

**Australian Property Systems Limited**  
**and controlled entities**

ABN 93 096 925 610

**Annual Report 2006**

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## MANAGING DIRECTOR & CEO'S REPORT

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### **Review and results of operations**

The company has continued to make a substantial investment in developing the technology platforms and writing the procedure manuals that are required to bring scale to the APSL system, particularly in developing the licensing platform for the system and it is intended to continue making a substantial investment in licensing and training in the future to expand the licensing network. The directors report a consolidated operating loss of \$104,367 (2005: \$1,433,647 loss). Our preliminary announcement to the market disclosed a loss of \$6,539. The change to the final reported result was principally due to revised accounting treatment of two items:

- 1) an amount of \$43,723 associated with the independent valuation of options was brought through the profit and loss, rather than equity;
- 2) An amount received by the company of \$38,277 (associated with the purchase of Ferry Rd) was capitalised.

The company overhead structure remains low and the company is well positioned to capitalise on licensing its technology to select licensees who require minimal training, therefore maintaining a low overhead structure.

As a result of the strategy to become only a licensing and training company (which was the direction adopted by the board from numerous strategic planning meetings), APSL has substantially reduced staff numbers down to a small dynamic team able to take the company forward in licensing its system to outside Development Managers wishing to take advantage of the APSL System.

The formation of Australian Affordable Housing Association Inc (a not for profit organisation) that was specifically set up to deliver affordable housing utilising the APSL system and has provided a strong platform for the launching of much needed quality affordable housing into a market place with pent up latent demand.

On Thursday 11<sup>th</sup> May 2006 APSL received from Suncorp, a copy of a letter that Suncorp had written to Brisbane City Council acknowledging that they have provided the land and construction financing of the individual lots in the Ferry Road development and commenting on the Australian Affordable Housing Association (AAHA) model which utilises the APSL patented system.

The letter stated that Suncorp are proceeding to write a new set of Policy Documents for the AAHA model and they are firmly of the opinion that this model can achieve a scalable solution to the affordable housing crisis. Suncorp have conducted extensive scrutiny of the model and it has met their full funding governance and credit risk requirements.

The APSL system is licensed to Napier and Blakeley who act as Development Managers on behalf of AAHA for the delivery of affordable housing.

The directors of APSL believe that the APSL patented system utilised by AAHA offers the only scalable and viable solution to the affordable housing crisis. Independent Research indicates 3.3 million Australian households on incomes between \$15,000 and \$60,000 per annum cannot afford to rent in the traditional market place and nor do they qualify for Public Housing. These 3.3 million households are the market place for the AAHA product which provides rents at no more than 30% of their income. The Independent research indicates that the Australian market place for the AAHA product is a multi billion dollar per annum market.

The AAHA product is investment grade rated by Property Investment Research under the APSL patented system providing a viable and scalable residential investment product for Super Funds, Institutional Funds, wholesale funds and retail investors, who receive a 10 year lease and income yields of approximately 7% per annum and Internal Rates of Return ("IRR") in excess of 20% (IRR varies based on the individual circumstances) per annum on their investment over a 10 year investment period.

Whilst delivering high returns to investors the product also delivers high quality accommodation in prime locations to low to middle income Australians for as low as 37.5% of market rent. Rents start at \$100 per week and Investors are bound by a statutory covenant to rent at these low rates for 10 years. AAHA has also developed a home ownership scheme for eligible tenants to take them into home ownership at the end of the 10 year statutory covenant period.

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### MANAGING DIRECTOR & CEO'S REPORT

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#### **Review and results of operations (cont'd)**

Since year end APSL Licensee Napier and Blakely have entered into Development Management Agreements (DMA) on three properties owned by AAHA. The projects subject to the DMA are in prime locations of Highgate Hill, Albion and Chermside in Brisbane and are for the provision of high quality housing that is affordable to rent for 10 years. These projects will deliver approximately \$400 million in quality affordable housing into the market place and represents potential Licence fees and royalty income for APSL under its Licence agreement with Napier Blakely, estimated at \$14 million, the receipt of the bulk of these fees are subject to the projects reaching settlement. Napier Blakely has informed the company that they expect to enter into other DMA's with AAHA on other projects in the near future.

On the 29th August 2005 the Australian Affordable Housing Association project at Ferry Road West End which is utilising the APSL system received an Investment Grade Rating of AA from Property Investment Research (PIR) for an un-g geared investment and AA+ for a geared investment. It is believed that this is the first time an investment grade rating has ever been achieved on a residential development for affordable rentals. This Investment Grade Rating provides the opportunity for Superannuation Funds and Wholesale Funds to now invest in this type of product. The Investment Grade Rating has been achieved as a result of two and half years of dedicated work by Geoffrey Jamieson and many of the PIR staff. The directors would like to take this opportunity to thank Geoffrey and all of the Staff at PIR for their dedication and commitment to this process.

Also since year end APSL has entered into a licence agreement with Tullamore Consulting Pty Ltd who are licensed on a non exclusive basis and restricted to Industrial property development utilising the APSL system. Tullamore consulting has informed APSL that they are currently entering into Development Management Agreements on two small industrial projects. This licence agreement will culminate in future Licence fees and Royalty income for APSL.

The hard work of the management team and the substantial investment in our licensing and technology platforms is starting to pay off. Whilst there is still a lot of hard work to be done and strategic and operational milestones to be achieved your directors believe that the company is well positioned to deliver profitable outcomes for shareholders in the future.

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

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Your directors present their report on the company and its controlled entities ("the consolidated entity" or "the Group") for the financial year ended 30 June 2006.

### Directors

The following persons were directors of Australian Property Systems Limited during and up to the date of this report, except as noted:

Geoffrey A Thomas (appointed 9 August 2005)  
Geoffrey S Jamieson  
Brian B Wilkie  
Bernard R Noye (appointed 9 August 2005, resigned 9 November 2005)

### Information on Directors

#### ***Geoffrey Stuart Jamieson*** *Managing director (Age 55)*

Mr Jamieson is a member of the Financial Planning Association of Australia and a Foundation Member of the Australian Institute of Company Directors. Mr Jamieson has many years experience in Managing director roles with public companies. He has expertise in Investment Banking, Investment Advisory and has been involved in the property and building industry for over 30 years. He has been a director of the company since 1 June 2001. He has not held directorships with other listed companies in the last three years.

#### ***Geoffrey Alan Thomas*** *Non-Executive director (Age 47)*

Mr Thomas has had many years of experience in the finance/lending industry and is currently Chairman of Australian Capital Home Loans and Nationalcorp Pty Ltd. He was appointed director of the company on 9 August 2005. He has not held directorships with other listed companies in the last three years.

#### ***Brian Bernard Wilkie*** *Non-Executive director (Age 63)*

Mr Wilkie has been involved in real estate and small project development for 15 years. He has previous business experience in privately owned enterprises, including hospitality and transport industries. Since 1992, Mr Wilkie has been associated with the development of the company's patented development management system. Over the past 3 years he has assisted with the implementation and establishment of the system within statutory authorities. He has been a director of the company since 1 June 2001. He has not held directorships with other listed companies in the last three years.

### Principal Activities

The principal activity of the consolidated entity during the course of the financial year was the provision of licensing and training for the development of strata title units utilising the consolidated entity's proprietary development management system. The predominant concentration of the company at present is affordable housing.

The consolidated entity holds the international rights to a patented property management system ("the System") that significantly reduces the risks associated with strata title property development.

The System allows the consolidated entity to licence its property management system to professional project management firms who act as development managers under the system. The consolidated entity is a service organisation that earns income from its principal activity of licensing its System to other organisations and training those organisations on how to implement the system therefore allowing the consolidated entity to focus on growing the business of licensing and training. For more information go to the company website at <http://www.apsl.biz>.

### Dividends

No dividends have been paid or declared during the year or since the end of the financial year.

### Review of Operations

A detailed review of operations is contained within the Managing Director's Report of this Annual Report.

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

### Significant Changes in the State of Affairs

Significant changes in the state of affairs of the Group during the financial year were as follows:

- (a) An increase in contributed equity of \$500,000 (from \$2,072,000 to \$2,572,000) as a result of an Extraordinary Meeting of Shareholders held on the 9th August 2005. The shareholders approved an issue of ordinary shares in the company to a number of related parties of the directors as follows. The shares had an issue price of \$0.02 each and were paid for in cash.

	2006 No.	2006 \$
Tamlin Holdings Pty Ltd (a company associated with Geoffrey Jamieson)	12,500,000	250,000
Geoff Thomas Family Trust (a trust associated with Geoffrey Thomas)	10,625,000	212,500
GWR Financial Services Pty Ltd (a company associated with Ross Noye)	1,875,000	37,500
	<u>25,000,000</u>	<u>500,000</u>

- (b) In addition to the above ordinary share issues, shareholders also approved the issue of 25,000,000 options to the above parties as an incentive package. The options are exercisable at any time within the next 5 years into ordinary shares of the company at 50 cents each and were allocated as follows:

	2006 No.
Tamlin Holdings Pty Ltd (a company associated with Geoffrey Jamieson)	15,000,000
Geoff Thomas Family Trust (a trust associated with Geoffrey Thomas)	5,000,000
GWR Financial Services Pty Ltd (a company associated with Ross Noye)	<u>5,000,000</u>
	<u>25,000,000</u>

### Subsequent Events

Details of subsequent events are included in note 29 in the accompanying financial report.

### Likely Developments and Expected Results of Operations

The consolidated entity will continue to pursue its strategy of only being a licensing and training organisation and increasing profitability and market share during the next financial year.

Further information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this financial report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

### Environmental Regulation

The directors are not aware of any particular and significant environmental regulation under a law of the Commonwealth, State or Territory relevant to the consolidated entity.

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### DIRECTORS' REPORT

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#### Directors' Interests

The interests of current directors in securities of the company at the date of this report are as follows:

	Ordinary Shares	Options
Mr G S Jamieson	22,591,700	15,000,000
Mr B B Wilkie	4,547,650	-
Mr G Thomas	10,625,000	5,000,000

#### Company Secretary

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

Geoffrey Stuart Jamieson - member of the Financial Planning Association of Australia and a Foundation Member of the Australian Institute of company directors. Mr Jamieson has many years experience in Managing director roles with public companies. He has expertise in Investment Banking, Investment Advisory and has been involved in the property and building industry for over 30 years.

