COSMOS

06

annual report

contents

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 2006 together with the auditor's report thereon.

Directors

The following directors of the Company have held office since the start of the financial year to the date of this report unless otherwise stated.

Michael John Shehadie, LLB
Non-executive director and chairman, member of the audit committee and remuneration committee

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

Mark William Winnett
Managing director, 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.

Michael John Rowley, MBA
Appointed executive director 30 November 2005, member of the remuneration committee

Mr Rowley has held senior executive positions in a number of multi-national companies. He has had significant experience in the management of human resources within technology companies.

Peter James Kelly
Non-executive director

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.

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 shown in the table below:

Company secretary

Julian Michael Sydney Walter, MA, MBA, FCA
The services of Mr Walter as company secretary are provided by Fordholm Investments Pty Ltd.

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,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

The directors are pleased to announce the Company's first ever consolidated profit. After income tax the profit amounted to $1.06 million (2005 Loss: $4.37 million). The 2006 annual financial results show a small increase in revenues to $16.33 million (2005 $15.56 million) combined with a very significant fall in operating costs, giving an operating profit before tax of $1.06 million. Based on the return to profitability and in pursuant to the transitional provisions relating to the adoption of AIFRS, the group has also recognised the original cost values of goodwill and intellectual property in its subsidiaries. In addition, the Company has written back provisions against its loans to and investments in subsidiaries.

The Company completed a capital raising of $6.7 million by way of issue of unsecured convertible notes during the year following an extraordinary general meeting on 28 October 2005. Part of the proceeds was used to retire statutory debt and repay other loans, and the balance was used for working capital.The board is now focused on the Company's core businesses to derive maximum benefit from its own intellectual property and market share.

Litigation is still a continuing activity, though on a much reduced scale while various matters are brought to a conclusion. ASIC and other authorities are currently considering what action to take regarding certain corporate governance issues raised last year.

	Directors' Meetings		Audit Committee		Remuneration Committee		Nomination Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Mr M Shehadie	7	7	2	2	1	1	-	-
Mr M Winnett	7	7	2	2	1	1	-	-
Mr M Rowley	3	3	-	-	1	1	-	-
Mr P Kelly	7	2	-	-	-	-	-	-

directors' report

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.

Adoption of Australian equivalents to IFRS

As a result of the introduction of Australian equivalents to International Financial Reporting Standards ("AIFRS"), the Company's financial report has been prepared in accordance with those standards. A reconciliation of adjustments arising on the transition to AIFRS is included in Note 2 to the financial statements. Prior year comparative numbers have been restated in the financial statements where necessary.

Events subsequent to reporting date

Since 30 June 2006, the Company has entered into advanced negotiations for a secured, three year bank facility for $5.5 million. It is intended that this facility will be used to redeem 6,854,130 secured convertible notes.

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.

Likely developments

The directors and senior management are focused on optimising the current businesses of the Company and developing additional income streams. The Company intends to build upon its existing business foundations and progressively expand its activities. The directors are also allocating money to product development and are continuing to strengthen the customer care operations within the group.

Corum Training is being accredited as a Registered Training Organisation by the New South Wales Vocational Education and Training Advisory Board. Corum Training will specialise in the delivery of accredited training courses to the real estate sector and will commence operations in the first half of the current financial year.

Remuneration report

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.

Company performance
There has been little correlation in past years between remuneration incentives and the Company's actual performance. However, the commitment of the current directors and senior executives, accompanied by significant personal financial investment in the Company, has been demonstrated in the maiden profit for the financial year to 30 June 2006.

The directors believe that the interests of the Company and its executive directors are currently strongly aligned and that the implementation of the Option Scheme and other such arrangements will serve both to reward and provide necessary incentives for enhanced future performance by both directors and executives.

Employment contracts
Executive employment contracts generally stipulate a one month resignation period. The Company may terminate an employment contract without cause by providing not less than the stipulated period of notice or making payment in lieu of notice; redundancy payments may or may not apply depending on the circumstances. Termination payments are not generally payable on resignation or dismissal for serious misconduct.

The services of the executive directors are currently retained under contracts which expire on 1 September 2009 and provide for two year notice periods.

directors' review

Directors' interests in shares and other equity securities
Mr Shehadie has an interest in 200,000 options to subscribe for shares in the Company.

Mr Winnett has an interest in 3,922,603 shares in the Company.

Mr Rowley has an interest in 9,401 shares and 600,000 options to subscribe for shares in the Company.

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 specified executives of the Company and the consolidated entity receiving the highest remuneration are:

	Base remuneration $	Bonuses $	Super contributions $	Value of Options $	Total $
Directors					
M Shehadie	60,000	-	-	1,308	61,308
M Winnett	328,000	-	-	-	328,000
M Rowley	287,000	-	-	3,923	290,923
P Kelly	60,000	-	-	-	60,000
Specified executives – consolidated entity					
C Rollinson, Chief financial Officer	53,153	-	-	-	53,153
W Botros, Group Financial Controller	108,691	45,000	6,831	-	160,522
G Arnold, National Sales Manager	101,250	42,000	13,790	-	157,040

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.

Non-audit services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

> all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and

> the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

Fees for taxation services payable to the external auditors during the year ended 30 June 2006 amounted to $25,000.

Rounding of amounts

The Company is an entity to which ASIC Class Order 98/100 applies and, accordingly, amounts in the financial statements and director's report have been rounded to the nearest thousand dollars unless otherwise stated.

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 20th day of September 2006.

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

M. Shehadie.

Michael Shehadie
Chairman

Mark Winnett
Director

corporate governance statement

The 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.

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 two executive directors Mr M Winnett and Mr M Rowley and two non-executive directors Mr P Kelly and Mr M 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.

While 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 interests 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.

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; and

> the environment.

corporate governance statement

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 M Shehadie and Mr M 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 (Hall Chadwick) 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 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.

corporate governance statement

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 programs;

> procedures requiring board approval for all borrowings, guarantees, material contracts and capital expenditure beyond minor levels; and

> where applicable, the use of specialised staff and external advisors.

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 directors and senior executive staff is evaluated regularly by the board. There has been no formal performance evaluation of the current board undertaken in the reporting period.

