

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LTD
(A.C.N. 009 120 405)

FINANCIAL REPORT
FOR THE YEAR ENDED
30 JUNE 2005

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

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ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

CORPORATE PROFILE

Directors

T.E. O'CONNOR *QC – Chairman* (Mr O'Connor ceased to be a director from 15 December 2005).

D.H. O'NEILL *BSc (Hons) - Mech Eng* (Mr O'Neil ceased to be a director from 15 December 2005).

J.B.H. CHEAK *B Econ (UWA)* (Mr Cheak ceased to be a director from 15 December 2005).

DENIS GLENNON - Mr Glennon resigned as a director and as the Chief Executive Officer of the Company on 31 August 2004.

S FRAVAL – *Chairman* (appointed 27 October 2005 and approved at a meeting of members on 5 December 2005)

F ISMAIL – (appointed 27 October 2005 and approved at a meeting of members on 5 December 2005)

G FENDIS – (appointed 27 October 2005 and approved at a meeting of members on 5 December 2005)

Registered Office

C/- FJH Solutions Pty Ltd
21 Teddington Road
Ground Floor
BURSWOOD WA 6100
Telephone: 08-9486 2333
Facsimile: 08-9355 4580

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway, P O Box 535
APPLECROSS WA 6153
Telephone: 08-9315 0933
Facsimile: 08-9315 2233

Auditors

Deloitte Touche Tohmatsu
Woodside Plaza
Level 14
240 St Georges Terrace
Perth WA 6000

Bankers

Commonwealth Bank of Australia
150 St Georges Terrace
PERTH WA 6000

Solicitors

Steinepreis Paganin
Lawyers and Consultants
Level 4, Next Building
16 Milligan Street
PERTH WA 6000

Stock Exchange

The Company's Home Exchange
Australian Stock Exchange Limited
2 The Esplanade
PERTH WA 6000

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

COMPANY REVIEW

- (a) On 18 November 2004, Environmental Solutions International Ltd (Subject to Deed of Company Arrangement) (Receivers and Managers Appointed) ("the Company") and other wholly owned subsidiaries were placed into Receivership.
- (b) As a consequence of the above appointment, on 19 November 2004, the Company was placed into Voluntary Administration.
- (c) A proposal to enter the Company into a Deed of Company Arrangement was approved at a meeting of creditors held on 16 December 2004. On 6 January 2005, the Deed of Company Arrangement was executed and Environmental Solutions International Limited, previously subject to voluntary administration, became subject to a Deed of Company Arrangement.
- (d) The Receivers and Managers realised most of the Company's property, plant and equipment and contracts through private sale, public tenders and public auctions. The proceeds from the sale of the Company's assets were paid to the Company's secured creditor, the Commonwealth Bank of Australia, to partially reduce its outstanding debt.
- (e) On 25 August 2005 the Company executed a Reconstruction Deed with Rofin Australia Pty Ltd detailing the terms of a recapitalisation and restructure of the Company. On 30 September 2005, the Creditors of the Company approved the restructuring of the Company and also approved a variation to the existing Deed of Company Arrangement ("DOCA") so as to facilitate the restructure. On 11 October 2005 the Varied Deed of Company Arrangement was executed.
- (f) The Reconstruction Deed contemplates the consolidation of the Company's share capital, a capital raising (being a placement of shares with a sophisticated investor), payment of cash and the issue of debt capitalisation shares for the benefit of creditors under the Varied DOCA and Trust Deed, the lifting of the Company's ASX trading suspension and the termination of the DOCA and coming into effect of a Trust Deed for the benefit of creditors.
- (g) New directors were appointed by the Administrators to the Company on 27 October 2005, although their powers were suspended until 15 December 2005, at which date Mr Bryan Hughes retired as Deed Administrator. The appointment of the new directors was ratified at a shareholder meeting held on 5 December 2005.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
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DIRECTORS' REPORT

The directors of Environmental Solutions International Ltd submit herewith the annual financial report of the company for the financial year ended 30 June 2005. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

The names and particulars of the Directors of the Company in office during or since the end of the financial year are:

<u>Name</u>	<u>Particulars</u>
Terence Edward O'Connor <i>QC</i>	Chairman, Non-Executive Director, joined the board on 18 November 1985. Chancellor of the University of Notre Dame Australia, Chairman of Ausdrill Ltd, Director of Elkington Bishop Molineaux Insurance Brokers Ltd, Director of GES International Ltd and Chairman of the Western Australian Anti Corruption Commission.
Dennis Hamilton O'Neill B.Sc. (Hons) - Mech. Eng	Non-Executive Director, joined the board on 12 April 1995. Mr O'Neill is former Managing Director and Chief Executive of United Group and former Managing Director of Evans Deakins Industries Ltd. He has extensive experience in engineering and in the export of Australian expertise and technologies.
John Boon Heng Cheak B. Econ. (UWA)	Non-Executive Director, joined the board on 16 February 1996. Mr Cheak is the CEO/Director of CH Offshore Ltd, Managing Director of Cleanway Environmental Services, Cleanway Systems and Technologies Pte Ltd and CFX Sdn Bhd Malaysia. Non-Executive Director of Finbar International Ltd and Zicom Australia Limited. He has extensive experience in sales, marketing, investment and venture management in Asia and Australia.
Denis Patrick Glennon, <i>AO</i> B.A. (Hons), M.Sc., FAICD	Mr Glennon resigned as a director and as the Chief Executive Officer of the Company on 31 August 2004.

The Directors noted above other than Denis Glennon were in office from the beginning of the financial year until 15 December 2005. However the powers of the directors were suspended upon the appointment of Voluntary Administrators to the Company on 19 November 2004. The current Directors of the Company are as follows:

<u>Name</u>	<u>Particulars</u>
Sachlan Fraval	Chairman, Executive Director, joined the board on 27 October 2005. Mr Fraval is an accountant by training and a former Fellow of the Institute of Chartered Accountants, London. During 1966 to 1971 he was Articled to Turquand Young & Co, now Ernst & Young. Mr Fraval has over 30 years experience in corporate and business development of private and public companies in the UK, USA and Australia. He has been actively involved as a director of high tech companies in development and marketing of lasers, hand held computers, forensic science equipment, biometrics solutions and light guide products.

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DIRECTORS' REPORT (cont)

Faldi Ismail
B.Bus (ECU)

Executive Director, joined the board on 27 October 2005.
Mr Ismail is currently a director of Kalimantan Investment Corporation Limited (the major shareholder of Canadian public listed company Kalimantan Gold Corporation Limited), company secretary of unlisted public company Cascara Corporation Limited and recently resigned his position as company secretary of ASX listed Eldore Mining Corporation Limited (ASX code: EDM) (formerly Riley Corporation Limited).

Greg Fendis
Ba.Comms (RMIT)

Non - Executive Director, joined the board on 27 October 2005.
Mr Fendis has had extensive experience in the design, installation and commissioning of large complex computer-based systems. In particular he specialises in Smart Card Technology and ID based card systems. He has an understanding of smart card products, technology issues, marketing and customer needs. His technology experience spans over 20 years.

Company Secretary

Mr Sean Henbury
(appointed 21 December 2005)

Mr Sean Henbury is a Chartered Accountant who is a founding principle of the accounting firm FJH Solutions Pty Ltd. He has been company secretary of a number of companies and is regularly called upon to advise Directors of their duties.

Directorships of other listed companies

The current directors do not have any information relating to the directorships of other listed companies of the previous directors.

The current directors are only directors of other listed companies as noted above.

Principal Activities

The principal activity during the year of entities within the consolidated entity was reconstruction of the group's operations (refer Company Review on page 2).

Dividends

No dividends paid during the financial year and no recommendation is made as to dividends.

Review of Operations

A review of operations for the financial year and the results of those operations is contained within the Company Review.

Changes In State of Affairs

Significant changes in the state of affairs of the consolidated entity occurred during the financial period as outlined in the Company Review.

In the opinion of the Directors, there were no other 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 in the consolidated accounts.

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DIRECTORS' REPORT (cont)

Share Options

Executive and Employee Share Option Plan

At the date of this report the following options to acquire Ordinary Shares of the Company were on issue:

	<u>Number of Options</u>	<u>Number of Ordinary Shares under Option</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
Unlisted Ordinary Options	30,000,000	30,000,000	\$0.01	1 November 2008
Total Options	<u>30,000,000</u>	<u>30,000,000</u>		

Further details of the Employee Share Plan are disclosed at Note 4 to the Financial Statements.

Events Subsequent to Balance Date

On 19 November 2004, the Directors of the Company appointed Bryan Kevin Hughes and Vincent Smith of Pitcher Partners as Administrators of the Company under Section 436A of the Corporations Act.

The appointment was made after the Company's securities were suspended, on 17 November 2004, from trading on the Official List of the Australian Stock Exchange Limited.

At a meeting of Creditors held on 30 September 2005, the Deed Administrators recommended to the creditors of the Company that it was in the best interests of Creditors to enter into an Amended Deed of Company Arrangement. At this meeting, Creditors voted in favour of the Company entering into a Deed of Company Arrangement with Rofin Australia Pty Ltd, so that Rofin Australia Pty Ltd could recapitalise the Company. The proposal was approved by Creditors and the Amended Deed of Company Arrangement was subsequently executed. On 15 December 2005, the Deed of Company Arrangement was effectuated and terminated with full control being passed onto the current Directors of the Company.

The Deed of Company Arrangement, subject to conditions being met, required that an amount of \$1,150,000, certain assets and rights to the benefit of the Company be made available for the satisfaction of the claims of creditors and to meet the costs of the Administrator and Deed Administrator.

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DIRECTORS' REPORT (cont)

The proposal from Rofin Australia Pty Ltd required members in General Meeting to vote on and pass the following resolutions all of which were interdependent of each other:

- (a) the consolidation of the capital of the Company on the basis that every 5 Shares be consolidated to 1 Share. The options were consolidated on the same basis;
- (b) the issue and allotment of 190,000,000 Shares at an issue price of 0.1 cents per Share together with 30,000,000 Options exercisable at 1 cent on or before 1 November 2008, following the consolidation of capital, to raise \$190,000 for working capital. The determination of the allottees is at the sole discretion of Rofin Australia Pty Ltd;
- (c) the issue and allotment of up to 220,000,000 Shares at an issue price of not less than 1 cents per Share, following the consolidation of capital, to raise \$2,200,000 for working capital. The determination of the allottees is at the sole discretion of Rofin Australia Pty Ltd;
- (d) the election of the new Directors of the Company as nominated by Rofin Australia Pty Ltd and the removal of all previous Directors of the Company;

The shareholders approved all of the resolutions on 5 December 2005 and the Company was subsequently removed from Administration on 15 December 2005. On removal from Administration the remaining assets of the company, other than all rights and property pertaining to the Enersludge technology were assigned to the Trustee pursuant to Listing Rule 11.2 of the ASX and the terms of the Deed of Company Arrangement ("DOCA"), and all debts payable by, and claims against the company (actual or contingent) arising before the date of appointment of the Administrator, were extinguished.

