

ENVIRONMENTAL SOLUTIONS INTERNATIONAL LIMITED

ACN 009 120 405

Financial report for the year ended 30 June 2006

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CORPORATE PROFILE

Directors

During the period, while the company was under administration which began 19 November 2004 and ended 15 December 2005, were:

T E O'Connor	(Mr O'Connor ceased to be a director from 15 December 2005).
D H O'Neill	(Mr O'Neil ceased to be a director from 15 December 2005).
J B H Cheak	(Mr Cheak ceased to be a director from 15 December 2005).

During the year, from the period that the company was removed from administration were:

M D Almeida	<i>Chairman, Managing Director</i> (appointed 23 May 2006)
S Fraval	(appointed 27 October 2005)
F Ismail	(appointed 27 October 2005, retired on 22 June 2006)
G Fendis	(appointed 27 October 2005)
J McMullan	(appointed 22 June 2006)

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

Bank of Western Australia Ltd
62 Elizabeth Street
Melbourne VIC 3000

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

CORPORATE GOVERNANCE STATEMENT

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the Company are set and achieved, how risk is monitored and assessed, and how performance is optimised. Good corporate governance structures encourage companies to create value (through entrepreneurship, innovation, development and exploration) and provide accountability and control systems commensurate with risks involved.

Good corporate governance will evolve with the changing circumstances of a company and must be tailored to meet these circumstances. Environmental Solutions International Limited is a research and development company.

The Company's Board and management are committed to a high standard of corporate governance practices, ensuring that the Company complies with the Corporations Act 2001, Australian Stock Exchange (ASX) Listing Rules, Company Constitution and other applicable laws and regulations.

However, at this stage of the Company's corporate development, implementation of the ASX Corporate Governance Council ten core principles, whilst wholeheartedly supported, is not practical in every instance given the modest size and simplicity of the business. The core principles are noted as follows:

The core principles are establishment of the role of the Board, its composition (with a balance of skills, experience and independence appropriate to the nature and extent of operations), and the need for integrity (among those who influence strategy and financial performance, together with responsible and ethical decision-making). Presenting the Company's financial and non-financial position requires processes that safeguard, both internally and externally, the integrity of Company reporting and its provision in a timely and balanced manner. The rights of shareholders must be recognised and upheld. Risk must be managed through effective oversight and internal control. Board and management effectiveness must be encouraged. Remuneration must attract and retain talented and motivated directors and employees with a clear relationship to corporate and individual performance. And finally, the legitimate interest of all stakeholders must be recognised.

The details of the current and evolving governance practices are identified in the following pages.

BOARD OF DIRECTORS

As from 15 December 2005 power was transferred back to the Directors, prior to this with the appointment of the Voluntary Administrators on 19 November 2004 their powers were suspended in respect of dealing with the affairs of the Company.

As from 15 December 2005 the new Directors are able to perform and exercise the power as an officer of the Company.

Role of the Board

The Board has the responsibility of protecting the rights and interest of shareholders and enhancement of long-term shareholder value. To fulfill this role, the Board is responsible for:

- the corporate governance of the Company;
- the overall strategic direction and leadership of the Company;
- approving and monitoring management implementation of objectives and strategies;
- the establishment and maintenance of a framework of internal control;
- reviewing and reporting on the Company's financial reports and external audit processes;
- reviewing and implementing remuneration and incentive policies and practices; and
- reviewing the performance against stated objectives by receiving regular management reports on the business situation, opportunities and risks.

Structure of the Board

The Company has a four member Board comprising two executive directors and two non-executive directors. The roles of Chairman and Managing Director are combined. All directors at the time of this report are resident in Melbourne, Victoria. Mr D'Almeida and Mr Fraval are not considered independent by virtue of their executive role in the Company, neither is Mr Fendis, nor Mr McMullan by virtue of financial remuneration received on a consulting basis during the year. This is non-compliant with recommendations 1 to 4 of the board structure.

The full Board currently hold a number of scheduled meetings each year, plus strategy meetings and any extraordinary meetings at such other times as may be necessary to address significant matters as they arise.

Standing Board meeting agenda items include the Managing Director's report, financial reports, strategic matters, governance and compliance.