9 // remunerate fairly and responsibly

The remuneration committee consists of Mr M Shehadie, Mr M Winnett and Mr M Rowley. 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

Hall Chadwick

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2006 there have been:

(a) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit, and

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

Hall Chadwick
Level 29, St Martins Tower
31 Market Street, SYDNEY NSW 2001

Drew Townsend

Dated: 20 September 2006

consolidated income statement

Cosmos Limited and its controlled entities
for the year ended 30 june 2006

	Note	CONSOLIDATED 2006 $000s	CONSOLIDATED 2005 $000s	COMPANY 2006 000s	COMPANY 2005 $000s
Revenue from sale of goods	3	961	1,280	–	–
Revenue from rendering of services	3	14,760	13,935	1,800	–
Other revenue from ordinary activities	3	608	349	21	24
Total revenues from ordinary activities		**16,329**	**15,564**	**1,821**	**24**
Materials and consumables used		(2,291)	(1,860)	–	–
Employee expenses	4	(9,373)	(11,856)	(1,941)	(3,866)
Administration expenses	4	(1,161)	(2,337)	(426)	(1,362)
Occupancy costs	4	(697)	(988)	(155)	(282)
Marketing expenses		(433)	(214)	(138)	(58)
Depreciation expense	4	(347)	(389)	(45)	(45)
Borrowing costs	4	(679)	(1,168)	(902)	(940)
Write off of assets and investments	4	–	–	–	(1,668)
Writeback of provisions	4	–	–	16,068	–
Write-off of loan to joint venture		–	(400)	–	(400)
Other expenses from ordinary activities	4	(284)	(724)	(36)	(220)
Profit / (Loss) from ordinary activities before related income tax expense		1,064	(4,372)	14,246	(8,817)
Income tax expense relating to ordinary activities	6	–	–	–	–
Net profit / (loss) attributable to members of the parent entity		**1,064**	**(4,372)**	**14,246**	**(8,817)**
Earnings per share		$	$		
Based on total attributable profit / (loss)					
Basic profit / (loss) per share	7	0.016	(0.008)		
Diluted profit / (loss) per share	7	0.015	(0.008)		

The consolidated income statement should be read in conjunction with the notes to the financial statements.

consolidated balance sheet

Cosmos Limited and its controlled entities
for the year ended 30 june 2006

	Note	CONSOLIDATED 2006 $000s	CONSOLIDATED 2005 $000s	COMPANY 2006 $000s	COMPANY 2005 $000s
CURRENT ASSETS					
Cash and cash equivalents	9	3,643	1,614	2,887	2
Trade and other receivables	10	1,501	1,330	–	–
Inventories	11	73	195	–	–
Other	12	365	244	243	193
Total Current Assets		**5,582**	**3,383**	**3,130**	**195**
NON-CURRENT ASSETS					
Trade and other receivables	10	–	–	10,949	–
Financial assets	13	30	–	5,264	–
Property, plant and equipment	14	767	662	245	77
Intangible assets	15	16,633	16,623	10	–
Other		65	141	–	49
Total Non-Current Assets		**17,495**	**17,426**	**16,468**	**126**
Total Assets		**23,077**	**20,809**	**19,598**	**321**
CURRENT LIABILITIES					
Trade and other payables	16	3,107	6,765	1,622	2,058
Deferred revenue	16	1,876	2,078	–	–
Short term borrowings	17	6,854	2,557	6,854	2,045
Short term provisions	18	587	678	68	226
Total Current Liabilities		**12,424**	**12,078**	**8,544**	**4,329**
NON-CURRENT LIABILITIES					
Long term borrowings	17	6,700	6,554	6,700	6,554
Long term provisions	18	147	93	14	2
Total Non-Current Liabilities		**6,847**	**6,647**	**6,714**	**6,556**
Total Liabilities		**19,271**	**18,725**	**15,258**	**10,885**
Net Assets (Liabilities)		**3,806**	**2,084**	**4,340**	**(10,564)**
EQUITY					
Contributed equity	19	74,107	73,462	74,107	73,462
Reserves	20	13	–	13	–
Accumulated losses		(70,314)	(71,378)	(69,780)	(84,026)
Total Equity		**3,806**	**2,084**	**4,340**	**(10,564)**

The consolidated balance sheet should be read in conjunction with the notes to the financial statements.

consolidated statement of changes in equity

Cosmos Limited and its controlled entities
for the year ended 30 june 2006

	ORDINARY SHARE CAPITAL	OPTION RESERVE	RETAINED LOSSES	TOTAL
	$000s	$000s	$000s	$000s
ECONOMIC ENTITY				
Balance at 1 July 2004	65,267	–	(67,006)	(1,739)
Shares issued during the period	8,195	–	–	8,195
Loss attributable to members of parent entity	–	–	(4,372)	(4,372)
Balance at 30 June 2005	**73,462**	**–**	**(71,378)**	**2,084**
Shares issued during the period	720	–	–	720
Capital raising costs	(75)	–	–	(75)
Revaluation increment	–	13	–	13
Profit attributable to members of parent entity	–	–	1,064	1,064
Balance at 30 June 2006	**74,107**	**13**	**(70,314)**	**3,806**
PARENT ENTITY				
Balance at 1 July 2004	65,267	–	(75,209)	(9,942)
Shares issued during the period	8,195	–	–	8,195
Loss attributable to members of parent entity	–	–	(8,817)	(8,817)
Balance at 30 June 2005	**73,462**	**–**	**(84,026)**	**(10,564)**
Shares issued during the period	720	–	–	720
Capital raising costs	(75)	–	–	(75)
Recognition of bonus element of options	–	13	–	13
Profit attributable to members of parent entity	–	–	14,246	14,246
Balance at 30 June 2006	**74,107**	**13**	**(69,780)**	**4,340**

The consolidated statement of changes in equity should be read in conjunction with the notes to the financial statements.

consolidated cash flow statement

Cosmos Limited and its controlled entities
for the year ended 30 june 2006

		CONSOLIDATED		COMPANY	
	NOTE	2006 $000s	2005 $000s	2006 $000s	2005 $000s
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		18,152	18,732	–	17
Payments to suppliers and employees		(20,298)	(23,164)	(1,611)	(6,178)
Interest received		49	39	21	7
Interest and other cost of finance paid		(35)	(156)	(257)	(156)
Net cash used in operating activities	25	**(2,132)**	**(4,549)**	**(1,847)**	**(6,310)**
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment in joint venture		(30)	–	–	–
Loan to joint venture		(30)	–	–	–
Investment in intellectual property		(10)	–	(10)	–
Payment for property, plant and equipment		(452)	(302)	(213)	(6)
Net cash provided/(used) in investing activities		**(522)**	**(302)**	**(223)**	**(6)**
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issues of securities (shares, convertible notes, etc)		6,700	5,376	6,700	5,375
Proceeds from borrowings		200	600	200	600
Repayment of borrowings		(2,217)	(1,279)	(1,945)	–
Net cash provided by financing activities		**4,683**	**4,697**	**4,955**	**5,975**
Net increase / (decrease) in cash held		**2,029**	**(154)**	**2,885**	**(341)**
Cash at beginning of the financial year		**1,614**	**1,768**	**2**	**343**
Cash at end of the financial year	9	**3,643**	**1,614**	**2,887**	**2**

The consolidated cash flow statement should be read in conjunction with the notes to the financial statements.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report covers the economic entity of Cosmos Limited and controlled entities and Cosmos Limited as an individual parent entity. Cosmos Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of Cosmos Limited and controlled entities and Cosmos Limited as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety.

The significant accounting policies which have been adopted in the preparation of this financial report are set out below. These accounting policies have been consistently applied by each entity in the consolidated entity and are consistent with those of the previous year other than for the adoption of new standards pursuant to AIFRS.

a) Basis of preparation

These consolidated accounts are the first financial statements of the Company to be prepared in accordance with Australian equivalents to IFRS.