Other than the above there has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, 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 and Expected Results

The likely developments in the operation of the consolidated entity and the expected results of those operations in financial years subsequent to the period ended 30 June 2005 are as follows:

- (a) The Reconstruction Deed is intended to facilitate the recapitalisation of the Company and revitalise the Company.
- (b) The Reconstruction Deed contemplates the consolidation of the Company's share capital, a capital raising (being a placement of shares to a sophisticated investor), payment of cash and the issue of debt capitalisation shares for the benefit of creditors under the DOCA and Trust Deed, the lifting of the Company's ASX trading suspension and the termination of the DOCA and coming into effect of a Trust Deed for the benefit of creditors.
- (c) A meeting of shareholders was convened on 5 December 2005 to ratify the relevant actions contemplated in the Reconstruction Deed.

Remuneration Report

The remuneration of Directors is set by the Board within overall limits approved by shareholders at the Annual General Meeting.

The directors of Environmental Solutions International Ltd during the year up to the date of administration were:

T E O'Connor QC	(Chairman, non-executive)
D Glennon	(Managing Director) (resigned 31 August 2004)
D H O'Neill	(Non-executive)
J B H Cheak	(Non-executive)

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DIRECTORS' REPORT (cont)

Remuneration Report (cont)

The executives of Environmental Solutions International Ltd during the year were:

T R Bridle	(Technical Director)
M P Peters	(General Manager – Water/Wastewater)
J R Jennings	(General Manager Engineering Design)
P A Hopps	(Company Secretary/Chief Financial Officer)

The Board is responsible for making recommendations on remuneration packages and policies applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people to the highest quality. Directors and executives' remuneration is arrived at after consideration of the level of expertise each director and executives brings to the Company, the time and commitment required to efficiently and effectively perform the required tasks and after reference to payments made to directors and executives in similar positions in other companies.

During the year, the company entered into a Deed of Company Arrangement and therefore for a portion of the year, the executives of the company were the Deed Administrators and the external Administrators. Subsequent to year end, the Reconstruction Deed was entered into and new directors were appointed. Therefore the directors and executives noted above are no longer directors and executives of the company.

No remuneration has been paid or payable to the current directors for the year ended 30 June 2005. As a result of the external administration, the current directors have not been able to determine the full extent of the remuneration paid to former directors and executives.

The fees paid to the Deed Administrators during and subsequent to the financial year ended 30 June 2005 relating to the period under administration were \$300,000 including GST.

The value of the 500,000 options which lapsed as at 30 November 2004 were nil at the date of lapsing.

Directors' Interests

The Directors of the Company have an interest in the following shares and options in the Company as at the date of this report.

	<u>Fully Paid Ordinary Shares</u>	<u>Options</u>
S Fraval	-	6,000,000
F Ismail	-	6,000,000
G Fendis	-	6,000,000

Directors' Meetings

No meetings of Directors were held since the appointment of the Voluntary Administrators as the effect of the appointment of the Voluntary Administrators on 19 November 2004 on the position of the Directors was to suspend their powers in respect of dealing with the affairs of the Company.

Auditor's Independence Declaration

The Auditor's independence declaration is included on page 13 of the financial report.

Indemnification of officers and auditors

During or since the financial year the company has not indemnified or made a relevant agreement to indemnify an officer or auditor of the company of any related body corporate against a liability incurred as such an officer or an auditor. In addition, the company has not paid, or agreed to pay, a premium in respect of a contract insuring against a liability incurred by an officer or auditor.

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DIRECTORS' REPORT (cont)

Rounding off of Amounts

The Company is a company of the kind referred to in ASIC class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report have been rounded off to the nearest thousand dollars.

Signed in accordance with a resolution of the directors made pursuant to s,298(2) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in black ink, appearing to read 'Sachlan Fraval', written in a cursive style.

SACHLAN FRAVAL

Director

Perth, 16 January 2006

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
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CORPORATE GOVERNANCE STATEMENT FOR THE YEAR ENDED 30 JUNE 2005

As from 5 December 2005 power was transferred back to the Directors, prior to this with the appointment of the Voluntary Administrators on 19 November 2005 their powers were suspended in respect of dealing with the affairs of the Company.

As from 5 December 2005 the new Directors are able to perform and exercise the power as an officer of the Company.

This statement outlines the main corporate governance practices that were in place or introduced during the financial year prior to entering into administration.

Board of Directors and Its Committees

The Board is responsible for the overall corporate governance policies and practices of Environmental Solutions International Ltd and all subsidiary companies, including strategic direction, approval of the annual and half-year financial reports, establishing goals for management and monitoring the achievement of these goals. The Board of the Company consists of three Non-Executive Directors and the Chief Executive Officer.

Issues of nomination and remuneration of Directors, business risk management and strategy are considered by the full Board. The Board has also established a framework for the management of the consolidated entity including an overall process of internal control, appropriate monitoring of compliance activities and ethical standards.

The Board has seven scheduled full meetings each year. Other meetings are held on short notice when particular issues arise, which require discussions and decisions by the Board.

Owing to the small number of Directors, the full Board acts as the following committees:

- ***Nomination:***

It is the responsibility of the full Board to consider the appointment of a new Director. Any invitation to join the Board will be extended, in writing, by the Chairman setting out the terms and conditions of the appointment.

- It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of Non-executive Directors on a case by case basis and in conformity with the requirements of the ASX Listing Rules and the Corporations Act 2001.
- The terms and conditions of the appointment of non-executive directors are set out in a formal letter of appointment which deals with the following matters:
 - duration of appointment (subject to the approval of the shareholders);
 - remuneration;
 - expectation concerning preparation and attendance at Board meetings;
 - conflict resolution; and
 - the right to seek independent legal and professional advice (subject to the prior approval of the Chairman).

- ***Remuneration***

- The Chief Executive Officer absents himself from the meetings before any discussion by the Board in relation to his own remuneration.
- Remuneration of Non-executive Directors is determined by the Board with assistance of external advice and within the maximum amount approved by the shareholders from time to time.
- The aggregate amount payable to Non-executive Directors as a Director of Environmental Solutions International Ltd must not exceed the maximum annual amount approved by the company's shareholders.
- Remuneration packages are set at levels that are intended to attract and retain executives of suitable experience and qualifications.

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CORPORATE GOVERNANCE STATEMENT (cont)

- Executives' remuneration and other terms of employment are reviewed annually by the Board having regard to performance, relevant comparative information and independent expert advice. As well as a base salary, remuneration packages may include superannuation, termination entitlements, performance-related bonuses and fringe benefits.
- From time to time options over company shares are issued to executive management in accordance with the Employee Share Option Plan approved by shareholders at Annual General Meeting.
- Details of Directors' and Executives' remuneration and the company's Employee Share Option plan are set out in notes 3 and 4 to the financial statements.
- ***Business Risk Management***

The Board is responsible for the company's system of internal controls and monitors the operational and financial aspects of the company's activities.

 - The Annual Budget is presented to the Board by the Chief Executive Officer each year.
 - The Board reviews and approves the parameters under which risks will be managed before adopting the Budget.
 - The Board monitors the risk management by:
 - receiving monthly reports in respect of operations, financial position of the Company and new contracts;
 - considering the recommendations and advice of external auditors and other external advisers on the operational and financial risks that face the company;
 - ensuring recommendations made by the external auditors and other external advisers are investigated and, where considered necessary, appropriate actions are taken to ensure that the company has an appropriate internal control environment in place to manage the key risk identified;
 - requesting operational project audits be undertaken should the need arise.

Composition of the Board

The composition of the Board is determined using the following principles:

- Until otherwise determined by the Company in general meeting the number of directors will be not less than 3 or more than 6 and Non-Executive Directors will always maintain the majority of Directors.
- The Chairman of the Board is a non-executive Director.
- The Board comprises of Directors with the required operational, financial, industry legal specific skills, which enables the objectives of the consolidated entity to be met.
- Non-executive Directors are subject to re-election by rotation at least every three years.

Board Audit Committee

The company does not have a formally constituted Audit Committee as the Board considers the company's size and operation does not warrant such a Committee. The Board acts as a de facto Audit Committee in conjunction with its regular Board meetings.

The Board regularly reviews the Company's financial reports and evaluates the scope and effectiveness of the external audit function on an annual basis.

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CORPORATE GOVERNANCE STATEMENT (cont)

The role of the Board Audit Committee is as follows:

- To review the efficiency and effectiveness of the external audit functions, including reviewing the respective audit plans.
- To consider matters raised by the external auditors.
- To review interim and annual financial statements and reports.
- To review the adequacy of the accounting and internal control systems.
- To monitor compliance with Corporations Act 2001, Stock Exchange Listing Rules and any matters outstanding with the auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions.
- To review ethical standards as each affects the consolidated entity.
- To seek truth and fairness in the preparation and publication of the accounts.
- To review the appointment of external auditors.

The current auditors for the consolidated entity are Deloitte Touche Tohmatsu.

Board Performance

The Board keeps its performance under review no less than once a year. The intent of the review is to gauge the effectiveness of the Board as a whole and not to necessarily focus on individual performance. However it is necessary for the Board, in open forum, to focus on the appropriate skills and characteristics required of Board Members. This assessment should include issues of diversity, age, skills, background, and other matters necessary to achieve the company's objectives and should be viewed in the context of the perceived needs of the Board and the current makeup of the Board at that point in time.

Conflict of Interest

Board Members are required to identify any conflict of interest they may have in dealing with the company's affairs and subsequently to refrain from participating in any discussion or voting on these matters. Directors and senior executives are required to disclose in writing, any related party transactions.