#### Share Options

##### *Shares under option*

Unissued ordinary shares of Australian Property Systems Limited under option at the date of this report are as follows:

Date options granted	Expiry Date	Exercise price	Number under option
9 August 2005	8 August 2010	\$0.50	25,000,000

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

On 16 July 2002 it was resolved that a company associated with Mr Arthur Gerbanas and Mr Geoffrey Jamieson would be entitled to 3,500,000 options over the company's ordinary shares subject to the company achieving certain milestones. On 1 September 2006, the directors cancelled this arrangement as the milestones were not achieved.

##### *Shares issued on the exercise of options*

There were no exercise of options of ordinary shares of Australian Property Systems Limited during the year ended 30 June 2006 or since the end of the financial year.

#### Remuneration Report

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

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- 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.

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

### Remuneration Report (continued)

#### A. Principles used to determine the nature and amount of remuneration (audited)

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

##### *Executives*

The broad remuneration policy is to ensure that remuneration packages properly reflect the person's duties, responsibilities and performance and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The current executive remuneration structure is based on a management service agreements (refer Section C below). Some fees payable under the agreement are linked to the company's profitability. No retirement benefits are payable under the management services agreement.

##### *Non-executive directors*

Fees and payments to non-executive directors reflect the financial status of the consolidated entity, and the demands that are made on, and the responsibilities of the directors. Non-executive directors' fees are reviewed annually by the board and are set within the limits approved by shareholders. No retirement benefits are payable to non-executive directors.

##### *Long-term incentives*

As a long-term incentive, eligible employees and directors of the company can, from time to time, be invited to apply for redeemable preference shares in APSLSP Pty Ltd in accordance with the terms and conditions of the APSLSP Pty Ltd Share Scheme Deed. This invitation is discretionary and not based on any service or performance criteria. The redeemable preference shares are non-voting and entitle the holders to participate in dividends as declared by the board of APSLSP Pty Ltd. APSLSP Pty Ltd operates for the purpose of providing eligible employees and directors of the company with a means to participate in profits of the company through dividend distributions. The principal activity of APSLSP Pty Ltd is to own 5% of the issued share capital of the company and derive income through the receipt of dividends from the company.

#### B. Details of remuneration (audited)

Details of the nature and amount of remuneration of the directors and the key management personnel of the consolidated entity are:

	Short-term benefits		Share-based payment Options	Total
	Cash salary and fees	Cash bonus		
	\$	\$	\$	\$
<b>2006</b>				
<b>Directors</b>				
G S Jamieson – Managing Director	190,000	-	26,235	216,235
G A Thomas (i) – Non-executive	-	-	8,744	8,744
B B Wilkie – Non-executive	-	-	-	-
B R Noye (ii) – Non-executive	-	-	8,744	8,744
	190,000	-	43,723	233,723
<b>Other key management personnel</b>				
T Peach – Licensing and Training Manager	95,000	20,300	-	115,300
	285,000	20,300	43,723	349,023

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

### Remuneration Report (continued)

	Short-term benefits		Share-based payment Options	Total
	Cash salary and fees	Cash bonus		
	\$	\$	\$	\$
<b>2005</b>				
<b>Directors</b>				
G S Jamieson – Managing Director	190,000	-	-	190,000
A Gerbanas (iii) – Non-executive	-	-	-	-
B B Wilkie – Non-executive	20,000	-	-	20,000
B R Noye (iv) – Non-executive	-	-	-	-
	210,000	-	-	210,000
<b>Other key management personnel</b>				
T Peach – Licensing and Training Manager	103,250	-	-	103,250
A McKay (v) – Advisor/Responsible Officer	50,000	-	-	50,000
J McKinnon (v) – Advisor/Responsible Officer	36,000	-	-	36,000
M Candy (v) – Advisor/Responsible Officer	55,000	-	-	55,000
	454,250	-	-	454,250

- (i) from 9 August 2005
- (ii) from 9 August 2005 to 9 November 2005
- (iii) to 25 August 2004
- (iv) to 14 December 2004
- (v) to 18 October 2004

There were no other executives in the current or prior year. All directors and other key management personnel are employed by Australian Property Systems Limited with the exception of A McKay, J McKinnon and M Candy who were employed by Libertas Securities Limited (a subsidiary). A cash bonus was paid in the current year to T Peach. Refer Section C for performance conditions. The bonus related to one project.

Share-based payment compensation benefits were granted in the current year. Details of these benefits which were in the form of share options are given in Section D below.

### C. Service agreements (audited)

Remuneration and other terms of employment for the Managing Director and the current key management person are formalised in a management service agreements. The major provisions of the agreements are set out below:

#### *Mr G Jamieson – Managing Director*

Mr Jamieson's remuneration was subject to a management agreement between the company and Tamlin Holdings Pty Ltd ("Tamlin") which commenced on 2 June 2002 and ceased on 2 June 2006. The terms and conditions were as follows:

- **Term** – 5 years with early termination by the company other than for default by Tamlin under the agreement requiring a \$3 million termination payment together with the balance of remuneration owing to termination date under the agreement.
- **Base fees** – Range from \$84,000 per annum in the first year to \$650,000 per annum by year 5. Payment of fees over \$190,000 are subject to the company achieving a profit before tax of \$2 million. Fees are payable on the 7<sup>th</sup> of the month with interest to be charged at 8% per annum on overdue amounts.
- **Bonus Fees** – A bonus fee is payable at the end of each financial year within 15 days of the annual report being signed. If the profit before tax is above \$1 million and up to \$5 million, \$50,000 bonus fee is payable. Above \$5 million, fees are payable on a sliding scale (from 1% to 5% of profit before tax) depending on the company's profitability.
- **Options** – The agreement allows for options to be issued (by shareholder approval) at a future date with the amount and timing not specified.



#### **AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

No bonuses were paid in the last two financial years in relation to this agreement. Subsequent to year end a new management agreement was entered into. Refer note 29 of the financial report for details.

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

### Remuneration Report (continued)

#### C. Service agreements (audited) (continued)

##### *Mr T Peach – Licensing and Training Manager*

On 19 August 2005 a service contract was entered into between the company and Hotels Asia Pacific Pty Ltd (HAP), a company associated with Mr Peach, for the provision of licensing and training services on the following terms:

- *Term of agreement* – Commenced 1 July 2005 and ongoing subject to termination by either party by giving sixty days notice.
- *Base fees* – \$95,000 per annum
- *Success fee bonus* – Paid on all projects that reach early settlement at the rate of 5% of projects introduced by HAP and 2.5% for all other projects.
- *Shares* – Allocation of 200,000 redeemable preference shares in APSLSP Pty Ltd to be provided within 30 days of signing of the service agreement.

#### D. Share-based compensation (audited)

##### *Options*

On 9 August 2005, shareholders approved the grant of 25,000,000 options to a number of directors. The options were granted to provide an incentive to turn the company around from its current losses and achieve a target being a sustainable price above the option exercise price of 50 cents. The options vested upon grant and are exercisable at any time between grant and expiry date. They carry no dividend or voting rights and were issued free of charge. They are convertible into one ordinary share of Australian Property Systems Limited for cash.

The terms and conditions of the options granted affecting remuneration in the current financial year is as follows:

Grant Date	Expiry Date	Exercise Price	Value Per Options at Grant Date	Number under Option
9 August 2005	8 August 2010	\$0.50	0.175 cents	25,000,000

Details of options over ordinary shares in the company provided as remuneration to certain directors is as follows:

Name	Number of options granted during the year		Number of options vested during the year	
	2006	2005	2006	2005
Mr G S Jamieson	15,000,000	-	15,000,000	-
Mr G A Thomas	5,000,000	-	5,000,000	-
Mr B R Noye (resigned 9 November 2005)	5,000,000	-	5,000,000	-

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 the Black-Scholes 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 26 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.

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

### Remuneration Report (continued)

#### D. *Share-based compensation (audited) (continued)*

##### *Shares*

As part of the service agreement with T Peach 200,000 redeemable preference shares in APSLSP Pty Ltd were to be provided. These shares are yet to be issued.

In addition, on 29 September 2005 the directors resolved not to draw fees from the company, but to receive 50,000 redeemable preference shares each per annum in APSLSP Pty Ltd, subject to them serving three years as directors from that date. These shares have not been issued at this time due to the service criteria not being met.

The shares are to be issued for no consideration and entitle the holder to participate in dividends. No dividends have been paid or are payable in respect of current or prior year.

#### E. *Additional Information (unaudited)*

##### *Details of remuneration: cash bonuses and options*

For each cash bonus included in the tables in Section B above, the percentage of the available bonus that was paid in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of any the bonus is payable in future years.

Name	Cash bonus	
	Paid	Forfeited
	%	%
G S Jamieson	-	100
T Peach	100	-

As the grant of options during the year were discretionary, no part of the option 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 \$
G S Jamieson	12%	26,235	-	-	26,235
G A Thomas	100%	8,744	-	-	8,744
B R Noye	100%	8,744	-	-	8,744

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.

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

### Remuneration Report (continued)

#### Directors' Meetings

The number of directors' meetings and number of meetings attended by each of the directors of the company during the financial year are:

Director	Board Meetings	
	A	B
G S Jamieson	5	5
B B Wilkie	5	5
G A Thomas	5	5
B R Noye (resigned 9 November 2005)	2	2

**A** – Number of meetings attended during the year

**B** – Number of meetings held during the time the director held office

There are no committees of the Board of Directors.

#### Indemnifying Officers or Auditor

The company has agreed to indemnify current and former directors of the company against all liabilities to another person (other than the company or a related body corporate) that may arise from their position as directors of the company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The nature of the indemnity is that the company will meet the full amount of any such liabilities, including costs and expenses.

The company has not maintained a contract of insurance during the financial year which insures any person who is or has been an officer of the consolidated entity against certain liabilities in respect of their duties as an officer of the consolidated entity.

#### Auditor

Johnston Rorke were appointed auditors of the company on 15 December 2005 following the removal of Williams Partners. Johnston Rorke continues in office in accordance with section 327 of the Corporations Act 2001.

#### Non-audit services

The company may decide to employ Johnston Rorke on assignments additional to its statutory duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

The board of directors has considered the position and, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that 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 as 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 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 independence declaration as required under section 307C of the Corporations Act 2001 is attached to this report.

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## DIRECTORS' REPORT

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### Auditor (continued)

During the year the following fees were paid or payable to the auditor for audit and non-audit services:

	Consolidated	
	2006	2005
	\$	\$
<b>Assurance Services</b>		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	37,000	46,372
<b>Advisory Services</b>		
IFRS consultancy services	15,000	-
Other	-	2,854
	15,000	2,854

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



G Jamieson  
Director



B Wilkie  
Director

Dated this 29<sup>th</sup> day of September 2006

The Directors  
Australian Property Systems Limited  
32 Logan Road  
WOOLLOONGABBA QLD 4169

**Auditor's Independence Declaration**

As lead engagement partner for the audit of the financial report of Australian Property Systems Limited for the financial 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



**J. J. EVANS**  
Partner

Brisbane, Queensland  
29 September 2006

**CORPORATE GOVERNANCE STATEMENT**

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The board has put in place the framework and operational policies for the management of the company ensuring the effective management of internal controls and of risk.