Board members should possess complementary business disciplines and experience aligned with the Company objectives. The experience and qualifications of directors are noted in the Directors' Report.

Where any director has a personal interest in a matter, the director is not permitted to be present during discussions or to vote on the matter. The enforcement of this requirement ensures that the interest of shareholders, as a whole, are pursued and not jeopardised by a lack of a majority of independent directors.

Having regard to the structure of the Board and of senior management, it is considered appropriate by the Board to effectively utilise Messrs Fraval, Fendis and McMullan's skills as consultants to provide crucial peer review of the corporate, legal and commercial aspects of the Company's operations.

Mr D'Almeida acts as Chairman of the Company and while not satisfying the 'independence test' set out in the ASX Corporate Governance Council Practice Recommendations, it is considered Mr D'Almeida's appointment is in the best interests of the Company and is without conflict given its size.

The Board has not formed an Audit committee, a Remuneration committee, or a nomination committee. The Company will give consideration at an appropriate juncture in the Company's development, for the creation of these committees, particularly the audit and remuneration committees. The current size of the full Board permits it to act in the capacity of these committees and to regularly review. The Board will give

Environmental Solutions International Limited

Corporate Governance Statement

consideration to appointment of specialist and independent directors when the activities and scale of operation of the Company warrant such appointments.

The Board intends to introduce a formal process of self assessment of its collective performance, the performance of individual directors and of Board committees. No formal assessment was undertaken during the year ended 30 June 2006, however one is planned for the ensuing financial year.

AUDIT PROCESSES AND POLICIES

The Company presently does not have a separately constituted audit committee as it is not presently of a size, or its affairs of such complexity, to warrant such a committee. All matters capable of delegation to such a committee are presently dealt with by the full Board. The Board is responsible for the establishment and maintenance of a framework of internal control and appropriate ethical standards for the management of the Company. A charter (terms of reference) is being formulated and evolving.

The responsibilities include:

- reviewing and approving statutory financial reports and all other financial information distributed externally;
- monitoring the effective operation of the risk management and compliance framework;
- reviewing the effectiveness of the Company's internal control environment including compliance with applicable laws and regulations;
- the nomination of the external auditors and the review of the adequacy of the existing external audit arrangements; and
- considering whether non-audit services provided by the external auditor are consistent with maintaining the external auditor's independence.

The external auditor, Deloitte Touche Tohmatsu has engagement terms refreshed annually and has indicated its independence to the Board. Deloitte Touche Tohmatsu were appointed as auditors prior to the company entering administration.

SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The Board is responsible for reviewing and reporting on the Company's financial reports and external audit processes.

The Managing Director and Chief Financial Officer of the Company undertake upon the presentation of financial reports that to the best of their knowledge they represent a true and fair view and comply with the relevant accounting standards and ASX requirements. Annual financial statements are audited independently and half-yearly financial statements are subject to an independent review.

RESPECT THE RIGHTS OF SHAREHOLDERS AND STAKEHOLDERS

The Board adopts communications strategies and practices to promote communication with shareholders, in language capable of interpretation, and to encourage effective participation at General Meetings. The external auditor will attend the meeting to respond to specific questions from shareholders relating to the conduct of the audit and the preparation and content of the auditor's report.

The Board aims to ensure that shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to shareholders as follows:

- reports distributed to all shareholders; and
- notices of all meetings to shareholders.

The Board encourages full participation of shareholders at the General Meetings to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to shareholders as single resolutions.

Environmental Solutions International Limited**Corporate Governance Statement**

Shareholders are requested to vote on the appointment of directors, the granting of options and shares to directors and changes to the Constitution. Copies of the Constitution are available to any shareholder upon request.

Material information is lodged immediately with the ASX and on acknowledgement, disseminated by posting to the website.

TIMELY AND BALANCED DISCLOSURES

The Board supports the Australasian Investor Relations Association “Best Practice Guidelines for Communication between Listed Entities and the Investment Community”. The Board endorses a culture in favour of continuous disclosure and recognises the benefits of consistency to be achieved through a dedicated authorised spokesperson.

Material information is lodged immediately with the ASX and on acknowledgement disseminated by posting to the website. A strict protocol is practiced for all investors/ analyst/ media meetings, group briefings and conference calls.