In accordance with the requirements of AASB 1: First-time Adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the parent entity and consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures. The accounting policies set out below have been consistently applied to all years presented.

Reconciliations of equity and profit and loss between previous GAAP and AIFRS have been included in Note 2.

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. At 30 June 2006 the consolidated entity had net a deficiency of working capital after excluding deferred revenue of $4,966,000 (2005: $6,617,000).

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 implementing a long term bank facility of $5.5 million which will be used to repay the secured convertible notes; and

> the directors believe that the consolidated entity will continue to generate positive cash flows from operating and funding activities over the next 12 months.

The going concern basis used in the preparation of the financial report may not be appropriate if the proposed bank facility or alternative funding is not implemented. 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.

Reporting basis and conventions

This financial report has been prepared on an accruals basis and is based on historical costs; except where stated. It does not take into account changing money values or fair values of assets.

Comparative figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Critical accounting estimates and judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

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

Transactions, unrealised gains and losses resulting from transactions and inter-entity balances 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised at fair value where there is a reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

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 in the balance sheet inclusive of GST.

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 cash flow statement on a gross basis. The GST components 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 into 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 recognised in the income statement 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 charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

The Company and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The Company is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The group notified the Australian Taxation Office on 14 September 2006 that it had formed an income tax consolidated group to apply from 1 July 2004. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised 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) Impairment of assets

At each reporting date, the group reviews the carrying value of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value-in-use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

k) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with maturities of less than one year.

l) Receivables

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.

m) Inventories

Inventories are measured 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.

n) Financial assets

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

Other unlisted investments are carried at the lower of cost and recoverable amount.

o) 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.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Property, plant and equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the amount recoverable from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets' deployment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

q) Depreciation and amortisation

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment losses.

Such depreciable assets are depreciated using the diminishing value method over their estimated useful lives, with the exception of leased 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 useful life of the asset.

Estimated useful lives, residual values and depreciation rates and methods are reviewed annually. When changes are made, adjustments are reflected prospectively in current and future periods only. The following estimated useful lives are used in the calculation of depreciation:

> Leasehold improvements	1 to 5 years
> Plant and equipment	1 to 12 years
> Equipment under finance lease	2 to 12 years

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

r) Intangibles

Intellectual Property

Intellectual property rights comprise 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 and goodwill on consolidation represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Any impairment loss is written off immediately in the income statement.

s) 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.

t) Borrowings

Bank and other loans are shown in the balance sheet 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.

u) 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 settled compensation

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

Superannuation schemes

The Company and controlled entities contribute to several employee 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 in any fund.

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

v) Provisions

A provision is recognised when there are legal or constructive obligations as a result of past events and it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

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.

w) 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 financial 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.

x) Investments in associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognises the group's share of post-acquisition reserves of its associates.

		CONSOLIDATED FOR THE YEAR ENDED 30 JUNE 2005			COMPANY FOR THE YEAR ENDED 30 JUNE 2005		
	NOTE	AGAAP $000s	Transition impact $000s	AIFRS $000s	AGAAP $000s	Transition impact $000s	AIFRS $000s

NOTE 2: FIRST-TIME ADOPTION OF AIFRS

Reconciliation of loss for 2005

	NOTE	AGAAP $000s	Transition impact $000s	AIFRS $000s	AGAAP $000s	Transition impact $000s	AIFRS $000s
Revenue							
Revenue from sale of goods		1,280	–	1,280	–	–	–
Revenue from rendering of service		13,935	–	13,935	–	–	–
Other revenue from ordinary activities		349	–	349	24	–	24
Total revenue from ordinary activities		**15,564**	**–**	**15,564**	**24**	**–**	**24**
Materials and consumables used		(1,860)	–	(1,860)	–	–	–
Employee expenses		(11,856)	–	(11,856)	(3,866)	–	(3,866)
Administration expenses		(2,337)	–	(2,337)	(1,362)	–	(1,362)
Occupancy costs	(b)	(973)	(15)	(988)	(275)	(7)	(282)
Marketing expenses		(214)	–	(214)	(58)	–	(58)
Depreciation and amortisation expense	(a)	(1,356)	967	(389)	(45)	–	(45)
Borrowing costs		(1,168)	–	(1,168)	(940)	–	(940)
Write off of assets and investments		–	–	–	(1,668)	–	(1,668)
Write-off of loan to joint venture		(400)	–	(400)	(400)	–	(400)
Other expenses from ordinary activities		(724)	–	(724)	(220)	–	(220)
Loss from ordinary activities before related income tax expense		(5,324)	952	(4,372)	(8,810)	(7)	(8,817)
Income tax expense relating to ordinary activities		–	–	–	–	–	–
Net loss attributable to members of the parent entity		**(5,324)**	**952**	**(4,372)**	**(8,810)**	**(7)**	**(8,817)**

		CONSOLIDATED 1 JULY 2004			CONSOLIDATED 30 JUNE 2005		
	NOTE	AGAAP $000s	Transition $000s	AIFRS $000s	AGAAP $000s	Transition $000s	AIFRS $000s
NOTE 2: FIRST-TIME ADOPTION OF AIFRS (CONTINUED)							
Economic entity – Reconciliation of equity							
Current assets							
Cash and cash equivalents		1,768	–	1,768	1,614	–	1,614
Trade receivables		2,289	–	2,289	1,330	–	1,330
Inventories		134	–	134	195	–	195
Other		414	–	414	244	–	244
Total current assets		**4,605**	**–**	**4,605**	**3,383**	**–**	**3,383**
Non-current assets							
Property Plant and Equipment		780	–	780	662	–	662
Intangible assets	(a)	4,793	11,830	16,623	3,825	12,798	16,623
Other		141	–	141	141	–	141
Total non-current assets		**5,714**	**11,830**	**17,544**	**4,628**	**12,798**	**17,426**
Total assets		**10,319**	**11,830**	**22,149**	**8,011**	**12,798**	**20,809**
Current liabilities							
Trade and other payables		13,106	–	13,106	8,843	–	8,843
Short term borrowings		9,706	–	9,706	2,557	–	2,557
Short term provisions	(b)	518	31	549	630	48	678
Total Current Liabilities		**23,330**	**31**	**23,361**	**12,030**	**48**	**12,078**
Non-current liabilities							
Long term borrowings		429	–	429	6,554	–	6,554
Long term provisions		98	–	98	93	–	93
Total Non-Current Liabilities		**527**	**–**	**527**	**6,647**	**–**	**6,647**
Total Liabilities		**23,857**	**31**	**23,888**	**18,677**	**48**	**18,725**
Net Assets (Liabilities)		**(13,538)**	**11,799**	**(1,739)**	**(10,666)**	**12,750**	**2,084**
Equity							
Contributed equity		65,267	–	65,267	73,462	–	73,462
Accumulated losses	(a)(b)	(78,805)	11,799	(67,006)	(84,128)	12,750	(71,378)
Total Equity		**(13,538)**	**11,799**	**(1,739)**	**(10,666)**	**12,750**	**2,084**