**The role of the board**

The board carries out its responsibilities according to the following mandate:

- the board should comprise at least 3 directors;
- the Chairman should be a Non-executive director;
- the directors should possess a broad range of skills, qualifications and experience;
- the board should meet on a regular basis; and
- all available information in connection with items to be discussed at a meeting of the board shall be provided to each director prior to that meeting.

The primary responsibilities of the board include:

- the approval of the annual, half-year and quarterly financial reports;
- the establishment of the long term goals of the company and strategic plans to achieve those goals;
- the review and adoption of annual budgets for the financial performance of the company and monitoring the results on a quarterly basis;
- ensuring that the company has implemented adequate systems of internal controls together with appropriate monitoring of compliance activities; and

**Independent professional advice**

With the prior approval of the Managing director, each director has the right to seek independent legal and other professional advice at the company's expense concerning any aspect of the company's operations or undertakings in order to fulfil their duties and responsibilities as directors.

**Board committees**

The board considers that the company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The board as a whole is able to address the governance aspects of the full scope of the company's activities and to ensure that it adheres to appropriate ethical standards.

**Risk management**

The board is responsible for the company's system of internal controls. The board constantly monitors the operational and financial aspects of the company's activities and considers the recommendations and advice of the auditors and other external advisers on the operational and financial risks that face the company.

The board ensures that recommendations made by the auditors and other external advisers are considered and, where thought necessary, appropriate action is taken to ensure that the company has an effective internal control environment in place to manage the key risks identified.

In addition, the board investigates ways of enhancing existing risk management strategies, including appropriate segregation of duties, as well as the employment and training of suitably qualified and experienced personnel.

**CORPORATE GOVERNANCE STATEMENT**

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**Code of conduct**

As part of the board's commitment to the highest standard of conduct, APSL adopted a code of conduct to guide executives, management and employees in carrying out their duties and responsibilities. The code of conduct covers such matters as:

- Management of conflict of interest
- Responsibilities to shareholders;
- Compliance with laws and regulations;
- Relations with customers and suppliers;
- Ethical responsibilities and Responsibilities to the environment and the community ;
- Employment practices;
- Non Audit Services

The board of directors is satisfied that there was no provision of non-audit services by the auditor during the year.

**Corporate directory and Information**

<b>Directors</b>	Geoffrey. A. Thomas Geoffrey. S. Jamieson Brian. B. Wilkie
<b>Company Secretary</b>	Geoffrey. S. Jamieson
<b>Annual general meeting</b>	31 <sup>th</sup> October 2006
<b>Principal registered office</b>	Level 1, Naval Offices 3 Edward Street, Brisbane Qld 4000
<b>Share register</b>	Link Market Services Level 12, 300 Queen Street, Brisbane Qld 4000
<b>Auditor</b>	Johnston Rorke Chartered Accountants Level 5 National Australia Bank House 255 Adelaide Street Brisbane QLD 4000
<b>Solicitors</b>	Deacons Solicitors Level 17, 175 Eagle Street, Brisbane Qld 4000
<b>Bankers</b>	Westpac Banking Corporation 260 Queen Street, Brisbane Qld 4000
<b>Stock exchange listing</b>	Newcastle Stock Exchange Ground Floor, 384 Hunter Street, Newcastle NSW 2303
<b>Website address</b>	<a href="http://www.apsl.biz">www.apsl.biz</a>



**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**INCOME STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

		<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>Notes</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Revenue	4	579,641	470,807	573,370	127,812
Expenses					
Project management expenses		-	(2,028)	-	(2,028)
Administration expenses		(569,656)	(1,430,648)	(546,793)	(1,244,913)
Licensing expenses		(84,721)	(190,170)	(84,721)	(190,170)
Other expenses		(30,565)	(169,398)	(28,884)	(193,674)
Finance costs		(49)	(8,394)	(49)	(8,394)
<b>Loss before income tax</b>	5	<b>(105,350)</b>	<b>(1,329,831)</b>	<b>(87,077)</b>	<b>(1,511,367)</b>
Income tax expense	6	-	(102,046)	-	(102,046)
<b>Loss for the year</b>	15(b)	<b>(105,350)</b>	<b>(1,431,877)</b>	<b>(87,077)</b>	<b>(1,613,413)</b>
Net loss attributable to outside equity interest		1,221	10,961	-	-
<b>Net loss attributable to members of the parent entity</b>		<b>(104,129)</b>	<b>(1,420,916)</b>	<b>(87,077)</b>	<b>(1,613,413)</b>
		<b>Cents</b>	<b>Cents</b>		
Basic earnings per share (loss)	25	(0.22)	(5.68)		
Diluted earnings per share (loss)	25	(0.22)	(5.68)		

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

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**BALANCE SHEETS**

**AS AT 30 JUNE 2006**

		<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>Notes</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	7	327,256	96,706	319,966	84,461
Trade and other receivables	8	32,023	22,745	30,849	17,473
Inventories	9	104,414	-	104,414	-
Held-to-maturity investments	11	26,549	27,586	-	-
<b>Total current assets</b>		<b>490,242</b>	<b>147,037</b>	<b>455,229</b>	<b>101,934</b>
<b>NON-CURRENT ASSETS</b>					
Trade and other receivables	8	-	-	10,000	8,000
Other financial assets	10	-	-	-	-
Property, plant and equipment	12	4,668	18,476	3,002	15,129
<b>Total non-current assets</b>		<b>4,668</b>	<b>18,476</b>	<b>13,002</b>	<b>23,129</b>
<b>Total assets</b>		<b>494,910</b>	<b>165,513</b>	<b>468,231</b>	<b>125,063</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	13	35,188	42,118	22,853	34,285
Current tax liabilities		-	102,046	-	102,046
<b>Total current liabilities</b>		<b>35,188</b>	<b>144,164</b>	<b>22,853</b>	<b>136,331</b>
<b>Total liabilities</b>		<b>35,188</b>	<b>144,164</b>	<b>22,853</b>	<b>136,331</b>
<b>NET ASSETS/(LIABILITIES)</b>		<b>459,722</b>	<b>21,349</b>	<b>445,378</b>	<b>(11,268)</b>
<b>EQUITY</b>					
Contributed equity	14	2,572,000	2,072,000	2,572,000	2,072,000
Share-based payments reserve	15(a)	43,723	-	43,723	-
Accumulated losses	15(b)	(2,233,610)	(2,129,481)	(2,170,345)	(2,083,268)
Parent entity interest		382,113	(57,481)	445,378	11,268
Outside equity interest	16	77,609	78,830	-	-
<b>TOTAL EQUITY</b>		<b>459,722</b>	<b>21,349</b>	<b>445,378</b>	<b>(11,268)</b>

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

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEAR ENDED 30 JUNE 2006**

	Notes	Consolidated		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>Total equity at the beginning of the financial year</b>		<b>21,349</b>	<b>1,165,716</b>	<b>(11,268)</b>	<b>1,383,344</b>
Net income recognised directly in equity	15(c)	-	287,510	-	218,801
Loss for the year		(105,350)	(1,431,877)	(87,077)	(1,613,413)
<b>Total recognised income and expense for the year</b>		<b>(105,350)</b>	<b>(1,144,367)</b>	<b>(87,077)</b>	<b>(1,394,612)</b>
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	14	500,000	-	500,000	-
Employee share options	15(a)	43,723	-	43,723	-
<b>Total equity at the end of the financial year</b>		<b>459,722</b>	<b>21,349</b>	<b>445,378</b>	<b>(11,268)</b>

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

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**CASH FLOW STATEMENTS**

**FOR THE YEAR ENDED 30 JUNE 2006**

	<b>Note</b>	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>s</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from operating activities (inclusive of goods and services tax)		618,998	288,383	605,763	255,389
Payments to suppliers and employees (inclusive of goods and services tax)		(801,403)	(1,686,213)	(781,243)	(1,456,919)
Interest received		14,013	35,183	13,080	32,818
Finance costs		(49)	(4,675)	(49)	(4,675)
Income taxes paid		(102,046)	-	(102,046)	-
<b>Net cash outflow from operating activities</b>	<b>23</b>	<b>(270,487)</b>	<b>(1,367,322)</b>	<b>(264,495)</b>	<b>(1,173,387)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of term deposit		-	(1,461)	-	-
Proceeds on reduction of term deposit		1,037	-	-	-
Payments for plant and equipment		-	(2,500)	-	-
Repayment of loans by other entities		-	200,000	-	200,000
Payments for purchase of investments		-	-	-	(112,820)
<b>Net cash inflows from investing activities</b>		<b>1,037</b>	<b>196,039</b>	<b>-</b>	<b>87,180</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issues of shares		500,000	-	500,000	-
Repayment of borrowings		-	(55,364)	-	(55,364)
Loans to related parties		-	-	-	(12,134)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>500,000</b>	<b>(55,364)</b>	<b>500,000</b>	<b>(67,498)</b>
<b>Net increase (decrease) in cash and cash equivalents held</b>		<b>230,550</b>	<b>(1,226,647)</b>	<b>235,505</b>	<b>(1,153,705)</b>
Cash and cash equivalents at the beginning of the financial year		96,706	1,323,353	84,461	1,238,166
<b>Cash and cash equivalents at the end of the financial year</b>	<b>7</b>	<b>327,256</b>	<b>96,706</b>	<b>319,966</b>	<b>84,461</b>

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

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 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 Australian Property Systems Limited an individual entity and the consolidated entity consisting of Australian Property Systems Limited and its subsidiaries.

#### (a) Basis of preparation

This general purpose financial report for the financial year ended 30 June 2006 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 Australian Property Systems 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 Australian Property Systems 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 Australian Property Systems Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Australian Property Systems Limited 2006 financial statements, certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements have been amended to comply with AIFRS. The comparative figures were restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on equity and net loss are given in note 28.

##### *Historical cost convention*

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

#### (b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Australian Property Systems Limited ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. Australian Property Systems Limited and its subsidiaries together are referred to in the financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose 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. 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 to note 1(g)).

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 1. Summary of significant accounting policies (cont'd)

#### (b) Principles of consolidation (cont'd)

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 Australian Property Systems 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) 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, duties and taxes paid.