Independent Professional Advice

Each Director has the right to seek independent professional advice at the company's expense. However, prior approval of the Chairman is required, which will not be unreasonably withheld.

Access to Management

Board Members have complete access to senior management. Board Members use their judgement to ensure that this contact is not distracting to the business operation of the consolidated entity.

Trading in Shares

Directors and officers are prohibited from trading of a short-term nature in company shares.

Directors and officers are also prohibited from dealing in Company shares if they are in possession of share price sensitive information. Such an embargo period would include, but not be limited to the period leading up to the profit announcement for June and December or prior to announcements in relation to any material changes in the Company's financial performance or changes to major contracts.

Chief Executive

The performance of the Chief Executive is evaluated annually. The evaluation is based on objective criteria including performance of the business, accomplishment of long-term strategic objectives and development of management.

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CORPORATE GOVERNANCE STATEMENT (cont)

Code of Ethics

As part of the Board's commitment to the highest standard of conduct, the company adopts Company values to guide executives, management and employees in carrying out their duties and responsibilities.

The values are:

- to act fairly and honestly;
- to be professional and act with integrity in our business dealings;
- to promote a safe, positive and enjoyable work environment;
- to consider the impact of our decisions on our colleagues;
- to work harmoniously within the communities in which we operate.

All directors and employees are expected to comply with the Company Values where individuals are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

The Board of Directors
Environmental Solutions International Ltd
C/- FJH Solutions Pty Ltd
21 Teddington Road
Ground Floor
BURSWOOD WA 6100

16 January 2006
Our Ref: 070152

Dear Board Members

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Environmental Solutions International Ltd.

As lead audit partner for the audit of the financial statements of Environmental Solutions International Limited for the financial year ended 30 June 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,



DELOITTE TOUCHE TOHMATSU



Peter McIver
Partner
Chartered Accountants

Independent audit report to the members of Environmental Solutions International Ltd

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Environmental Solutions International Ltd ("the company") and the consolidated entity for the financial year ended 30 June 2005 are set out on pages 16 to 49. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

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

Audit approach

We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal controls, 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 form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the Corporations Act 2001 and Accounting Standards and other mandatory professional reporting requirements in Australia so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates 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.

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

Qualification

- (a) As a result of the Company going into administration in November 2004, entering into the Deed of Company Arrangement executed on 6 January 2005 and the Reconstruction Deed executed on 25 August 2005, the previous directors of the company and the deed administrators were responsible for maintaining the financial records of the company and consolidated entity during the financial year. As a result of these events, we have been unable to obtain sufficient appropriate audit evidence to enable us to form an opinion on the classification and measurement of revenues and expenses between the various line items presented in the statement of financial performance and notes thereto, or the gross cash inflows and cash outflows presented in the statement of cash flows and notes thereto, in respect of the financial year ended 30 June 2005. We have however obtained sufficient appropriate audit evidence to satisfy ourselves as to the overall net loss, and the overall net decrease in cash held, for the financial year ended 30 June 2005.
- (b) The financial report does not disclose details of directors' and executives' remuneration in respect of the financial year ended 30 June 2005. This is a departure from the requirements of Accounting Standard AASB 1046 *Director and Executive Disclosures by Disclosing Entities*, which requires the disclosure of the total amount of remuneration, and the components of each individual's remuneration, in respect of each specified director and specified executive. It is not practical for us to determine the amounts that should have been disclosed.
- (c) Note 27 to the financial statements discloses details of transactions with related parties. As a result of the events discussed in qualification paragraph (a), we have been unable to obtain sufficient appropriate audit evidence to enable us to form an opinion as to the accuracy and completeness of the disclosed transactions with related parties, and accordingly, whether the requirements of Accounting Standards AASB 1017 *Related Party Disclosures* and AASB 1046 *Director and Executive Disclosures by Disclosing Entities* have been complied with.

Qualified Audit Opinion

In our opinion, except for the effects on the financial report of such adjustments, if any, as might have been determined to be necessary had the limitation on the scope of our audit as discussed in qualification paragraph (a) and (c) not existed, and except for the effects on the financial report of the matters referred to in qualification paragraph (b), the financial report of Environmental Solutions International Ltd is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Peter McIver

Peter McIver

Partner

Chartered Accountants

Perth, 16 January 2006

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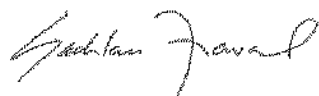
Directors Declaration

As part of the preparation of the financial statements and notes the directors have relied upon information prepared by other parties (refer note 1).

- (1) In the opinion of the Directors of Environmental Solutions International Limited:
- (a) The financial statements and notes, set out on pages 17 to 49, are in accordance with the Corporations Act 2001, including
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due and payable.
- (2) The directors declare that they have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s 295(5) of the Corporations Act 2001.

On behalf of the Directors



SACHLAN FRAVAL

Director

Perth, 16 January 2006

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

STATEMENT OF FINANCIAL PERFORMANCE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

	Note	Consolidated		Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities		19,473	40,643	19,473	40,643
Material and Subcontractor expenses		(10,420)	(40,254)	(10,420)	(40,254)
Employee benefits expense		(2,154)	(5,089)	(2,154)	(5,089)
Depreciation and amortisation expense		(66)	(349)	(66)	(349)
Borrowing costs		(4)	(4)	(4)	(4)
Occupancy expense		(231)	(283)	(231)	(283)
Intangible asset recoverable amount write down		-	(1,438)	-	-
Investment in subsidiary written off		-	-	-	(305)
Loans to subsidiaries forgiven		-	-	-	(741)
Insurance expense		(243)	(377)	(243)	(377)
Costs resulting from going into administration and write offs to recoverable amount		(7,287)	-	(7,258)	-
Other expenses from ordinary activities		(893)	(1,575)	(893)	(1,573)
Loss From Ordinary Activities Before Income Tax Expense	2	(1,825)	(8,726)	(1,796)	(8,332)
Income tax expense relating to ordinary activities	5	-	-	-	-
Loss From Ordinary Activities After Related Income Tax Expense		(1,825)	(8,726)	(1,796)	(8,332)
Net Loss attributable to the members of the parent entity		(1,825)	(8,726)	(1,796)	(8,332)
Transfer from asset revaluation reserve		3,176	-	856	-
Total Revenue and Expense Attributable to Members of the Parent Entity Recognised Directly in Equity		3,176	(8,726)	856	(8,332)
Total Changes in Equity Other than those Resulting from Transactions with Owners as Owners	19	1,351	(8,726)	(940)	(8,332)
Earnings Per Share - Basic (cents per share)	31	(2.37)	(11.32)		
- Diluted (cents per share)	31	(2.37)	(11.32)		

Notes to the financial statements are included on pages 20 to 49.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

STATEMENT OF FINANCIAL POSITION
as at 30 June 2005

	Note	Consolidated		Company	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
<i>Current Assets</i>					
Cash Assets	6	-	3,463	-	3,462
Receivables	7	9	7,707	9	7,696
Other	8	-	2,672	-	2,672
Total Current Assets		9	13,842	9	13,830
<i>Non-Current Assets</i>					
Receivables	9	-	154	-	154
Other Financial Assets	10	-	-	-	-
Plant and Equipment	11	-	635	-	635
Intangible Assets	12	-	150	-	122
Total Non-Current Assets		-	939	-	911
<i>Total Assets</i>		9	14,781	9	14,741
<i>Current Liabilities</i>					
Payables	13	947	12,569	947	12,558
Interest Bearing Liabilities	14	118	29	118	29
Provisions	15	-	1,364	-	1,364
Total Current Liabilities		1,065	13,962	1,065	13,951
<i>Non-Current Liabilities</i>					
Interest Bearing Liabilities	16	-	50	-	50
Total Non-Current Liabilities		-	50	-	50
<i>Total Liabilities</i>		1,065	14,012	1,065	14,001
<i>Net (Liabilities)/Assets</i>		(1,056)	769	(1,056)	740
<i>Equity</i>					
Contributed Equity	17	23,254	23,254	23,254	23,254
Reserves	18	-	3,176	-	856
Accumulated Losses	19	(24,310)	(25,661)	(24,310)	(23,370)
<i>Total (Deficiency)/Equity</i>		(1,056)	769	(1,056)	740

Notes to the financial statements are included on pages 20 to 49.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

STATEMENT OF CASH FLOWS
For the year ended 30 June 2005

	Note	Consolidated Inflow (Outflow)		Company Inflow (Outflow)	
		2005	2004	2005	2004
		\$'000	\$'000	\$'000	\$'000
<i>Cash Flows From (Used In) Operating Activities</i>					
Receipts from customers		21,103	42,629	21,103	42,629
Payments to suppliers and employees		(25,566)	(45,314)	(25,565)	(45,315)
Interest Received		-	180	-	180
<i>Net Cash Flow From (Used In) Operating Activities</i>	29	(4,463)	(2,505)	(4,462)	(2,506)
<i>Cash Flows from (Used in) Investing Activities</i>					
Payments for property, plant and equipment		-	(340)	-	(340)
<i>Net Cash (Used In) Investing Activities</i>		-	(340)	-	(340)
<i>Cash Flows from Financing Activities</i>					
Proceeds from the sale of fixed assets		961	-	961	-
Proceeds (Repayment) from borrowings		(79)	69	(79)	69
Employee Share Plan Loans (advanced) repaid		-	29	-	29
<i>Net Cash from(Used in) Financing Activities</i>		882	98	882	98
<i>Net Increase (Decrease) in Cash Held</i>		(3,581)	(2,747)	(3,580)	(2,748)
Cash held at the beginning of the financial year		3,463	6,210	3,462	6,210
<i>Cash at the End of the Financial Year</i>	30	(118)	3,463	(118)	3,462

Notes to the financial statements are included on pages 20 to 49.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Accounting Policies

This financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Urgent Issues Group Consensus Views, and complies with other requirements of the law.

The financial report has been prepared on the basis of historical costs and except where stated does not take into account changing money values or current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

Significant Accounting Policies

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report.

Basis of Presentation of Financial Statements

The Company and the consolidated entity incurred a loss of \$1,796,000 and \$1,825,000 respectively for the year ended 30 June 2005. At 30 June 2005, both the Company and the consolidated entity were also in a net asset deficiency of \$1,056,000. Despite this, 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.

On 18 November 2004, the Company and other wholly owned subsidiaries were placed into Receivership. As a consequence, on 19 November 2004, the Company was placed into Voluntary Administration.

