parker	-	-	-	-	-
RJ David	-	-	-	-	-
APS Kemp	-	150,000	-	150,000	-
GD Hills	-	-	-	-	-
Other key management personnel of the Group					
AL Abrahams	-	-	-	-	-

* APS Kemp took part in the unsecured notes and options issue. The options have the same terms and conditions as all other holders. Refer note 14 for those terms and conditions.

In 2005 all options issued were vested but unexercisable at the end of the year. In 2006 the 38,267 note options held by APS Kemp were vested but unexercisable. In addition the 20,000 options granted to AL Abrahams were unvested at year end.

23. Key Management Personnel Disclosures (continued)

Share holdings

The numbers of shares in the company held during the financial year by each director of Pacific Turbine Brisbane Limited and other key management personnel of the Group, including their personally-related parties, are set out below. There were no shares granted during the current or previous year as compensation.

2006				
Name	**Balance at the start of the year**	**Received during the year on the exercise of options**	**Other changes**	**Balance at the end of the year**
Directors				
CL Baker	1,806,000	-	1,355	1,807,355
SG Smith	1,776,000	-	2,500	1,778,500
HR Jones	1,776,000	-	-	1,776,000
H Parker	296,000	-	-	296,000
RJ David	212,000	-	-	212,000
APS Kemp	87,000	-	9,000	96,000
Other key management personnel of the Group				
AL Abrahams	-	-	3,157	3,157

2005					
Name	**Balance at the start of the year**	**Conversion and share split (refer note 18)**	**Received during year on exercise of options**	**Other Changes**	**Balance at the end of the year**
Directors					
CL Baker					
- A class	480	(480)	-	-	-
- C class	480	(480)	-	-	-
- Ordinary	-	1,776,000	-	30,000**	1,806,000
SG Smith					
- A class	480	(480)	-	-	-
- C class	480	(480)	-	-	-
- Ordinary	-	1,776,000	-	-	1,776,000
GD Hills					
- A class	480	(480)	-	-	-
- C class	480	(480)	-	-	-
- Ordinary	-	1,776,000	-	(1,776,000)*	-
HR Jones					
- A class	480	(480)	-	-	-
- C class	480	(480)	-	-	-
- Ordinary	-	1,776,000	-	-	1,776,000
H Parker					
- A class	80	(80)	-	-	-
- C class	80	(80)	-	-	-
- Ordinary	-	296,000	-	-	296,000
RJ David					
- Ordinary	-	-	-	212,000**	212,000
APS Kemp					
- Ordinary	-	-	-	87,000**	87,000
Other key management personnel of the Group					
AL Abrahams					
- Ordinary	-	-	-	-	-

* number held on resignation

** shares acquired in 2005 where acquired as part of either the private placement or public offer described in note 18 on the same terms and conditions as other investors under the respective offers.

23. Key Management Personnel Disclosures (continued)

Loans to key management personnel
There were no loans to directors of Pacific Turbine Brisbane Limited or other key management personnel of the Group during the current or previous reporting period.

Other transactions with key management personnel
In 2006 APS Kemp took part in the unsecured notes and options issue. Under the issue he received 114,800 notes and 38,267 options in return for $114,800 cash. The terms and conditions were the same as for all other note holders and are set out in note 14.

The Group purchased or sold various aircraft spare parts from/to Airwork (NZ) Limited (a company associated with CL Baker and H R Jones).

HR Jones and SG Smith provided the parent entity with interest free loans in previous years to assist in the funding of the company's initial working capital. These debts were forgiven during the 2005 financial year.

Certain relatives of CL Baker and SG Smith were employed by the parent entity in 2005.

All transactions were under normal commercial terms and conditions, unless otherwise stated.

Aggregate amounts of each of the above types of other transactions with key management personnel of the Group:

	Consolidated	Parent entity	
	2006	2006	2005
	$	$	$
Amounts recognised as revenue			
Debt forgiveness	-	-	123,080
Sale of spare parts	53,734	53,734	-
	53,734	53,734	123,080
Amounts recognised as expense			
Purchases of spare parts	1,420	1,420	8,795
Remuneration paid to employees related to the directors	-	-	27,864
Interest expense*	8,205	-	-
	9,625	1,420	36,659

Aggregate amounts receivable/payable arising from the above types of transactions with key management personnel of the Group:

– current receivables	3,276	3,276	-
– non-current borrowings	114,800	-	-

* represents interest paid at 11.5% to APS Kemp on unsecured notes

24. Share-based Payments

Employee Share Option Scheme
The establishment of the Employee Share Option Scheme was approved by shareholders on 3 June 2005. All staff are eligible to participate in the scheme, including executive directors.