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

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

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 1. Summary of significant accounting policies (cont'd)

#### (e) 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*

Australian Property Systems Limited and its wholly owned Australian controlled entities have decided to implement the tax consolidation legislation as of 1 July 2003.

Australian Property Systems Limited and its wholly owned Australian controlled entities have significant tax losses. No deferred tax balances have been recognised, as recovery of losses (and temporary differences) is not probable at this time.

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

**(f) Leases**

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

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

**(g) Business combinations**

The purchase method of accounting is used to account for all business combinations. 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 fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

**(h) Inventories**

Inventories comprise property held for resale and is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes cost of acquisition and development cost.



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

**(i) Impairment of assets**

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 which are largely independent of the cash inflows from other assets or groups of assets (cash generating units).

**(j) Cash and cash equivalents**

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

**(k) 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 and other receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade and other 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 effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. The amount of the provision is recognised in the income statement.

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

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

The Group has no financial assets at fair value through profit or loss 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 to subsidiaries are classified as non-current assets when it is expected that the loans will not be repaid within 12 months from the balance sheet date.

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

**(l) Investments and other financial assets (cont'd)**

*Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method.

**(m) 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 (for example, over-the-counter derivatives) 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 fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

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

**(n) Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*(i) Impairment of plant and equipment*

As part of the process of assessing whether plant and equipment has suffered any impairment, the Group first considers whether there are any impairment indicators present. The Group reviews the indicators at least annually in accordance with the accounting policy stated in note 1(i). At 30 June 2006 it has been assessed that no impairment indicators are present and has continued to recognise the plant and equipment at its historic cost. Refer to note 12 for the carrying value of plant and equipment.

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 1. Summary of significant accounting policies (cont'd)

#### (o) Property, plant and equipment

Property, plant and equipment are 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 of assets is calculated on a diminishing value or straight line method to allocate their cost, net of their residual values, over their estimated useful lives. The depreciation rates used for each class of depreciable asset are:

Class	
Plant and equipment	7.5%-20%
Leased plant and equipment	25%

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

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(i)).

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

#### (p) Trade and other payables

Trade and other payables are initially recognised 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 (cont'd)**

**(q) Employee benefits**

*(i) Wages and salaries, annual 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 provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

*(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 accumulation 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 Australian Property Systems 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.

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

The fair value of options granted under the Australian Property Systems 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 Black-Scholes 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.

*(v) Bonus plans*

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

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 1. Summary of significant accounting policies (cont'd)

#### (r) 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 the proceeds.

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from total equity. In the company's financial statements, the transactions of the Employee Share Scheme (APSLSP Pty Ltd) are treated as being executed directly by the company. Accordingly, shares held by APSLSP Pty Ltd are recognised as treasury shares and deducted from equity.

#### (s) Earnings per share

##### (i) *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit or loss 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 period, adjusted for bonus elements in ordinary shares issued during the period.

##### (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.

#### (t) Dividends

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

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 1. Summary of significant accounting policies (cont'd)

#### (u) Goods and services tax

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

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

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

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities recoverable from, or payable to the taxation authority, are presented as operating cash flows.

#### (v) Comparatives

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

#### (w) 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. The Group's assessment of the impact of these new standards and interpretations is set out below.

<b>AASB Amendment</b>	<b>Affected Standard (s)</b>	<b>Application date of standard</b>	<b>Application date for Group</b>
2004-3	AASB 1 <i>First-time adoption of AIFRS</i> , AASB 101 <i>Presentation of Financial Statements</i> and AASB 124 <i>Related Party Disclosures</i>	1 January 2006	1 July 2006
2005-1	AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	1 January 2006	1 July 2006
2005-4	AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB 1 <i>First-time adoption of AIFRS</i> , AASB 1023 <i>General Insurance Contracts</i> and AASB 1038 <i>Life Insurance Contracts</i>	1 January 2006	1 July 2006
2005-5	AASB 1 <i>First-time adoption of AIFRS</i> and AASB 139 <i>Financial Instruments: Recognition and Measurement</i>	1 January 2006	1 July 2006
2005-6	AASB 3 <i>Business combinations</i>	1 January 2006	1 July 2006
2005-9	AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General Insurance Contracts</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 132 <i>Financial Instruments: Disclosure and Presentation</i>	1 January 2006	1 July 2006

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## 1. Summary of significant accounting policies (cont'd)

### (w) New accounting standards and UIG interpretations (cont'd)

AASB Amendment	Affected Standard (s)	Application date of standard	Application date for Group
2005-10	AASB 132 <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101 <i>Presentation of Financial Statements</i> , AASB 114 <i>Segment Reporting</i> , AASB 117 <i>Leases</i> , AASB 133 <i>Earnings per Share</i> , AASB 139 <i>Financial Instruments: Recognition and Measurement</i> , AASB 1 <i>First-time adoption of AIFRS</i> , AASB 4 <i>Insurance Contracts</i> , AASB 1023 <i>General Insurance Contracts</i> , AASB 1038 <i>Life Insurance Contracts</i>	1 January 2007	1 July 2007
2006-1	AASB 121 <i>The Effects of Change in Foreign Currency Rates</i>	1 January 2006	1 July 2006

It has been assessed that the implementation of the above AASB amendments will not affect the Group's accounting policies and therefore will have no significant impact.

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

It has been assessed that the implementation of the above new AASB standards and UIGs will not affect the Group's accounting policies and therefore will have no significant impact.

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 1. Summary of significant accounting policies (cont'd)

#### (x) General

This financial report covers both Australian Property Systems Limited as an individual entity (parent entity) and the consolidated entity consisting of Australian Property Systems Limited and its controlled entities.

Australian Property Systems Limited is a public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Australian Property Systems Limited  
1<sup>st</sup> Floor  
Navel Office  
3 Edward Street  
BRISBANE QLD 4000

### 2. Financial risk management

The Group's activities expose it to a variety of financial risks; market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management program focuses on managing these risks and implementing and monitoring of controls around the cash management function. The Group's principal financial instruments consist of cash and cash equivalents, short-term deposits, receivables and payables.

The Group's management of treasury activities is centralised and governed by policies approved by the board of directors. The board provides principles for overall risk management, as well as policies covering specific areas, such as identifying risk exposure, analysing and deciding upon strategies, performance measurement, the segregation of duties and other controls around the treasury and cash management functions.

#### (a) Market risk

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

Currently the company does not undertake any foreign currency transactions. The Group is not directly exposed to material equity securities price risk or commodity price risks.

#### (b) Credit risk

The Group has treasury policies in place for deposit transactions for such transactions to be conducted with financial institutions with a minimum credit rating.

The Group does not have any material credit risk exposure to any single debtor at balance date except as follows:

- The Group's customers are involved in the construction industry.
- Approximately 90% of the Group's revenue is generated from the Group's licensee, Napier and Blakely. Refer note 27 for further information.

The credit risk on financial assets which have been recognised on the balance sheets is generally the carrying amount, net of any provisions. At balance date, cash and deposits were held with Westpac. For receivables refer to note 8.

#### (c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash reserves to meet the ongoing operational requirements of the business. It is the Group's policy to maintain sufficient funds in cash and cash equivalents. Furthermore, the Group monitors its ongoing cash requirements and raises equity funding as and when appropriate to meet such planned requirements.



## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 2. Financial risk management (cont'd)

#### (d) **Cash flow interest rate risk**

The Group's cash-flow interest rate risk primarily arises from cash at bank and deposits subject to market bank rates. Refer note 7 for further details.

Generally no interest is receivable or payable on the Group's trade and other receivables or payables. At balance date, the Group does not have any borrowings.

### 3. Segment information

#### **Business segments**

The consolidated entity comprises the following main business segments, based on the consolidated entity's management reporting system:

- Licensing and Royalties – the provision of training for property development management services
- Wealth creation & Transaction Management – the provision of wealth creation services and services for managing transactions associated with property development projects

#### **Geographic segments**

The consolidated entity operates solely within Australia.

Primary reporting Business segments	Licensing & Royalties		Wealth Creation & Transaction Management		Inter-segment eliminations		Consolidated	
	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$	2006 \$	2005 \$
<b>Revenue</b>								
Segment revenue	560,290	127,812	38,338	342,995	(33,000)	-	565,628	470,807
Unallocated revenue							14,013	-
Total revenue							579,641	470,807
<b>Results</b>								
Segment result (loss)	(100,108)	(1,486,418)	(19,206)	156,587	-	-	(119,314)	(1,329,831)
Unallocated revenue less unallocated expense							13,964	-
Income tax expense							-	(102,046)
<b>Net loss</b>							(105,350)	(1,431,877)
<b>Assets</b>								
Segment assets	468,231	150,011	26,679	15,502	-	-	494,910	165,513
<b>Liabilities</b>								
Segment liabilities	22,853	34,285	12,335	7,833	-	-	35,188	42,118
Unallocated liabilities							-	102,046
Total liabilities							35,188	144,164
Depreciation and amortisation	(12,128)	(70,940)	(1,680)	(5,391)	-	-	(13,808)	(76,331)

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 3. Segment information (cont'd)

#### Notes to and forming part of the segment information

##### (i) *Accounting policies*

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard AASB 114 *Segment Reporting*.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and held-to-maturity investments. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors. Segment assets and liabilities do not include income taxes.

##### (ii) *Inter-segment transfers*

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arm's-length" basis and are eliminated on consolidation.

### 4. Revenue

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Licence and royalty income	565,628	248,804	560,290	94,995
Interest	14,013	35,182	13,080	32,817
Other	-	186,821	-	-
	<b>579,641</b>	<b>470,807</b>	<b>573,370</b>	<b>127,812</b>

### 5. Loss before income tax

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Loss before income tax includes the following specific expenses:				
Depreciation – plant and equipment	13,808	106,056	12,127	100,668
Finance charges on capitalised leases	-	8,394	-	8,394
Operating lease rental expenses – minimum lease payments	16,753	2,158	16,753	2,158
Employee benefits expense	43,723	746,305	43,723	746,305
Net loss on disposal of property, plant and equipment	-	10,263	-	10,263

**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

**6. Income tax**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>(a) Income tax expense</b>				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
Under (over) provided in prior years	-	102,046	-	102,046
	-	102,046	-	102,046
<b>(b) Numerical reconciliation of income tax expense to prima facie tax payable</b>				
Loss before income tax expense	(105,350)	(1,329,831)	(87,077)	(1,511,367)
Tax at the Australian tax rate of 30% (2005: 30%)	(31,605)	(398,949)	(26,123)	(453,410)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income				
Non-deductible expenses	13,117	-	13,117	7,484
	(18,488)	(398,949)	(13,006)	(445,926)
Under/(over) provision in prior year	-	102,046	-	102,046
Deferred tax assets not recognised	18,488	398,949	13,006	445,926
Income tax expense	-	102,046	-	102,046
<b>(c) Tax losses</b>				
Unused tax losses for which no deferred tax asset has been recognised (@ 30%)	392,822	374,334	375,595	362,589

All unused tax losses were incurred by Australian entities.