A proposal to enter the Company into a Deed of Company Arrangement ("DOCA") was approved at a meeting of creditors on 16 December 2004. On 6 January 2005, the Deed of Company Arrangement was executed and the Company, previously subject to voluntary administration, became subject to a Deed of Company Arrangement.

On 25 August 2005 the Company executed a Reconstruction Deed with Rofin Australia Pty Ltd detailing the terms of a recapitalisation and restructure of the Company. On 30 September 2005, the Creditors of the Company approved the restructuring of the Company and also approved a variation to the existing Deed of Company Arrangement so as to facilitate the restructure. On 11 October 2005 the Varied Deed of Company Arrangement was executed.

The Reconstruction Deed as outlined in Note 23 contemplates the consolidation of the Company's share capital, a capital raising (being a placement of shares with a sophisticated investor), payment of cash and the issue of debt capitalisation shares for the benefit of creditors under the DOCA and Trust Deed, the lifting of the company's ASX trading suspension and the termination of the DOCA and coming into effect of a Trust Deed for the benefit of creditors.

The Deed of Company Arrangement, subject to conditions being met, required that an amount of \$1,150,000, certain assets and rights to the benefit of the Company be made available for the satisfactions of the claims of creditors and to meet the costs of the Administrator and Deed Administrator.

The shareholders approved all of the resolutions on 5 December 2005 and the Company was subsequently removed from Administration on 15 December 2005. On removal from Administration the remaining assets of the company, other than all rights and property pertaining to the Enersludge technology were assigned to the Trustee pursuant to Listing Rule 11.2 of the ASX and the terms of the Deed of Company Arrangement, and all debts payable by, and claims against the company (actual or contingent) arising before the date of appointment of the Administrator, were extinguished.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

NOTES TO THE FINANCIAL STATEMENTS (cont)

Basis of Presentation of Financial Statements (cont)

Rofin Australia Pty Ltd has paid the \$2,200,000 to the Company subsequent to 30 June 2005 and \$1,150,000 of these funds were made available to the creditors and the trustees. The \$1,150,000 represents \$630,000 which has been paid to Commonwealth Bank as the secured creditor, \$300,000 which has been paid to the unsecured creditors trust and \$220,000 which was paid to the Deed Administrators by Rofin Australia Pty Ltd.

Due to the above, the Directors consider the going concern basis to be appropriate based on the completion of the Deed of Company Arrangement, recapitalisation proposal and capital raisings of a total of \$2,390,000, resulting in net pro forma funds of \$1,240,000 (before costs and after the deduction of the above \$1,150,000 payment to the Administrator) after the recapitalisation.

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity being the company and the entities it controlled during the year. Where entities are not controlled throughout the financial year, the consolidated results include the results of those entities for that part of the year during which control exists. The controlled entities are listed in Note 24 to the financial statements.

The effect of all transactions between entities in the consolidated entity and inter-entity balances are eliminated in full in preparing the consolidated financial statements.

Where necessary dissimilar accounting policies adopted by controlled entities have been amended to ensure consistent policies are adopted within the consolidated entity.

(B) CAPITAL GAINS TAX

Capital gains tax is not taken into account in determining the carrying amount of revalued non-current assets unless a definite decision to sell has been taken and the related capital gains tax can be reliably determined.

(C) DEPRECIATION OF PLANT AND EQUIPMENT

Depreciation is provided on plant and equipment and is calculated on a straight-line basis so as to write off the net cost of each asset during its expected useful life. Leased assets are amortised over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method.

The following estimated useful lives are used in the calculation of depreciation:

- Plant and Equipment : 5 years
- Equipment under finance lease: 5 years

(D) RECOVERABLE AMOUNT OF NON-CURRENT ASSETS

Non-current assets are written down to recoverable amount where the carrying value of any non-current assets exceeds recoverable amount. In determining the recoverable amount of non-current assets the expected net cash flows have not been discounted to their present value.

(E) INCOME TAX

Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustments for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting is shown at current taxation rates in provision for deferred income tax and future income tax benefit as applicable.

Information about the tax consolidation system is included in note 5.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

NOTES TO THE FINANCIAL STATEMENTS (cont)

(F) INTANGIBLES

(i) LICENCES, PATENTS AND RIGHTS TO TECHNOLOGY ASSETS

The Directors are of the opinion that the carrying amount for these assets does not exceed the recoverable amount and the future benefits are expected to equal or exceed the carrying value plus any future costs necessary to give rise to the future benefit.

The licences, patents and technology assets are reviewed regularly to ensure the criterion for deferral continues to be met.

Amortisation commences with the commercial production of the product and the basis of amortisation employed is determined by reference to the benefits expected to arise from the sale or use of the product. The assets are to be amortised over 10 years from the date of commercialisation in order to match such amortisation costs with related benefits.

(ii) GOODWILL

Goodwill, representing the excess of the cost of acquisitions over the fair value of the identifiable net assets acquired, is amortised on a straight-line basis over a period of 10 years.

(G) CONSTRUCTION WORK

The value of unbilled amounts due from customers is arrived at by taking to account cost plus profits recognised to date less progress billings received and provisions for foreseeable losses. Profits are recognised in proportion to the percentage of completion of the contract. A provision for a foreseeable loss is made as soon as the loss is anticipated and is made both for work in progress completed to date and for future work on the contract.

Revenue from fixed price contracts is recognised in accordance with the percentage of completion method. Stage of completion is measured by reference to physical survey of the works as agreed with the client.

(H) JOINT VENTURES

Interests in joint venture operations have been reported in the financial statements, including the consolidated entity's share of assets employed in the joint venture, the share of liabilities incurred in relation to the joint venture and the share of any expenses incurred in relation to the joint venture in their respective classification categories.

(I) RECEIVABLES

Trade receivables and other receivables are recorded at amounts due less any provision for doubtful debts.

(J) ACCOUNTS PAYABLE

Trade payables and other accounts payable are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(K) EMPLOYEE ENTITLEMENTS

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave and sick leave when it is probable that settlement will be required and are capable of being measured reliably.

Provisions made in respect of wages and salaries, annual leave, sick leave, and other employee entitlements expected to be settled within 12 months are measured at their nominal values, using the remuneration rate expected to apply at the time of settlement.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

NOTES TO THE FINANCIAL STATEMENTS (cont)

Provisions made in respect of long service leave not expected to be settled within 12 months are measured as the present value of the estimated future outflows to be made by the consolidated entity in respect of services provided by employees up to the reporting date.

(L) FINANCIAL INSTRUMENTS

Debt and Equity Instruments

Where applicable, debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Interest and Dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the statement of financial position classification of the related debt or equity instruments.

(M) LEASED ASSETS

Operating lease payments are recognised as an expense on a basis which reflects the pattern in which economic benefits from the leased asset are consumed.

Leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the present value of minimum leased payments.

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property. Finance leased assets are amortised on a straight-line basis over the estimated useful life of the asset.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

(N) REVENUE RECOGNITION

Rendering of Services

Revenue from a contract to provide design and engineering services is recognised by reference to the stage of completion of the contract.

(O) GOODS AND SERVICES TAX

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

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

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

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

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

NOTES TO THE FINANCIAL STATEMENTS (cont)

(P) ACQUISITION OF ASSETS

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

In the event that settlement of all or part of the cash consideration given in the acquisition of an asset is deferred, the fair value of the purchase consideration is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

(Q) INVESTMENTS

Investments in controlled entities are recorded at cost.

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
2. Loss from Ordinary Activities				
The loss from ordinary activities before income tax includes the following items of revenue and expense:				
(a) Revenue from ordinary activities				
(i) Operating Revenue				
Sales Revenue:				
Rendering of services	11,083	38,640	11,083	38,640
Share of Joint Venture Rendering of Services	1,221	1,820	1,221	1,820
	<u>12,304</u>	<u>40,460</u>	<u>12,304</u>	<u>40,460</u>
Interest Revenue:				
Other Entities	-	183	-	183
Total Operating Revenue	<u>12,304</u>	<u>40,643</u>	<u>12,304</u>	<u>40,643</u>
(ii) Non-Operating Revenue				
Other Revenue:				
Debts forgiven under DOCA	6,208	-	6,208	-
Proceeds from sale of assets	961	-	961	-
Total Non-operating Revenue	<u>7,169</u>	<u>-</u>	<u>7,169</u>	<u>-</u>
Total Revenue from ordinary activities	<u>19,473</u>	<u>40,643</u>	<u>19,473</u>	<u>40,643</u>

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

NOTES TO THE FINANCIAL STATEMENTS (cont)

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
(b) Expenses				
Depreciation or amortisation of:				
Plant and Equipment	66	283	66	283
Intangibles:				
Technologies	-	55	-	55
Goodwill	-	11	-	11
Transfer to/from provisions:				
Employee entitlements				
Annual leave	(412)	39	(412)	39
Long service leave	(331)	29	(331)	29
Operating lease minimum rental expenses	87	262	87	262
Intangible assets recoverable amount write down	150	1,438	122	-
Finance Leases				
Finance Charges	1	4	1	4
Loans to directors forgiven	135	-	135	-
Loans to wholly owned controlled entities forgiven	-	-	-	741
	2005	2004	2005	2004
	\$	\$	\$	\$
(c) Auditors Remuneration				
Auditing the financial report	18,000	26,000	18,000	26,000
Other Services	-	18,304	-	18,304
	<u>18,000</u>	<u>44,304</u>	<u>18,000</u>	<u>44,304</u>
(d) Sales of assets	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Sales of assets in the ordinary course of business have given rise to the following profits:				
Net Profits	392	-	392	-
	<u>392</u>	<u>-</u>	<u>392</u>	<u>-</u>

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

NOTES TO THE FINANCIAL STATEMENTS (cont)

3. Directors and Executives Remuneration

The specified directors of Environmental Solutions International Ltd during the year up to the date of administration were:

T E O'Connor QC	(Chairman, non-executive)
D Glennon	(Managing Director) (resigned 31 August 2004)
D H O'Neill	(Non-executive)
J B H Cheak	(Non-executive)

The specified executives of Environmental Solutions International Ltd during the year were:

T R Bridle	(Technical Director)
M P Peters	(General Manager – Water/Wastewater)
J R Jennings	(General Manager Engineering Design)
P A Hopps	(Company Secretary/Chief Financial Officer)

The Board is responsible for making recommendations on remuneration packages and policies applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people to the highest quality. Directors and executives' remuneration is arrived at after consideration of the level of expertise each director and executives brings to the Company, the time and commitment required to efficiently and effectively perform the required tasks and after reference to payments made to directors and executives in similar positions in other companies.