		COMPANY 1 JULY 2004			COMPANY 30 JUNE 2005		
	NOTE	AGAAP $000s	Transition $000s	AIFRS $000s	AGAAP $000s	Transition $000s	AIFRS $000s
NOTE 2: FIRST-TIME ADOPTION OF AIFRS (CONTINUED)							
Parent entity – Reconciliation of equity							
Current assets							
Cash and cash equivalents		343	–	343	2	–	2
Other		174	–	174	193	–	193
Total current assets		**517**	**–**	**517**	**195**	**–**	**195**
Non-current assets							
Property Plant and Equipment		115	–	115	77	–	77
Other		53	–	53	49	–	49
Total non-current assets		**168**	**–**	**168**	**126**	**–**	**126**
Total assets		**685**	**–**	**685**	**321**	**–**	**321**
Current liabilities							
Trade and other payables		2,641	–	2,641	2,058	–	2,058
Short term borrowings		7,759	–	7,759	2,045	–	2,045
Short term provisions	(b)	204	7	211	212	14	226
Total Current Liabilities		**10,604**	**7**	**10,611**	**4,315**	**14**	**4,329**
Non-current liabilities							
Long term borrowings		–	–	–	6,554	–	6,554
Long term provisions		16	–	16	2	–	2
Total Non-Current Liabilities		**16**	**–**	**16**	**6,556**	**–**	**6,556**
Total Liabilities		**10,620**	**7**	**10,627**	**10,871**	**14**	**10,885**
Net Assets (Liabilities)		**(9,935)**	**(7)**	**(9,942)**	**(10,550)**	**(14)**	**(10,564)**
Equity							
Contributed equity		65,267	–	65,267	73,462	–	73,462
Accumulated losses	(b)	(75,202)	(7)	(75,209)	(84,012)	(14)	(84,026)
Total Equity		**(9,935)**	**(7)**	**(9,942)**	**(10,550)**	**(14)**	**(10,564)**

NOTE 2: FIRST-TIME ADOPTION OF AIFRS (CONTINUED)

Summary of impact of transition to AIFRS on retained earnings

Adjustments to retained earnings are summarised below:

		CONSOLIDATED		COMPANY	
	NOTE	1 July 2004 $000s	30 June 2005 $000s	1 July 2004 $000s	30 June 2005 $000s
Retained earnings at end of year under AGAAP		(78,805)	(84,128)	(75,202)	(84,012)
AIFRS reconciliation					
– elimination of amortisation	(a)	11,831	12,798	–	–
– make good provisions	(b)	(32)	(48)	(7)	(14)
Retained earnings at end of year under AIFRS		(67,006)	(71,378)	(75,209)	(84,026)

Notes to the reconciliations of equity and profit and loss at 1 July 2004 and 30 June 2005

(a) Intangible assets

When indicative reconciliations were provided last year in regard to the effects of the transition to AIFRS, there was still uncertainty concerning the future profitability of the group and only a limited amount of amortisation was proposed to be written back. Now that the profitability of the group has been confirmed, the valuations of goodwill have been revisited.

As a result, the directors have determined to write back all prior year goodwill and intellectual property amortisation, being goodwill amortisation of $11,548,000 and intellectual property amortisation of $1,260,000.

(b) Make good provisions

The consolidated entity has certain operating leases that require the leased premises to be returned to the lessor in their original condition. 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.

	CONSOLIDATED		COMPANY	
	2006 $000s	2005 $000s	2006 $000s	2005 $000s
NOTE 3: REVENUE FROM ORDINARY ACTIVITIES				
Sales of goods	961	1,280	–	–
Rendering of services	14,760	13,935	1,800	–
Interest received from other parties	49	39	21	7
Other revenue	559	310	–	17
Total revenue from ordinary activities	16,329	15,564	1,821	24

	CONSOLIDATED		COMPANY	
	2006 $000s	2005 $000s	2006 $000s	2005 $000s
NOTE 4: PROFIT (LOSS) FOR THE YEAR				
The profit (loss) before income tax expense has been arrived at after charging/(crediting) the following items:				
Depreciation				
Plant and equipment	286	274	37	31
Amortisation				
Leased plant and equipment	35	68	3	6
Leasehold improvements	26	47	5	8
Total depreciation and amortisation	347	389	45	45
Borrowing costs				
Borrowing costs – convertible notes	994	805	994	806
Borrowing costs – other debt	(315)	363	(92)	135
Total borrowing costs	679	1,168	902	941
Other items				
Net (profit) / loss on disposal of non-current assets	8	31	(1)	–
Research and development costs	54	155	–	–
Movement in provision for doubtful debts	(618)	(694)	–	–
Employee entitlement provisions	(40)	107	(147)	(6)
Operating lease rental expense	610	852	142	260
Investment in former controlled entity written off	–	–	110	–
Provision against investment in controlled entity	–	–	(5,264)	–
Provision against loans to controlled entities	–	–	(10,804)	1,668

NOTE 5: AUDITOR'S REMUNERATION

Audit and review of financial reports				
Company auditor – Hall Chadwick	90	–	90	–
Company auditor – KPMG	–	184	–	184
Taxation services				
Company auditor – Hall Chadwick	25	–	25	–

	CONSOLIDATED		COMPANY	
	2006 $000s	2005 $000s	2006 $000s	2005 $000s
NOTE 6: TAXATION				
(a) The components of income tax expense comprise:				
Current tax	(79)	(2,278)	(755)	(2,382)
Deferred tax	416	981	223	436
Utilisation of prior year deferred tax assets not recognised	(337)	–	–	–
Current year deferred tax assets not recognised	–	1,297	532	1,946
Income tax expense / (benefit)	–	–	–	–
(b) The prima facie tax on profit (loss) is reconciled as follows:				
Prima facie income tax (benefit) on profit (loss)	319	(1,312)	4,274	(2,645)
Add (deduct) tax effect of:				
Non-allowable items	14	18	11	10
Share options expensed	4	–	4	–
Provisions on inter-company assets	–	–	(4,821)	689
Current year deferred tax assets not recognised	–	1,294	532	1,946
Prior year tax deferred assets not previously recognised	(337)	–	–	–
Income tax expense (benefit)	–	–	–	–
Deferred tax assets not taken into account				
Losses carried forward	12,400	12,326	8,634	7,911
Temporary differences carried forward	468	904	246	463
Capital losses carried forward	3,600	3,569	3,583	3,535

The future tax benefit arising from tax losses and temporary differences has not been recognised as an asset as at 30 June 2006.

	2006 $000s	2005 $000s
NOTE 7: EARNINGS PER SHARE AND DIVIDENDS		
Earnings reconciliation		
Basic profit / (loss) after taxation	1,064	(4,372)
Adjustment for interest on convertible notes	242	–
Diluted earnings	1,306	(4,372)
Weighted average number of ordinary shares used as the denominator	Number	Number
Number for basic earnings per share	65,779,114	521,772,413
Adjustment for convertible notes	23,679,452	–
Number for diluted earnings per share	89,458,566	521,772,413
Earnings per share	$	$
Basic profit / (loss) per share after taxation	0.016	(0.008)
Diluted profit / (loss) per share	0.015	(0.008)

Dividends

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

NOTE 8: SEGMENT REPORTING

Major products / services for each industry segment

The consolidated entity conducts:

> a
through its controlled entities, Pharmasol Pty Ltd and Dynsol Pty Limited.