Options are granted under the scheme for no consideration. The exercise price will be the amount specified by the remuneration committee at the time of issue. The exercise period is the period specified by the remuneration committee at the time of issue. Options under the plan may not exceed 5% of the total number of issued shares of the company at the date of issue.

Options lapse if prior to or during the exercise period the employee is terminated or resigns. If a person dies, becomes disabled, or is made redundant prior to the exercise period the option lapses. If a person dies, becomes disabled, or is made redundant during the exercise period special rules apply that allow options to be exercised.

Options granted under the scheme carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share for cash. Amounts receivable on the exercise of options are recognised as share capital.

Set out below are summaries of options granted under the scheme:

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent entity - 2006								
30 Sep 2005	19 Nov 2008	$1.00	-	140,000	-	-	140,000	-

Options held at the end of the year are not yet vested. They vest one third each year on the anniversary of the grant date.

No options were granted under the scheme in the prior year.

The weighted average remaining contractual life of share options outstanding at the end of the year was 2.4 years.

Fair value of options granted
The assessed fair value at grant date of the options granted during the year ended 30 June 2006 was 35 cents per option. The fair value at grant date is determined using a Binomial 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 model inputs for options granted during the year ended 30 June 2006 included:

a) Options are granted for no consideration and have a three year life
b) Exercise price: $1.00
c) Grant date: 30 September 2005
d) Expiry date: 19 November 2008
e) Share price at grant date: $ 1.20
f) Expected price volatility of the company’s shares: 39%
g) Expected dividend yield: 6%
h) Risk-free interest rate: 5.29%

The expected price volatility is based on the historic volatility of the entity up to the grant date of the options as well as the historic volatility of a number of similar entities (based on a period with a similar life of the options). The fair value of the options granted excludes the impact of any non-market vesting conditions. There were no market conditions.

24. Share-based Payments (continued)

Director Options

During the 2005 year options were granted to directors by the parent entity. Each option granted is convertible into one ordinary share in Pacific Turbine Brisbane Limited for cash. The options were issued upon listing pursuant to the prospectus dated 4 January 2005. Options granted carry no dividend or voting rights. The options vested upon listing and there were no further vesting conditions. They are exercisable at any time after 12 months after grant but before expiry.

Set out below are summaries of options granted:

Grant date	Expiry date	Exercise price	Balance at start of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent entity – 2006								
10 March 2005	10 March 2008	$1.15	550,000	-	-	-	550,000	550,000
Parent entity – 2005								
10 March 2005	10 March 2008	$1.15	-	550,000	-	-	550,000	-

No such options were granted in the 2006 year.

The weighted average remaining contractual life of share options outstanding at the end of the year was 1.78 years (2005: 2.78 years).

Fair value of options granted

The assessed fair value at grant date of the options granted during the year ended 30 June 2005 was 13.7 cents per option. The fair value at grant date was independently determined using a Binomial 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 model inputs for options granted during the year ended 30 June 2005 included:

a) Options are granted for no consideration and have a three year life
b) Exercise price: $1.15
c) Grant date: 10 March 2005
d) Expiry date: 10 March 2008
e) Share price at grant date: $1.00
f) Expected price volatility of the company's shares: 31.5%
g) Expected dividend yield: 6%
h) Risk-free interest rate: 5.22%

The expected price volatility is based on the historic volatility of a number of similar entities (based on a period with a similar life of the options). The fair value of the options granted excludes the impact of any non-market vesting conditions. There were no market conditions.

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the year as part of employee benefit expense were as follows:

	Consolidated	Parent entity	
	2006	2006	2005
	$'000	$'000	$'000
Options issued under employee option scheme	25	25	-
Options issued to directors	-	-	75
	25	25	75

	Consolidated	Parent entity	
	2006	2006	2005
25. Auditor's Remuneration	$	$	$
Remuneration of the auditor for the Group for:			
Audit or review of the financial report*	75,000	70,000	30,000
Other assurance services	25,000	25,000	20,000
Taxation services	8,650	8,650	4,400

* No review of the half year financial report was carried out in the 2005 financial year as no half year financial report was required.