During the year, the company entered into a Deed of Company Arrangement and therefore for a portion of the year, the executives of the company were the Deed Administrators and the external Administrators. Subsequent to year end, the Reconstruction Deed was entered into and new directors were appointed. Therefore the specified directors and executives noted above are no longer directors and executives of the company.

The fees paid to the Deed Administrators during and subsequent to the financial year ended 30 June 2005 relating to the period under administration were \$300,000 including GST.

No remuneration has been paid or payable to the current directors for the year ended 30 June 2005. As a result of the external administration, the current directors have not been able to determine the full extent of the remuneration paid to former directors and specified executives.

2004	Primary			Post Employment			Equity		
Specified Directors	Salary & Fees	Bonus	Non Monetary	Super-annuation	Prescribed Benefits	Other	Options	Other Benefits	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
T E O'Connor QC	45,000	-	-	4,050	-	-	-	-	49,050
D P Glennon	223,431	-	2,994	96,569	-	-	-	-	322,994
D H O'Neill	25,000	-	-	-	-	-	-	-	25,000
J B H Cheak	25,000	-	-	-	-	-	-	-	25,000
Total:	318,431	-	2,994	100,619	-	-	-	-	422,044

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
(A.C.N. 009 120 405)

NOTES TO THE FINANCIAL STATEMENTS (cont)

2004	Primary			Post Employment			Equity		
Specified Executives	Salary & Fees	Bonuses	Non Monetary	Super-annuation	Prescribed Benefits	Other	Options	Other Benefits	Total
	\$	\$	\$	\$	\$	\$	\$	\$	\$
T R Bridle	148,481	-	-	71,519	-	-	-	-	220,000
M P Peters	124,500	-	2,448	48,000	-	-	-	-	174,948
J R Jennings	131,535	-	1,955	9,047	-	-	-	-	142,537
P A Hopps	100,084	-	1,404	32,416	-	-	-	-	133,904
Total:	504,600	-	5,807	160,982	-	-	-	-	671,389

4. Employee Share Option Plan

Due to the company being under a Deed of Company Arrangement during the year, the Employee Share Option plan ceased under the terms of the Deed of Company Arrangement. There are no employees of the company or consolidated entity as at 30 June 2005.

Prior to entering into the Deed of Company Arrangement, the company has an incentive based share plan for employees. In accordance with the provisions of the plan, as approved by shareholders at an annual general meeting, employees, at the discretion of the directors, are eligible to acquire shares or be granted options in the company. The number of shares or options and the terms of the options are at the discretion of the directors.

During the financial year, no shares were issued by the company to employees as a result of the exercise of options granted under the Employee Share Option Plan. The difference between the total market value of options issued during a financial year, at the date of issue, and the total amount received from executives and employees is not recognised in the financial statements except for the purposes of determining directors' and executives' remuneration in respect of that financial year as disclosed in note 3 to the financial statements and in the Director's Report accompanying the financial statements.

2005 **2004**
No. **No.**

Movements of share options during the year were as follows:

Unlisted Employee Options

Balance at beginning of the financial year	3,956,000	4,943,000
Granted during the financial year (Note 17c)	-	-
Exercised during the financial year (Note 17c)	-	-
Lapsed during the financial year (Note 17c)	3,956,000	(987,000)
Balance at the end of the financial year	-	3,956,000

Unlisted Ordinary Options (i)

Balance at beginning of the financial year	1,913,750	1,913,750
Granted during the financial year (Note 17c)	-	-
Exercised during the financial year (Note 17c)	-	-
Lapsed during the financial year (Note 17c)	500,000(ii)	-
Balance at the end of the financial year	1,413,750	1,913,750

(i) Subsequent to year end, these options lapsed. The Reconstruction Deed was approved and executed which consolidates options on the basis of every five options being consolidated into one option.

(ii) The options were issued in November 1999 and expired in November 2004. The option was to purchase ordinary shares for \$0.45 at any time from the date of their issue to the date of their expiry. The options carry no voting or dividend rights.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (cont)

Balance at the beginning of the financial year comprises:

Unlisted Employee Options	No.	Vested No.	Unvested No.	Grant Date	Expiry Date	Exercise Price
Issued 8 September 2000	1,991,000	1,991,000	-	8 Sep 00	7 Sep 05	\$0.32
Issued 19 March 2002	982,500	982,500	-	19 Mar 02	19 Mar 07	\$0.65
Issued 20 March 2002	982,500	982,500	-	20 Mar 02	20 Mar 07	\$0.75
	<u>3,956,000</u>	<u>3,956,000</u>	<u>-</u>			

Unlisted Ordinary Options

Issued 30 November 1999	500,000	500,000	-	30 Nov 99	30 Nov 04	\$0.45
Issued 30 November 2000	1,413,750	1,413,750	-	30 Nov 00	30 Nov 05	\$0.40
	<u>1,913,750</u>	<u>1,913,750</u>	<u>-</u>			

Balance at the end of the financial year comprises:

Unlisted Employee Options	No.	Vested No.	Unvested No.	Grant Date	Expiry Date	Exercise Price
	<u>-</u>	<u>-</u>	<u>-</u>			

Unlisted Ordinary Options

Issued 30 November 2000	1,413,750	1,413,750	-	30 Nov 00	30 Nov 05	\$0.40
	<u>1,913,750</u>	<u>1,913,750</u>	<u>-</u>			

(i) Subsequent to year end, the Reconstruction Deed was approved and executed which consolidates these options on the basis of every five options being consolidated into one option.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (cont)

5 Income Tax

The prima facie income tax expense (benefit) on pre-tax accounting profit or (loss) reconciles to the income tax expense in the financial statements as follows:

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
(a) Loss from ordinary activities	(1,825)	(8,726)	(1,796)	(8,332)
Income tax (benefit)/expense calculated at 30%	(547)	(2,618)	(534)	(2,499)
Add (less):				
Tax effect of permanent differences				
Other	-	2	-	2
Amortisation of intangible assets	-	20	-	20
Debts forgiven	-	-	-	222
Investment in subsidiary write off	-	-	-	93
Recoverable amount write down of intangibles	-	431	-	-
Timing differences and tax losses not brought to account as future income tax benefits (note 5(b)).	547	2,165	534	2,162
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(b) Future income tax benefits at 30% not brought to account as assets:				
Attributable to tax losses				
Revenue	4,262	3,715	4,249	3,715
	<u>4,262</u>	<u>3,715</u>	<u>4,249</u>	<u>3,715</u>

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (cont)

Consolidated		Company	
2005	2004	2005	2004
\$'000	\$'000	\$'000	\$'000

The taxation benefits of tax losses and timing differences not brought to account will only be obtained if:

- (a) Assessable income is derived of a nature and of an amount sufficient to enable the benefit from the deductions to be realised;
- (b) Conditions for deductibility imposed by the law are complied with; and
- (c) No changes in tax legislation adversely affect the realisation of the benefit from the deductions.

Due to the company entering into the Deed of Company Arrangement and the Reconstruction Deed, it may not be possible under the conditions above for the taxation benefits to be obtained.

Tax Consolidation System

Legislation to allow groups, comprising a parent entity and its Australian resident wholly –owned entities, to elect to consolidate and be treated as a single entity for income tax purposes was substantially enacted on 21 October 2002. This legislation, which includes both mandatory and elective elements, is applicable to the company.

All wholly owned entities within the consolidated entity (excluding the parent entity) are non operating. Accordingly the directors have elected that all entities within the consolidated entity will continue to be taxed as separate entities from 1 July 2002.

6. Cash Assets

Cash on deposit	-	3,463	-	3,462
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7. Current Receivables

Trade Receivables	-	5,891	-	5,880
Allowance for doubtful debts	-	(14)	-	(14)
	-	5,877	-	5,866
Goods and services tax (GST) recoverable	9	1,203	9	1,203
Sundry debtors and prepayments	-	627	-	627
	9	7,707	9	7,696

8. Current – Other

Amount due from customers for unbilled contract costs (Work in progress) (Note 21)	-	2,672	-	2,672
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NOTES TO THE FINANCIAL STATEMENTS (cont)

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
9. Non-Current Receivables				
Employee Share Plan Loans	-	154	-	154
Amounts receivable from:				
Wholly owned controlled entities	-	-	-	741
Debts forgiven	-	-	-	(741)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>154</u>	<u>-</u>	<u>154</u>
10. Other Non-Current Financial Assets				
Non quoted investments				
Shares in wholly-owned controlled entities, at cost	-	-	-	305
Amount written off to recoverable amount	-	-	-	(305)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

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NOTES TO THE FINANCIAL STATEMENTS (cont)

	Consolidated			Company		
	Plant and Equipment \$'000	Equipment under finance lease \$'000	Total \$'000	Plant and Equipment \$'000	Equipment under finance lease \$'000	Total \$'000
11. Plant and Equipment, at cost						
Gross Carrying Amount						
Balance at 30 June 2004	1,505	160	1,665	1,415	160	1,575
Additions	-	-	-	-	-	-
Disposals	(1,505)	(160)	(1,665)	(1,415)	(160)	(1,575)
Balance at 30 June 2005	-	-	-	-	-	-
Accumulated Depreciation						
Balance at 30 June 2004	957	73	1030	867	73	940
Depreciation expense	60	6	66	60	6	66
Disposals	(1,017)	(79)	(1,096)	(927)	(73)	(1,006)
Balance at 30 June 2005	-	-	-	-	-	-
Net Book Value						
As at 30 June 2004	548	87	635	548	87	635
As at 30 June 2005	-	-	-	-	-	-

	Consolidated		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
12. Intangibles				
Goodwill, at cost	110	110	110	110
Accumulated amortisation	(33)	(33)	(33)	(33)
	77	77	77	77
Licenses, patents and rights to technology at cost	2,016	2,016	550	550
Accumulated amortisation	(505)	(505)	(505)	(505)
	1,511	1,511	45	45
Recoverable amount write down (note (i) below)	(1,588)	(1,438)	(122)	-
	-	150	-	122

Aggregate depreciation and amortisation allocated during the year are recognised as an expense as disclosed in note 2 to the financial statements.