> a tr
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 profit (2005 loss) and segment assets relate to operations in Australia.

	TRANSACTION PROCESSING $000s	RETAIL TECHNOLOGY $000s	ELIMINATIONS $000s	CONSOLIDATED $000s
Statement of operations by segments				
Business segments – 2006				
Segment revenue	4,959	11,321		16,280
Unallocated revenue				49
Total revenue from ordinary activities	4,959	11,321		16,329
Segment result	990	1,671		2,661
Unallocated expenses				(1,597)
Profit from ordinary activities	990	1,671		1,064
Segment assets	2,108	13,622	(644)	15,086
Unallocated assets				7,991
Total assets	2,108	13,622	(644)	23,077
Segment liabilities	(2,661)	(11,267)	9,916	(4,012)
Unallocated liabilities				(15,259)
Total liabilities	(2,661)	(11,267)	9,916	(19,271)
Depreciation	152	150		347
Acquisition of non-current assets	64	181		462
Non-cash expenses other than depreciation	7	(193)		(658)
Geographic segments – 2006	NSW	Victoria	Eliminations	Consolidated
Segment revenue	9,177	7,103		16,280
Other unallocated revenue				49
Total revenue	9,177	7,103		16,329
Segment result	1,411	1,250		2,661
Unallocated expenses				(1,597)
Profit from ordinary activities	1,411	1,250		1,064
Segment assets	5,298	10,432	(644)	15,086
Unallocated assets				7,991
Total assets	5,298	10,432	(644)	23,077
Segment liabilities	(7,787)	(6,141)	9,916	(4,012)
Unallocated liabilities				(15,259)
Total liabilities	(7,787)	(6,141)	9,916	(19,271)

	TRANSACTION PROCESSING $000s	RETAIL TECHNOLOGY $000s	ELIMINATIONS $000s	CONSOLIDATED $000s
NOTE 8 (CONTINUED)				
Depreciation	197	105		347
Acquisition of non-current assets	78	167		462
Non-cash expenses other than depreciation	19	(205)		(658)
Business segments – 2005				
Segment revenue	5,165	10,344	–	15,509
Unallocated revenue			–	55
Total revenue from ordinary activities	5,165	10,344	–	15,564
Segment result	376	2,369	–	2,745
Unallocated expenses				(7,117)
Profit/ (loss) from ordinary activities	376	2,369	–	(4,372)
Segment assets	3,259	14,458	(1,772)	15,945
Unallocated assets				4,864
Total assets	3,259	14,458	(1,772)	20,809
Segment liabilities	(4,652)	(15,574)	12,449	(7,777)
Unallocated liabilities				(10,948)
Total liabilities	(4,652)	(15,574)	12,449	(18,725)
Depreciation	169	175	–	389
Acquisition of non-current assets	155	117	–	302
Non-cash expenses other than depreciation	(206)	(254)	–	(587)

	NSW	Victoria	Eliminations	Consolidated
Geographic segments – 2005				
Segment revenue	9,172	6,337	–	15,509
Other unallocated revenue				55
Total revenue	9,172	6,337	–	15,564
Segment result	785	1,960	–	2,745
Unallocated expenses				(7,117)
Profit / (loss) from ordinary activities	785	1,960	–	(4,372)
Segment assets	6,947	10,770	(1,772)	15,945
Unallocated assets				4,864
Total assets	6,947	10,770	(1,772)	20,809
Segment liabilities	(10,784)	(9,442)	12,449	(7,777)
Unallocated liabilities				(10,948)
Total liabilities	(10,784)	(9,442)	12,449	(18,725)
Depreciation	222	122	–	389
Acquisition of non-current assets	197	75	–	302
Non-cash expenses other than depreciation	(317)	(143)	–	(587)

	CONSOLIDATED		COMPANY	
	2006 $000s	2005 $000s	2006 $000s	2005 $000s

NOTE 9: CASH AND CASH EQUIVALENTS

	2006 $000s	2005 $000s	2006 $000s	2005 $000s
Cash at bank	1393	1,614	637	2
Cash on deposit	2250	–	2,250	–
	3643	1,614	2,887	2

NOTE 10: TRADE AND OTHER RECEIVABLES

	2006 $000s	2005 $000s	2006 $000s	2005 $000s
Current				
Trade receivables	1,547	1,994	–	–
Provision for doubtful debts	(46)	(664)	–	–
	1,501	1,330	–	–
Non-current				
Amounts receivable from wholly owned subsidiaries	–	–	13,249	8,013
Provision for non-recovery of debt owing by wholly-owned subsidiaries	–	–	(2,300)	(8,013)
	–	–	10,949	–

Following a review of the overall valuations of the controlled entities which are currently profitable, prior year provisions have been written back where appropriate.

NOTE 11: INVENTORIES

	2006 $000s	2005 $000s	2006 $000s	2005 $000s
Finished goods at cost	73	195	–	–

NOTE 12: OTHER CURRENT ASSETS

	2006 $000s	2005 $000s	2006 $000s	2005 $000s
Prepayments	209	31	193	3
Other assets	106	23	–	–
Other debtors	350	490	350	490
Less: provision for doubtful debt	(300)	(300)	(300)	(300)
	365	244	243	193

Other debtors include amounts due from a former director.

NOTE 13: FINANCIAL ASSETS

	2006 $000s	2005 $000s	2006 $000s	2005 $000s
Investment in associated entity at cost	30	–	–	–
Shares in controlled entities, unlisted at cost (Note 24)	–	–	11,264	11,264
Provision for diminution of carrying values	–	–	(6,000)	(11,264)
	30	–	5,264	–

Following a review of the overall valuations of the controlled entities which are currently profitable, based on discounted cash flow analyses, prior year provisions have been written back where appropriate.