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 6. Income tax (cont'd)

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>(d) Franking credits</b>				
Franking credits available for subsequent financial years	102,046	-	102,046	-

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

- (i) Franking credits that will arise from the payment of the amount of the provision for income tax
- (ii) Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (iii) Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

### **(e) Tax consolidation legislation**

Australian Property Systems Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003. As disclosed in note 1(e), due to tax loss positions of Australian Property Systems Limited and its wholly owned Australian controlled entities (giving rise to unrecognised deferred tax assets as noted above) the implementation of the tax consolidation legislation has had no effect on the Income Statement and Balance Sheet.

The wholly owned Australian controlled entities have not been compensated for the unrecognised deferred tax assets transferred to Australian Property Systems Limited (the head entity) as a result of the tax consolidation legislation.

As at 30 June 2006 the entities had not yet entered into a tax funding arrangement or tax sharing agreement.

Libertas Securities Pty Ltd ("Libertas") was a member of the tax consolidated group up until 30 June 2004 when the parent entity disposed of a 9% interest to an outside equity participant. Losses incurred by Libertas up until it was deconsolidated were available to the group. There were no significant or material taxation consequences noted on the deconsolidation of Libertas.

### 7. Cash and cash equivalents

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Cash at bank	327,256	96,706	319,966	84,461

The cash at bank, which is held mainly in at call bank accounts, bears floating interest rates of 3.5% (2005: 3.83%).

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## 8. Trade debtors and other receivables

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Current</b>				
Trade debtors	32,023	22,745	30,849	17,473
<b>Non-current</b>				
Amounts owing by subsidiaries	-	-	10,000	8,000

Further information relating to amounts owing to subsidiaries is set out in note 21.

### (a) Interest rate risk

All receivables are non-interest bearing.

### (b) Credit risk

The Group has no material concentration of credit risk in relation to receivables, except as disclosed in note 2.

### (c) Fair value

For receivables, fair value approximates the carrying amount.

## 9. Inventories

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Property held for resale	104,414	-	104,414	-

Property held for resale comprises Lot 33, Ferry Rd, West End. The property is currently under construction and costs incurred to date comprise land and several progress construction claims. Total estimated cost of the completed unit is \$213,376. Once completed, the company intends to dispose of the unit.

## 10. Other financial assets

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Shares in subsidiaries – at cost	-	-	24,947	24,947
Provision for impairment	-	-	(24,947)	(24,947)
	-	-	-	-

For details on subsidiaries see note 22.

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## 11. Held-to-maturity investments

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Fixed term deposit	26,549	27,586	-	-

The held-to-maturity investments are bearing fixed interest rates (until maturity) of 5.55% (2005: 5.5%) with an average maturity of 365 days.

Of the above amount, \$20,000 is restricted in order to meet a subsidiary's Australian Financial Services licensing requirements.

## 12. Property, plant and equipment

	Plant and Equipment		Leased Plant & Equipment		Total	
	Consolidated	Parent Entity	Consolidated	Parent Entity	Consolidated	Parent Entity
	\$	\$	\$	\$	\$	\$
<b>At 1 July 2004</b>						
Cost	160,364	146,667	69,205	69,205	229,569	215,872
Accumulated depreciation	(73,373)	(65,912)	(36,044)	(36,044)	(109,417)	(101,956)
Net book amount	86,991	80,755	33,161	33,161	120,152	113,916
<b>Year ended 30 June 2005</b>						
Opening net book amount	86,991	80,755	33,161	33,161	120,152	113,916
Additions	2,500	-	-	-	2,500	-
Disposals	(10,263)	(10,263)	-	-	(10,263)	(10,263)
Transfers other assets	33,161	33,161	(33,161)	(33,161)	-	-
Adjustment to carried value	(39,808)	(39,808)	-	-	(39,808)	(39,808)
Depreciation	(54,105)	(48,716)	-	-	(54,105)	(48,716)
Closing net book amount	18,476	15,129	-	-	18,476	15,129
<b>At 30 June 2005</b>						
Cost	149,953	133,754	-	-	149,953	133,754
Accumulated depreciation	(131,477)	(118,625)	-	-	(131,477)	(118,625)
Net book amount	18,476	15,129	-	-	18,476	15,129
<b>Year ended 30 June 2006</b>						
Opening net book amount	18,476	15,129	-	-	18,476	15,129
Depreciation	(13,808)	(12,127)	-	-	(13,808)	(12,127)
Closing net book amount	4,668	3,002	-	-	4,668	3,002
<b>At 30 June 2006</b>						
Cost	149,953	133,754	-	-	149,953	133,754
Accumulated depreciation	(145,285)	(130,752)	-	-	(145,285)	(130,752)
Net book amount	4,668	3,002	-	-	4,668	3,002

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## 13. Trade and other payables

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Trade payables	12,076	29,578	12,076	24,285
Other payables	23,112	12,540	10,777	10,000
	<u>35,188</u>	<u>42,118</u>	<u>22,853</u>	<u>34,285</u>

Trade and other payables are non-interest bearing. Their fair value approximates their carrying amount.

## 14. Contributed equity

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
<b>Share capital</b>				
50,014,000 ordinary shares fully paid (2005: 25,014,000)	2,582,740	2,082,740	2,582,740	2,082,740
Treasury shares	<u>(10,740)</u>	<u>(10,740)</u>	<u>(10,740)</u>	<u>(10,740)</u>
	<u>2,572,000</u>	<u>2,072,000</u>	<u>2,572,000</u>	<u>2,072,000</u>

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.

Treasury shares are held by APSLSP Pty Ltd in accordance with the Employee Share Scheme. Refer note 1(r) and 26.

Movements in ordinary share capital during the past two financial years were as follows:

Date	Details	Notes	Number of shares	Issue price \$	Consolidated \$	Parent Entity \$
1 July 2004 & 30 June 2005	Balance		25,014,000		2,072,000	2,072,000
9 August 2005	Issue of ordinary shares	(i)	<u>25,000,000</u>	0.02	<u>500,000</u>	<u>500,000</u>
<b>30 June 2006</b>	<b>Balance</b>		<b><u>50,014,000</u></b>		<b><u>2,572,000</u></b>	<b><u>2,572,000</u></b>

- (i) At an extraordinary general meeting on 9 August 2005 shareholders approved the issue of 25,000,000 ordinary fully paid shares for cash at \$0.02 each to the following directors:

	Number of Shares
G S Jamieson	12,500,000
G A Thomas	10,625,000
B R Noye	<u>1,875,000</u>
	<u>25,000,000</u>

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of the winding up of the company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

# **AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

## **15. Reserves and accumulated losses**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>(a) Share-based payments reserve</b>				
Balance 1 July	-	-	-	-
Share-based payments during the year	43,723	-	43,723	-
Balance 30 June	<u>43,723</u>	<u>-</u>	<u>43,723</u>	<u>-</u>

The share-based payments reserve is used to recognise the fair value of options issued for goods and services including employee services, but not exercised.

## **(b) Accumulated losses**

Movements in accumulated losses were as follows:

Balance 1 July	(2,129,481)	(991,225)	(2,083,268)	(688,656)
Net loss for the year	(104,129)	(1,420,916)	(87,077)	(1,613,413)
Adjustment attributable to minority interest	-	(4,850)	-	-
Direct equity adjustments (i)	-	287,510	-	218,801
Balance 30 June	<u>(2,233,610)</u>	<u>(2,129,481)</u>	<u>(2,170,345)</u>	<u>(2,083,268)</u>

- (i) During 2005 the consolidated entity and parent entity processed the following adjustments directly to accumulated losses:

	<b>Consolidated</b>	<b>Parent Entity</b>
	<b>\$</b>	<b>\$</b>
Reversal of accrued expenses	79,000	79,000
Loan to subsidiary	133,453	133,453
Miscellaneous tax adjustments	75,058	6,348
	<u>287,511</u>	<u>218,801</u>

## **16. Minority interest**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Interest in:				
Share capital	96,215	96,215	-	-
Accumulated losses	(18,606)	(17,385)	-	-
	<u>77,609</u>	<u>78,830</u>	<u>-</u>	<u>-</u>



## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 17. Key management personnel disclosures

#### (a) Directors

The following persons were directors of Australian Property Systems Limited during the last two financial years:

*Managing director – executive*

Mr G S Jamieson

*Non-executive directors*

Mr B B Wilkie

Mr G A Thomas – appointed 9 August 2005

Mr B R Noye – resigned 14 December 2004, reappointed 9 August 2005, resigned 9 November 2005

Mr A Gerbanas – resigned 25 August 2004

#### (b) 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
Mr T Peach	Licensing and Training Manager	Australian Property Systems Limited
Mr A McKay	Advisor/Responsible Officer	Libertas Securities Pty Ltd
Ms J McKinnon	Advisor/Responsible Officer	Libertas Securities Pty Ltd
Mr M Candy	Advisor/Responsible Officer	Libertas Securities Pty Ltd

Mr A McKay, Ms J McKinnon and Mr M Candy ceased employment on 18 October 2004.

There have been no changes to key management personnel since year end. There were no other key management personnel in either the current or prior year.

#### (c) Key management personnel compensation

	Consolidated		Parent entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Short-term employee benefits	305,300	454,250	305,300	313,250
Share-based payments	43,723	-	43,723	-
	<u>349,023</u>	<u>454,250</u>	<u>349,023</u>	<u>313,250</u>

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.

#### (d) Equity instrument disclosures relating to key management personnel

##### (i) 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.

# **AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

## **17. Key management personnel disclosures (cont'd)**

### *(ii) Option holdings*

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

<b>2006</b>	<b>Balance at the start of the year</b>	<b>Granted during the year as compensation</b>	<b>Exercised during the year</b>	<b>Balance at resignation date (if applicable)</b>	<b>Other changes during the year</b>	<b>Balance at the end of the year</b>	<b>Vested and exercisable at the end of the year</b>
<b>Directors</b>							
G S Jamieson	-	15,000,000	-	-	-	15,000,000	15,000,000
G A Thomas	-	5,000,000	-	-	-	5,000,000	5,000,000
B R Noye	-	5,000,000	-	(5,000,000)	-	-	-
B B Wilkie	-	-	-	-	-	-	-
<b>Other key management personnel of the group</b>							
T Peach	-	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>25,000,000</b>	<b>-</b>	<b>(5,000,000)</b>	<b>-</b>	<b>20,000,000</b>	<b>20,000,000</b>

There were no options held or granted during the 2005 financial year.

