COSMOS

ANNUAL REPORT 05

CONTENTS

DIRECTORS' REPORT	01
CORPORATE GOVERNANCE STATEMENT	04
AUDITOR'S INDEPENDENCE DECLARATION	08
STATEMENTS OF FINANCIAL PERFORMANCE	09
STATEMENTS OF FINANCIAL POSITION	10
STATEMENTS OF CASH FLOWS	11
NOTES TO THE FINANCIAL STATEMENTS	12
DIRECTORS' DECLARATION	40
INDEPENDENT AUDIT REPORT	41
SHAREHOLDER INFORMATION	42

DIRECTORS' REPORT

The directors of Cosmos Limited ("Cosmos" or the "Company") present their report together with the financial statements of the parent entity and its controlled entities for the financial year ended 30 June 2005 together with the auditor's report thereon.

DIRECTORS

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

Michael John Shehadie, LLB
Appointed non-executive director and chairman 6 April 2005, member of the audit committee and remuneration committee

Mr. Shehadie is a solicitor of over 25 years' standing.

Mark William Winnett
Appointed executive director 4 March 2005, member of the audit committee and remuneration committee

Mr. Winnett has held senior executive positions in a range of industries with a predominant focus on the IT and telecommunications sectors. He has particular skills in business development, marketing and human resource management.

Peter James Kelly
Appointed non-executive director 4 March 2005, member of the audit committee

Mr. Kelly has significant experience in the telecommunications and computer industries. His principal strengths are in marketing and business development with a particular focus on Asia.

Dr Henry Syd Preston, BM, BS
Non-executive director from 12 February 2002, chairman from 26 November 2002, resigned 6 April 2005

Dr Robert Francis Tynan, BM, BS, MBA
Managing director from 28 May 2002 to 12 December 2003, non-executive director from 31 May 2004, resigned 4 March 2005

Nigel Charles Purves, ACA, CPA, ACIS, MBA
Executive director from 19 November 2003, chief executive officer from 12 December 2004, terminated 4 March 2005

DIRECTORS' MEETINGS

The number of directors' meetings, including meetings of the audit, remuneration, and nomination Committees, and the number of meetings attended by each director are:

	DIRECTORS' MEETINGS		AUDIT COMMITTEE		REMUNERATION COMMITTEE		NOMINATION COMMITTEE	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
M Shehadie	2	1	-	-	-	-	-	-
M Winnett	8	8	-	-	-	-	-	-
P Kelly	8	8	-	-	-	-	-	-
H Preston	12	12	2	2	-	-	-	-
R Tynan	7	6	-	-	-	-	-	-
N Purves	6	6	2	2	-	-	-	-

COMPANY SECRETARY

Julian Michael Sydney Walter, MA, MBA, FCA

Mr. Walter was appointed company secretary on 7 March 2005. Mr. Walter has over 30 years' experience in corporate finance and has held senior positions in banking, industry and commerce.

Principal activities

The principal activities of the consolidated entity during the financial year were, and continue to be:

- the operation of a retail technology business providing point-of-sale software, pharmaceutical dispensing software, computer hardware and support services to the pharmacy industry; and
- the operation of a transaction processing business providing electronic bill payment, funds transfer and processing services.

Review of operations

Revenues were $15.56 million (2004 $17.93 million). The consolidated loss after income tax amounted to $5.32 million (2004: $8.53 million). The 2005 annual financial results show a reduction in revenues combined with a greater fall in operating costs.

The Company completed a capital raising of $5.38 million during the first half of the year, part of which was used to retire statutory debt and repay part of Faulding's loan. The balance was used for working capital.

The current board has terminated a number of uncommercial joint ventures and management is now focused on the Company's core businesses to derive maximum benefit from its own intellectual property and market share.

Litigation and regulatory issues have been a significant cost item in the last year. There will be continuing activity in this regard while various litigation matters are brought to a conclusion and the board addresses the issues involved in recovery of costs.

State of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review not otherwise disclosed in this report or the accompanying financial statements.

Dividends

No dividends have been paid or declared by the Company during the current or prior financial year.

Events subsequent to reporting date

In September 2005, the Company executed agreements for the receipt of $6.5 million from a placement of unsecured convertible notes to companies associated with Mr. Winnett. The capital raising will provide working capital and eliminate outstanding statutory debt liabilities. Full details regarding this capital raising will be included in the explanatory memorandum to be sent to shareholders with the notice of general meeting.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

Likely developments

The directors and senior management are focused on optimising the current businesses of the group and implementing more efficient cost structures. The Company intends to build upon its existing business foundations and expand their activities on a progressive basis. The directors are also allocating money to product development and strengthening the customer care divisions of the businesses in the group.

DIRECTORS AND SENIOR EXECUTIVES REMUNERATION

Remuneration policy

The remuneration structures for executive officers are designed to provide incentives based on measurable results such as sales targets, as well as linking rewards to the longer term performance of the Company. Such structures take into account current market practice and remuneration levels for comparable positions. Non-executive directors do not receive performance-based remuneration other than participation in the Company's option scheme.

DIRECTORS' REPORT

Remuneration paid

Details of the nature and amount of each major element of the remuneration of each director of the Company and each of the five named officers of the Company and the consolidated entity receiving the highest remuneration are:

	Base remuneration $	Bonuses $	Super contributions $	Total $
Directors – current				
M Shehadie	15,000	-	-	15,000
P Kelly	140,500	-	-	140,500
M Winnett	82,000	-	-	82,000
Directors – former				
H Preston	45,000	-	-	45,000
R Tynan	103,229	-	-	103,229
N Purves	262,500	-	23,625	286,125
Executive officers – consolidated entity				
J Garrett, Group Corporate Counsel	290,000	100,000	26,100	416,100
C Rollinson, Chief Financial Officer	224,132	15,000	20,657	259,789
B Headford, National Marketing Manager	163,878	5,000	13,950	182,828
K Scott, National IT Manager	150,000	8,000	11,585	169,585
M Johnston, Human Resource Manager	132,202	5,000	11,250	148,452

Directors' interests in shares and other securities

Mr. Winnett has an interest in 39,000,000 shares and $200,000 secured convertible notes in the Company.

DIRECTORS' INDEMNIFICATION AND INSURANCE

Indemnification

The Company, in accordance with Article 23 of its Constitution, has agreed to indemnify officers of the Company against all liabilities that may arise from their position as officers of the Company except where the liability arises out of conduct involving a lack of good faith.

The Company will also meet the amount of any costs and expenses incurred in defending proceedings in which judgment is given in their favour, they are acquitted or the case is withdrawn.

Insurance

The Company has not paid any premiums in respect of insurance policies for directors' and officers' liability and legal expenses.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration made under section 307C of the Corporations Act 2001 is set out on page 8 and forms part of this report.

Dated the 29th day of September 2005.

Signed in Sydney in accordance with a resolution of the directors.

Michael Shehadie
Chairman

Mark Winnett
Director

CORPORATE GOVERNANCE STATEMENT

The current Cosmos board is committed to ensuring its policies and practices reflect good corporate governance and recognises that for the success of the Company an appropriate culture needs to be nurtured and developed throughout all levels of the Company.

The current directors were appointed in March and April this year. Since their appointment, a number of issues have come to their attention which suggest that corporate governance practices in the past have not been properly applied. Regrettably, the directors have had to lodge formal complaints with the Australian Securities and Investments Commission in relation to a number of actions by one or more individuals, which appear to have breached the Corporations Act 2001 as well as complaints with the Australian Taxation Office and the New South Wales Police. At the date of this report, the various regulatory bodies are still investigating these matters and further comment is inappropriate.

This statement outlines the Company's corporate governance practice as espoused by the current board. The Company has substantially adopted the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations" for the entire financial period unless otherwise stated. Where the recommendations have not been adopted by the Company, this is identified and explained below.

1 / Lay solid foundations for management and oversight

The board is ultimately responsible for the operations, management and performance of the Company and is accountable to shareholders. The managing director is a member of the board but does not hold the position of chairman.

The main responsibilities of the board are to:

- determine corporate strategies, policies and guidelines for the successful performance of the Company;
- monitor the performance and management of the Company;
- ensure proper corporate governance;
- ensure that appropriate risk management procedures, compliance frameworks and internal control systems are in place and operating effectively;
- monitor financial results; and
- ensure the Company maintains an honest and ethical culture.

2 / Structure the board to add value

In accordance with the Company's constitution, the board should comprise no fewer than three and no more than ten directors. At the date of this report, the board consists of one executive director Mr. Winnett and two non-executive directors Mr. Kelly and Mr. Shehadie who is also chairman.

Under ASX Best Practice Recommendations Mr. Kelly is not independent because he has been a material consultant to the Company within the last three years. Mr. Shehadie may not be independent as his legal firm currently receives fees in respect of professional services provided to the Company. Currently, the Company does not have a majority of independent non-executive directors. The board considers this to be appropriate at the present time given the size of the company, its present financial position, its capital structure and the impracticability of attracting suitable candidates who would require to be suitably indemnified and insured.

Whilst the directors cannot be considered independent in accordance with ASX Best Practice recommendations, all directors are expected to bring their independent views and judgement to the board and, in accordance with the Corporations Act 2001, must inform the board if they have any interest that could conflict with those of the Company. Where the board considers that a significant conflict exists it may exercise its discretion to determine whether the director concerned may be present at the meeting while the item is considered.

CORPORATE GOVERNANCE STATEMENT

In the discharge of their duties and responsibilities, the directors individually (as well as the board) have the right to seek independent professional advice at the Company's expense. However, for advice to an individual director, prior approval of the chairman is required, which would not be unreasonably withheld. The chairman is entitled to receive a copy of any such advice obtained.

The current board has not established a nomination committee which it considers is not appropriate for the Company with its present minimal board membership. Accordingly, the functions of the nomination committee are carried out by the full board in normal session.

Directors are initially appointed by the full board, subject to election by shareholders at the next general meeting. Under the Constitution, one third of the board retire from office each year and submit themselves for re-election by shareholders at the Annual General Meeting.