Other assurance services for 2006 comprises the provision of due diligence services in relation to the potential purchase of IAP Group Australia Pty Ltd (refer note 33).

Other assurance services for 2005 comprises the provision of an independent accountant's report on the historical financial information provided in the Prospectus issued in January 2005.

There was no other remuneration paid to related practices of the auditor.

	Consolidated	Parent entity	
	2006	2006	2005
26. Commitments	$'000	$'000	$'000
(a) Finance leases			
Commitments in relation to finance leases are payable as follows:			
Within one year	9	9	22
Later than one year but not later than five years	-	-	8
Minimum lease payments	9	9	30
Future finance charges			
- Within one year	(1)	(1)	(1)
- Later than one year but not later than five years	-	-	(1)
	8	8	28
Representing lease liabilities:			
Current	8	8	21
Non-current	-	-	7
	8	8	28

Finance leases comprise leases of property, plant and equipment, under normal commercial finance lease terms and conditions.

(b) Operating leases			
Commitments in relation to non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities are payable as follows:			
Within one year	49	49	45
Later than one year but not later than five years	82	82	112
	131	131	157

Operating leases mainly comprise a lease of premises from the Brisbane Airport Corporation which has a term up to February 2009 with no option to renew (although the company may rent from month to month after expiry). Under the relevant lease, rental is subject to periodic review to market and/or increases of the higher of CPI or 5% per annum. The operating leases are under normal commercial operating lease terms and conditions.

	Consolidated	Parent entity	
	2006	2006	2005
26. Commitments (continued)	$'000	$'000	$'000
(c) Remuneration commitments Commitments for payment of salaries and other remuneration under long-term employment contracts in existence at the reporting date but not recognised as liabilities payable:	480	480	480

Remuneration commitments comprises the minimum amounts payable to C Baker and S Smith upon termination under their service agreements.

27. Financial Risk Management and Other Financial Instrument Disclosures

Financial Risk Management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by management under policies approved by the board of directors. Management identifies, evaluates and addresses financial risks. The board provides principles for overall risk management, as well as policies covering specific areas, such as mitigating foreign exchange, interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Group operates internationally and is exposed to foreign exchange risk primarily arising from sale and purchase transactions denominated in US dollars.

The Group does not speculate on foreign currency nor does it use hedging instruments such as forward exchange contracts. The Group manages this risk through matching, to the extent possible, of US dollar denominated receivables and payables. All transactions which are exposed to foreign exchange risk are authorised by senior management.

(ii) Price risk

The Group is not directly exposed to material equity securities price risk or commodity price risk.

(b) Credit risk

The Group trades only with recognised, creditworthy third parties.

Receivables balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

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 Group does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments at balance date except as follows:

- The Group's customers are involved in the airline operation industry.
- There are a number of individually significant receivables. For example, at 30 June 2006 the largest 10 debtors comprised approximately 53% (2005: 64%) of total receivables (the largest debtor alone comprised 9% (2005: 10%)).
- The receivables are concentrated in four main geographical areas. Refer to note 28 for further information.

At balance date cash was held with ANZ and National Australia Bank.

27. Financial Risk Management and Other Financial Instrument Disclosures (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by monitoring forecast cash flows and ensuring that adequate unutilised borrowing facilities and cash reserves are maintained. Details of unused borrowing facilities are disclosed in note 21 (d). The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, unsecured notes, and finance leases.

(d) Cash flow and fair value interest rate risk

The Group has significant interest-bearing assets being extended credit receivables. These receivables are subject to fixed interest rates. The fair value interest rate risk associated with these receivables is not hedged. The risk is minimised through the relatively short nature of the majority of these receivables as well as funding them, where possible, by matching fixed rate bank loan.

The other significant interest bearing asset is cash held in at call bank accounts on which interest is earned at variable rates. The cash flow interest rate risk relating to this is not hedged.