(i) The consolidated entity has written down the carrying value of the ENERSLUDGE™ technology and goodwill as the commercialisation of the technology has been slower than anticipated.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (cont)

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
13. Current Payables				
Unsecured				
Payables (i)	930	8,095	930	8,084
Goods and services tax (GST) Payable	-	1,181	-	1,181
Sundry creditors and accruals	17	337	17	337
Accrued contract costs (Note 21)	-	2,956	-	2,956
	<u>947</u>	<u>12,569</u>	<u>947</u>	<u>12,558</u>

(i) The unsecured payables relate to payments made post year end to the Deed Administrators to be paid to the creditors. The balance consists of \$630,000 which has been paid subsequent to year to Commonwealth Bank and \$300,000 which has been paid into the unsecured creditors trust.
See Note 23 Subsequent events note for further information.

14. Current Interest Bearing Liabilities

Secured				
Finance Lease Liabilities (Note 20b)	-	29	-	29
	<u>-</u>	<u>29</u>	<u>-</u>	<u>29</u>
Unsecured				
Bank Overdraft	118	-	118	-
	<u>118</u>	<u>-</u>	<u>118</u>	<u>-</u>
	<u>118</u>	<u>29</u>	<u>118</u>	<u>29</u>

15. Current Provisions

Employment entitlements:				
Annual leave	-	412	-	412
Long service leave	-	331	-	331
Contract Losses	-	621	-	621
	<u>-</u>	<u>1,364</u>	<u>-</u>	<u>1,364</u>

16. Non-Current Interest Bearing Liabilities

Secured				
Finance Lease liabilities (Note 20b)	-	50	-	50
	<u>-</u>	<u>50</u>	<u>-</u>	<u>50</u>

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NOTES TO THE FINANCIAL STATEMENTS (cont)

<i>17. Contributed Equity</i>	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
(a) Contributed Equity				
77,097,512 fully paid ordinary shares (2004:77,097,512)	23,254	23,254	23,254	23,254
	2005		2004	
	No.	\$'000	No.	\$ '000
	'000		'000	
Fully Paid Ordinary Shares				
Balance at beginning of the financial year	77,097	23,254	77,097	23,254
Issue of shares under the Employee Share Option Plan	-	-	-	-
Balance at end of the financial year	77,097	23,254	77,097	23,254

(b) Fully Paid Ordinary Share Capital

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Subsequent to year end, the Reconstruction Deed was approved and executed which consolidates these shares on the basis of every five shares being consolidated into one share.

(c) Share Options

In accordance with the provisions of the employee share options plan (Note 4), as at 30 June 2005, employees and previous directors are entitled to purchase the following ordinary shares.

	2005			2004		
	Number of Options	Exercise Price	Expiry Date	Number of Options	Exercise Price	Expiry Date
Unlisted Employee Options	-			1,991,000	\$0.32	07/09/2005
				982,500	\$0.65	19/03/2007
				982,500	\$0.75	20/03/2007
	-			3,956,000		
Unlisted Ordinary Options				500,000	\$0.45	30/11/2004
	1,413,750	\$0.40	30/11/2005	1,413,750	\$0.40	30/11/2005
	1,413,750			1,913,750		
Total Options	1,413,750			5,869,750		

Employee and ordinary options do not carry any voting rights or entitlement to dividends.

Subsequent to year end, the Reconstruction Deed was approved and executed which consolidates these options on the basis of every five options being consolidated into one option.

No options were exercised or granted during the year.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (cont)

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
18. Reserves				
Asset Revaluation Reserve				
Balance at beginning of financial year	3,176	3,176	856	856
Movements (i)	(3,176)	-	(856)	-
Balance at end of financial year	<u>-</u>	<u>3,176</u>	<u>-</u>	<u>856</u>

The Asset Revaluation Reserve arises on the revaluation of non-current assets in prior years.

(i) As all assets other than Enersludge assets have been disposed of through the DOCA and the Reconstruction Deed, the asset revaluation reserve has effectively been realised and has been transferred to accumulated losses.

19. Accumulated Losses

Balance at beginning of financial year	(25,661)	(16,935)	(23,370)	(15,038)
Net Loss attributable to members of the parent entity	(1,825)	(8,726)	(1,796)	(8,332)
Transfer from Asset revaluation reserve	3,176	-	856	-
Balance at end of financial year	<u>(24,310)</u>	<u>(25,661)</u>	<u>(24,310)</u>	<u>(23,370)</u>

20. Lease Commitments

(a) Commitments under non-cancellable operating leases

Not later than one year	-	262	-	262
Later than one year but not later than five years	-	47	-	47
Later than five years	-	-	-	-
	<u>-</u>	<u>309</u>	<u>-</u>	<u>309</u>

As at 30 June 2004, lease commitments represented leases over office premises in Perth and Brisbane. During the year ended 30 June 2005, the company entered into a Deed of Company Arrangement which resulted in the cessation of the leases during the year.

(b) Commitments under non-cancellable finance leases

Not later than one year	-	29	-	29
Later than one year but not later than five years	-	62	-	62
Later than five years	-	-	-	-
	<u>-</u>	<u>91</u>	<u>-</u>	<u>91</u>
Less future finance charges	-	(12)	-	(12)
Finance bearing liabilities	<u>-</u>	<u>79</u>	<u>-</u>	<u>79</u>

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NOTES TO THE FINANCIAL STATEMENTS (cont)

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Included in the financial statements are:				
Current liabilities (Note 14)	-	29	-	29
Non-current liabilities (Note 16)	-	50	-	50
	<u>-</u>	<u>79</u>	<u>-</u>	<u>79</u>

As at 30 June 2004, finance leases relate to vehicles and equipment with lease terms of 3 to 4 years. During the year ended 30 June 2005, the company entered into a Deed of Company Arrangement which resulted in the cessation of the leases during the year.

21. Construction Contracts

Construction work in progress	-	64,720	-	64,720
Progress billings and advances received	-	65,004	-	65,004
Advances received	-	-	-	-
Progress billings	-	65,004	-	65,004
	<u>-</u>	<u>(284)</u>	<u>-</u>	<u>(284)</u>
Recognised and included in the financial statements as:				
Amount due from customers for unbilled contract costs:				
Current (Note 8)	-	2,672	-	2,672
Amount accrued for contract costs:				
Current (Note 13)	-	(2,956)	-	(2,956)
	<u>-</u>	<u>(284)</u>	<u>-</u>	<u>(284)</u>
Retention included in progress billing	-	-	-	-

22 Contingent Liabilities

Under the Reconstruction Deed, the Company will pay \$250,000 to the Deed Administrators in their role as trustee within 120 days of reinstatement to trading on the ASX.

23 Subsequent Events

Prior to the end of the financial year on 19 November 2004, the Directors of the Company appointed Bryan Kevin Hughes and Vincent Smith of Pitcher Partners as Administrator of the Company under Section 436A of the Corporations Act.

The appointment was made after the Company's securities were suspended, on 17 November 2004, from trading on the Official List of Australian Stock Exchange Limited.

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NOTES TO THE FINANCIAL STATEMENTS (cont)

23 Subsequent Events cont

A proposal to enter the Company into a Deed of Company Arrangement was approved at a meeting of creditors held on 16 December 2004. On 6 January 2005, the Deed of Company Arrangement was executed and Environmental Solutions International Limited, previously subject to voluntary administration, became subject to a Deed of Company Arrangement.

Subsequent to year end, on 25 August 2005 the Company executed a Reconstruction Deed with Rofin Australia Pty Ltd detailing the terms of a recapitalisation and restructure of the Company.

At a meeting of Creditors held on 30 September 2005, the Deed Administrators recommended to the creditors of the Company that it was in the best interests of Creditors to enter into an Amended Deed of Company Arrangement. At this meeting, Creditors voted in favour of the Company entering into a Deed of Company Arrangement with Rofin Australia Pty Ltd, so that Rofin Australia Pty Ltd could recapitalise the Company. The proposal was approved by Creditors and the Amended Deed of Company Arrangement was subsequently executed. On 15 December 2005, the Deed of Company Arrangement was effectuated and terminated with full control being passed onto the current Directors of the Company.

The Deed of Company Arrangement, subject to conditions being met, required that an amount of \$1,150,000, certain assets and rights to the benefit of the Company be made available for the satisfaction of the claims of creditors and to meet the costs of the Administrator and Deed Administrator.

The proposal from Rofin Australia Pty Ltd required members in General Meeting to vote on and pass the following resolutions all of which were interdependent of each other:

- (a) the consolidation of the capital of the Company on the basis that every 5 Shares be consolidated to 1 Share. The options were consolidated on the same basis;
- (b) the issue and allotment of 190,000,000 Shares at an issue price of 0.1 cents per Share together with 30,000,000 Options exercisable at 1 cent on or before 1 November 2008, following the consolidation of capital, to raise \$190,000 for working capital. The determination of the allottees is at the sole discretion of Rofin Australia Pty Ltd;
- (c) the issue and allotment of up to 220,000,000 Shares at an issue price of not less than 1 cents per Share, following the consolidation of capital, to raise \$2,200,000 for working capital. The determination of the allottees is at the sole discretion of Rofin Australia Pty Ltd;
- (d) the election of the new Directors of the Company as nominated by Rofin Australia Pty Ltd and the removal of all previous Directors of the Company;

The shareholders approved all of the resolutions on 5 December 2005 and the Company was subsequently removed from Administration on 15 December 2005. On removal from Administration the remaining assets of the company, other than all rights and property pertaining to the Enersludge technology were assigned to the Trustee pursuant to Listing Rule 11.2 of the ASX and the terms of the Deed of Company Arrangement, and all debts payable by, and claims against the company (actual or contingent) arising before the date of appointment of the Administrator, were extinguished.

Rofin Australia Pty Ltd has paid the \$2,390,000 to the Company subsequent to 30 June 2005 in the manner described above. \$1,150,000 of these funds were made available to the creditors and the trustees. The \$1,150,000 represents \$630,000 which has been paid to Commonwealth Bank as the previously secured creditor, \$300,000 which has been paid to the unsecured creditors trust and \$220,000 which was paid to the Deed Administrators by Rofin Australia Pty Ltd.