The business of the Company is conducted by or under the supervision of the managing director and by executives to whom management functions have been delegated by the managing director. The managing director is accountable to the board for the management of the Company and must consult the board on matters that are sensitive, extraordinary or of a material strategic nature.

3 / Promote ethical and responsible decision making

The Company has established a code of conduct dealing with matters of integrity and ethical standards. All directors, executives and employees are expected to abide by the code of conduct, which covers a number of areas, including the following:

- professional conduct and ethical standards;
- standards of workplace behaviour and equal opportunity;
- relationships with customers, suppliers and competitors;
- confidentiality and continuous disclosure;
- anti-discrimination and harassment;
- trading in Company securities;
- the environment.

The main principles of the Company's share trading policy are summarised as follows:

- the policy extends to officers, employees and consultants of the Company and their associates;
- short term trading is prohibited;
- trading is prohibited when directors or other persons are in possession of price sensitive information, which is not available to the public.
- trading is prohibited in the six week period prior to either the final results announcement or the half yearly results announcement;
- share trading is permitted at other times only if seven days prior notice in writing is given to the Company.

4 / Safeguard integrity in financial reporting

The board has established an audit committee, which has defined authority, responsibilities and reporting requirements. The current members of the audit committee are Mr. Shehadie and Mr. Winnett. The chief financial officer, financial controller and company secretary routinely attend audit committee meetings by invitation. For the reasons stated in 2 above, it is not considered appropriate at this time to adopt a formal charter with which the committee is unable to comply. This does not mean, however, that the audit committee is any the less diligent in its operation.

For the reasons set out in 2 above, the Company does not comply with ASX Best Practice Recommendation 4.3 in so far as the audit committee does not have a majority of independent directors, does not comprise only non-executive directors, does not have an independent chairperson and does not comprise at least three board members.

The external auditors (KPMG) are requested by the audit committee to attend the appropriate meetings to report on the results of their half-year review and full year audit. The external auditors have direct access to the audit committee if required.

The function of the audit committee is to assist the board in fulfilling its statutory and fiduciary responsibilities relating to:

- the external reporting of financial information, including the selection and application of accounting policies and compliance with relevant accounting standards;
- the independence and effectiveness of the external auditors;
- the effectiveness of internal control processes and management of information systems;
- compliance with the Corporations Act 2001, ASX Listing Rules and any other applicable requirements; and
- the application and adequacy of risk management systems within the Company.

The executive director and financial controller of the Company are required to state in writing to the board, by submission to the audit committee, that the Company's financial statements present a true and fair view, in all material respects, of the Company's financial position and operational results and that they are in accordance with relevant accounting standards.

5 / Make timely and balanced disclosure

The Company has established procedures and policies designed to ensure compliance with the ASX Listing Rules disclosure requirements. The company secretary is the nominated continuous disclosure officer for the Company. The board authorises all disclosures necessary to ensure that:

- all investors have equal and timely access to material information concerning the Company including its financial situation, performance, ownership and governance; and
- Company announcements are factual and presented in a clear and balanced way.

6 / Respect the rights of shareholders

The board is committed to ensuring that, subject to privacy laws and the need to act in the best interests of the Company by protecting confidential commercial information, shareholders, the stock market and other interested parties are fully informed of all material matters affecting the Company. The dissemination of information is mainly achieved as follows:

- an annual report is distributed to shareholders in October each year;
- a commentary is usually provided on the quarterly statements submitted to the Australian Stock Exchange;
- where possible, significant information is posted on the Company's internet website as soon as it is disclosed to the market;
- the external auditor is requested to attend the annual general meeting to answer shareholders' questions about the conduct of the audit and the content of the auditors' report.

7 / Recognise and manage risk

The Company is committed to identifying and managing areas of significant business risk to protect shareholders, employees, earnings and the environment. Arrangements in place include:

- regular detailed financial budgetary and management reporting;
- procedures to identify and manage operational and financial risks;
- established organisational structures, procedures and policies dealing with the areas of health and safety, environmental issues, industrial relations and legal and regulatory matters;
- comprehensive insurance and risk management programmes;
- procedures requiring board approval for all borrowings, guarantees, material contracts and capital expenditure beyond minor levels;
- where applicable, the use of specialised staff and external advisors.

CORPORATE GOVERNANCE STATEMENT

The executive director and financial controller of the Company are required to state in writing to the board, by submission to the audit committee, that the risk management and internal control compliance systems implemented by the board are operating efficiently and effectively. The board has responsibility for assessing compliance and control procedures in conjunction with outside advisors if required.

The consolidated entity's operations are not subject to significant environmental regulation under either Commonwealth or State legislation.

8 / Encourage enhanced performance

The performance of the Company's executive director and senior executive staff is evaluated regularly by the board. As a result of such an evaluation, the Company terminated its employment of Mr. Purves in March 2005. There has been no formal performance evaluation of the current board undertaken in the reporting period.

Since March 2005, there has been a formal performance evaluation of all executives and other employees as part of a due diligence exercise conducted at the behest of the current board. As a result, a number of staff changes have been made.

9 / Remunerate fairly and responsibly

The remuneration committee consists of Mr. Shehadie and Mr. Winnett. The Company's human resources manager routinely attends by invitation. For the reasons stated in 2 above, the composition of the remuneration committee does not accord with ASX Best Practice Recommendation 9.2 in that the number of board members is less than three and the chairman is not independent. The main responsibility of the committee is to make recommendations to the full board on remuneration matters and other terms of employment for executive directors, senior executives and non-executive directors.

Non- executive directors' fees are reviewed annually by the full board after taking into account the Company's performance, market rates, level of responsibility and the recommendations of the remuneration committee. The aggregate amount of fees, which may be paid to non-executive directors, is subject to approval of shareholders at the annual general meeting. Non-executive directors do not receive retiring allowances.

The Company does not have any equity based remuneration arrangements in place other than an employee option plan. Remuneration of executives is structured to link rewards to performance while maintaining a proper balance between fixed and incentive remuneration, which may include the grant of options.

Further information on directors' and executives' remuneration is set out in the notes to the financial statements.

10 / Recognise the legitimate interest of stakeholders

In this Corporate Governance Statement, reference has already been made to the code of conduct under which the Company operates. The code is designed to comply with the legal and other obligations of legitimate stakeholders and other interested parties and to foster a culture of compliance and proper behaviour.

AUDITOR'S INDEPENDENCE DECLARATION

Lead Auditor's Independence Declaration under Section 307C of the Corporation Act 2001

To: the directors of Cosmos Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

(i) no contraventions of the auditor independence requirements as set out in 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.

KPMG

Roger Amos

Partner

Sydney

29 September 2005

STATEMENTS OF FINANCIAL PERFORMANCE

COSMOS LIMITED AND ITS CONTROLLED ENTITIES
FOR THE YEAR ENDED 30 JUNE 2005

		CONSOLIDATED		THE COMPANY	
		2005	2004	2005	2004
	NOTE	$	$	$	$
Revenue from sale of goods	3	1,280,571	1,722,796	-	-
Revenue from rendering of services	3	13,935,010	15,525,668	-	-
Other revenue from ordinary activities	3	348,598	677,801	23,953	50,000
Total revenues from ordinary activities		**15,564,179**	**17,926,265**	**23,953**	**50,000**
Materials and consumables used	4	(1,859,831)	(2,443,023)	(7,888)	(345,244)
Employee expenses		(13,507,034)	(15,612,538)	(4,809,983)	(6,423,329)
Occupancy expenses		(1,749,384)	(1,899,204)	(393,405)	(395,538)
Research and development costs	4	(154,727)	(160,459)	-	-
Marketing expenses		(213,965)	(280,310)	(57,704)	(84,855)
Depreciation and amortisation expense	4	(1,356,052)	(1,588,604)	(45,021)	(50,896)
Borrowing costs	4	(1,168,170)	(1,481,995)	(940,506)	(1,083,980)
Write off of assets and investments		-	-	(1,668,204)	(1,481,419)
Carrying value of Surefire net assets sold		-	(744,476)	-	-
Write-off of loan to joint venture		(399,775)	-	(399,775)	-
Other expenses from ordinary activities		(478,915)	(2,246,672)	(510,983)	(581,549)
Loss from ordinary activities before related income tax expense		(5,323,674)	(8,531,016)	(8,809,516)	(10,396,810)
Income tax expense relating to ordinary activities		-	-	-	-
Net loss attributable to members of the parent entity		**(5,323,674)**	**(8,531,016)**	**(8,809,516)**	**(10,396,810)**
		$	$		
Basic loss per share	7	(0.010)	(0.030)		
Diluted loss per share	7	(0.010)	(0.030)		

The statements of financial performance should be read in conjunction with the notes to the financial statements set out on pages 12 to 39.

STATEMENTS OF FINANCIAL POSITION

COSMOS LIMITED AND ITS CONTROLLED ENTITIES
FOR THE YEAR ENDED 30 JUNE 2005

		CONSOLIDATED		THE COMPANY	
		2005	2004	2005	2004
	NOTE	$	$	$	$
CURRENT ASSETS					
Cash assets	9	1,614,270	1,767,710	2,164	342,624
Receivables	10	1,330,069	2,288,669	-	-
Inventories	11	195,109	134,621	-	-
Other	12	243,872	413,982	192,757	174,450
Total current assets		**3,383,320**	**4,604,982**	**194,921**	**517,074**
NON-CURRENT ASSETS					
Receivables		-	-		-
Investments	13	-	-		-
Property, plant and equipment	14	662,084	779,896	76,832	114,546
Intangible assets	15	3,825,541	4,792,819	-	-
Other		140,285	141,288	49,665	53,347
Total non-current assets		**4,627,910**	**5,714,003**	**126,497**	**167,893**
Total assets		**8,011,230**	**10,318,985**	**321,418**	**684,967**
CURRENT LIABILITIES					
Payables	16	8,843,425	13,106,053	2,058,288	2,641,104
Interest-bearing liabilities	17	2,557,091	9,706,166	2,045,000	7,759,130
Provisions	18	629,716	518,064	212,267	204,119
Total current liabilities		**12,030,232**	**23,330,283**	**4,315,555**	**10,604,353**
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	17	6,554,130	428,758	6,554,130	-
Provisions	18	93,070	97,573	1,665	16,132
Total non-current liabilities		**6,647,200**	**526,331**	**6,555,795**	**16,132**
Total liabilities		**18,677,432**	**23,856,614**	**10,871,350**	**10,620,485**
Net (liabilities)		**(10,666,202)**	**(13,537,629)**	**(10,549,932)**	**(9,935,518)**
EQUITY					
Contributed equity	19	73,462,416	65,267,315	73,462,416	65,267,314
Accumulated losses	20	(84,128,618)	(78,804,944)	(84,012,348)	(75,202,832)
Total equity		**(10,666,202)**	**(13,537,629)**	**(10,549,932)**	**(9,935,518)**

The statements of financial position should be read in conjunction with the notes to the financial statements set out on pages 12 to 39.