	CONSOLIDATED		COMPANY	
	2006 $000s	2005 $000s	2006 $000s	2005 $000s
NOTE 14: PROPERTY, PLANT & EQUIPMENT				
Leasehold improvements at cost	261	195	69	26
Accumulated amortisation	(163)	(137)	(25)	(20)
	98	58	44	6
Plant and equipment at cost	2,998	2,647	439	266
Accumulated depreciation	(2,329)	(2,049)	(238)	(202)
	669	598	201	64
Leased plant and equipment	–	13	–	13
Accumulated amortisation	–	(7)	–	(7)
	–	6	–	6
Total property plant & equipment	767	662	245	76

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	58	80	6	14
Additions	66	24	43	–
Disposals	–	–	–	–
Amortisation	(26)	(46)	(5)	(8)
Carrying amount at end of year	98	58	44	6
Plant and equipment				
Carrying amount at beginning of year	598	691	64	91
Additions	396	254	173	7
Disposals	(7)	(7)	–	–
Depreciation	(318)	(340)	(36)	(34)
Carrying amount at end of year	669	598	201	64
Leased plant and equipment				
Carrying amount at beginning of year	6	8	6	8
Additions	–	–	–	–
Disposals	(3)	–	(3)	–
Amortisation	(3)	(2)	(3)	(2)
Carrying amount at end of year	–	6	–	6

	CONSOLIDATED		COMPANY	
	2006 $000s	2005 $000s	2006 $000s	2005 $000s
NOTE 15: INTANGIBLE ASSETS				
Goodwill				
At cost	15,363	15,363	-	-
Accumulated amortisation	-	-	-	-
Total goodwill	15,363	15,363	-	-
Intellectual property				
At recoverable amount	1,270	1,260	10	-
Accumulated amortisation	-	-	-	-
Total intellectual property	1,270	1,260	10	-
Total intangible assets	16,633	16,623	10	-
Reconciliation of movement in intellectual property				
Opening balance	1,260	1,260	-	-
Addition in the period	10	-	10	-
Amortisation in the period	-	-	-	-
Closing balance	1,270	1,260	10	-

Goodwill

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

Intellectual property

The intellectual property relates primarily to the transaction processing business of Cosmos E-C Commerce Pty Ltd. Expenditure on new patents was incurred in the year to 30 June 2006 by the parent entity.

Review of carrying values

It is Company policy that the carrying values of intangible assets are supported by discounted cash flow forecasts based on current and projected budgets for the next five years. Following a review of such projections and taking into account the transition to AIFRS, the directors have determined that the write back of previous amortisation of goodwill and intellectual property is appropriate and results in fair carrying values for such assets.

	CONSOLIDATED		COMPANY	
	2006 $000s	2005 $000s	2006 $000s	2005 $000s
NOTE 16: CURRENT LIABILITIES				
Trade and other payables				
Trade creditors	1,632	3,946	651	271
Sundry creditors and accruals	1,447	2,767	988	1,788
Other	28	52	(7)	(1)
	3,107	6,765	1,622	2,058
Deferred revenue				
Deferred software maintenance revenue	1,876	2,078	–	–
NOTE 17: BORROWINGS				
Current				
Lease liability	–	2	–	–
Other loans – unsecured	–	600	–	600
Convertible notes (1)	6,854	1,205	6,854	1,205
Loan facility secured	–	510	–	–
Other liability	–	240	–	240
Total current interest bearing liabilities	6,854	2,557	6,854	2,045
Non-current				
Convertible notes (1)	6,700	6,554	6,700	6,554
Total non current interest bearing liabilities	6,700	6,554	6,700	6,554

(1) Convertible notes

As at 30 June 2006 the Company had outstanding:

> 6,854,130 Secured Convertible Redeemable Notes of $1, each converting at any time until 31 July 2006 into 5 shares at $0.20 per share and attracting interest at 10% p.a;

> 6,700,000 Unsecured Convertible Redeemable Notes of $1, each converting at any time until 30 September 2008 into 10 shares at $0.10 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. The maturity date of the secured convertible notes has been extended pending implementation of a new bank term loan facility.

	CONSOLIDATED		COMPANY	
	2006 $000s	2005 $000s	2006 $000s	2005 $000s
NOTE 18: PROVISIONS				
Current				
Employee entitlements	536	630	53	212
Make good provisions	51	47	15	14
	587	677	68	226
Non-current				
Employee entitlements	147	93	14	2

	CONSOLIDATED			COMPANY		
	Annual Leave $000s	Long Service Leave $000s	Make good $000s	Annual leave $000s	Long service leave $000s	Make good $000s
Opening balance at 1 July 2005	630	93	47	212	2	14
Additional provisions	468	85	4	36	12	1
Provisions used	(469)	19	-	(104)	-	-
Unused provisions reversed	(93)	(22)	-	(91)	-	-
Closing balance at 30 June 2006	536	147	51	53	14	15

	30 June 2006 $000s	30 June 2005 $000s
NOTE 19: CONTRIBUTED EQUITY		
Issued and Paid-up Capital		
67,663,163 fully paid ordinary shares (2005: 610,713,903)	74,107	73,462

	Numbers
Movement in ordinary share capital	
Number of issued shares at 1 July 2004	318,298,254
Shares issued in the year	292,415,649
Balance at 30 June 2005	610,713,903
17 August 2005 – shares issued	38,752,079
28 October 2005 – effect of share consolidation	(584,519,368)
5 January 2006 – shares issued	320,000
6 February 2006 – shares issued	2,396,549
Balance at 30 June 2006	67,663,163

The Company has an authorised capital of 250,000,000 shares. On 28 October 2005 the share capital of the Company was consolidated on a 1 for 10 basis. All the shares issued during the year were 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.

NOTE 19: CONTRIBUTED EQUITY (CONTINUED)

Options on issue

At 30 June 2006 there were on issue the following options to subscribe for ordinary shares in the Company.

Number	*Expiry Date*	*Exercise Price*
1,350,000	28/11/2010	$0.12
200,000	30/11/2010	$0.12
110,000	28/2/2011	$0.25

	CONSOLIDATED		COMPANY	
	2006 $000s	2005 $000s	2006 $000s	2005 $000s
NOTE 20: RESERVES				
Option reserve	13	–	13	–

The option reserve records items recognised as expenses on valuation of share options issued.

NOTE 21: FINANCIAL INSTRUMENTS

Foreign exchange risk

The Company has no exposure to foreign exchange risk.

Interest rate risk

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

2006	Weighted avg interest rate %	Floating interest rate $000s	1 year or less $000s	1–5 years $000s	More than 5 years $000s	Non-interest bearing $000s	Total $000s
Financial assets							
Cash	1.25	1,393	–	–	–	–	1,393
Cash on deposit	4.5	2,250	–	–	–	–	2,250
Trade and other receivables	–	–	–	–	–	1,501	1,501
		3,643	–	–	–	1,501	5,144
Financial Liabilities							
Convertible notes	10.00	–	6,854	6,700	–	–	13,554
Trade and other payables	–	–	–	–	–	4,983	4,983
Provisions	–	147	–	–	–	587	734
		147	6,854	6,700	–	5,570	19,271
2005							
Financial assets							
Cash	1.15	1,614	–	–	–	–	1,614
Trade and other receivables	–	–	–	–	–	1,330	1,330
		1,614				1,330	2,944

2006	Weighted avg interest rate %	Floating interest rate $000s	1 year or less $000s	1-5 years $000s	More than 5 years $000s	Non-interest bearing $000s	Total $000s
NOTE 21: FINANCIAL INSTRUMENTS (CONTINUED)							
Financial Liabilities							
Convertible notes	10.40	-	1,205	6,554	-	-	7,759
Trade and other payables	-	-	-	-	-	8,844	8,844
Other loans	15	-	840	-	-	-	840
Provisions	-	93	-	-	-	677	770
Lease liability	9.01	-	2	-	-	-	2
Other loan	18.5	-	510	-	-	-	510
		93	2,557	6,554	-	9,521	18,725

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 balance sheet, 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		COMPANY	
	2006 $000s	2005 $000s	2006 $000s	2005 $000s
NOTE 22: COMMITMENTS				
Finance lease commitments				
Payable				
not later than 1 year	-	2	-	-
Minimum lease payments and total lease liability	-	2	-	-
Non-cancellable operating lease expense commitments				
Payable				
not later than 1 year	345	560	273	111
later than 1 year but not later than 5 years	1,266	6	1,156	-
later than 5 years	-	-	-	-
Minimum lease payments	1,611	566	1,429	111

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 23: 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.