Other than the above there has not been any matter or circumstance that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
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NOTES TO FINANCIAL STATEMENTS (cont)

24 Details of Controlled Entities

Parent Entity:

Environmental Solutions International Limited

Controlled Entities:

	Place of Incorporation	Percentage of Shares	
		2005	2004
ESI Research and Development Pty Ltd (i)	WA	100%	100%
DF No. 1 Pty Ltd (i)	NSW	100%	100%
Campbell Group Unit Trust (Surda Pty Ltd) (i)	WA	100%	100%
E.S.I. Marketing Pty Ltd (i)	NSW	100%	100%
ESA Technologies Pty Ltd (i)	WA	100%	100%
Campbell Environmental Ltd (i)	WA	100%	100%
ESI Marketing and Sales Pty Ltd (i)	ACT	100%	100%
ESI Eire Joint Venture Pty Ltd (i)	QLD	100%	100%
Enersludge Inc (ii)	Canada	100%	100%

- (i) Controlled entities are classified as small proprietary companies and, in accordance with the Corporations Act 2001, are relieved from the requirement to prepare, audit and lodge financial statements.
- (ii) Dormant company

25 Segment Information

The consolidated entity operated predominantly in Australia and in the Water and Wastewater industry. The nature of this activity comprises the design, construction, commissioning and operation of Water and Wastewater Treatment Plants. The company went into administration on 19 November 2004 and then entered into a Deed of Company Arrangement and a Reconstruction Deed during and subsequent to the year ended 30 June 2005 has now been removed from administration. During this time, the Company has not operated in another industry.

26 Superannuation Commitments

Corporations within the consolidated entity contribute to a number of superannuation funds designated by employees. The Company contributes 9% of salary into these funds on behalf of employees. All funds are accumulation type. Environmental Solutions International Limited does not participate in any of the funds.

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED
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NOTES TO THE FINANCIAL STATEMENTS (cont)

27 Related Party Disclosures

1. Ownership Interests In Related Parties

Information in relation to ownership interests in related parties is provided in the notes indicated:

Controlled Entities – Note 24

Ownership interests in associated companies are as follows:

	Balance Date	Carrying Value \$'000	Ownership of Interest	
			2005	2004
Darenth Pty Ltd (Non Operating)	30/06/2005	-	30%	30%
Equity accounting has not been adopted as its impact is immaterial.				

2. Transactions With Directors And Personally Related Entities

(a) Directors who held office during the year were as follows:

T E O'Connor *Q.C.*

D H O'Neill

J B H Cheak

D P Glennon - Mr Glennon resigned as a director and as the Chief Executive Officer of the Company on 31 August 2004.

During the year, the company entered into a Deed of Company Arrangement and therefore for a portion of the year, the executives of the company were the Deed Administrators and the external Administrators. Subsequent to year end, the Reconstruction Deed was entered into and new directors were appointed. See Directors report for details of the new directors.

(b) Remuneration and retirement benefits of directors.

Details in relation to remuneration and retirement benefits of directors are disclosed in Note 3.

(c) Specified directors and specified executives equity holding

Fully paid ordinary shares issued by Environmental Solutions International Ltd

	Balance 01/07/2004 No.	Granted as Remuneration No.	Received on Exercise of Options No.	Net Other Change No.	Balance 30/6/2005 No.
Specified Directors					
T E O'Connor	250,000	-	-	-	250,000
D P Glennon	1,693,250	-	-	-	1,693,250
D H O'Neill	803,000	-	-	-	803,000
J B H Cheak	1,000,000	-	-	-	1,000,000
Specified Executives					
T R Bridle	800,000	-	-	-	800,000
M P Peters	230,000	-	-	-	230,000
J R Jennings	185,000	-	-	-	185,000
P A Hopps	100,000	-	-	-	100,000
	5,061,250	-	-	-	5,061,250

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NOTES TO FINANCIAL STATEMENTS (cont)

	Balance 01/07/2003 No.	Granted as Remuneration No.	Received on Exercise of Options No.	Net Other Change No.	Balance 30/6/2004 No.
Specified Directors					
T E O'Connor	225,000	-	-	25,000	250,000
D P Glennon	1,693,250	-	-	-	1,693,250
D H O'Neill	803,000	-	-	-	803,000
J B H Cheak	575,000	-	-	425,000	1,000,000
Specified Executives					
T R Bridle	800,000	-	-	-	800,000
M P Peters	230,000	-	-	-	230,000
J R Jennings	185,000	-	-	-	185,000
P A Hopps	100,000	-	-	-	100,000
	<u>4,611,250</u>	<u>-</u>	<u>-</u>	<u>450,000</u>	<u>5,061,250</u>

Ordinary options issued by Environmental Solutions International Ltd

Specified Directors	Balance 1/07/2004 No.	Granted as Remu- neration No.	Exercised No.	Other Change No.	Balance 30/6/05 No.	Balance vested at 30/6/05 No.	Vested but not exercisable No.	Vested and exercisable No.	Vested during the year No.
T E O'Connor	250,000	-	-	250,000	-	-	-	-	-
D P Glennon	1,413,750	-	-	-	1,413,750	1,413,750	-	-	-
D H O'Neill	-	-	-	-	-	-	-	-	-
J B H Cheak	250,000	-	-	250,000	-	-	-	-	-
	<u>1,913,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,413,750</u>	<u>1,413,750</u>	<u>-</u>	<u>-</u>	<u>-</u>

Specified Directors	Balance 1/07/2003 No.	Granted as Remu- neration No.	Exercised No.	Other Change No.	Balance 30/6/04 No.	Balance vested at 30/6/04 No.	Vested but not exercisable No.	Vested and exercisable No.	Vested during the year No.
T E O'Connor	250,000	-	-	-	250,000	250,000	-	-	-
D P Glennon	1,413,750	-	-	-	1,413,750	1,413,750	-	-	-
D H O'Neill	-	-	-	-	-	-	-	-	-
J B H Cheak	250,000	-	-	-	250,000	250,000	-	-	-
	<u>1,913,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,913,750</u>	<u>1,913,750</u>	<u>-</u>	<u>-</u>	<u>-</u>

The issue of the above ordinary options to directors was approved by shareholders at annual general meeting.

Subsequent to year end, the Reconstruction Deed was approved and executed which consolidates these options on the basis of every five options being consolidated into one option.

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NOTES TO FINANCIAL STATEMENTS (cont)

Employee Share Plan options issued by Environmental Solutions International Ltd

Specified Directors	Balance 1/07/2004 No.	Granted as Remu- neration No.	Exercised No.	Other Change No.	Balance 30/6/05 No.	Balance vested at 30/6/05 No.	Vested but not exercisable No.	Vested and exercisable No.	Vested during the year No.
T E O'Connor	-	-	-	-	-	-	-	-	-
D P Glennon	-	-	-	-	-	-	-	-	-
D H O'Neill	-	-	-	-	-	-	-	-	-
J B H Cheak	-	-	-	-	-	-	-	-	-
Specified Executives									
T R Bridle	750,000	-	-	750,000	-	-	-	-	-
M P Peters	600,000	-	-	600,000	-	-	-	-	-
J R Jennings	350,000	-	-	350,000	-	-	-	-	-
P A Hopps	350,000	-	-	350,000	-	-	-	-	-
	2,050,000	-	-	2,050,000	-	-	-	-	-

Specified Directors	Balance 1/07/2003 No.	Granted as Remu- neration No.	Exercised No.	Other Change No.	Balance 30/6/04 No.	Balance vested at 30/6/04 No.	Vested but not exercisable No.	Vested and exercisable No.	Vested during the year No.
T E O'Connor	-	-	-	-	-	-	-	-	-
D P Glennon	-	-	-	-	-	-	-	-	-
D H O'Neill	-	-	-	-	-	-	-	-	-
J B H Cheak	-	-	-	-	-	-	-	-	-
Specified Executives									
T R Bridle	750,000	-	-	-	750,000	750,000	-	-	-
M P Peters	600,000	-	-	-	600,000	600,000	-	-	-
J R Jennings	350,000	-	-	-	350,000	350,000	-	-	-
P A Hopps	350,000	-	-	-	350,000	350,000	-	-	-
	2,050,000	-	-	-	2,050,00	2,050,00	-	-	-
					0	0			

During the year, the company entered into a Deed of Company Arrangement which resulted in the cessation of the Employee Share Plan. There are no employees of the company or the consolidated entity as at 30 June 2005. Refer to Note 4 for further details of the Employee Share Plan.

(d) Loans to Directors and Specified Executives

2005	Balance at beginning \$	Interest charged \$	Interest not charged \$	Write-off \$	Balance at end \$	Number in group
Specified directors	45,917	-	-	45,917	-	1
Specified executives	89,212	-	-	89,212	-	3
Total	135,129	-	-	135,129	-	4

The above loans were made in accordance with the terms and conditions of the Employee Share Plan to fund the conversion of options to ordinary shares. Such loans are interest free.

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NOTES TO FINANCIAL STATEMENTS (cont)

3. Transactions With Entities In The Wholly Owned Group

The Company advanced and repaid loans, received and forgave loans and provided accounting and administrative assistance to other entities in the wholly owned group during the current and previous financial years.

The accounting and administrative assistance were provided free of charge and loans provided to and by the company are interest free.

Amounts receivable from wholly owned entities are shown at Note 9.

28 *Financing Facilities*

	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
Entities in the consolidated entity have access to:				
Credit standby arrangements:				
- bank guarantee facility	-	15,000	-	15,000
- amount of credit used	-	13,469	-	13,469
- amount of credit unused	-	1,531	-	1,531

The facility and amount of credit used at the date of this report is nil.