The Group has significant interest bearing liabilities, as detailed below. The majority of these liabilities bear fixed interest rates. The fair value interest rate risk is not hedged. However, as noted above, the fixed rate bank loans are generally used to fund extended credit receivables. The unsecured notes which bear a fixed interest rate were primarily issued to fund the engine rental pool which drives rental revenue as disclosed in note 2.

Variable rate debt (primarily the bank overdraft) is also not hedged.

Financial Instrument Disclosures

(a) Interest Rate Risk

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.

	Effective Weighted Average Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing				Non-Interest Bearing	Total
			1 year or less	1 to 2 years	2 to 3 years	3 to 4 years		
	%	$'000	$'000	$'000	$'000	$'000	$'000	$'000
2006								
Financial assets								
Cash and cash equivalents	4.8%	1,587	-	-	-	-	3	1,590
Trade and other debtors	-	-	-	-	-	-	4,237	4,237
Maintenance contract receivables	-	-	-	-	-	-	731	731
Extended credit receivables	10.6%	-	1,998	889	52	-	-	2,939
Total financial assets		1,587	1,998	889	52	-	4,971	9,497
Financial liabilities								
Payables	-	-	-	-	-	-	1,670	1,670
Bank overdraft	8.4%	414	-	-	-	-	-	414
Bank loans	8.3%	-	1,010	898	104	29	-	2,041
Bills payable	8.9%	650	-	-	-	-	-	650
Lease liabilities	7.1%	-	8	-	-	-	-	8
Unsecured notes	14%	-	-	-	4,281	-	-	4,281
Total financial liabilities		1,064	1,018	898	4,385	29	1,670	9,064

27. Financial Risk Management and Other Financial Instrument Disclosures (continued)

	Effective Weighted Average Interest Rate %	Floating Interest Rate $'000	Fixed Interest Rate Maturing: 1 year or less $'000	1 to 2 years $'000	2 to 3 years $'000	3 to 4 years $'000	Non-Interest Bearing $'000	Total $'000
2005								
Financial assets								
Cash and cash equivalents	2.0%	1,345	-	-	-	-	1	1,346
Trade and other debtors	-	-	-	-	-	-	2,332	2,332
Maintenance contract receivables	-	-	-	-	-	-	211	211
Extended credit receivables	10%	-	905	510	-	-	-	1,415
Total financial assets		1,345	905	510	-	-	2,544	5,304
Financial liabilities								
Payables	-	-	-	-	-	-	826	826
Bank overdraft	8.2%	86	-	-	-	-	-	86
Bank loans	8.0%	-	896	304	151	60	-	1,411
Lease liabilities	7.9%	-	21	7	-	-	-	28
Total financial liabilities		86	917	311	151	60	826	2,351

There are no other interest bearing financial assets and liabilities.

(b) Net Fair Value

The net fair values of financial assets and financial liabilities approximate their carrying values.

(c) Derivative Financial Instruments

The Group does not normally use derivative financial instruments.

28. Segment Information

Business Segments (Primary Reporting)
The Group operates in a single business segment, being the repair, rental and sale of aircraft turbine engines and related parts.

Geographical Segments (Secondary Reporting)
The Group's management and operations are based in Brisbane, Australia. Its customers, however, are located in four main geographical markets – Australia/New Zealand, Pacific Islands, Maldives and United States of America.

The following table shows the distribution of the Group's sales, receivables and rental engines by those geographical markets -

	Segment Revenues From Sales to External Customers		Segment Receivables		Rental Engines		Purchase of Property, Plant and Equipment	
	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000	2006 $'000	2005 $'000
Australia/NZ	8,478	4,265	4,470	1,699	2,403	1,530	1,952	1,613
Pacific Islands	3,597	1,866	1,203	915	1,137	283	1,167	889
USA	1,617	1,999	787	306	1,313	1,896	550	2,090
Maldives	3,572	1,564	1,424	640	-	-	-	-
Other	81	60	23	354	157	-	-	-
	17,345	9,754	7,907	3,914	5,010	3,709	3,669	4,592
Unallocated	314	678	-	44	-	-	-	-
Total	17,659	10,432	7,907	3,958	5,010	3,709	3,669	4,592

Rental engines are attributed either to the geographic market in which the customer who rents the engine at year-end is based or, for non-rented engines, where they are physically located.

All other segment assets are attributed to Australia.

Apart from the acquisition of property, plant and equipment, there were no other acquisitions of non-current assets.