### *(iii) Share holdings*

The numbers of ordinary shares in the company held during the financial year by each director of Australian Property Systems 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 last two financial years as compensation.

<b>2006</b>	<b>Balance at the start of the year</b>	<b>On exercise of options</b>	<b>Share issue*</b>	<b>Other changes during the year</b>	<b>Balance at appointment date (if applicable)</b>	<b>Balance at resignation date (if applicable)</b>	<b>Balance at the end of the year</b>
<b>Directors</b>							
G S Jamieson	10,091,700	-	12,500,000	-	-	-	22,591,700
B B Wilkie	4,547,650	-	-	-	-	-	4,547,650
G A Thomas	-	-	10,625,000	-	-	-	10,625,000
<b>Other key management personnel of the Group</b>							
	14,639,350	-	25,000,000	-	500,000	(2,375,000)	37,764,350

<b>2005</b>	<b>Balance at the start of the year</b>	<b>On exercise of options</b>	<b>Other changes during the year</b>	<b>Balance at resignation date (if applicable)</b>	<b>Balance at the end of the year</b>
<b>Directors</b>					
G S Jamieson	9,870,994	-	220,706	-	10,091,700
B B Wilkie	4,547,650	-	-	-	4,547,650
G A Thomas	-	-	-	-	-
A Gerbanas	450,000	-	-	(450,000)	-
B R Noye	100,000	-	40,000	(140,000)	-
<b>Other key management personnel of the Group</b>					
T Peach	-	-	-	-	-
A McKay	-	-	-	-	-
J McKinnon	-	-	-	-	-
M Candy	-	-	-	-	-
	14,968,644	-	260,706	(590,000)	14,639,350

\* shares issued at Extraordinary Meeting of Shareholders on 9 August 2005. Refer note 14 for further details.

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 17. Key management personnel disclosures (cont'd)

#### (e) Loans to key management personnel

There were no loans to directors of Australian Property Systems Limited or other key management personnel of the Group during the current or previous reporting period.

#### (f) Other transactions with key management personnel

On 1 June 2001, Australian Property Systems (No 1) Pty Ltd, an entity associated with Messrs G S Jamieson and B B Wilkie, (of which G S Jamieson controls 33% of the ordinary shares and 51% of the vote by way of preference shares and of which B B Wilkie holds 33% of the ordinary shares) entered into a Technology Licence Agreement with the company. Under the terms of this Agreement, Australian Property Systems (No 1) Pty Ltd has granted an exclusive licence to the company for the use of certain intellectual property in consideration for:

- An initial licence fee of \$10,000;
- A monthly licence fee of \$7,000 per month; and
- A monthly royalty of 1% of revenue earned from use of the intellectual property outside of Australia.

In addition, there are potential further fees and royalties payable which are contingent on future events. Refer note 20 for details.

The term of the Technology Licence Agreement is for a period of 20 years commencing 1 June 2001.

The total amount expended by the company under the Technology Licence Agreement for the year ended 30 June 2006 was \$80,700 (2005: \$60,000). The amount payable under the agreement at 30 June 2006 was \$nil (2005: \$nil).

On 23 December 2005 the company acquired land for \$89,440 from Australian Affordable Housing Inc., an entity related to GS Jamieson and T Peach. Refer note 9.

There have been no other transactions with key management personnel during the current and preceding financial years.

### 18. Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the parent entity.

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<i>Assurance services</i>				
Audit and review of financial reports of the entity or any entity in the consolidated entity	37,000	46,372	25,000	36,372
<i>Advisory services</i>				
AIFRS consultancy services	15,000	-	15,000	-
Other	-	2,854	-	-
	<u>15,000</u>	<u>2,854</u>	<u>15,000</u>	<u>-</u>

No amounts were paid or payable to a related practice of the auditor. There were no other auditors of subsidiaries in the Group.

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

19. <b><u>Commitments</u></b>	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>(a) Operating leases</b>				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	2,374	2,158	2,374	2,158
Later than one year but not later than five years	3,561	5,395	3,561	5,395
Commitments not recognised in the financial statements	5,935	7,553	5,935	7,553

The operating leases primarily relate to a lease of a photocopier. The lease is for five years from 2003 with an option for renewal for a further five years. The operating leases are under normal commercial operating lease terms and conditions.

**(b) Remuneration commitments**

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

Within one year	15,616	190,000	15,616	190,000
	15,616	190,000	15,616	190,000

***Non-cancellable management services agreements***

A number of key senior executives are employed under non-cancellable management services agreements. The terms of these agreements are detailed in Section C of the remuneration report in the Directors' Report.

## 20. **Contingent liabilities**

**(a) Licence Fee Payable**

Under the Technology Licence Agreement as disclosed in note 17(f) in the event that the company completes a successful capital raising of \$5 million, a licence fee of \$1.7 million will become due and payable by the company.

The following items will also become payable under the Technology Licence Agreement in the event that the company completes a successful capital raising of \$5m:

**(b) Royalty Fee Payable**

A monthly royalty of 1% of revenue earned from use of the intellectual property outside of Australia will become due and payable by the company.

**(c) Further Licence Fee Payable**

If the Development System is patented and utilised in 1 country outside of Australia an amount of \$1m becomes payable by the company.

If the Development System is patented and utilised in 2 countries outside of Australia an additional \$1m becomes payable by the company.

Finally if the Development System is patented and utilised in more than 2 countries outside of Australia, an amount of \$3m becomes payable by the company.

At the date of this report, the capital raising of \$5m has not been completed.

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 21. Related party transactions

#### (a) Parent entity

The ultimate parent entity within the Group is Australian Property Systems Limited.

#### (b) Subsidiaries

Interests in subsidiaries are set out in note 22.

#### (c) Key management personnel

Disclosures relating to key management personnel are set out in note 17.

#### (d) Loans to subsidiaries

*Loans to subsidiaries*

Beginning of the year

Loans advanced

End of the year

Parent Entity	
2006	2005
\$	\$
8,000	8,000
2,000	-
<u>10,000</u>	<u>8,000</u>

The loans are at call, interest free, unsecured and repayable in cash.

#### (e) Other transactions with subsidiaries

The parent entity has also provided, free of charge, administrative and accounting assistance to subsidiaries during the current and previous financial years.

The parent entity and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003 – refer notes 1(e) and 6.

### 22. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Ownership Interest	
		2006	2005
		%	%
Product Services Exchange Pty Ltd	Australia	100	100
Libertas Securities Pty Ltd	Australia	91	91

**All share capital consists of ordinary shares in each company and ordinary units for Libertas Securities Pty Ltd.**

# **AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

## **23. Reconciliation of loss after income tax to net cash outflow from operating activities**

	<b>Consolidated</b>		<b>Parent Entity</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Loss for the year	(105,350)	(1,431,877)	(87,077)	(1,613,413)
Depreciation	13,808	110,230	12,127	88,525
Net loss on disposal of assets	-	10,263	-	10,263
Amounts set aside to provisions	-	(23,818)	-	-
Non-cash employee benefits – share-based payments	43,723	-	43,723	-
Finance charges on capitalised leased assets	-	8,390	-	8,390
Write down of investment in controlled entities to recoverable amount	-	-	-	79,947
Write down of intercompany loan	-	-	-	261,326
Write down of other intangibles	-	5,343	-	-
Changes in operating assets and liabilities	-	-	-	-
(Increase)/decrease in:				
Receivables	(9,278)	191,356	(15,376)	161,217
Inventories	(104,414)	-	(104,414)	-
Deferred tax balances	-	19,515	-	19,515
Increase/(decrease) in:				
Payables	(6,930)	(339,255)	(11,432)	(271,688)
Current tax payable	(102,046)	82,531	(102,046)	82,531
Net cash outflow from operating activities	<u>(270,487)</u>	<u>(1,367,322)</u>	<u>(264,495)</u>	<u>(1,173,387)</u>

## **24. Other cash related disclosures**

### **Non-cash investing and financing activities**

Options and shares issued to employees and directors for nil cash consideration are shown in note 26.

### **Finance facilities**

**At 30 June 2006, the consolidated entity had no unused finance facilities (2005 – nil).**

# AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

## 25. Earnings per share

	Consolidated	
	2006 Cents	2005 Cents
Basic earnings per share	(0.22)	(5.68)
Diluted earnings per share	(0.22)	(5.68)

### Reconciliations of earnings used in calculating earnings per share

	Consolidated	
	2006 \$	2005 \$
<i>Basic earnings per share</i>		
(Loss) attributable to the ordinary equity holders of the company used in calculating basic earnings per share	(104,129)	(1,420,916)
<i>Diluted earnings per share</i>		
(Loss) attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	(104,129)	(1,420,916)

### Weighted average number of shares used as the denominator

	Consolidated	
	2006 Number	2005 Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	47,274,274	25,014,000
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	47,274,274	25,014,000

### Information concerning the classification of securities

#### *Options*

Options granted are considered to be potential ordinary shares and have been taken into account in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 26.

In the circumstances of the Group, the options are not dilutive and are therefore not used in the calculation of diluted earnings per share. These options could potentially dilute basic earnings per share in the future.

**26. Share-based payments**

**Australian Property Systems Limited Employee Share Plan**

Eligible employees and directors of the company are invited to apply for redeemable preference shares in APSLSP Pty Ltd in accordance with the terms and conditions of the APSLSP Pty Ltd Share Scheme Deed. The redeemable preference shares are non-voting and entitle the holders to participate in dividends as declared by the board of APSLSP Pty Ltd.

APSLSP Pty Ltd operates for the purpose of providing eligible employees and directors of the company with a means to participate in profits of the company through dividend distributions. The principal activity of APSLSP Pty Ltd is to own 5% of the issued share capital of the company and derive income through the receipt of dividends from the company

As part of the service agreement with T Peach 200,000 redeemable preference shares in APSLSP Pty Ltd were to be provided. These shares are yet to be issued.

In addition, on 29 September 2005 the directors resolved not to draw fees from the company, but to receive 50,000 redeemable preference shares each per annum in APSLSP Pty Ltd, subject to them serving three years as directors from that date. These shares have not been issued at this time due to the service criteria not being met.

The shares are to be issued for no consideration and entitle the holder to participate in dividends paid/payable by APSLSP Pty Ltd. No dividends have been paid or are payable by APSLSP Pty Ltd during the current or prior year. No remuneration expense has been recognised in respect of the redeemable preferences shares.