NOTE 24: CONTROLLED ENTITIES

Particulars of controlled entities

	Country of incorporation	% owned 2006	% owned 2005
Dynsol Pty Limited	Australia	100%	100%
Pharmasol Pty Ltd	Australia	100%	100%
Cosmos E-C Commerce Pty Ltd	Australia	100%	100%
Corum Systems Pty Ltd	Australia	100%	100%
RE Connect Services Limited	Australia	n/a	100%
Corum Training Pty Ltd	Australia	100%	n/a

Corum Training Pty Ltd was incorporated during the year with an issued share capital of $1.00.

NOTE 25: NOTES TO THE CASH FLOW STATEMENT

For the purposes of the cash flow statement, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. The reconciliation of profit and operating cash flow as shown in the cash flow statement is shown below.

Reconciliation of profit (loss) after tax to net cash used in operating activities:

	CONSOLIDATED 2006 $000s	CONSOLIDATED 2005 $000s	COMPANY 2006 $000s	COMPANY 2005 $000s
Profit (Loss) from ordinary activities after income tax	1,064	(4,372)	14,246	(8,816)
Add/(deduct) non-cash items:				
Depreciation and amortisation of property plant and equipment	347	389	45	45
Net increase/(decrease) in provisions	(655)	(571)	(16,359)	–
Equity issued in settlement of operating liabilities	645	1,475	645	1,475
Share options expensed	13	–	13	–
Interest accreted on Faulding loan	–	196	–	–
Payment of Faulding Loan	–	562	–	1,344
Add items classified as investing:				
Loss from write-off of loan to joint venture	–	400	–	400
Loss on disposal of non-current assets	–	31	–	–
Net profit (loss) after income tax	1,414	(1,890)	(1,410)	(5,552)
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:				
(Increase)/decrease in trade debtors	447	1,652	–	–
(Increase)/decrease in inventories	122	(60)	–	–
(Increase)/decrease in other assets	(15)	171	–	(15)
Increase/(decrease) in trade creditors and accruals	(3,897)	(4,680)	(436)	(983)
Increase/(decrease) in deferred revenue	(203)	18	–	–
(Decrease)/increase in other liabilities	–	240	–	240
Net cash provided by/(used in) operating activities	(2,132)	(4,549)	(1,846)	(6,310)

NOTE 26: EMPLOYEE BENEFITS

Share option plan

The Directors may in their sole discretion select eligible employees, directors or associates 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 participant remaining an eligible participant during the vesting period.

Grant Date	Vested	Expiry Date	Exercise Price $	Options at start of year	Options Lapsed	Options Exercised	Options at year end
Consolidated and Company 2006							
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	-	-
28/11/05	No	28/11/10	0.12	-	-	-	1,350,000
30/11/05	No	30/11/10	0.12	-	-		200,000
							1,550,000
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	Yes	22/09/09	0.038	-	13,300,000	-	-
							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.

The fair value of the options granted during the year was calculated by using a Black Scholes option pricing model applying the following inputs:

Exercise price:	12 cents
Life of option:	5 years
Underlying share price:	9.0 cents
Risk free interest rate:	5.3 per cent
Expected share price volatility:	14.2 per cent

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future behaviour, which may not eventuate. The fair value of the options is expensed over the vesting period.

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 – 109 (2005: 112); the Company - 11 (2005: 12).

NOTE 27: KEY MANAGEMENT PERSONNEL COMPENSATION

Compensation practices

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 share option plan, which provides for directors to issue options to employees and associates not exceeding 5% of the total number of shares on issue in any given year.

	PRIMARY BENEFITS		POST EMPLOY.	EQUITY COMP.	
	Salary & Fees $	Bonus $	Super contributions $	Value of Options $	Total $
Directors					
M Shehadie (Chairman)	60,000	–	–	1,308	61,308
M Winnett	328,000	–	–	–	328,000
M Rowley	287,000	–	–	3,923	290,923
P Kelly	60,000	–	–	–	60,000
Specified executives					
W Botros, Group Financial Controller	108,691	45,000	6,831	–	160,522
G Arnold, National Sales Manager	101,250	42,000	13,790	–	157,040
C Rollinson Chief Financial Officer	53,153	–	–	–	53,153

	PRIMARY BENEFITS		POST EMPLOY.	EQUITY COMP.	
2005	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

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.

NOTE 27: KEY MANAGEMENT PERSONNEL COMPENSATION (CONTINUED)

Employment contracts

Executive employment contracts generally stipulate a one month resignation period. The Company may terminate an employment contract without cause by providing not less than the stipulated period of notice or making payment in lieu of notice; redundancy payments may or may not apply depending on the circumstances. Termination payments are not generally payable on resignation or dismissal for serious misconduct.

The services of executive directors are currently retained under contracts which expire on 1 September 2009 and provide for two year notice periods.

The following tables provide the details of all directors of the Company ("specified directors") and the 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 years ended 30 June 2006 and 30 June 2005.

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 2005	Granted as remuneration	Exercised	Held at 30 June 2006	Vested and exercisable at 30 June 2006
Specified director					
M Shehadie	-	200,000	-	200,000	-
M Rowley	-	600,000	-	600,000	-

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 2005 (Note)	Acquisitions	Disposals	Held at 30 June 2006
Specified Directors				
M Winnett	3,900,000	22,603	-	3,922,603
M Rowley	-	9,041	-	9,041

Note. Holding at 1 July 2005 has been adjusted for the share consolidation on 28 October 2005.

NOTE 28: RELATED PARTY TRANSACTIONS

Loans and other transactions with directors

Unsecured loans owing to Lujeta Pty Ltd, a party associated with Mr M Winnett, amounted to $800,000 during the financial year. These loans were made on normal commercial terms and conditions and repaid out of the proceeds of the issue of unsecured convertible notes. Interest paid to Lujeta Pty Ltd in the period amounted to $36,914.

An unsecured loan of $400,000 was made to Winmark Investment Group Pty Ltd, an entity associated with Mr. M Winnett, on normal commercial terms. This loan was repaid together with interest of $20,219 within the financial year.

An agreement is in place for Michie, Shehadie & Co, of which Mr M Shehadie is a partner, to provide legal services to the Company on normal commercial terms. In the period to 30 June 2006, $1,524 was charged in respect of such services.

During the year 6,250,000 unsecured redeemable convertible notes of $1 each were issued to Lujeta Pty Ltd and Winmark investment Group Pty Ltd, being entities associated with Mr. Mark Winnett, and 100,000 unsecured redeemable convertible notes of $1 each were issued to Oliveprince Pty Ltd, an entity associated with Mr. Michael Rowley.