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	Consolidated		Company	
	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000
29 Reconciliation of Net Cash Flows from Operating Activities to Operating (Loss)/Profit after Income Tax				
Operating (loss)/profit after income tax	(1,825)	(8,726)	(1,796)	(8,332)
Amortisation of Intangibles	-	66	-	66
Depreciation and amortisation of non-current assets	66	283	66	283
Profit from sale of fixed assets	(392)	-	(392)	-
Recoverable amount write down of intangibles	150	1,438	122	-
Change in assets/liabilities				
Receivables	7,698	(2,998)	7,687	(2,998)
Amount due from customers for unbilled contract costs	2,672	(54)	2,672	(54)
Accounts Payable	(11,701)	6,747	(11,690)	6,744
Provisions	(1,364)	739	(1,364)	739
Amount due from subsidiaries forgiven	-	-	-	741
Investment in subsidiaries written off	-	-	-	305
Employee Share Plan Loan forgiven	154	-	154	-
Non cash costs incurred due to being in administration	79	-	79	-
Net Cash (used in) or from Operating Activities	<u>(4,463)</u>	<u>(2,505)</u>	<u>(4,462)</u>	<u>(2,506)</u>

30 Reconciliation of Cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the balance sheet as follows:

Cash at bank	-	3,463	-	3,462
Interest bearing Liabilities	(118)	-	(118)	-
	<u>(118)</u>	<u>3,463</u>	<u>(118)</u>	<u>3,462</u>

During the year, the company entered into a Deed of Company Arrangement and therefore for a portion of the year, the executives of the company were the Deed Administrators and the external Administrators. Subsequent to year end, the Reconstruction Deed was entered into and new directors were appointed.

As a result of the external administration, the current directors have not been able to determine the accuracy and completeness of the cashflows and the presentation of those cashflows.

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NOTES TO FINANCIAL STATEMENTS (cont)

	Consolidated	
	2005 Cents Per Share	2004 Cents Per Share
31 Earnings Per Share		
Basic earnings per share	(2.37)	(11.32)
Diluted earnings per share	(2.37)	(11.32)
Basic earnings per share		
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:		
	2005 \$'000's	2004 \$'000's
Earnings (a)	(1,825)	(8,726)
	2005 No.	2004 No.
Weighted average number of ordinary shares (b)	77,097,512	77,097,512
(a) Earnings used in the calculation of basic earnings per share reconciles to net profit in the statement of financial performance as follows:		
	2005 \$'000's	2004 \$'000's
Net Profit/(Loss)	(1,825)	(8,726)
Earnings used in the calculation of basic EPS	(1,825)	(8,726)

(b) Unlisted employee and ordinary options are considered to be potential ordinary shares and are therefore excluded from the weighted average number of ordinary shares used in the calculation of basic earnings per share. Where dilutive, potential ordinary shares are included in the calculation of diluted earnings per share (see below).

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NOTES TO FINANCIAL STATEMENTS (cont)

Diluted Earnings Per Share

The earnings and weighted average number of ordinary and potential ordinary shares used in the calculation of diluted earnings per share are as follows:

	2005 \$'000's	2004 \$'000's
Earnings (a)	(1,825)	(8,726)

	2005 No.	2004 No.
Weighted average number of ordinary shares and potential ordinary shares (b), (c)	77,097,512	77,097,512

(a) Earnings used in the calculation of diluted earnings per share reconciles to net profit in the statement of financial performance as follows:

	2005 \$'000's	2004 \$'000's
Net Profit/(Loss)	(1,825)	(8,726)
Earnings used in the calculation of diluted EPS	1,825	(8,726)

(b) Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

	2005 No.	2004 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	77,097,512	77,097,512
Unlisted and employee options	-	-
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	77,097,512	77,097,512

(c) Weighted average number of converted lapsed or cancelled potential ordinary shares used in the calculation of diluted earnings per share

	2005 No.	2004 No.
Options to purchase shares pursuant to the employee share scheme	-	-

	2005 No.	2004 No.
(d) The following potential ordinary shares are not dilutive and are therefore excluded from the weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted earnings per share.	1,413,750	6,374,106

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NOTES TO THE FINANCIAL STATEMENTS (cont)

32 Financial Instruments

a) Significant Accounting Policies

Details of the significant accounting policies and methods adopted in respect of each class of financial asset and financial liability are disclosed in Note 1.

b) Interest Rate Risk

The following details the consolidated entity's exposure to interest rate risk as at the reporting date:

	Average Interest Rate %	Variable Interest Rate \$'000	Fixed Interest Rate: Less than 1 Year \$'000	Non Interest Bearing \$'000	Total \$'000
2004					
Financial Assets:					
Cash	4.9	2,746	-	717	3,463
Receivables	-	-	-	5,877	5,877
Goods and Services Tax recoverable	-	-	-	1,203	1,203
Sundry debtors and prepayments	-	-	-	627	627
Employee Share Plan Loans	-	-	-	154	154
		<u>2,746</u>	<u>-</u>	<u>8,578</u>	<u>11,324</u>
Financial Liabilities:					
Accounts Payable	-	-	-	8,095	8,095
Goods and Services Tax payable	-	-	-	1,181	1,181
Sundry Creditors and Accruals	-	-	-	3,293	3,293
Employee Entitlements	-	-	-	743	743
Finance Lease Liabilities	7.9	79	-	-	79
		<u>79</u>	<u>-</u>	<u>13,312</u>	<u>13,391</u>
2005					
Financial Assets:					
Cash	-	-	-	-	-
Receivables	-	-	-	9	9
Goods and Services Tax recoverable	-	-	-	-	-
Sundry debtors and prepayments	-	-	-	-	-
Employee Share Plan Loans	-	-	-	-	-
		<u>-</u>	<u>-</u>	<u>9</u>	<u>9</u>
Financial Liabilities:					
Accounts Payable	-	-	-	647	647
Goods and Services Tax payable	-	-	-	-	-
Cash	14.2%	118	-	-	118
Employee Entitlements	-	-	-	-	-
Finance Lease Liabilities	-	-	-	-	-
		<u>118</u>	<u>-</u>	<u>647</u>	<u>765</u>

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NOTES TO THE FINANCIAL STATEMENTS (cont)

(c) Credit Risk

The consolidated entity does not have any significant credit risk exposure to any single debtor or any group of debtors having similar characteristics.

The carrying amount of financial assets recorded in the financial statements represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security.

(d) Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their net fair values.

Net fair value is determined based on generally accepted pricing models using, where appropriate, discounted cash flow techniques.

33 Other Information

Environmental Solutions International Limited is a listed public company incorporated and operating in Australia. The company had nil employees at year end (2004 – 61).

34 Dividends

	2005		2004	
	Cents per Share	Total \$'000	Cents per Share	Total \$'000
Fully Paid Ordinary Shares:				
Interim Dividend – Unfranked	-	-	-	-
Final Dividend – Unfranked	-	-	-	-
		-		-

The company has a nil franking account balance.

35 Impacts of adopting the Australian equivalents to International Financial Reporting Standards

The Australian Accounting Standards Board (AASB) has issued Australian equivalents to International Financial Reporting Standards (IFRS) for application to reporting periods beginning on or after 1 January 2005. The company has commenced reviewing the transition from its current policies to the AASB equivalents to IFRS but due to the company entering into administration, it has not been possible for the company to quantify the likely impacts of the transition into IFRS. However, the Company has allocated resources and engaged expert consultants to review, identify and conduct business impact assessments to isolate key areas that will be affected by this transition. The adoption of the AASB equivalents to IFRS will be first reflected in the Group's financial statements for the half-year ending 31 December 2005 and the year ending 30 June 2006.

Under AASB1 the Consolidated entity, in complying with Australian equivalents to IFRS for the first time is required to restate its comparative financial statements to amounts reflecting the application of Australian equivalents to IFRS to that comparative period. Most adjustments on transition to Australian equivalents to IFRS will be made, retrospectively, against opening retained earnings as at 1 July 2004.

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NOTES TO THE FINANCIAL STATEMENTS (cont)

Key areas where accounting policies are likely to change and may impact on the financial statements of the Consolidated Entity include the following:

Income Tax

The consolidated entity currently recognises deferred taxes by accounting for the differences between accounting profits and taxable income, which give rise to “permanent” and “timing” differences. Under A-IFRS, deferred taxes are measured by reference to the “temporary differences” determined as the difference between the carrying amount and the tax base of assets and liabilities recognised in the balance sheet.

Because A-IFRS has a wider scope than the entity’s current accounting policies, it is likely that the amount of deferred taxes recognised in the balance sheet will increase. The likely impact of these changes on deferred tax balances has not currently been determined.

The consolidated entity also has carried forward tax losses which have not been recognised as deferred tax assets as they do not satisfy the “virtually certain” criteria under current Australian GAAP (refer note 5(b)). Under A-IFRS, it may be easier to recognise these tax losses as deferred tax assets as they are recognised based on a “probable” recognition criteria. The impact of this difference may be to increase deferred tax assets and opening retained earnings, and result in a higher level of recognised deferred tax assets on a go-forward basis.

As per note 5, due to the company entering into the Deed of Company Arrangement and the Reconstruction Deed, it may not be possible under the conditions above for the taxation benefits to be obtained and therefore there may be no deferred tax assets recognised.

Financial Instruments

Under current Australian GAAP, financial assets and financial liabilities are recognised at cost, at fair value, or at net market value. On adoption of A-IFRS, in particular AASB 139 “Financial Instruments : Recognition and Measurement”, the consolidated entity will be required to classify financial instruments into various specified categories. The five categories and basis of measurement are:

- financial asset or financial liability measured at fair value through the statement of financial performance;
- held to maturity investments measured at amortised cost, subject to impairment;
- loans and receivables measured at amortised cost, subject to impairment;
- available for sale assets measured at fair value with changes in fair value measured directly in equity; and
- financial liability measured at amortised cost.

The classification of the instrument will affect the instrument’s subsequent measurement. The consolidated entity is evaluating the different options available, but has not made any determination at reporting date of the accounting to be adopted, and consequently, the impact of the change on the financial statements cannot yet be quantified.

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NOTES TO THE FINANCIAL STATEMENTS (cont)

Property, Plant and Equipment

On transition to A-IFRS, the entity has several options in the determination of the cost of each tangible asset, and can also elect to use the cost or fair value basis for the measurement of each class of property, plant and equipment after transition. At the date of this report, the entity has not decided which options and measurement basis will be adopted and the likely impacts therefore cannot be determined.

Impairment of Assets

Non-current assets are written down to recoverable amount when the asset's carrying amount exceeds recoverable amount.

Under A-IFRS, both current and non-current assets are tested for impairment. In addition, A-IFRS has a more prescriptive impairment test, and requires discounted cash flows to be used where value in use is used to assess recoverable amount. Consequently, on adoption of A-IFRS, a further impairment of certain assets may need to be recognised, thereby decreasing opening retained earnings and the carrying amount of assets – the consolidated entity has not yet determined the impact, if any, of any further impairment which may be required. It is not practicable to determine the impact of the change in accounting policy for future financial reports, as any impairment or reversal thereof will be affected by future conditions.