ETHICAL STANDARDS

The Board’s policy requires that Directors and management strive to achieve the highest ethical standard in conducting the Company’s business and also strive to enhance the performance and reputation of the Company. All Directors and Employees will be expected to act within the law and with integrity and objectivity in the interests of the Company, declaring at anytime any conflict of interest.

DEALINGS IN COMPANY SHARES

Directors, officers and employees with any non-public sensitive information are prohibited from purchasing or disposing of Company shares, in accordance with the Corporations Act 2001.

Directors must also advise the Company of any transactions conducted by them in the shares of the Company, in accordance with the Corporations Act 2001 and ASX Listing Rules.

REMUNERATE FAIRLY AND RESPONSIBLY

The Board is responsible for reviewing and implementing remuneration and incentive policies and practices generally and makes specific recommendations in relation to compensation arrangements for executive and non-executive directors and in respect of all equity based remuneration plans.

Remuneration levels will be competitively set to attract the most qualified and experienced Directors and senior executives. Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

The remuneration policy states that executive directors may participate in share option schemes with the prior approval of shareholders. Other executives may also participate in employee share option schemes, with any option issues normally being made in accordance with thresholds set in plans approved by shareholders. The Board however, considers it appropriate to retain the flexibility to issue options to executives outside of approved employee option plans in appropriate circumstances.

BUSINESS RISK

The Company recognises that there are inherent risks in being involved with research and development and the exploitation of new and innovative technologies. The Board monitors and if considered necessary seeks advice on areas of operational and financial risk and implements strategies for appropriate risk management arrangements.

Environmental Solutions International Limited**Corporate Governance Statement**

Specific areas of risk initially identified and which will be regularly considered at Board Meetings include going concern, foreign currency and commodities price fluctuations, performance of activities, human resources, the environment, land access and political instability.

ACCESS TO PROFESSIONAL ADVICE

Issues of substance are considered by the Board with external advice from its professional advisers as required. The Board's individual members can seek independent professional advice at the Company's expense in carrying out their duties.

ENCOURAGE ENHANCED PERFORMANCE

Each year the directors evaluate both the collective performance of the Board and that of individual members. Similarly, a process of annual performance evaluation will be conducted for those Board committees which are to be formed.

No performance evaluation has taken place in the reporting period due to the fact that the directors have not been in office for 12 months.

SUMMARY

Environmental Solutions International Limited has adopted or is in the process of adopting the following policies and charters: Board Charter, Code of Conduct, Security Trading Policy, Audit Committee Charter, Continuous Disclosure Policy, Shareholder Communication Policy and Remuneration Committee Charter.

The Company is non-compliant with respect to the Directors being considered independent for reasons stated. Similarly the Company does not have an Audit Committee, Remuneration Committee, or Nomination Committee. Other corporate practices continue to evolve.

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 2006. 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 QC	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. Mr O'Connor resigned as a director on 15 December 2005.
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. Mr O'Neill resigned as a director on 15 December 2005.
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. Mr Cheak resigned as a director on 15 December 2005.

The Directors noted above, 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:

Environmental Solutions International Limited
Directors' Report

<u>Name</u>	<u>Particulars</u>
Murray D'Almeida	Chairman and Managing Director, Executive Director, joined the board on 23 May 2006. He has 30 years national and international business experience. He began his career with a firm of Chartered Accountants in Perth. He founded Retail Food Group Australia and was instrumental in the growth of that company's brands Donut King and BB's Coffee to in excess of 300 stores in Australia and in 9 other countries. He has also been involved in the restaurant, wholesaling, farming and liquor industries. Murray is currently extensively involved in Food Importation and Distribution. He sits on several Boards, is the Chairman of Bartercard Australia and is a Director of the London Stock Exchange listed, Bartercard International P.L.C. He has also recently been appointed Chairman of The Institute of Business Leaders. Murray was formerly a Director of the Australian Small Business Association, the Franchisors Association of Australia and New Zealand, Capricorn Resources N.L. (an Australian Stock Exchange listed mining company), and has held a variety of non-executive positions with the Queensland Branch of the Liberal Party of Australia, both as a member of the Finance Committee and the Queensland State Executive.
Sachlan Fraval	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.
Faldi Ismail B.Bus (ECU)	Non - Executive Director, joined the board on 27 October 2005, resigned 22 June 2006. Mr Ismail is currently a director of Kalimantan Investment Corporation Limited (the major shareholder of Canadian public listed company Kalimantan Gold Corporation Limited). Faldi has a Bachelor of Business in Accounting and Finance and currently consults to clients in both Australia and abroad.
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.