29. Dividends

	Parent entity 2006 $'000	Parent entity 2005 $'000
Dividends paid during the year		
Final dividend for 30 June 2005 of 6 cents per share fully franked (at 30%) paid 15 November 2005 (2005: Nil)	702	-
Dividends paid in cash or satisfied by the issue of shares under the dividend reinvestment scheme during the year were as follows:		
Paid in cash	662	-
Satisfied by the issue of shares	40	-
	702	-

	Consolidated 2006 $'000	Parent entity 2006 $'000	Parent entity 2005 $'000
Franking Credits			
Franking credits available for subsequent financial years based on a tax rate of 30% (2005: 30%)	2,438	2,283	1,828

29. Dividends (continued)

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax,
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

	2006	2005
Dividends not recognised at year end	**$'000**	**$'000**
Since year end the directors have recommended the payment of a final dividend of 6 cents (2005: 6 cents) per fully paid ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 30 November 2006 (2005: 15 November 2005) out of retained profits, at 30 June 2006 but not recognised as a liability at year end is	808*	702

* based on shares issued at 30 June as well as additional shares described in note 33(a) only.

The impact on the franking account of the dividend amount recommended by the directors since year end, but not recognised as a liability at year end would be a reduction in the franking account of $346,000 (2005: $301,000).

30. Subsidiaries

During the 2006 year Pacific Turbine Brisbane Limited incorporated three subsidiaries as follows:

Name	Place of Incorporation	Date of Incorporation	Cost of Parent Entity Investment $'000
PTB Finance Limited	Victoria, Aust	14 October 2005	262
PTB Rentals Australia Pty Limited	Victoria, Aust	14 October 2005	1
Pacific Turbine, Inc	Texas, USA	29 September 2005	10
			273

All subsidiaries are 100% owned by Pacific Turbine Brisbane Limited. All share capital consist of ordinary shares in each company.

31. Related Party Transactions

a) Parent entity and subsidiaries

The ultimate parent entity of the Group is Pacific Turbine Brisbane Limited. Interests in subsidiaries are set out in note 30.

b) Key management personnel

Disclosures relating to key management personnel are set out in note 23.

c) Other transactions with subsidiaries

The following transactions occurred with subsidiaries:

	Parent entity	
	2006	**2005**
	$	**$**
Sale of engines (at written down value)	4,086,687	-
Revenue – sale of parts and services	220,886	-

In addition to the above sales, the parent has also provided, free of charge, administrative and accounting assistance to the subsidiaries.

31. Related Party Transactions (continued)

d) Loans to subsidiaries

	Parent entity	
	2006	2005
	$	$
Loans to subsidiaries	1,035,846	-

The parent entity advanced loans to subsidiaries during the current year (refer cash flow statement). The loans are non-interest bearing, unsecured, at call and repayable in cash.

32. Impact of Adopting Australian Equivalents to IFRS (AIFRS)

The impacts of adopting AIFRS on the total equity and profit after tax as reported under Australian Accounting Standards applicable before 1 January 2005 (“AGAAP’) are illustrated below.

i. Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Parent entity	
	As at 1 July 2004 $'000	As at 30 June 2005 $'000
Total equity under AGAAP	3,052	8,436
Changes in retained profits:		
Straight lining of operating lease rental expenses (A)	(13)	(14)
Tax effect of straight lining operating lease rental expenses (A)	4	4
Tax effect of share issue costs (B)	-	(14)
Share based payments (C)	-	(75)
Changes in contributed equity and reserves:		
Tax effect of share issue costs (B)	-	70
Share-based payments (C)	-	75
Total equity under AIFRS	3,043	8,482

ii. Reconciliation of profit after tax as presented under AGAAP to that under AIFRS

	Parent entity 30 June 2005 $'000
Profit after tax under AGAAP	1,510
Straight lining of operating lease rental expenses (A)	(1)
Tax effect of straight lining operating lease rental expenses (A)	-
Tax effect of share issue costs (B)	(14)
Share-based payments (C)	(75)
Profit after tax under AIFRS	1,420

32. Impact of Adopting Australian Equivalents to IFRS (AIFRS) (continued)

(A) Under previous AGAAP payments made under operating leases were expensed as incurred. Under AIFRS operating lease expense is recognised on a straight-line basis over the term of the lease. On transition to AIFRS the straight-lining of rentals resulted in a liability of $13,000 being recognised with a related deferred tax asset of $4,000. For the year ended 30 June 2005, the effect is to increase operating lease rental expense by $1,000 on the amount previously reported under AGAAP.