**Director Options**

At an Extraordinary Meeting of Shareholders on 9 August 2005, options were granted to directors by the parent entity. Each option granted is convertible into one ordinary share in Australian Property Systems Limited for cash. Options granted carry no dividend or voting rights. The options vested upon grant and there were no further vesting conditions. They are exercisable at any time within 5 years of grant.

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
<b>Consolidated and parent entity – 2006</b>								
9 August 2005	8 August 2010	\$0.50	-	25,000,000	-	-	25,000,000	25,000,000

No such options were granted in the 2005 year.

The weighted average remaining contractual life of share options outstanding at the end of the year was 4.11 years (2005: nil 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 0.175 cents per option. The fair value at grant date was independently determined using the Black-Scholes 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.



**26. Share-based payments (cont'd)**

The model inputs for options granted during the year ended 30 June 2006 included:

- a) Options are granted for no consideration and have a five year life
- b) Exercise price: \$0.50
- c) Grant date: 9 August 2005
- d) Expiry date: 8 August 2010
- e) Share price at grant date: \$0.02
- f) Expected price volatility of the company's shares: 74.5%
- g) Expected dividend yield: 0%
- h) Risk-free interest rate: 5.7%

The expected price volatility is based on the historic volatility of the entity up to the grant date of the options (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:

	<b>Consolidated</b>		<b>Parent entity</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Options issued to directors	43,723	-	43,723	-

**27. Economic dependency**

On 26 September 2005, the company entered into a non-exclusive Licence Agreement with Napier & Blakely Consulting Pty Ltd ("the licensee"). The licensee has in turn entered into a Development Management Agreement with Australian Affordable Housing Association Inc ("AAHA") (a related entity of G Jamieson and T Peach) for the development of certain land owned by AAHA. Under the terms of the Licence Agreement the licensee pays the company certain fees and royalties based on the fees it receives under various Development Management Agreements entered into.

For the year ended 30 June 2006 fees paid by the licensee were \$520,749 (2005: \$5,000). This represents approximately 90% (2005: 1%) of the group's total revenue.

# **AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

## **28. Explanation of transition to Australian equivalents to IFRSs**

**(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)**

**(a) At the date of transition to AIFRS: 1 July 2004**

	Note	Previous AGAAP \$	Consolidated Effect of change \$	AIFRS \$	Previous AGAAP \$	Parent Entity Effect of change \$	AIFRS \$
<b>CURRENT ASSETS</b>							
Cash and cash equivalents		1,349,477	-	1,349,477	1,238,166	-	1,238,166
Receivables		407,247	-	407,247	380,849	-	380,849
Other assets		13,361	-	13,361	-	-	-
<b>Total current assets</b>		<b>1,770,085</b>	<b>-</b>	<b>1,770,085</b>	<b>1,619,015</b>	<b>-</b>	<b>1,619,015</b>
<b>NON-CURRENT ASSETS</b>							
Receivables	(i)	12,676	(10,740)	1,936	10,740	(10,740)	-
Other financial assets		26,125	-	26,125	55,000	-	55,000
Property, plant and equipment		120,152	-	120,152	113,916	-	113,916
Intangible assets	(ii),(iii)	2,378,999	(2,378,999)	-	2,378,999	(2,378,999)	-
Deferred tax assets		19,515	-	19,515	19,515	-	19,515
<b>Total non-current assets</b>		<b>2,557,467</b>	<b>(2,389,739)</b>	<b>167,728</b>	<b>2,578,170</b>	<b>(2,389,739)</b>	<b>188,431</b>
<b>Total assets</b>		<b>4,327,552</b>	<b>(2,389,739)</b>	<b>1,937,813</b>	<b>4,197,185</b>	<b>(2,389,739)</b>	<b>1,807,446</b>
<b>CURRENT LIABILITIES</b>							
Payables		573,428	-	573,428	249,249	-	249,249
Provisions		59,148	-	59,148	35,331	-	35,331
Current tax liabilities		92,547	-	92,547	92,548	-	92,548
Interest bearing liabilities		15,712	-	15,712	15,712	-	15,712
<b>Total current liabilities</b>		<b>740,835</b>	<b>-</b>	<b>740,835</b>	<b>392,840</b>	<b>-</b>	<b>392,840</b>
<b>NON-CURRENT LIABILITIES</b>							
Interest bearing liabilities		31,262	-	31,262	31,262	-	31,262
<b>Total non-current liabilities</b>		<b>31,262</b>	<b>-</b>	<b>31,262</b>	<b>31,262</b>	<b>-</b>	<b>31,262</b>
<b>Total liabilities</b>		<b>772,097</b>	<b>-</b>	<b>772,097</b>	<b>424,102</b>	<b>-</b>	<b>424,102</b>
<b>NET ASSETS</b>		<b>3,555,455</b>	<b>(2,389,739)</b>	<b>1,165,716</b>	<b>3,773,083</b>	<b>(2,389,739)</b>	<b>1,383,344</b>
<b>EQUITY</b>							
Contributed equity	(i)	2,082,740	(10,740)	2,072,000	2,082,740	(10,740)	2,072,000
Asset Revaluation Reserves	(ii),(v)	3,389,475	(3,389,475)	-	3,389,475	(3,389,475)	-
Accumulated losses	(vi)	(2,102,139)	1,110,914	(991,225)	(1,699,132)	1,010,476	(688,656)
Outside equity interests	(v)	185,379	(100,438)	84,941	-	-	-
<b>TOTAL EQUITY</b>		<b>3,555,455</b>	<b>(2,389,739)</b>	<b>1,165,716</b>	<b>3,773,083</b>	<b>(2,389,739)</b>	<b>1,383,344</b>

## **28. Explanation of transition to Australian equivalents to IFRSs (cont'd)**

**(b) At the end of the last reporting period under previous AGAAP: 30 June 2005**

	Note	Previous AGAAP	Consolidated Effect of change	AIFRS	Previous AGAAP	Parent Entity Effect of change	AIFRS
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**AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

		\$	\$	\$	\$	\$	\$
<b>CURRENT ASSETS</b>							
Cash and cash equivalents		124,292	-	124,292	84,461	-	84,461
Receivables		22,745	-	22,745	17,473	-	17,473
<b>Total current assets</b>		<b>147,037</b>	<b>-</b>	<b>147,037</b>	<b>101,934</b>	<b>-</b>	<b>101,934</b>
<b>NON-CURRENT ASSETS</b>							
Receivables	(i)	10,740	(10,740)	-	18,740	(10,740)	8,000
Other financial assets	(iii)	-	-	-	24,948	(24,948)	-
Property, plant and equipment		18,476	-	18,476	15,129	-	15,129
Intangible assets	(v)	109,811	(109,811)	-	109,811	(109,811)	-
<b>Total non-current assets</b>		<b>139,027</b>	<b>(120,551)</b>	<b>18,476</b>	<b>168,628</b>	<b>(145,499)</b>	<b>23,129</b>
<b>Total assets</b>		<b>286,064</b>	<b>(120,551)</b>	<b>165,513</b>	<b>270,562</b>	<b>(145,499)</b>	<b>125,063</b>
<b>CURRENT LIABILITIES</b>							
Payables		42,118	-	42,118	34,285	-	34,285
Current tax liabilities		102,046	-	102,046	102,046	-	102,046
<b>Total current liabilities</b>		<b>144,164</b>	<b>-</b>	<b>144,164</b>	<b>136,331</b>	<b>-</b>	<b>136,331</b>
<b>Total liabilities</b>		<b>144,164</b>	<b>-</b>	<b>144,164</b>	<b>136,331</b>	<b>-</b>	<b>136,331</b>
<b>NET ASSETS/ (LIABILITIES)</b>		<b>141,900</b>	<b>(120,551)</b>	<b>21,349</b>	<b>134,231</b>	<b>(145,499)</b>	<b>(11,268)</b>
<b>EQUITY</b>							
Contributed equity	(i)	2,082,740	(10,740)	2,072,000	2,082,740	(10,740)	2,072,000
Accumulated losses	(vi)	(2,113,953)	(15,528)	(2,129,481)	(1,948,509)	(134,759)	(2,083,268)
<b>TOTAL EQUITY</b>		<b>141,900</b>	<b>(120,551)</b>	<b>21,349</b>	<b>134,231</b>	<b>(145,499)</b>	<b>(11,268)</b>

# **AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

## **28. Explanation of transition to Australian equivalents to IFRSs (cont'd)**

### **(2) Reconciliation of loss under previous AGAAP to loss under AIFRS for the year ended 30 June 2005**

	Note	Previous AGAAP \$	Consolidated Effect of change \$	AIFRS \$	Previous AGAAP \$	Parent Entity Effect of change \$	AIFRS \$
Revenues							
Interest		35,182	-	35,182	32,817	-	32,817
Licence and royalty fees		248,804	-	248,804	94,995	-	94,995
Total revenues and other income		470,807	-	470,807	127,812	-	127,812
Expenses							
Project management expenses		(2,028)	-	(2,028)	(2,028)	-	(2,028)
Administration expenses		(1,430,648)	-	(1,430,648)	(1,244,913)	-	(1,244,913)
Licensing expenses		(190,170)	-	(190,170)	(190,170)	-	(190,170)
Other expenses	(iii)	(169,398)	-	(169,398)	(168,726)	(24,948)	(193,674)
Finance costs		(8,394)	-	(8,394)	(8,394)	-	(8,394)
Write-off carrying value of goodwill and IP	(v)	1,010,475	(1,010,475)	-	1,010,475	(1,010,475)	-
<b>Loss before income tax</b>		<b>(319,356)</b>	<b>(1,010,475)</b>	<b>(1,329,831)</b>	<b>(475,944)</b>	<b>(1,035,423)</b>	<b>(1,511,367)</b>
Income tax		(102,046)	-	(102,046)	(102,046)	-	(102,046)
<b>Loss for the year</b>		<b>(421,402)</b>	<b>(1,010,475)</b>	<b>(1,431,877)</b>	<b>(577,990)</b>	<b>(1,035,423)</b>	<b>(1,613,413)</b>

### **(3) Reconciliation of cash flow statement for the year ended 30 June 2005**

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

28. **Explanation of transition to Australian equivalents to IFRSs (cont'd)**

**(4) Notes to the reconciliations (cont'd)**

**(i) Employee Share Scheme**

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

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

The effect of this is:

*(i) At 1 July 2004*

For the Group and parent entity there has been a decrease in receivables of \$10,740 and a decrease in contributed equity of \$10,740.

*(ii) At 30 June 2005*

For the Group and parent entity there has been a decrease in receivables of \$10,740 and a decrease in contributed equity of \$10,740.