Environmental Solutions International Limited
Directors' Report

John McMullan

Non - Executive Director, joined the board on 22 June 2006. Mr. John McMullan B Eng (Civil), LL B, LLM, FIEAust, FIAMA has degrees in both law and engineering in addition to being a fellow of the Institute of Engineers Australia. Mr. McMullan is the principle of a specialist Melbourne legal practice. Mr. McMullan brings a wealth of commercial, legal and engineering expertise to the ESI board.

Company Secretary

Mr Sean Henbury
(appointed 21 December 2005)

Mr Sean Henbury is a Chartered Accountant who is a founding principal 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 who were directors prior to the company entering administration.

Directorships of other listed companies held by the current directors in the 3 years immediately before the end of the financial year are as follows:

<u>Name</u>	<u>Company</u>	<u>Period of directorship</u>
Mr M D'Almeida	Bartercard International PLC	Since 25 April 2005
	Allied Brands Limited	Since 27 June 2006

Principal Activities

The principal activity during the year of entities within the consolidated entity was reconstruction of the group's operations and the pursuit of the commercialisation of the company's technology (refer review of operations below).

Dividends

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

Financial Position

The net assets of the consolidated entity have increased by \$11,461,000 from \$89,000 to \$11,550,000 over the twelve month period to 30 June 2006. The increase is entirely due to the purchase of intangibles and goodwill through the consolidation of the wholly owned group. The consolidated entity's working capital for 2006, being current assets less current liabilities, is \$63,000. The net loss for the period is \$12,348,000 after an impairment of goodwill of \$10,543,000.

The directors believe the Company is in a strong and stable financial position.

Review of Operations

- (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.

Review of Operations (cont)

- (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.
- (h) 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. 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.
- (i) Rofin Australia Pty Ltd has paid \$2,420,000 to the Company 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.
- (j) On 15 January 2006, the Deed of Company arrangement was wholly effectuated, therefore removing the Company from external administration;
- (k) On 19 January 2006, the Company was reinstated to the official quotation on the ASX following termination of the administration and the completion of a capital raising;
- (l) On 27 January 2006, the Company entered into a strategic relationship with Australian Native Landscapes (ANL), a company specialising in the handling of biosolids on a large scale for use in horticulture and agriculture.
- (m) On 10 February 2006 the Company entered into an agreement to purchase 100% of Asia Pacific Coal and Steel Pty Ltd for a consideration of 16,000,000 fully paid ESI shares. The agreement was conditional upon both ESI and APCS shareholder approval and upon ESI completing due diligence on APCS.
- (n) The acquisition of APCS was approved by ESI shareholders at a meeting on 12 May 2006. All conditions precedent in relation to the 100% acquisition of APCS were satisfied on 25 May 2006, as such settlement was effectuated at that time. This has been accounted for as a reverse acquisition in the accompanying financial statements.

Review of Operations (cont)

- (o) The acquisition provides ESI access to APCS' patented dewatering technology which the Company believes will provide an economical solution to its aggressive program to roll out transportable Enersludge units which can be applied in cooperation with contract holders or waste management authorities.
- (p) In addition, the patented Coldry Process is a unique, low cost technology that reduces moisture content in brown coal by up to 78% and produces a pellet that has greater density and calorific (heating value) than raw brown coal and is capable of being shipped and transported over long distances, unlike raw brown coal.
- (q) APCS also owns the patents to the Matmor Process which employs a patented retort using "composite" brown coal pellets as a reductant to produce zinc, iron and other metals from low grade ore or metal wastes at a much lower cost than traditional metallurgical processes and with substantially less emissions.
- (r) On 26 May 2006, the Company announced an in-principle agreement for Gippsland Basin brown coal assets. The Company will jointly develop the extensive brown coal fields in Victoria's Gippsland Basin, held by Victorian Coal Resources Pty Ltd ("VCR"). A memorandum of understanding to this effect was signed with VCR on 4 July 2006. Under the MOU, the matching of the commercialised "Clean Coal" technology with the vast amounts of Victorian Brown coal held by VCR, to produce CO2 reduced feedstock for power generation (up to 30% reduction), low cost high quality steel production, gasification and coal to oils has the opportunity for an entire new export market.