(B) Under previous AGAAP the tax benefit of certain items such as share issue costs was treated as a permanent difference with a reduction in income tax expense. Under AIFRS the tax benefit of these items is initially recognised as a credit to equity and a deferred tax asset. This has resulted in a reversal of the tax benefit recognised in income tax expense under AGAAP.

(C) Under AGAAP no expenses were recognised for options issued to employees. Under AIFRS the options are expensed. The effect of this at 30 June 2005 is a decrease in retained profits of $75,000 and a corresponding increase in reserves.

In addition to the above certain software assets were reclassified from property, plant and equipment to intangible assets upon transition.

iii. Explanation of material adjustments to the cash flow statements

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

33. Events after the Balance Sheet Date.

(a) Placement of shares
In August 2006 the parent entity raised approximately $2.6 million cash (net of transaction costs of $83,000) by the issue of 1,741,400 fully paid ordinary shares at $1.53 per share. The funds are to be used to pay the cash component ($2.5 million) of the proposed acquisition of IAP Group (see (b) below), subject to approval by shareholders.

(b) Proposed acquisition of IAP Group
On 1 August 2006 the parent entity entered into a conditional contract to acquire all of the issued shares in IAP Group Australia Pty Ltd (‘IAP Group’). The purchase agreement is subject to due diligence (subsequently completed) and shareholder approval which is scheduled for 20 September 2006. Settlement is to occur after that date and the business combination will then be effected. A notice of meeting and explanatory memorandum, including an independent expert’s report on whether or not the proposed acquisition of IAP Group is fair and reasonable, was sent to shareholders on 17 August 2006.

The purchase consideration of $12,862,000 is to be paid in cash ($2.5 million) and the issue of 6,908,054 ordinary shares in the parent entity (at $1.50 per share). The shares are not to participate in the final dividend to be paid by the parent entity for the year ended 30 June 2006. Further details in respect of the proposed acquisition, including related financial information, is set out in the notice of meeting sent to shareholders on 17 August 2006 including the explanatory memorandum and independent expert’s report.

(c) Proposed capital raisings
At the general meeting of shareholders on 20 September 2006 shareholders will be asked to approve the issue of a prospectus to raise up to $8 million from the public and transition the listing of the parent entity’s shares from Newcastle Stock Exchange Limited to the Australian Stock Exchange Limited. In addition, shareholders will also be asked to approve a capital raising of $2.155 million by the issue of 1,408,620 fully paid ordinary shares in the parent entity at $1.53 per share to directors and/or related parties or associates of directors. Funds from the proposed capital raisings are to be used to provide additional working capital for the consolidated entity and IAP Group post acquisition.

The financial effects of subsequent events were not recognised at 30 June 2006.

DIRECTORS' DECLARATION

In the opinion of the directors:

(a) the attached financial statements and notes (including the remuneration disclosures that are contained in sections A to D of the remuneration report in the directors' report) are in accordance with the C*orporations Act 2001*, including:

   (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory financial reporting requirements; and

   (ii) 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, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) the remuneration disclosures set out in sections A to D of the remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures* and the *Corporations Regulations 2001*.

The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2006 required by section 295A of the C*orporations Act 2001.*

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

H Parker
Chairman

Brisbane
19 September 2006

Independent Audit Report to the Members of Pacific Turbine Brisbane Limited

Scope

The financial report and directors' responsibility
The financial report comprises the income statements, balance sheets, statements of changes in equity, cash flow statements, accompanying notes to the financial statements, the disclosures made as required by Australian Accounting Standard AASB 124 Related Party Disclosures in sections A to D of the remuneration report in the directors' report as permitted by the Corporations Regulations 2001 (the remuneration disclosures) and the directors' declaration for both Pacific Turbine Brisbane Limited (the company) and Pacific Turbine Brisbane Limited and its controlled entities (the consolidated entity) for the financial year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that financial year.

The remuneration report also contains information not required by Australian Accounting Standard AASB 124 which is not subject to our audit.