STATEMENTS OF CASH FLOWS

COSMOS LIMITED AND ITS CONTROLLED ENTITIES
FOR THE YEAR ENDED 30 JUNE 2005

		CONSOLIDATED		THE COMPANY	
		2005	2004	2005	2004
	NOTE	$	$	$	$
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		18,732,371	14,644,951	16,667	50,000
Payments to suppliers and employees		(23,163,852)	(16,330,106)	(6,178,005)	(5,388,702)
Interest received		38,636	12,373	7,286	299
Interest and other cost of finance paid		(155,917)	(1,036,588)	(155,917)	(1,083,980)
Net cash used in operating activities	26	**(4,548,761)**	**(2,709,370)**	**(6,309,969)**	**(6,422,383)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Payment for property, plant and equipment		(301,955)	(432,628)	(5,897)	(110,279)
Proceeds from sale of Surefire		-	577,530	-	-
Net cash provided / (used) in investing activities		**(301,955)**	**144,902**	**(5,897)**	**(110,279)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of securities (shares, convertible notes, etc)		5,375,406	-	5,375,406	2,190,000
Proceeds from borrowings		600,000	6,285,000	600,000	6,285,000
Repayment of borrowings		(1,269,500)	(1,908,869)	-	(1,608,695)
Finance lease payments		(8,628)	(67,805)	-	-
Net cash provided by financing activities		**4,697,278**	**4,308,326**	**5,975,406**	**6,866,305**
Net increase / (decrease) in cash held		**(153,438)**	**1,743,858**	**(340,460)**	**333,643**
Cash at the beginning of the financial year		**1,767,710**	**23,852**	**342,624**	**8,981**
Cash at the end of the financial year	26	**1,614,272**	**1,767,710**	**2,164**	**342,624**

The statements of cash flows should be read in conjunction with the notes to the financial statements set out on pages 12 to 39.

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies which have been adopted in the preparation of this financial report are:

a) **Basis of preparation**

This financial report is a general-purpose financial report, which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and *the Corporations Act 2001.*

Historical cost

This financial report has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of assets.

These accounting policies have been consistently applied by each entity in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

Going concern basis

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The consolidated entity incurred an operating loss of $5,323,674 during the year ended 30 June 2005 (decreased from a loss of $8,531,016 for the year ended 30 June 2004) and had net current liabilities of $8,646,912 (2004: $18,725,301).

The directors nevertheless believe that it is appropriate to prepare the financial report on a going concern basis for the following reasons:

- the Company is in the process of completing a placement of unsecured convertible notes to raise $6.5 million from companies associated with Mr. Winnett. While subscription agreements have been executed, the placement is subject to approval of shareholders in general meeting.
- The directors are in negotiations with the Australian Taxation Office in regard to a payment arrangement in respect of sums outstanding for PAYG and superannuation. The directors anticipate reaching an agreement on reasonable terms following the capital raising.
- The directors believe that the consolidated entity will generate positive cashflows from operating and funding activities over the next 12 months.

The consolidated entity's ability to generate positive net cash flows over the next 12 months from the date of this report, as contemplated in the business strategy, is dependent on several key factors which include the retention of current recurring revenue, receipt of funding from the convertible note issue and the successful implementation of cost reduction plans.

There may be uncertainty whether the consolidated entity will be able to generate a positive net cash flow in the 12 months from the date of this report. If the consolidated entity is unable to achieve net cash flows as anticipated in the business strategy, alternative strategies may be employed to raise additional funds and further reduce costs.

The going concern basis used in the preparation of the financial report may not be appropriate if the consolidated entity does not meet its planned revenue and cash flow targets or successfully adopt alternative strategies. In this event the consolidated entity may not be able to realise the full value of its assets and extinguish its liabilities, including contingent liabilities, in the normal course of business at the amounts stated in the financial report.

b) **Principles of consolidation**

Controlled entities

The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority.

Sale of goods

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

Rendering of services

Revenue from rendering services is recognised in proportion to the stage of contract completion when the stage of contract completion can be reliably measured.

Deferred maintenance revenue is recognised by amortising the payment on a straight-line basis over the life of the contract as the maintenance services are performed.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield of the financial asset.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal (including incidental costs).

d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the ATO. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

e) Foreign currency transactions and balances

Foreign currency transactions during the year are translated to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial period in which the exchange rate changes.

f) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings and finance lease charges. Borrowing costs are expensed as incurred unless they relate to qualifying assets.

g) Taxation

The consolidated entity adopts the income statement liability method of tax-effect accounting.

Income tax expense is calculated on the operating result adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

The consolidated entity has not entered into the tax consolidation regime as at 30 June 2005.

h) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity, by the weighted average number of ordinary shares of the company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

i) Acquisition of assets

All assets acquired, including property, plant and equipment and intangibles, other than goodwill, are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they can be placed in the market is a better indicator of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Where settlement of any part of cash consideration is deferred, the amounts payable are recorded at their present value, discounted at the rate applicable to the Company if a similar borrowing were obtained from an independent financier under comparable terms and conditions. The unwinding of the discount is treated as interest expense.

Expenditure, including that on internally generated assets other than research and development costs, is only recognised as an asset when the entity controls future economic benefits as a result of the costs incurred, that are probable, and can be measured reliably. Costs attributable to feasibility and alternative approach assessments are expensed as incurred.

Research and development costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is capitalised.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalized when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years, otherwise, costs are expensed as incurred.

j) Use and revision of accounting estimates

The preparation of the financial report requires the making of estimates and assumptions that affect the recognised amounts of assets, liabilities, revenues, and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

k) Receivables

The collectibility of debts is assessed at reporting date and specific provision is made for any doubtful accounts.

Trade debtors

Trade debtors that are to be settled within normal trading terms are carried at amounts due. The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

Controlled entities

Where an amount owing by a controlled entity to the Company exceeds the net assets of that controlled entity, a provision is made against the recovery of the loan in the books of the Company. This entry is eliminated upon consolidation.

l) Inventories

Inventories are carried at the lower of cost and net realisable value. Cost includes expenditure incurred in acquiring inventories and bringing them to their present location and condition.

m) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

n) Leased assets

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight-line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Lease incentives are recognised as liabilities. Lease rental payments are allocated between rental expense and reduction of the liability, on a straight line basis over the period of the lease.

o) Intangibles

Intellectual Property

Intellectual property rights comprised various applications, intellectual knowledge and know-how. The value of intellectual property consists of the capitalised cost incurred in acquiring intellectual property less amortisation.

Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired. Goodwill balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off in the statement of financial performance.

p) Recoverable amount of non current assets valued on a cost basis

The carrying amounts of all non-current assets valued on a cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

Where a group of assets working together supports the generation of cash inflows, the recoverable amount is assessed in relation to that group of assets.

In assessing the recoverable amounts of non-current assets, the relevant cash flows have been discounted to their present values.

q) Depreciation and amortisation

The components of major assets that have materially different useful lives are effectively accounted for as separate assets and are separately depreciated.

All assets, including intangibles, have limited useful lives and are depreciated / amortised using the diminishing value method over their estimated useful lives, with the exception of finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition. Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

The depreciation / amortisation rates or useful lives used for each class of asset are as follows:

	2005	2004
Property, plant and equipment		
Leasehold improvements	2.5–20%	2.5–20%
Plant and equipment	13–40%	13–40%
Leased plant and equipment	13–40%	13–40%
Intangibles		
Goodwill	10 years	10 years
Intellectual property	5–10 years	5–10 years

r) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within established terms.

s) Interest bearing liabilities

Bank and other loans are shown in the statement of financial position at their principal amounts. Interest payable is accrued at the contracted rate. Notes payable are recognised when issued at the net proceeds received, with the premium or discount on issue amortised over the period to maturity. Interest expense is recognised on an effective yield basis.

t) Employee benefits

Wages, salaries and annual leave, sick leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided to reporting date. These are calculated as undiscounted amounts based on remuneration wage and salary rates that the consolidated entity expects to pay as at the reporting date, including related on-costs such as workers compensation insurance and payroll tax. Non-accumulating, non-monetary benefits are expensed based on the net marginal cost to the consolidated entity as the benefits are taken by the employees.

Long service leave

The provision for employee benefits for long service leave represents the present value of the estimated future cash outflows resulting from employees' services provided to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government bonds at reporting date which most closely match the terms of maturity of the related liabilities. The unwinding of the discount is treated as long service leave expense.

Employee share and option plans

Where shares or options are issued to employees as remuneration for past services, the difference between fair value of the shares or options issued and the consideration received, if any, from the employee is expensed. The fair value of the shares or options issued is recorded in contributed equity.

Other shares or options issued to employees are recorded in contributed equity at the fair value of consideration received, if any. Transaction costs associated with issuing shares and options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

Superannuation plan

The Company and controlled entities contribute to several employee defined contribution superannuation funds. The contributions are recognised as an expense as they are made. The Company and its controlled entities have no legal or constructive obligation to fund any deficit.

u) Provisions

A provision is recognised when there are legal, equitable or constructive obligations as a result of past events and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, a provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability most closely matching the expected future payments, except where noted below. The unwinding of the discount is treated as part of the expense related to the particular provision.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the recovery receivable is recognised as an asset when it is probable that the recovery will be received and the recovery is measured on a basis consistent with the measurement of the related provision.