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.

Events Subsequent to Balance Date

On 3 July 2006 the Company issued 1,000,000 ordinary shares for a consideration of \$0.01 per share. These shares were issued through the exercise of 1,000,000 options.

On 5 September 2006, the Company placed 555,555 ordinary shares at \$0.45 per share to raise net proceeds of \$250,000.

On 26 September 2006, the Company issued 2,150,000 ordinary shares for a consideration of \$0.01 per share. These shares were issued through the exercise of 2,150,000 options.

There has not been any other matter or circumstance, other than that referred to in the financial statements or notes thereto, 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

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Share Options

Executive and Employee Share Option Plan

During the financial year there were no employee share options on issue. No options were issued to directors as part of an executive or employee share option plan. Options were issued to Directors as part of the administration process.

Share options granted to directors and executives

During and since the end of the financial year an aggregate of 6,000,000 share options were granted to the following directors and executives of the company:

Directors and executives	Number of options granted	Issuing entity	Number of ordinary shares under option
S Fraval	6,000,000	Environmental Solutions International Ltd	6,000,000
G Fendis	6,000,000	Environmental Solutions International Ltd	6,000,000
F Ismail	6,000,000	Environmental Solutions International Ltd	6,000,000

Share options on issue at year end or exercised during the year

Details of un-issued shares or interests under option are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of options	Expiry date of options
Environmental Solutions International Ltd	28,510,857	Ordinary	\$0.01	1 Nov 2008

The holders of such options do not have the right, by virtue of the option, to participate in any share issue or interest issue of any other body corporate or registered scheme.

No shares or interests were issued during the year as a result of the exercise of an option.

Further details of the options issued to Directors are disclosed in note 4 and in note 25.

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.

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 until control was returned to the Directors on 15 December 2005 on the position of the Directors was to suspend their powers in respect of dealing with the affairs of the Company.

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, six (6) board meetings were held.

<u>Directors</u>	<u>Board of directors</u>	
	<u>Held</u>	<u>Attended</u>
M D'Almeida	2	2
S Fraval	6	6
F Ismail	5	5
G Fendis	6	6
J McMullan	1	1

Environmental Solutions International Limited
Directors' Report

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>
M D'Almeida	-	-
S Fraval	150,000	6,000,000
F Ismail	-	6,000,000
G Fendis	-	6,000,000
J McMullan	-	-

These options were issued on 15 December 2005. Refer note 4 of the financial statements for further details.

Remuneration Report

Directors and Executives Remuneration

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

During the period, while the company was under administration which began 19 November 2004 and ended 15 December 2005, were:

T E O'Connor	(Mr O'Connor ceased to be a director from 15 December 2005).
D H O'Neill	(Mr O'Neil ceased to be a director from 15 December 2005).
J B H Cheak	(Mr Cheak ceased to be a director from 15 December 2005).

During the year, from the period that the company was removed from administration were:

M D'Almeida	<i>Chairman, Managing Director</i> (appointed 23 May 2006)
S Fraval	(appointed 27 October 2005)
F Ismail	(appointed 27 October 2005, retired on 22 June 2006)
G Fendis	(appointed 27 October 2005)
J McMullan	(appointed 22 June 2006)

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

During the previous period up to the date of entering administration 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)

During the period, from the period that the company was removed from administration were:

S P Henbury	(Company Secretary)
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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.

Remuneration Report (cont)

During the prior 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. During the year, 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 this and previous financial years relating to the period under administration were \$300,000 including GST.

No remuneration has been paid or was payable to the 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 who were directors and executives prior to the administration.

Service agreements

The company has entered into service contracts with Mr S Fraval, Mr G Fendis, MR F Ismail and Mr S Henbury.

By Service Agreement dated 6 January 2006, the Company agreed to appoint Mr S Fraval as its Chairman effective for a six month period commencing on 1 January 2006.