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. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Australian Accounting Standard AASB 124 and the *Corporations Regulations 2001*. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001,* Australian 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, changes in equity and cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124 and the *Corporations Regulations 2001*.

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

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

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

Independence

In conducting our audit, we have followed applicable independence requirements of Australian professional and ethical pronouncements and 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 as at the date of this audit report.

Audit Opinion

1. In our opinion, the financial report of Pacific Turbine Brisbane Limited is in accordance with:

   (a) the *Corporations Act 2001*, including:

      (i) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and
      (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

   (b) other mandatory financial reporting requirements in Australia.

2. The remuneration disclosures that are contained in sections A to D of the remuneration report in the directors' report comply with Australian Accounting Standard AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

JOHNSTON RORKE
Chartered Accountants

RCN WALKER
Partner

Brisbane, Queensland
19 September 2006

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 August 2006

(a) Distribution of Shareholders

Category (size of Holding)	Class of equity security Ordinary Shares	Options
1 – 1,000	1	-
1,001 – 5,000	154	-
5,001 – 10,000	70	29
10,001 – 100,000	83	35
100,001 and over	14	5
	322	69

(b) The number of ordinary shareholdings held in less than marketable parcels is nil.

(c) The names of the substantial shareholders (including related entities) listed in the company's register are:

	Number of Ordinary Shares Held	Percentage %
CL Baker	1,776,000	13.18%
SG Smith	1,776,000	13.18%
HR Jones	1,776,000	13.18%
GD Hills	1,776,000	13.18%

(d) Voting Rights
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote. Options carry no voting rights.

(e) 20 Largest Shareholders — Ordinary Shares (Quoted)

	Number of Ordinary Fully Paid Shares Held	**% Held of issued Ordinary Capital**
H Jones	1,776,000	13.18%
River Capital Pty Limited	993,770	7.37%
C Baker	888,000	6.59%
J Flintoft	888,000	6.59%
G Hills	888,000	6.59%
M Hills	888,000	6.59%
S Martin	888,000	6.59%
S Smith	888,000	6.59%
ANZ Nominees Limited	418,047	3.10%
Brahman Securities Pty Ltd	335,000	2.49%
H Parker	296,000	2.20%
David Family Superannuation Family Trust	212,000	1.57%
Chimaera Capital Limited	172,647	1.28%
Eastern Porphry Pty Ltd	103,040	0.76%
Harvels Pty Limited	100,000	0.74%
Colex Pty Limited	100,000	0.74%
Top Dog Trading Pty Ltd	100,000	0.74%
I Jones & J Polley	99,200	0.74%
JF & GH Shadforth	92,600	0.69%
Hawk Capital Pty Ltd	91,862	0.68%
	10,218,166	75.80%

	Number on issue	Number of holders
Unquoted equity securities		
Options issued under the Pacific Turbine Brisbane Ltd Share Option Scheme to take up ordinary shares	690,000	10
Options issued in terms of the unsecured notes issue	1,529,589	59

Number of unissued ordinary shares under the options. No person holds 20% or more of these securities.

(f) The NSX will impose escrow for 24 months on the non-cash component of those securities issued to Directors for consideration of below $0.80 per share.

COMPANY INFORMATION

Directors

Harvey Parker, Chairman
Craig Baker, Managing Director and CEO
Dick David, Non-executive Director
Andrew Kemp, Non-executive Director
Stephen Smith, Executive Director

Bankers

ANZ Corporate Bank
Level 3, 324 Queen Street
BRISBANE QLD 4000

Secretary

Annette Abrahams

Solicitors

McCullough Robertson Lawyers
Level 12
Central Plaza Two
66 Eagle Street
BRISBANE QLD 4000

Registered Office

47-51 Pandanus Avenue
BRISBANE AIRPORT QLD 4007

Telephone: +61 7 3637 7000
Facsimile: +61 7 3860 4006

Auditor

Johnston Rorke
Level 5, NAB House
255 Adelaide Street
BRISBANE QLD 4000

Share Register

ASX Perpetual Registrars Limited
Level 22, 300 Queen Street
BRISBANE QLD 4000

Telephone: +61 7 3228 4999
Facsimile: +61 2 8280 7454

Stock Exchange Listing

The company is listed on the Stock Exchange of Newcastle Limited