In the statement of financial performance, the expense recognised in respect of a provision is presented net of the recovery. In the statement of financial position, the provision is recognised net of the recovery receivable only when the entity:

- has a legally recognised right to set-off the recovery receivable and the provision, and
- intends to settle on a net basis, or to realise the asset and settle the provision simultaneously.

v) Financial instruments issued

Where financial instruments, such as preference shares and convertible notes issued by the Company, give rise to a contractual obligation to deliver cash to the holder, they are classified as liabilities to the extent of the obligation.

Where financial instruments are redeemable but either the holder or the Company has an option to convert them into ordinary shares of the Company, they are classified as compound instruments. The liability component is measured as the present value of the principal and interest obligations, discounted at the prevailing market rate for a similar liability that does not have an equity component. The residual of the net proceeds received on issuing the instrument is classified as equity.

Interest expense on compound instruments is determined based on the liability component and includes the actual interest paid to holders. The liability accretes over the life of the instruments to the original face value if they are not previously converted. There are no dividends associated with the equity component.

NOTE 2: CHANGES IN ACCOUNTING POLICY

There were no changes in accounting policy during the year ended 30 June 2005.

	CONSOLIDATED		THE COMPANY	
	2005 $	2004 $	2005 $	2004 $
NOTE 3: REVENUE FROM ORDINARY ACTIVITIES				
Sales of goods	1,280,571	1,722,796	-	-
Rendering of services	13,935,010	15,525,668	-	-
Interest received from other parties	38,636	12,373	7,286	299
Other revenue	309,962	87,899	16,667	49,701
Proceeds from sale of Surefire	-	577,529	-	-
Total revenue from ordinary activities	15,564,179	17,926,265	23,953	50,000

NOTE 4: LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

The loss from ordinary activities before income tax expense has been arrived at after charging / (crediting) the following items:

	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	THE COMPANY 2005 $	THE COMPANY 2004 $
Depreciation				
Plant and equipment	274,334	242,980	30,793	29,746
Amortisation				
Goodwill	715,278	724,873	-	-
Intellectual property	252,000	286,137	-	-
Leased plant and equipment	68,023	280,058	5,643	9,404
Leasehold improvements	46,417	54,556	8,585	11,746
Total depreciation and amortisation	1,356,052	1,588,604	45,021	50,896
Borrowing costs				
Borrowing costs – preference shares	-	30,000	-	-
Borrowing costs – convertible notes	805,424	644,627	805,424	644,627
Borrowing costs – other debt	362,746	807,368	135,082	439,353
Total borrowing costs	1,168,170	1,481,995	940,506	1,083,980
Other items				
Net loss on disposal of non-current assets	30,993	7,234	-	-
Research and development costs	154,727	160,459	-	-
Movement in provision for doubtful debts	(693,524)	790,798	-	-
Employee entitlement provisions	107,150	195,332	(6,319)	139,238
Loss on sale of Surefire	-	166,947	-	-
Cost of goods sold	1,859,831	2,443,023	7,888	345,244
Operating lease rental expense	973,400	1,136,329	274,543	253,454
Write down in value of inventory and licence fees	-	141,000	-	-
Write off of loan to joint venture	399,775	-	399,775	-
Provision against loans to controlled entities	-	-	1,668,204	1,481,419

	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	THE COMPANY 2005 $	THE COMPANY 2004 $
NOTE 5: AUDITOR'S REMUNERATION				
Audit and review of financial reports				
Company auditor – KPMG	183,700	194,549	183,700	194,549
Other services				
Company auditor – KPMG	-	148,167	-	148,167

NOTE 6: TAXATION

	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	THE COMPANY 2005 $	THE COMPANY 2004 $
Prima facie income tax (benefit) on operating loss calculated at 30% (2004: 30%)	(1,597,102)	(2,559,305)	(2,642,855)	(3,119,043)
Decrease in income tax benefit due to non deductible items:				
Amortisation of intangibles	290,183	303,303	-	-
Provision on intercompany balances	-	-	500,461	444,426
Current year timing differences not recognised as a future income tax benefit	(139,637)	952,795	1,618,473	1,831,432
Current year tax losses not recognised as a future income tax benefit	1,446,556	1,303,207	523,921	843,185
Income tax benefit attributable to loss from ordinary activities	-	-	-	-
Future income tax benefit not taken into account				
Timing differences	1,419,327	1,576,626	4,374,208	2,755,736
Tax losses carried forward	10,143,556	8,697,207	4,864,921	4,341,186
	11,562,883	10,273,833	9,239,129	7,096,922

The potential future tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond reasonable doubt.

The potential future tax benefit will only be obtained if:

(i) The relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;

(ii) The relevant company and / or the consolidated entity continue to comply with the conditions for deductibility imposed by law; and

(iii) No change in tax legislation adversely affects the relevant company and / or the consolidated entity in realising the benefit.

	2005 $	2004 $
NOTE 7: EARNINGS PER SHARE		
Earnings reconciliation		
Net loss	(5,323,674)	(8,531,016)
Basic earnings	(5,323,674)	(8,531,016)
Diluted earnings	(5,323,674)	(8,531,016)

	Number	Number
Weighted average number of ordinary shares used as the denominator		
Number for basic earnings per share	521,772,413	285,467,620
Effect of share options on issue	-	-
Number for diluted earnings per share	521,772,413	285,467,620
Basic loss per share	$(0.010)	$(0.030)
Diluted loss per share	$(0.010)	$(0.030)

Diluted earnings per share has not been calculated for the convertible notes or share options on issue as there are no potential ordinary shares on issue that are dilutive in respect of these notes.

NOTE 8: SEGMENT REPORTING

Major products / services for each industry segment

The consolidated entity conducts:

- a retail technology business providing Point of Sale software, hardware and support services to the retail industry through its controlled entities, Pharmasol Pty Ltd and Dynsol Pty Limited.
- a transaction processing business providing electronic funds transfer and processing services principally to rental tenants through the real estate industry through its controlled entity Cosmos E-C Commerce Pty Ltd.

The consolidated entity operates predominately in Australia. More than 90% of the loss from ordinary activities and segment assets relate to operations in Australia.

NOTE 8: SEGMENT REPORTING CONTINUED

Statement of operations by segments

	TRANSACTION PROCESSING $	RETAIL TECHNOLOGY $	ELIMINATIONS $	CONSOLIDATED $
Business segments – 2005				
Segment revenue	5,164,574	10,344,302	-	15,508,876
Unallocated revenue				55,303
Total revenue from ordinary activities	5,164,574	10,344,302	-	15,564,179
Segment result	130,823	1,655,464	-	1,786,287
Unallocated expenses				(7,109,961)
Profit / (loss) from ordinary activities	130,823	1,655,464	-	(5,323,674)
Segment assets	1,999,391	7,462,471	(1,772,049)	7,689,813
Unallocated assets				321,417
Total assets	1,999,391	7,462,471	(1,772,049)	8,011,230
Segment liabilities	(4,621,861)	(15,570,158)	12,448,665	(7,743,354)
Unallocated liabilities				(10,934,078)
Total liabilities	(4,621,861)	(15,570,158)	12,448,665	(18,677,432)
Depreciation and amortisation	420,856	890,175	-	1,356,052
Acquisition of non-current assets	154,613	117,342	-	277,851
Non-cash expenses other than depreciation and amortisation	-	-	-	654,924

	NSW	VICTORIA	ELIMINATIONS	CONSOLIDATED
Geographic segments – 2005				
Segment revenue	9,171,992	6,336,884	-	15,508,876
Other unallocated revenue				55,303
Total revenue	9,171,992	6,336,884	-	15,564,179
Segment result	355,085	1,431,202	-	1,786,287
Unallocated expenses				(7,109,961)
Profit / (loss) from ordinary activities	355,085	1,431,202	-	(5,323,674)
Segment assets	4,631,743	4,830,119	(1,772,049)	7,689,813
Unallocated assets				321,417
Total assets	4,631,743	4,830,119	(1,772,049)	8,011,230
Segment liabilities	(10,754,655)	(9,437,364)	12,448,665	(7,743,354)
Unallocated liabilities				(10,934,078)
Total liabilities	(10,754,655)	(9,437,364)	12,448,665	(18,677,432)
Depreciation and amortisation	658,947	652,084	-	1,356,052
Acquisition of non-current assets	197,020	74,935	-	277,851

	TRANSACTION PROCESSING $	RETAIL TECHNOLOGY $	ELIMINATIONS $	CONSOLIDATED $
NOTE 8: SEGMENT REPORTING CONTINUED				
Business segments – 2004				
Segment revenue	5,394,212	12,469,690	-	17,863,902
Unallocated revenue			-	62,363
Total revenue from ordinary activities	5,394,212	12,469,690	-	17,926,265
Segment result	552,380	(179,079)	-	373,301
Unallocated expenses			-	(8,904,317)
Loss from ordinary activities	552,380	(179,079)	-	(8,531,016)
Segment assets	1,115,290	10,678,933	(2,160,205)	9,634,018
Unallocated assets			-	684,967
Total assets	1,115,290	10,678,933	(2,160,205)	10,318,985
Segment liabilities	(4,841,100)	(21,790,949)	13,395,920	(13,236,129)
Unallocated liabilities				(10,620,485)
Total liabilities	(4,841,100)	(21,790,949)	13,395,920	(23,856,614)
Depreciation and amortisation	(495,613)	(1,042,095)	-	(1,588,604)
Inventory write down	-	141,000	-	141,000
Acquisition of non-current assets	173,254	116,947	-	432,628
Other non-cash expenses	-	-	-	832,220