*(iii) For the year ended 30 June 2005*

No impact noted.

**(ii) Intangible Assets – Technology Licences**

Under AASB 138 Intangible Assets, an intangible asset can only be carried at revalued amount where an active market exists for the sale of the asset. In June 2001 the consolidated entity entered into a 20 year licence agreement for the exclusive use of a patented property management system. Under the terms of the agreement the consolidated entity paid initial licence fees of \$89,288 and may pay a further licence fee of \$1.7 million subject to the company completing a capital raising of \$5 million. In the June 2002 financial year the consolidated entity revalued its technology licences.

An active market exists where the items traded in the market are homogenous, willing buyers and sellers can normally be found at any time and prices are available to the public. Under AASB 138, technology licences do not meet the criteria to be carried at the revalued amount as there is no active market.

During the year ended 30 June 2002 the consolidated entity processed a revaluation increment of \$10,424,260. During the years ended 30 June 2002 and 2003, the consolidated entity amortised the intangible asset in the amounts of \$526,049 and \$573,715 respectively. In addition, during 2003 the consolidated entity processed a revaluation decrement of \$7,034,785. Therefore as at 1 July 2004, the carrying value of the intangible asset was \$2,378,999.

The effect of this is:

*(i) At 1 July 2004*

For the Group and parent entity there has been a decrease in intangible assets of \$2,289,711 and a decrease to asset revaluation reserve of \$2,289,711.

*(ii) At 30 June 2005*

No impact noted.

*(iii) For the year ended 30 June 2005*

No impact noted.

28. **Explanation of transition to Australian equivalents to IFRSs (cont'd)**

**(4) Notes to the reconciliations (cont'd)**

**(iii) Impairment**

Under AIFRS assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The losses recorded by the consolidated entity at the AIFRS transition date indicated that the carrying value of the intangible assets may have been impaired. Accordingly, as a result of impairment testing, technology licences and investment in controlled entities were considered to be impaired.

The effect of this is:

*(i) At 1 July 2004*

For the Group and parent entity there has been a decrease in intangible assets of \$89,288 and an increase to accumulated losses of \$89,288.

*(ii) At 30 June 2005*

For the parent entity there has been a decrease in other financial assets of \$24,948 and an increase to accumulated impairment. No impact noted for the Group.

*(iii) For the year ended 30 June 2005*

For the parent entity there has been an increase to other expenses of \$24,948. No impact noted for the Group.

**(iv) Amortisation – Technology Licences**

As stated in (ii) and (iii) above, revalued technology licences were de-recognised as at 1 July 2004 as part of the AIFRS transition adjustments. Therefore accumulated amortisation has been reversed.

*(i) At 1 July 2004*

For the Group and parent entity there has been a decrease to accumulated amortisation of \$1,099,764 and a decrease to accumulated losses of \$1,099,764.

*(ii) At 30 June 2005*

No impact noted.

*(iii) For the year ended 30 June 2005*

No impact noted.

**(v) Correction of Errors Made Under Previous AGAAP**

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

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

In respect of the consolidated entity, there is an outside equity interest of approximately 9% in a controlled entity.

## AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES

### 28. Explanation of transition to Australian equivalents to IFRSs (cont'd)

#### (4) Notes to the reconciliations (cont'd)

The 30 June 2004 and 2005 financial report disclosed minority interests of \$185,379 and \$173,113 respectively. The correct minority interest held is as follows:

	1 July 2004 \$	30 June 2005 \$
Interest in:		
Share capital	91,366	96,215
Accumulated losses	(6,425)	(17,385)
	84,941	78,830

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

#### (vi) Accumulated losses

The effect on accumulated losses of the changes set out above is as follows:

		1 July 2004		30 June 2005	
	Notes	Consolidated \$	Parent Entity \$	Consolidated \$	Parent Entity \$
Impairment	(iii)	(89,288)	(89,288)	-	(24,948)
Amortisation	(iv)	1,099,764	1,099,764	-	-
Minority interest	(v)	100,438	-	94,283	-
Patents	(v)	-	-	(109,811)	(109,811)
Total adjustment		1,110,914	1,010,476	(15,528)	(134,759)

### 29. Subsequent events

#### Management Agreement

On 1 July 2006 a management agreement was entered into between the Company and Tamlin Holdings Pty Ltd ("Tamlin"), a company associated with Mr Jamieson, whereby Tamlin agreed to provide management services to the company on the following basis:

- *Term of the agreement* – 5 years with early termination upon agreement by both parties. If the termination notice is given by the company (other than for default by Tamlin under the agreement) the balance of the fees under the agreement are payable. If the termination notice is given by Tamlin, only those fees payable up to the date of the notice are payable.
- *Base fees* – Base fees commence at \$220,000 per annum for the first year and increase to \$900,000 per annum by year 5. The payment of fees over \$250,000 per annum are subject to the company achieving a profit before tax of \$2 million and any payments over \$500,000 per annum are subject to the payment not exceeding 25% of the profit before tax. Fees are payable on the 7<sup>th</sup> of the month with interest to be charged at 8% per annum on overdue amounts.
- *Bonus Fees* – A bonus fee is payable at the end of each financial year within 15 days of the annual report being signed. If the profit before tax is above \$1 million and up to \$5 million, \$50,000 bonus fee is payable. Above \$5 million, fees are payable on a sliding scale (from 1% to 5% of profit before tax) depending on the company's profitability.
- *Options* – The agreement allows for options to be issued (with shareholder approval) at a future date with the amount and timing not specified.

### 29. Subsequent events (continued)

#### Issue of Shares

On 24 September 2006, the directors resolved to issue Mr G Upton of Napier Blakeley Consulting Pty Ltd 1,000,000 ordinary non-voting shares and 1,000,000 options for total consideration of \$250,000.

## **AUSTRALIAN PROPERTY SYSTEMS LIMITED AND CONTROLLED ENTITIES**

The options will vest immediately, are exercisable at \$1.00 per share and expire 5 years from date of issue.

The shares and options had not yet been issued at the date of this report.

### **New Licence Agreement**

On 1 September 2006, the company entered into a non-exclusive licence agreement with Tullamore Consulting Pty Ltd to use the APSL system. The licence is restricted to industrial property development.

The financial effects of the above transactions have not been brought to account at 30 June 2006.



**AUSTRALIAN PROPERTY SYSTEMS LIMITED**  
**DIRECTORS' DECLARATION**

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In the directors' opinion:

- (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 *Corporations 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 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 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*.

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 *Corporations Act 2001*.

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



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G Jamieson  
Director



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B Wilkie  
Director

Brisbane, Queensland  
29 September 2006

## **Independent Audit Report to the Members of Australian Property Systems 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 Australian Property Systems Limited (the company) and Australian Property Systems 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 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 AASB124 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.

### **Qualification**

The financial report for the prior year ended 30 June 2005 was subject to audit and the audit report thereon was qualified. Johnston Rorke was appointed auditor of the company on 15 December 2005. The previous auditor, Williams Partners, stated in their audit report for the year ended 30 June 2005 and dated 30 September 2005 that they were unable to satisfy themselves in relation to comparative information, opening equity, and the existence (or otherwise) of tax liabilities resulting from the forgiveness of intercompany loans.

In addition, the previous financial report contained a number of errors relating to adjustments directly to accumulated losses, refer note 15(b).

We have been unable to obtain sufficient evidence to ensure all of the matters noted by the previous auditor and the errors noted in the prior periods have been properly corrected. Accordingly, we are not in a position to and do not express an opinion on the comparatives for 30 June 2005, except for the comparative balance sheets.

### **Qualified Audit Opinion**

1. In our opinion, except for the effects on the comparatives for 30 June 2005 of such adjustments, if any, as might have been required had the limitation referred to in the qualification paragraph not existed, the financial report of Australian Property Systems 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



**J. J. EVANS**  
Partner

Brisbane, Queensland  
29 September 2006

# AUSTRALIAN PROPERTY SYSTEMS LIMITED

## SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 10 August 2006

(a) Distribution of Shareholders

Category Holding)	(size of	Class of equity security	
		Ordinary Shares	Options
1 – 1,000		-	-
1,001 – 5,000		40	-
5,001 – 10,000		13	-
10,001 – 100,000		39	-
100,001 and over		27	3
		<u>119</u>	<u>3</u>

(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 %
G S Jamieson	22,591,700	45.17
G A Thomas	10,625,000	21.24
B B Wilkie	4,547,650	9.09

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

	Number of Ordinary Fully Paid Shares Held	% Held of issued Ordinary Capital
Tamlin Holdings Pty Ltd	13,500,000	26.99
Geoffrey Thomas (Geoffrey Thomas Family Account)	10,625,000	21.24
Tamlin Holdings Pty Ltd (Superannuation Fund Account)	2,950,000	5.90
Ravenslea Nominees Pty Ltd (No 1 Account)	2,564,000	5.13
GWR Financial Services Pty Ltd (Alderley Investments Account)	2,425,000	4.85
Abich Pty Ltd (GA Caird Family Account)	1,859,000	3.72
Application Devices (Australia) Pty Ltd (Perry Wilkie Family Account)	1,577,500	3.15
APS No1 Pty Ltd	1,381,700	2.76
Leon Offenhauser	1,100,000	2.20
Lorelle Offenhauser	1,100,000	2.20
Ravenslea Nominees Pty Ltd (No 2 Account)	1,100,000	2.20
Nebo (Qld) Pty Ltd (Nebo Account)	1,085,950	2.17
APSLSP Pty Ltd	1,074,000	2.15
Gow Consulting Pty Ltd (Superannuation Fund Account)	1,000,000	2.00
Helen Martin and Gregory Caird (Martin Caird Super Fund Account)	860,000	1.72
Boda Investments Pty Ltd	710,410	1.42
Andare Enterprise Pty Ltd (Perry and Norma Wilkie Superfund Account)	550,000	1.10
Russell Barker	406,125	0.81
DBA Consultancy Pty Ltd (Culchulainn Natural Superannuation Account)	400,000	0.80
Arthur Gerbanas	400,000	0.80

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46,668,685

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93.31%

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**AUSTRALIAN PROPERTY SYSTEMS LIMITED****SHAREHOLDER INFORMATION (CONTINUED)**

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**The shareholder information set out below was applicable as at 12 August 2006**

- (e) 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.

<b>Unquoted equity securities</b>	<b>Number of is</b>	<b>Number of holders</b>
Options to take up ordinary shares		
- G S Jamieson	15,000,000	1
- G A Thomas	5,000,000	1
- B R Noye	5,000,000	1
Total	25,000,000	3