Mr Fraval is to be paid \$12,500 per month and will be reimbursed for all reasonable expenses incurred in carrying out the services of a director (as further specified in the agreement).

The agreement may be terminated by the Company, without notice where Mr Fraval is guilty of grave misconduct; becomes bankrupt or of unsound mind; is convicted of any criminal offence; becomes permanently incapacitated or dies.

Mr Fraval may also terminate the agreement with 1 months notice or without notice in certain circumstances including the Company entering into liquidation, the Company breaching the Agreement or where Mr Fraval is demoted.

By Service Agreement dated 5 January 2006, the Company agreed to appoint Mr G Fendis as a director effective for a six month period commencing on 1 January 2006.

Mr Fendis is to be paid \$12,500 per month and will be reimbursed for all reasonable expenses incurred in carrying out the services of a director (as further specified in the agreement).

The agreement may be terminated by the Company, without notice where Mr Fendis is guilty of grave misconduct; becomes bankrupt or of unsound mind; is convicted of any criminal offence; becomes permanently incapacitated or dies.

Mr Fendis may also terminate the agreement with 1 months notice or without notice in certain circumstances including the Company entering into liquidation, the Company breaching the Agreement or where Mr Fendis is demoted.

By Service Agreement dated 1 January 2006, the Company agreed to appoint Mr F Ismail as a director effective for a six month period commencing on 1 January 2006.

Mr Ismail was to be paid \$10,000 per month and will be reimbursed for all reasonable expenses incurred in carrying out the services of a director (as further specified in the agreement).

The agreement may be terminated by the Company, without notice where Mr Ismail is guilty of grave misconduct; becomes bankrupt or of unsound mind; is convicted of any criminal offence; becomes permanently incapacitated or dies.

Mr Ismail may also terminate the agreement with 1 months notice or without notice in certain circumstances including the Company entering into liquidation, the Company breaching the Agreement or where Mr Ismail is demoted.

Remuneration Report (cont)

Asia Pacific Coal and Steel has a contract with McMullan Solicitors, of which Mr McMullan is a partner, to provide ad hoc legal advice in regard to corporation's law.

By Consultancy Agreement effective 21 December 2005, the Company agreed to engage FJH Solutions ("the consultant") of which Mr Sean Henbury is a director, to support the Company's secretarial and accounting functions. The engagement is for an initial term of twelve months from December 2005 and may be extended by written notice not less than four weeks from the date the initial term is due to expire.

The agreement may be terminated by the Company, without notice where Mr Henbury is guilty of grave misconduct; becomes bankrupt or of unsound mind; is convicted of any criminal offence; becomes permanently incapacitated or dies. If the Company terminates the agreement and none of the prementioned circumstances apply, the Company must pay an agreed termination payment.

Mr Henbury may also terminate the agreement with 4 weeks notice.

Share-based compensation

At the time when ESI was under the control of the external Administrator, Mr Fraval, Mr Fendis and Mr Ismail were each issued 6,000,000 options in the share capital of the Company for successfully recapitalising and reconstructing the Company and achieving the Company to be re-listed on the Australian Stock Exchange, which occurred on 19 January 2006. These options were granted on 15 December 2005, have an exercise price of \$0.01 and are exercisable any time before 1 November 2008.

As at 30 June 2006, the Company had issued a total of 30,393,000 share options (30 June 2005: 1,414,750). Of this amount, 18,000,000 were issued to directors. The directors had not exercised any of their options at balance date. There was 28,510,857 options on issue at balance date.

The value attributed to the equity options were calculated using the Black Scholes model based on the following input:

Inputs into the model

Grant date share price	\$0.01
Exercise price	\$0.01
Expected volatility	15%
Option life	685 days
Dividend yield	0%
Risk-free interest rate	5.63%

The following share-based payments were made during the period:

Options series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Issued 15 December 2005	18,000,000	15 December 2005	1 November 2008	\$0.01	\$18,000

There has not been any other share based compensation to the directors or employees.