	NSW	VICTORIA	ELIMINATIONS	CONSOLIDATED
Geographic segments – 2004				
Segment revenue	9,751,221	8,112,681	-	17,863,902
Other unallocated revenue	-	-	-	62,363
Total revenue	9,751,221	8,112,681	-	17,926,265
Segment result	780,921	(407,820)	-	373,101
Unallocated expenses			-	(8,904,117)
Profit / (loss) from ordinary activities	780,921	(407,820)	-	(8,531,016)
Segment assets	4,709,003	7,085,220	(2,160,205)	9,634,018
Unallocated assets			-	684,967
Total assets	4,709,003	7,085,220	(2,160,205)	10,318,985
Segment liabilities	(12,452,316)	(14,179,733)	13,395,920	(13,236,129)
Unallocated liabilities			-	(10,620,485)
Total liabilities	(12,452,316)	(14,179,733)	13,395,920	(23,856,614)
Depreciation and amortisation	(769,992)	(767,716)	-	(1,588,604)
Inventory write down	-	141,000	-	141,000
Acquisition of non-current assets	233,431	56,770	-	432,628

	CONSOLIDATED		THE COMPANY	
	2005 $	2004 $	2005 $	2004 $
NOTE 9: CASH ASSETS				
Cash at bank	1,614,270	1,767,710	2,164	342,624
NOTE 10: RECEIVABLES				
Current				
Trade debtors	1,993,953	3,646,078	-	-
Provision for doubtful debts	(663,884)	(1,357,408)	-	-
	1,330,069	2,288,669	-	-
Non-current				
Amounts receivable from wholly owned subsidiaries	-	-	8,012,739	8,144,534
Provision for non-recovery of debt owing by wholly-owned subsidiaries	-	-	(8,012,739)	(8,144,534)
	-	-	-	-
NOTE 11: INVENTORIES				
Finished goods at net realisable value	195,109	134,621	-	-
NOTE 12: OTHER CURRENT ASSETS				
Prepayments	31,271	309,151	2,757	174,450
Other assets	22,601	104,831	-	-
Other debtors	490,000	-	490,000	
Less: provision	(300,000)	-	(300,000)	
	243,872	413,982	192,757	174,450

Other debtors include amounts due from a former director.

	CONSOLIDATED		THE COMPANY	
NOTE 13: INVESTMENTS				
Shares in controlled entities unquoted at cost	-	-	11,264,000	11,264,000
Provision for diminution of carrying value of investments	-	-	(11,264,000)	(11,264,000)
	-	-	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$
NOTE 14: PROPERTY, PLANT & EQUIPMENT				
Leasehold improvements at cost	195,304	171,701	26,055	26,055
Accumulated amortisation	(137,012)	(90,595)	(20,331)	(11,745)
	58,292	81,106	5,724	14,310
Plant and equipment at cost	1,693,201	1,468,907	249,312	242,005
Accumulated depreciation	(1,167,978)	(916,709)	(186,668)	(156,541)
	525,223	552,198	62,644	85,464
Leased plant and equipment	967,443	967,443	29,879	29,879
Accumulated amortisation	(888,874)	(820,851)	(21,415)	(15,107)
	78,569	146,592	8,464	14,772
Total property plant & equipment	662,084	779,896	76,832	114,546

Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

Leasehold improvements				
Carrying amount at beginning of year	81,107	133,919	14,309	-
Additions	23,602	100,766	-	26,054
Disposals	-	(99,021)	-	-
Amortisation	(46,417)	(54,557)	(8,585)	(11,745)
Carrying amount at end of year	58,292	81,107	5,724	14,309
Plant and equipment				
Carrying amount at beginning of year	552,198	613,259	85,464	30,984
Additions	254,249	359,717	7,308	84,225
Disposals	6,890	(178,104)	-	-
Depreciation	(274,334)	(242,674)	(30,128)	(29,745)
Carrying amount at end of year	525,223	552,198	62,644	85,464
Leased plant and equipment				
Carrying amount at beginning of year	146,592	426,964	14,772	23,206
Additions	-	-	-	970
Disposals	-	-	-	-
Amortisation	(68,023)	(280,372)	(6,308)	(9,404)
Carrying amount at end of year	78,569	146,592	8,464	14,772

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$
NOTE 15: INTANGIBLE ASSETS				
Goodwill				
At cost	9,201,144	9,201,144	-	-
Accumulated amortisation	(5,375,603)	(4,660,325)	-	-
Total goodwill	3,825,541	4,540,819	-	-
Intellectual property				
At recoverable amount	1,260,000	1,260,000	-	-
Accumulated amortisation	(1,260,000)	(1,008,000)	-	-
Total intellectual property	-	252,000	-	-
Total intangible assets	3,825,541	4,792,819	-	-
Reconciliation of movement in goodwill				
Opening balance	4,540,819	5,265,692	-	-
Goodwill acquired in period	-	-	-	-
Amortisation and write-down in the period	(715,278)	(724,873)	-	-
Closing balance	3,825,541	4,540,819	-	-
Reconciliation of movement in intellectual property				
Opening balance	252,000	1,539,759	-	-
Write down in the period (Surefire)	-	(1,001,622)	-	-
Amortisation in the period	(252,000)	(286,137)	-	-
Closing balance	-	252,000	-	-

In reviewing the recoverable amount of the intangible assets, the directors have considered the following components comprising the goodwill and intellectual property.

Goodwill

Goodwill relates to the acquisition of the Lockie Computer business by Pharmasol Pty Ltd and goodwill arising on consolidation of Cosmos E-C Commerce Pty Ltd and AMFAC.

It is Company policy that the carrying values of goodwill are supported by discounted cash flow forecasts. These forecast are based on current and projected budgets for the next five years.

Intellectual property

The intellectual property relating to the transaction processing business of Cosmos E-C Commerce Pty Ltd was fully amortised in the year to 30 June 2005.

	CONSOLIDATED		THE COMPANY	
	2005 $	2004 $	2005 $	2004 $
NOTE 16: PAYABLES				
Current				
Trade creditors	3,945,502	8,355,094	271,276	1,073,685
Sundry creditors and accruals	2,767,375	2,671,672	1,788,386	1,567,419
Other	51,308	18,260	(1,374)	-
Deferred software maintenance revenue	2,079,240	2,061,027	-	-
	8,843,425	13,106,053	2,058,288	2,641,104
NOTE 17: INTEREST BEARING LIABILITIES				
Current				
Lease liability	2,166	10,794	-	-
Other loans – unsecured	600,000	-	600,000	-
Convertible notes (1)	1,205,000	7,759,130	1,205,000	7,759,130
Loan facility secured (2)	509,925	1,936,242	-	-
Other liability	240,000	-	240,000	-
Total current interest bearing liabilities	2,557,091	9,706,166	2,045,000	7,759,130
Non-current				
Convertible notes (1)	6,554,130	-	6,554,130	-
Loan facility secured (2)	-	428,758	-	-
Total non current interest bearing liabilities	6,554,130	428,758	6,554,130	-

1 Convertible notes

As at 30 June 2005 the Company had outstanding:

- 605,000 Convertible Redeemable Notes of $1, each converting at any time until 31 January 2006 into 12.5 shares at $0.08 per share and attracting interest at 10% p.a;
- 600,000 Secured Convertible Redeemable Notes of $1, each converting at any time until 31 July 2005 into 50 shares at $0.02 per share and attracting interest at 15% p.a;
- 6,554,130 Secured Convertible Redeemable Notes of $1, each converting at any time until 31 July 2006 into 50 shares at $0.02 per share and attracting interest at 10% p.a;

All the convertible notes are redeemable at maturity if not previously converted at the noteholder's option.

2 Loan facility secured

The purchase of AMFAC (Dynsol Pty Limited) was funded by a loan from Faulding Healthcare Pty Ltd. The balance of the loan is repayable in January 2006. The loan is is secured over all the assets and undertakings of Dynsol Pty Limited.

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$
NOTE 18: PROVISIONS				
Current				
Employee entitlements	629,716	518,064	212,267	204,119
Non-current				
Employee entitlements	93,070	97,573	1,665	16,132

	30 June 2005	30 June 2004
	$	$
NOTE 19: CONTRIBUTED EQUITY		
Issued and paid-up capital		
610,713,903 fully paid ordinary shares (2004: 318,298,254)	73,462,416	65,267,315
Movement in ordinary share capital		
Balance at the beginning of the financial year	65,267,315	61,314,598
Shares issued during the year	8,195,101	3,952,717
Balance at the end of the financial year	73,462,416	65,267,315

On 13 July 2004, the Company issued 11,965,593 fully paid ordinary shares at $0.029 per share ($347,002) pursuant to a share purchase plan.

On 2 August 2004, the Company issued 16,464,996 fully paid ordinary shares at $0.02 per share ($329,300) being consideration for interest on convertible notes.

On 16 September 2004, the Company issued 138,117,415 fully paid ordinary shares at $0.029 per share ($4,005,405) from a placement to professional investors and a share purchase plan.

On 3 December 2004, the Company issued 5,000,000 fully paid ordinary shares at $0.029 per share ($145,000) being consideration for a bonus to the managing director as approved at the extraordinary general meeting held on 3 September 2004.

On 3 December 2004, the Company issued 12,068,966 fully paid ordinary shares at $0.029 per share ($350,000) being consideration for services received by Cosmos.

On 3 December 2004, the Company issued 46,361,198 fully paid ordinary shares at $0.029 per share ($1,344,475) being consideration for part settlement of the Faulding Healthcare Pty Ltd loan following the AMFAC acquisition.

On 3 December 2004, the Company issued 17,241,389 fully paid ordinary shares to Purnan Pty Ltd, a company owned by N.Purves, at $0.029 per share. The proceeds of $500,000 were used in part settlement of the Faulding Healthcare Pty Ltd loan.

On 21 December 2004, the Company issued 30,000,000 fully paid ordinary shares at $0.029 per share ($870,000) to the managing director by way of participation in the professional investors placement that was approved at the extraordinary general meeting held on the 3 September 2004.

On 31 January 2005, the Company issued 2,564,221 fully paid ordinary shares at $0.02 per share ($51,284) being consideration for interest on convertible notes.

On 1 February 2005, the Company issued 12,631,871 fully paid ordinary shares at $0.02 per share ($252,637) being consideration for interest on convertible notes.