Wholly-owned group

Details of interests in wholly owned controlled entities are set out in Notes 13 and 24. 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 $10,949,000 (2005: $Nil) (Note 10).

NOTE 29: EVENTS SUBSEQUENT TO REPORTING DATE

Since 30 June 2006 the company has entered into advanced negotiations for a secured, 3 year bank facility for $5.5 million. It is intended that this facility will be used to redeem the secured convertible notes.

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.

NOTE 30: COMPANY DETAILS

The registered office of the Company and its controlled entities is:

Level 17
24 Campbell Street
Sydney, NSW 2000

The principal places of business are:

Head office:
Level 17
24 Campbell Street
Sydney, NSW 2000

State offices:

NSW:
Suite 8
171 Kingsgrove Road
Kingsgrove, NSW 2208

VIC:
7 Business Park Drive
Notting Hill, VIC 3168

SA:
133A Unley Road
Unley, SA 5061

WA:
Suite 1
41 Walters Drive
Osborne Park, WA 6017

QLD:
Suite 1
1 Swann Road
Taringa, QLD 4068

End of Audited Financial Statements

directors' declaration

The directors of Cosmos Limited (the "Company") declare that:

1. The financial statements and notes set out on pages 9 to 37 are in accordance with the Corporations Act 2001, and:
    (a) comply with Accounting Standards and the Corporations Regulations 2001; and
    (b) give a true and fair view of the financial position as at 30 June 2006 and of the performance for the year ended on that date of the Company and economic entity.
2. The Chief Executive Officer and Chief Financial Officer have each declared that:
    (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
    (b) the financial statements and notes fro the financial year comply with the Accounting Standards; and
    (c) the financial statements and notes for the financial year give a true and fair view.
3. In the opinion of the directors, there are reasonable grounds, as disclosed in Note 1(a) to the financial statements, to believe that the Company will be able to pay its debts as and when they become due and payable.

At the date of this declaration, there are reasonable grounds to believe that the Company and the controlled entities identified in Note 24 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.

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

Signed in Sydney

M. Shehadi.

Michael Shehadie
Chairman

Mark Winnett
Director

Dated the 20th day of September, 2006

independent audit report

Hall Chadwick

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, balance sheet, statement of changes in equity, cash flows statement, accompanying notes to the financial statements and the directors' declaration for Cosmos Limited (the "Company") and Cosmos Limited and its Controlled Entities (the "Consolidated Entity") for the year ended 30 June 2006. The Consolidated Entity comprises both the Company and the Entities it controlled during the year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting estimates inherent in the financial report.

Audit approach

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

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

> examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and

> assessing the appropriateness of the accounting policies and disclosures used and reasonableness of significant accounting estimates made by the directors.

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 9 of the financial report has not changed as at the date of providing our audit opinion.

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 consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and

   ii. complying with Accounting Standard and the Corporations Regulations 2001; and

b. other mandatory professional reporting requirements in Australia.

Without qualification to the opinion expressed above, attention is drawn to the following matter.

Inherent uncertainty regarding continuation as a going concern

As disclosed in Note 1(a) to the financial statements "going concern basis", the ability of the consolidated entity to pay its debts as and when they fall due is dependent upon the implementation of a long term bank facility and the consolidated entity's ability to continue to generate positive cash flows from its operating and funding activities. Should the consolidated entity not achieve this there is significant uncertainty whether it 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.

Hall Chadwick
Level 29, St Martins Tower
31 Market Street, SYDNEY NSW 2001

Drew Townsend
Dated: 20 September 2006

shareholder information

Voting rights

Ordinary shares carry the right to one vote per share.

Distribution of shareholders at 31 August 2006

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	854	332,918	0.46
1,001 – 5,000	644	1,814,410	2.50
5,001 – 10,000	249	2,088,447	2.87
10,001 – 100,000	311	10,734,370	14.77
100,001 – over	75	57,704,828	79.40
Total	**2,133**	**72,674,973**	**100.00**

The number of shareholdings held in less than marketable parcels is 1,347.

Twenty largest shareholders as at 31 August 2006

NAME	SHARES HELD	% OF CAPITAL
Link Enterprises (International) Pty Ltd	12,536,759	17.25
TDH No 2 Investments Pty Ltd	5,273,045	7.26
UBS Wealth Management Australia Nominees Pty Ltd	4,911,809	6.76
Tesla Nominees Pty Ltd <Tesla Investments A/c>	3,346,893	4.61
IFTC Broking Service Ltd	2,672,518	3.68
Tesla Nominees P/L <Two Gables Super Fund A/c>	2,000,000	2.75
Lujeta Pty Ltd	1,892,641	2.60
OE Pty Ltd	1,800,908	2.48
Dr Henry Preston	1,203,475	1.66
Mr Mark Cohen	1,117,140	1.54
OE Pty Ltd	1,000,000	1.38
Puppall Pty Ltd	862,000	1.19
Indubilla Pty Ltd <MSH Super Fund A/c>	857,150	1.18
Mr Michael Robert Croker	700,730	1.10
Mrs Effie Marion Walter	700,000	0.96
Ginga Pty Ltd	645,888	0.89
Kierford Arch Pty Ltd	642,095	0.88
Fordholm Investments Pty Ltd <Fordholm Super Fund A/c>	600,000	0.83
Mr Michael John Farrelly	551,936	0.76
Lotsa Nominees Pty Ltd	532,187	0.73
Total	**43,847,174**	**60.35**

Substantial shareholders (notices received as at 31 August 2006)

Shareholder	SHARES HELD	% OF CAPITAL
Link Enterprises (International) Pty Ltd	11,722,231	18.05
Kerry Ann Preston, Regatim Investments Pty Ltd, TDH No 2 Investments Pty Ltd, TDH Investments No 3 Pty Ltd, OE Pty Ltd, Kierford Arch Pty Ltd	8,285,907	11.40
Thomas Klinger, Elizabeth Klinger and Ginga Pty Ltd	6,907,531	9.50
Lujeta Pty Ltd	6,719,549	9.25
Tesla Nominees Pty Ltd	4,497,882	6.19

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company particulars

Directors

Mr Michael Shehadie (Chairman)

Mr Mark Winnett

Mr Michael Rowley

Mr Peter Kelly

Company Secretary

Mr Julian Walter

Registered Office

Cosmos Limited

Level 17

24 Campbell Street

Sydney NSW 2000

Australia

Telephone +61 2 9289 4699

Facsimile +61 2 9212 5931

www.cosmos.com.au

Auditor

Hall Chadwick

Level 29

St Martins Tower

31 Market Street

Sydney NSW 2000

Banker

National Australia Bank Limited

292 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:

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.

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COSMOS LIMITED
ABN 25 000 091 305

Level 17
24 Campbell Street
Sydney NSW 2000
AUSTRALIA

TELEPHONE +61 2 9289 4699
FACSIMILE +61 2 9212 5931
EMAIL exec@cosmos.com.au
www.cosmos.com.au