Remuneration Report (cont)

Aggregate compensation

The aggregate compensation of the key management personnel of the consolidated entity and the company is set out below:

	Consolidated		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Short term employee benefits (including annual leave accrued)	305,426	-	305,426	-
Share based payments	18,000	-	18,000	-
	<u>323,426</u>	<u>-</u>	<u>323,426</u>	<u>-</u>

Key management personnel compensation

2006	Short term employee benefits			Post employment benefits		Share based payments	
	Salary & fees	Consulting Fee	Non Monetary	Super-Annuation	Prescribed Benefits	Options	Total
	\$	\$	\$	\$	\$	\$	\$
T E O'Connor QC	-	-	-	-	-	-	-
D P Glennon	-	-	-	-	-	-	-
D H O'Neill	-	-	-	-	-	-	-
J B H Cheak	-	-	-	-	-	-	-
F. Fraval	12,000	75,000	-	-	-	6,000	93,000
G Fendis	12,000	75,000	-	-	-	6,000	93,000
M D'Almeida	2,000	12,500	-	-	-	-	14,500
F Ismail	11,500	71,500	-	-	-	6,000	89,000
J McMullan	-	-	-	-	-	-	-
S Henbury	-	33,926	-	-	-	-	33,926
Total:	37,500	267,926	-	-	-	18,000	323,426

	Options Granted	Options Exercised	Options Lapsed	Total value of Options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options
	Value at grant date \$	Value at exercise date \$	Value at time of lapse \$			%
F. Fraval	6,000	-	-	6,000	6,000	6.45
G Fendis	6,000	-	-	6,000	6,000	6.45
F Ismail	6,000	-	-	6,000	6,000	6.74

Environmental Solutions International Limited
Directors' Report

Non-audit services

During the financial year, no amounts were paid or payable to the auditor for non audit services. Details of amounts paid to the auditor for audit services are set out below:

Audit or review of the financial report

2006	2005
\$	\$
32,275	18,000

Auditor's Independence Declaration

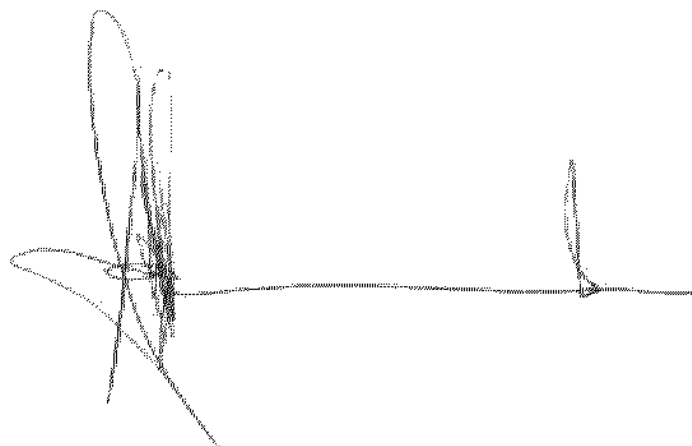
The Auditor's independence declaration is included on page 18.

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 'MURRAY D'ALMEIDA', with a long horizontal line extending to the right.

MURRAY D'ALMEIDA

Director

Perth, 29 September 2006.

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

29 September 2006

Dear Sirs

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 2006, 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

DELOITTE TOUCHE TOHMATSU



Peter Rupp
Partner
Chartered Accountants

Independent audit report to the members of Environmental Solutions International Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of recognised income and expense, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both Environmental Solutions International Limited (the company) and the consolidated entity, for the financial year ended 30 June 2006 as set out on pages 22 to 63. 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 Accounting Standards in Australia and the Corporations Act 2001. This includes responsibility for the maintenance of adequate financial 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 been engaged to conduct 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 Accounting Standards in Australia and the Corporations Act 2001 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, their changes in equity 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 – company

The company was previously in administration and, as a result, the financial statements for the year ended 30 June 2004 were not audited. We were unable to perform alternative audit procedures to enable us to form an opinion on the financial information for the year ended 30 June 2004 and, accordingly, we were unable to form an opinion on the income statement, cash flow statement and statement of recognised income and expense for the year ended 30 June 2005 which are presented as comparative financial information for the year ended 30 June 2006.