Terms and conditions

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 winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

	CONSOLIDATED		THE COMPANY	
	2005 $	2004 $	2005 $	2004 $
NOTE 20: ACCUMULATED LOSSES				
Accumulated losses at the beginning of the year	(78,804,944)	(70,273,928)	(75,202,832)	(64,806,022)
Net loss attributable to members of the parent entity	(5,323,674)	(8,531,016)	(8,809,516)	(10,396,810)
Accumulated losses at the end of the year	(84,128,618)	(78,804,944)	(84,012,348)	(75,202,832)

NOTE 21: DIVIDENDS

No dividends have been paid or declared for payment during the current financial year.

NOTE 22: ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

Foreign exchange risk

The Company has no exposure to foreign exchange risk.

Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below:

	WEIGHTED AVG INTEREST RATE %	FLOATING INTEREST RATE $	1 YEAR OR LESS $	1–5 YEARS $	MORE THAN 5 YEARS	NON-INTEREST BEARING $	TOTAL $
2005							
Financial assets							
Cash	1.15	1,614,270	-	-	-	-	1,614,270
Receivables	-	-	-	-	-	1,330,069	1,330,069
		1,614,270	-	-	-	1,330,069	2,944,339

	WEIGHTED AVG INTEREST RATE %	FLOATING INTEREST RATE $	1 YEAR OR LESS $	1–5 YEARS $	MORE THAN 5 YEARS	NON-INTEREST BEARING $	TOTAL $
NOTE 22: ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE CONTINUED							
Financial Liabilities							
Convertible notes	10.40	-	1,205,000	6,554,130	-	-	7,759,130
Payables	-	-	-	-	-	8,843,425	8,843,425
Other loans	15	-	840,000	-	-	-	840,000
Employee entitlements	-	93,070	-	-	-	629,716	722,786
Lease liability	9.01	-	2,166	-	-	-	2,166
Other debt	18.5	-	509,925	-	-	-	509,925
		93,070	2,557,091	6,554,130	-	9,473,141	18,677,432
2004							
Financial assets							
Cash	1.15	1,767,710	-	-	-	-	1,767,710
Receivables	-	-	-	-	-	2,597,819	2,597,819
		1,767,710	-	-	-	2,597,819	4,365,529
Financial Liabilities							
Convertible notes	10.40	-	7,759,130	-	-	-	7,759,130
Payables	-	-	-	-	-	13,106,053	13,106,053
Employee entitlements	-	97,573	-	-	-	518,064	615,637
Lease liability	9.01	-	10,794	-	-	-	10,794
Other debt	18.50	-	1,936,242	428,758	-	-	2,365,000
		97,573	9,706,166	428,758	-	13,624,117	23,856,614

Net fair values of financial assets and liabilities

Aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date approximate their carrying amounts.

Credit risk

The credit risk of financial assets, excluding investments, of the consolidated entity, which have been recognised in the statements of financial position, is the carrying amount, net of any provision for doubtful debts. The consolidated entity minimises the concentration of credit risk by undertaking transactions with a large number of customers.

	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	THE COMPANY 2005 $	THE COMPANY 2004 $
NOTE 23: COMMITMENTS				
Finance lease commitments				
Payable				
not later than 1 year	2,166	10,794	-	-
later than 1 year but not later than 5 years	-	-	-	-
later than 5 years	-	-	-	-
Minimum lease payments	2,166	10,794	-	-
Less future finance charges	-	-	-	-
Total lease liability	2,166	10,794	-	-
Non-cancellable operating lease expense commitments				
Payable				
not later than 1 year	560,501	759,867	110,509	209,869
later than 1 year but not later than 5 years	5,750	559,437	-	125,409
later than 5 years	-	-	-	-
Minimum lease payments	566,251	1,319,304	110,509	335,278

The consolidated entity leases property under non-cancellable operating leases expiring within five years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.

NOTE 24: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company is currently involved in several litigation matters. The directors have provided in full for all litigation costs that they believe might arise. The Company has various rights of recovery in regard to certain losses incurred in past financial years. No value will be ascribed to recoveries until received.

	COUNTRY OF INCORPORATION	% OWNED 2005	% OWNED 2004
NOTE 25: CONTROLLED ENTITIES			
Particulars of controlled entities			
Dynsol Pty Limited	Australia	100%	100%
Pharmasol Pty Ld	Australia	100%	100%
Cosmos E-C Commerce Pty Ltd	Australia	100%	100%
A.C.N. 091 519 603 Pty Limited	Australia	100%	100%
RE Connect Services Limited	Australia	100%	100%

	CONSOLIDATED		THE COMPANY	
	2005 $	2004 $	2005 $	2004 $

NOTE 26: NOTES TO THE STATEMENTS OF CASH FLOWS

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

	CONSOLIDATED 2005 $	CONSOLIDATED 2004 $	THE COMPANY 2005 $	THE COMPANY 2004 $
Cash assets	1,614,270	1,767,710	2,164	342,624
Reconciliation of loss from ordinary activities after tax to net cash used in operating activities				
Loss from ordinary activities after income tax	(5,323,674)	(8,531,016)	(8,809,516)	(10,396,810)
Add / (less) non-cash items:				
Amortisation of goodwill	715,278	724,873	-	-
Amortisation of intellectual property	252,000	286,137	-	-
Depreciation and amortisation of property plant and equipment	388,774	577,594	43,610	50,896
Net increase / (decrease) in provisions	(586,374)	986,130	(6,318)	139,238
Shares issued in settlement of operating liabilities	1,475,222	1,317,947	1,475,222	1,317,947
Interest accreted on Faulding loan	196,429	120,500	-	-
Payment of Faulding Loan	562,296	-	1,344,475	-
Interest expense on finance leases	-	3,400	-	-
Add / (less) item classified as investing:				
Loss on sale of Surefire	-	166,947	-	-
Loss from write-off of loan to joint venture	399,775	-	399,775	-
Loss on disposal of non-current assets	30,993	35,500	-	-
Net Loss from ordinary activities after income tax	(1,889,281)	(4,311,988)	(5,552,752)	(8,888,729)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:				
(Increase) / decrease in trade debtors	1,652,124	(1,642,816)	-	-
(Increase) / decrease in inventories	(60,488)	183,482	-	-
(Increase) / decrease in other assets	171,112	510,560	(14,626)	266,559
Increase / (decrease) in trade creditors and accruals	(4,680,441)	(51,0461)	(982,591)	1,349,787
Increase in deferred revenue	18,213	1,373,659	-	-
(Decrease) / increase in other liabilities	240,000	1,716,715	240,000	850,000
Net cash provided by / (used in) operating activities	(4,548,761)	(2,681,434)	(6,309,969)	(6,422,383)

NOTES TO THE FINANCIAL STATEMENTS

	CONSOLIDATED		THE COMPANY	
	2005	2004	2005	2004
	$	$	$	$
NOTE 27: EMPLOYEE BENEFITS				
Aggregate liability for employee entitlements, including on-costs				
Current	629,717	518,064	212,267	204,119
Non-current	93,070	97,573	1,665	16,132
Total provisions	722,787	615,637	213,932	220,251

Employee share option scheme

The Directors may in their sole discretion select eligible employees or directors to whom options are to be issued and determine the number of options to be offered. The maximum number of shares in respect of which options may be issued pursuant to the plan shall not exceed 5% of the number of shares in the Company on issue. The right to exercise the options is subject to a number of conditions, including the employee remaining an eligible employee during the option period of 5 years.

GRANT DATE	VESTED	EXPIRY DATE	EXERCISE PRICE $	OPTIONS AT START OF YEAR	OPTIONS LAPSED	OPTIONS EXERCISED	OPTIONS AT YEAR END
Consolidated and Company 2005							
08/01/03	No	28/11/05	0.065	2,000,000	-	-	2,000,000
08/01/03	No	28/11/05	0.13	2,000,000	-	-	2,000,000
23/09/04	No	22/09/09	0.038	-	13,300,000	-	-
							4,000,000
Consolidated and Company 2004							
01/04/99	Yes	01/04/04	0.50	240,000	240,000	-	-
03/08/99	No	27/05/04	0.50	1,920,000	1,920,000	-	-
27/09/00	No	17/10/03	0.25	5,500,000	5,500,000	-	-
27/09/00	No	17/10/03	0.30	5,500,000	5,500,000	-	-
30/04/03	No	26/04/04	0.40	4,000,000	4,000,000	-	-
08/01/03	No	28/11/05	0.065	2,000,000	-	-	2,000,000
08/01/03	No	28/11/05	0.13	2,000,000	-	-	2,000,000
08/01/03	Yes	28/11/07	0.08	500,000	500,000	-	-
							4,000,000

Each option is convertible to one ordinary share. There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the option has been exercised.

NOTE 27: EMPLOYEE BENEFITS CONTINUED

Superannuation funds

The consolidated entity contributes to a number of superannuation funds. The funds are not sponsored by the consolidated entity and are accumulation funds providing benefits on retirement, disability or death. Employer contributions are based on the statutory percentage of the employee's gross salaries. The consolidated entity does not have any legal obligations to make up any shortfall of assets in the accumulation funds.

Number of employees

The number of employees at year-end: Consolidated – 112 (2004: 110); the Company – 12 (2004: 18).

NOTE 28: DIRECTORS' AND EXECUTIVES' DISCLOSURES FOR DISCLOSING ENTITIES

Remuneration report

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. Remuneration packages include a mix of fixed, performance based, and equity based remuneration and are reviewed / compared to comparative companies and positions.

Executive directors and senior executives may receive bonuses based on the achievement of specific performance hurdles, which are a mixture of divisional results and the overall consolidated result of the consolidated entity, agreed with the Managing Director and consistent with the consolidated entity's direction. The performance hurdles are quantifiable and reviewed as part of a formal performance appraisal process. Options may be issued under the Cosmos employee share option plan, which provides for directors to issue options to employees not exceeding 5% of the total number of shares on issue in any given year.

The following table provides the details of all directors of the Company ("specified directors") and the five executives of the consolidated entity with the greatest authority ("specified executives") and the nature and the amount of the elements of their remuneration paid in the year ended 30 June 2005.

	PRIMARY BENEFITS		POST EMPLOYMENT	EQUITY	
	Salary & Fees $	Bonus $ (B)	Super contributions $	Value of Options $ (A)	Total $
Directors					
M Shehadie (Chairman)	15,000	-	-	-	15,000
M Winnett	82,000	-	-	-	82,000
P Kelly	140,500	-	-	-	140,500
H Preston (resigned 6 April 2005)	45,000	-	-	-	45,000
R Tynan (resigned 4 March 2005)	103,229	-	-	-	103,229
N Purves (ceased 4 March 2005)	262,500	-	23,625	-	286,125
Specified executives					
J Garrett, Group Corporate Counsel	290,000	100,000	26,100	-	416,100
C Rollinson, Chief Financial Officer	224,132	15,000	20,657	-	259,789
B Headford, National Marketing Manager	163,878	5,000	13,950	-	182,828
K Scott, National IT Manager	150,000	8,000	11,585	-	169,585
M Johnston, Human Resource Manager	132,202	5,000	11,250	-	148,452

(A) Although there were 4 million options outstanding granted to Dr. Tynan which expire on 28 November 2005, they do not vest until the Company share price reaches $0.23. In the opinion of the directors, this hurdle rate is unachievable and, accordingly, no value has been attributed to these options.

(B) Bonuses were granted at various times during the year following the individual's performance appraisal, the criteria for which are set out earlier in this note.

Option holdings

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2004	Granted as remuneration	Exercised	Other changes	Held at 30 June 2005	Vested and exercisable at 30 June 2005
Specified directors						
N Purves	-	12,000,000	-	(12,000,000)	-	-
R Tynan	4,000,000	-	-	-	4,000,000	-
Specified executives						
C Rollinson	-	350,000	-	(350,000)	-	-
B Headford	-	250,000	-	(250,000)	-	-
M Johnston	-	250,000	-	(250,000)	-	-

Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each specified director and specified executive, including their personally related entities, is as follows:

	Held at 1 July 2004	Acquisitions	Disposals	Held at 30 June 2005
Specified directors				
M Winnett	n/a	39,000,000	-	39,000,000
H Preston	8,021,899			n/a

Loans and other transactions with directors

Included in the accounts is the amount of $300,000 due from N. Purves, a former director, in respect of benefits received since 2002 which the directors consider to be outside the terms of his contract. In addition, an estimated recoverable amount of $190,000 is shown as due from N. Purves in respect of a boat acquired through the Company. Appropriate provisions have been made against these amounts in the event that they do not prove to be fully recoverable.

Unsecured loans owing to Lujeta Pty Ltd, a party associated with Mr. Winnett, amounted to $600,000 at balance date. These loans were made on normal commercial terms and conditions. Interest paid to Lujeta Pty Ltd in the period amounted to $2,647.

An agreement is in place for Michie, Shehadie & Co, of which Mr. Shehadie is a partner, to provide legal services to the Company on normal commercial terms. In the period to 30 June 2005, no fees were payable in respect of such services.

NOTE 29: NON-DIRECTOR RELATED PARTIES

Wholly-owned group

Details of interests in wholly owned controlled entities are set out in Note 25. Loans between related parties are interest free.

Balances with entities within the consolidated entity

The aggregate amount receivable by the Company from controlled entities at balance date was $Nil (2004: $Nil).

NOTE 30: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The adoption of AIFRS will be reflected first in the financial statements for the half-year ending 31 December 2005.

To comply with AIFRS for the first time, the Company will be required to restate its comparative financial statements to reflect the application of AIFRS to that comparative period. Most adjustments required on transition to AIFRS will be made retrospectively against opening retained earning as at 1 July 2004. Other transitional adjustments whose comparatives are not required will be made effective from 1 July 2005.

The Company has initiated a project to manage the transition to AIFRS, under the management of the Group Financial Controller. All of the AIFRS have been analysed and the required accounting policy changes have been identified.

The known or reliably estimable impacts on the financial report for the year ended 30 June 2005, had it been prepared using AIFRS, are set out below. The expected material financial effects of adopting AIFRS are shown for each line item in the statement of financial performance and the statement of financial position with descriptions of the differences. No material impacts are expected in relation to the statement of cash flows.

Although the adjustments disclosed in this note are based on management's best knowledge of expected standards and interpretations and current facts and circumstances, the adjustments may change. For example, amended or additional standards or interpretations may be issued by AASB and IASB. Therefore, until the Company prepares its full AIFRS financial statements, the possibility cannot be excluded that the accompanying disclosures may have to be adjusted.

a) Goodwill

Ongoing impact through lower expenses

Increased volatility in results in event of impairment

Goodwill acquired as a result of business combination will no longer be amortised but will instead be replaced by annual impairment testing. If there is any impairment, it will be recognised immediately in the statement of financial performance. Eliminating goodwill amortisation will reduce operating expenses and will therefore improve the reported profit of the Company, subject to any impairment charges that may be required. This may result in volatility of earnings if impairment occurs.

b) Leased assets

Ongoing impact through higher expenses

The consolidated entity has certain operating leases that require the leased premises to be returned to the lessor in their original condition. The operating lease payments do not include an element for the repairs / overhauls.

Under current Australian GAAP the costs of refurbishment are not recognised until the expenditure is incurred, whereas under AIFRS a provision for refurbishment must be recognised over the period of the lease, measured at the expected cost of refurbishment at each reporting date.

NOTE 30: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

c) Share based payments

Ongoing impact through higher expenses

Under AIFRS, the Company will be required to determine the fair value of share based remuneration issued to employees and will recognise the expense in the statement of financial performance. Currently Cosmos does not recognise an expense for share based payments. On adoption of AIFRS, the Company will recognise an expense for all share-based remuneration and will amortise those expenses over the relevant vesting periods.

Although there were 4 million options on issue at 30 June 2005, the directors consider these will lapse on 28 November 2005 as, in their opinion, the vesting conditions are impossible to achieve. Accordingly, no adjustments will be made on transition to AIFRS.

d) Reconciliation of profit for the financial year ended 30 June 2005

The following table sets out the expected adjustments to the statements of financial performance of the Company and the consolidated entity for the year ended 30 June 2005.

	CONSOLIDATED FOR THE YEAR ENDED 30 JUNE 2005			THE COMPANY FOR THE YEAR ENDED 30 JUNE 2005		
	AGAAP $	Transition impact $	AIFRS $	AGAAP $	Transition impact $	AIFRS $
Revenue						
Revenue from sale of goods	1,280,571	-	1,280,571	-	-	-
Revenue from rendering of service	13,935,010	-	13,935,010	-	-	-
Other revenue from ordinary activities	348,598	-	348,598	23,953	-	23,953
Total revenue from ordinary activities	15,564,179	-	15,564,179	23,953	-	23,953
Materials and consumables used	(1,859,831)	-	(1,859,831)	(7,888)	-	(7,888)
Employee expenses	(13,507,034)	-	(13,507,034)	(4,809,983)	-	(4,809,983)
Occupancy expenses	(1,749,384)	-	(1,749,384)	(393,405)	-	(393,405)
Research and development costs	(154,727)	-	(154,727)	-	-	-
Marketing expenses	(213,965)	-	(213,965)	(57,704)	-	(57,704)
Depreciation and amortisation expense	(1,356,052)	707,535	(648,517)	(45,021)	(237)	(45,258)
Borrowing costs	(1,168,170)	(3,176)	(1,171,346)	(940,506)	(102)	(940,608)
Write off of assets and investments	-	-	-	(1,668,204)	-	(1,668,204)
Write-off of loan to joint venture	(399,775)	-	(399,775)	(399,775)	-	(399,775)
Other expenses from ordinary activities	(478,915)	-	(478,915)	(510,983)	-	(510,983)
Loss from ordinary activities before related income tax expense	(5,323,674)	704,359	(4,619,315)	(8,809,516)	(339)	(8,809,855)
Income tax expense relating to ordinary activities	-	-	-	-	-	-
Net loss attributable to members of the parent entity	(5,323,674)	704,359	(4,619,315)	(8,809,516)	(339)	(8,809,855)

NOTE 30: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

e) **Summary of transitional balance sheet adjustments**

The following tables set out the expected adjustments to the statements of financial position of the Company and the consolidated entity on transition to AIFRS as at 1 July 2004 and for the AIFRS comparative period balance sheet as at 30 June 2005.

Reconciliation of equity

			CONSOLIDATED 1 JULY 2004			CONSOLIDATED 30 JUNE 2005
	AGAAP $	Transition $	AIFRS $	AGAAP $	Transition $	AIFRS $
Current assets						
Cash assets	1,767,710	-	1,767,710	1,614,270	-	1,614,270
Receivables	2,288,669	-	2,288,669	1,330,069	-	1,330,069
Inventories	134,621	-	134,621	195,109	-	195,109
Other	413,982	-	413,982	243,872	-	243,872
Total current assets	4,604,982	-	4,604,982	3,383,320	-	3,383,320
Non-current assets						
Property plant and equipment	779,896	10,875	790,771	662,084	3,132	665,216
Intangible assets	4,792,819	-	4,792,819	3,825,541	715,278	4,540,819
Other	141,288	-	141,288	140,285	-	140,285
Total non-current assets	5,714,003	10,875	5,724,878	4,627,910	718,410	5,346,320
Total assets	10,318,985	10,875	10,329,860	8,011,230	718,410	8,729,640
Current liabilities						
Payables	13,106,053	-	13,106,053	8,843,425	-	8,843,425
Interest-bearing liabilities	9,706,166	-	9,706,166	2,557,091	-	2,557,091
Provisions	518,064	26,090	544,154	629,716	29,267	658,983
Total current liabilities	23,330,283	26,090	23,356,373	12,030,232	29,267	12,059,499
Non-current liabilities						
Interest-bearing liabilities	428,758	-	428,758	6,554,130	-	6,554,130
Provisions	97,573	-	97,573	93,070	-	93,070
Total non-current liabilities	526,331	-	526,331	6,647,200	-	6,647,200
Total liabilities	23,856,614	26,090	23,882,704	18,677,432	29,267	18,706,699
Net (liabilities)	(13,537,629)	(15,215)	(13,552,844)	(10,666,202)	689,143	(9,977,059)
EQUITY						
Contributed equity	65,267,315	-	65,267,315	73,462,416	-	73,462,416
Accumulated losses	(78,804,944)	(15,215)	(78,820,159)	(84,128,618)	689,143	(83,439,475)
Total equity	(13,537,629)	(15,215)	(13,552,844)	(10,666,202)	689,143	(9,977,059)

Reconciliation of equity continued

	THE COMPANY 1 JULY 2004			THE COMPANY 30 JUNE 2005		
	AGAAP $	Transition $	AIFRS $	AGAAP $	Transition $	AIFRS $
Current assets						
Cash assets	342,624	-	342,624	2,164	-	2,164
Receivables	-	-	-	-	-	-
Inventories	-	-	-	-	-	-
Other	174,450	-	174,450	192,757	-	192,757
Total current assets	517,074	-	517,074	194,921	-	194,921
Non-current assets						
Property plant and equipment	114,546	336	114,882	76,832	99	76,931
Intangible assets	-	-	-	-	-	-
Other	53,347	-	53,347	49,665	-	49,665
Total non-current assets	167,893	336	168,229	126,497	99	126,596
Total assets	684,967	336	685,303	321,418	99	321,517
Current liabilities						
Payables	2,641,104	-	2,641,104	2,058,288	-	2,058,288
Interest-bearing liabilities	7,759,130	-	7,759,130	2,045,000	-	2,045,000
Provisions	204,119	852	204,971	212,267	954	213,221
Total current liabilities	10,604,353	852	10,605,205	4,315,555	954	4,316,509
Non-current liabilities						
Interest-bearing liabilities	-	-	-	6,554,130	-	6,554,130
Provisions	16,132	-	16,132	1,665	-	1,665
Total non-current liabilities	16,132	-	16,132	6,555,795	-	6,555,795
Total liabilities	10,620,485	852	10,621,337	10,871,350	954	10,872,304
Net (liabilities) / assets	(9,935,518)	(516)	(9,936,034)	(10,549,932)	(855)	(10,550,787)
EQUITY						
Contributed equity	65,267,314	-	65,267,314	73,462,416	-	73,462,416
Accumulated losses	(75,202,832)	(516)	(75,203,348)	(84,012,348)	(855)	(84,013,203)
Total equity	(9,935,518)	(516)	(9,936,034)	(10,549,932)	(855)	(10,550,787)

NOTE 30: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS CONTINUED

f) Summary of impact of transition to AIFRS on retained earnings

The impact of the transition to AIFRS on retained earnings is summarised below:

	CONSOLIDATED		THE COMPANY	
	1 July 2004 $	30 June 2005 $	1 July 2004 $	30 June 2005 $
Retained earnings at end of year under AGAAP	(78,804,944)	(84,128,618)	(75,202,832)	(84,012,348)
AIFRS reconciliation				
– elimination of amortisation	-	715,278	-	-
– make good provisions	(15,215)	(26,135)	(516)	(855)
Retained earnings at end of year under AIFRS	(78,820,159)	(83,439,475)	(75,203,348)	(84,013,203)

NOTE 31: EVENTS SUBSEQUENT TO REPORTING DATE

For reporting periods commencing on or after 1 January 2005 , the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The potential impacts of adopting AIFRS are detailed in Note 30 to the financial statements.

In September 2005, the Company executed agreements for the receipt of $6.5 million from a placement of unsecured convertible notes to companies associated with Mr. Winnett. The capital raising will provide working capital and eliminate outstanding statutory debt liabilities. Full details regarding this capital raising will be included in the explanatory memorandum to be sent to shareholders with the notice of general meeting to be held on 28 October 2005.

Of the 600,000 secured convertible notes due to mature on 31 July 2005, 300,000 have been redeemed and 300,000 have had their maturity date extended to 31 July 2006.

Since 30 June 2005 the Company has received additional loan funds from Lujeta Pty Ltd amounting to $200,000. The total amount due to Lujeta Pty Ltd is now $800,000.

Other than the matters discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

DIRECTORS' DECLARATION

1. In the opinion of the directors of Cosmos Limited ("the Company"),

   (a) the financial statements and notes, set out on pages 9 to 39 are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

2. There are reasonable grounds to believe that the Company and the controlled entities identified in Note 25 will be able to meet any obligations or liabilities to which they are or may become subject to by virtue of the deed of cross guarantee between the Company and those controlled entities pursuant to ASIC Class Order 98/1418.

3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2005.

Dated the twenty-ninth day of September, 2005.

Signed in Sydney in accordance with a resolution of the directors.

M. Shehadi.

Michael Shehadie
Chairman

Mark Winnett
Director

INDEPENDENT AUDIT REPORT

KPMG

Scope
We have audited the financial report of Cosmos Limited for the financial year ended 30 June 2005, consisting of the statements of financial performance, statements of financial position, statements of cash flows, and the directors' declaration set out on pages 9 to 39. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit opinion
In our opinion, the financial report of Cosmos 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 2005 and of their performance for the financial year ended on that date; and
   ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia.

Inherent uncertainty regarding continuation as a going concern
Without qualification to the opinion expressed above, attention is drawn to the following matter.

As a result of matters described in Note1(a), there is uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

Roger Amos
Partner
Place Sydney
Date 29 September 2005

SHAREHOLDER INFORMATION

VOTING RIGHTS

Ordinary shares carry the right to one vote per share.

DISTRIBUTION OF SHAREHOLDERS AT 15 SEPTEMBER 2005

The number of shares held by substantial shareholders and their associates are set out below:

RANGE OF SHAREHOLDING	NO OF HOLDERS	SHARES HELD	% OF CAPITAL
1 – 1,000	250	107,011	0.02
1,001 – 5,000	402	1,350,208	0.21
5,001 – 10,000	241	2,097,319	0.32
10,001 – 100,000	1,134	52,352,627	8.06
100,001 – over	486	593,558,817	91.39
Total	2,513	649,465,982	100.00

The number of shareholdings held in less than marketable parcels is 1,697.

TWENTY LARGEST SHAREHOLDERS AS AT 15 SEPTEMBER 2005	SHARES HELD	% OF CAPITAL
Link Enterprises (International) Pty Ltd	117,222,310	18.05
TDH No 2 Investments Pty Ltd	52,730,446	8.12
Lujeta Pty Ltd <The Margaret Account>	44,488,960	6.85
Tesla Nominees Pty Ltd <Two Gables Super Fund A/c>	33,643,610	5.18
Pathold No 205 Pty Ltd	24,150,000	3.72
Tesla Nominees Pty Ltd <Tesla Investments A/c>	11,218,308	1.73
OE Pty Ltd	9,975,845	1.54
Dr Henry Preston	9,712,277	1.50
Faulding Healthcare Pty Ltd	9,183,338	1.41
Puppall Pty Ltd	8,620,000	1.33
Mountain Services Limited	6,900,000	1.06
Ginga Pty Ltd	6,458,876	0.99
Kierford Arch Pty Ltd	6,420,950	0.99
Mr Michael Robert Croker	6,037,304	0.93
Mr Mark Cohen	5,991,276	0.92
Dylide Pty Ltd	5,000,000	0.77
Indubilla Pty Ltd <MSH Super Fund A/c>	4,682,972	0.72
Cessnock Motors Pty Ltd	4,500,000	0.69
Mountain Services Limited	4,125,543	0.64
Mr Darryl Cunnington	4,007,824	0.62
Total	375,069,839	57.76

SUBSTANTIAL SHAREHOLDERS (NOTICES RECEIVED AS AT 15 SEPTEMBER 2005)

SHAREHOLDER	SHARES HELD	% OF CAPITAL
Link Enterprises (International) Pty Ltd	117,222,310	18.05
TDH No 2 Investments Pty Ltd, OE Pty Ltd, Regatim Investments Pty Ltd and Kerry Ann Preston	77,280,946	11.90
Thomas Klinger, Elizabeth Klinger and Ginga Pty Ltd	67,405,700	10.38
Lujeta Pty Ltd <The Margaret Account>	44,488,960	6.85
Tesla Nominees Pty Ltd <Two Gables Super Fund A/c>	33,643,610	5.18

COMPANY PARTICULARS

COSMOS LIMITED
ABN 25 000 091 305

DIRECTORS

Mr Michael Shehadie (Chairman)
Mr Mark Winnett
Mr Peter Kelly

COMPANY SECRETARY

Mr Julian Walter

REGISTERED OFFICE

Cosmos Limited
ABN 25 000 091 305

Suite 410, 15 Lime Street
Sydney NSW 2000
Telephone +61 2 9299 5561
Facsimile +61 2 9299 2989
www.cosmos.com.au

AUDITOR

KPMG
10 Shelley Street
Sydney NSW 2000

BANKER

National Australia Bank Limited
338 Pitt Street
Sydney NSW 2000

SHARE REGISTRY

Computershare Registry Services
Level 3, 60 Carrington Street

Sydney NSW 2000
Telephone +61 2 8234 5222
Facsimile +61 2 8234 5050

Shareholders with questions regarding their shareholding should contact the Share Registry on:
Within Australia 1300 850 505
Outside Australia +61 3 9415 4000

Shareholders who have changed address should advise the Share Registry in writing at the address above.

STOCK EXCHANGE LISTING AND SHARE PRICE

The ordinary shares of Cosmos Limited are listed on the Australian Stock Exchange.

The share price is quoted daily in national newspapers as well as on a number of information services and websites including www.asx.com.au. The price can also be obtained by phoning MarketCall on 1902 941 520, quoting code 6102. This call attracts a charge from your telephone service provider.

Printed in Australia using acid free paper from a certified forestry source and manufactured with elemental chlorine free pulp.

Design by doppiodesign.com

COSMOS LIMITED

ABN 25 000 091 305
Suite 410, 15 Lime Street
Sydney NSW 2000 AUSTRALIA

T +61 2 9299 5561
F +61 2 9299 2989
W www.cosmos.com.au
E exec@cosmos.com.au