As disclosed in Note 10 to the financial statements, the company has included within non-current assets Other Financial Assets with a carrying value as at 30 June 2006 of \$1,959,000. AASB 136, *Impairment of Assets*, requires an entity to ensure that the carrying value of an asset does not exceed its recoverable amount. Where the recoverable amount exceeds an asset's carrying value, the asset is required to be written down to its recoverable amount. We have been unable to obtain sufficient appropriate audit evidence of the recoverable amount of the Other Financial Assets and, accordingly, we have been unable to determine whether the recoverable amount of the asset is at least equal to its carrying value. In the event that the carrying value of the asset exceeds its recoverable amount, it would be necessary for the carrying value of the asset to be written down to its recoverable amount.

In addition the financial report does not disclose comparative 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 124 *Related Party Disclosures*, which requires the disclosure of the total amount of remuneration, and the components of each individual's remuneration, in respect of key management personnel. It is not practical for us to determine the amounts that should have been disclosed.

Qualification - consolidated entity

The legal subsidiary, Asia Pacific Coal & Steel Pty Limited, was acquired by way of a reverse acquisition during the year and comparative information for the Group reflects the legal subsidiary in accordance with the requirements of Accounting Standard AASB 3, *Business Combinations*. The financial report of the consolidated entity for the year ended 30 June 2005 has not been audited. We have been unable to perform alternative audit procedures to enable us to form an opinion on the comparative financial information as at and for the year ended 30 June 2005. The results of the consolidated entity for the year ended 30 June 2006 would be affected to the extent of any misstatement of the 30 June 2005 balance sheet. Accordingly, we are not in a position to and do not express an opinion on the comparative balance sheet as at 30 June 2005 or the income statement, the cash flow statement and the statement of recognised income and expense for the year ended 30 June 2006.

As disclosed in Note 12 to the financial statements, the consolidated entity has included within non-current assets an intangible asset with a carrying value as at 30 June 2006 of \$16,388,000. AASB 136, *Impairment of Assets*, requires an entity to ensure that the carrying

value of an asset does not exceed its recoverable amount. Where the recoverable amount exceeds an asset's carrying value, the asset is required to be written down to its recoverable amount. As set out in Note 12 the determination of recoverable amount is dependent on future events. We have been unable to obtain sufficient appropriate audit evidence of the recoverable amount of the asset and, accordingly, we have been unable to determine whether the recoverable amount of the asset is at least equal to its carrying value. In the event that the carrying value of the asset exceeds its recoverable amount, it would be necessary for the carrying value of the asset to be written down to its recoverable amount.

Disclaimer of Audit Opinion

Due to the existence of the limitation on the scope of our work as described in the qualification paragraphs above, and the effect of such adjustments, if any, as might have been determined to be necessary had the limitation in scope not existed, we are unable to and, therefore, do not express an opinion on the company and the consolidated entity financial reports as at and for the financial year ended 30 June 2006.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without further qualification, attention is drawn to the following matter. As a result of the matters described in Note 1 'Going Concern', there is significant uncertainty whether the company and consolidated entity will be able to continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU



Peter Rupp

Partner

Chartered Accountants

Perth, 29 September 2006

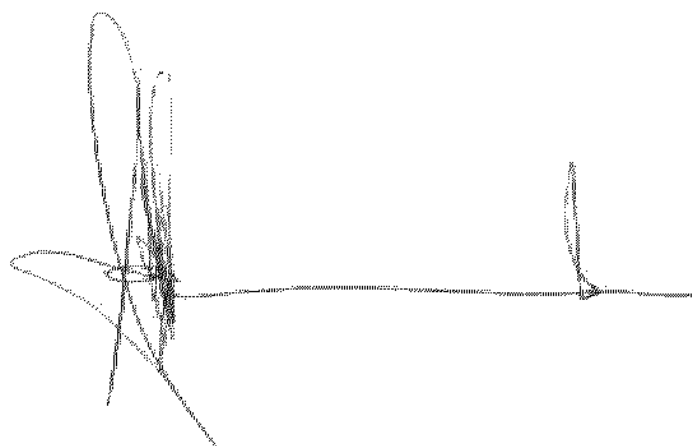
Environmental Solutions International Limited
Directors' Declaration

Directors Declaration

- (1) In the opinion of the Directors of Environmental Solutions International Limited:
- (a) The financial statements and notes, set out on pages 23 to 63, 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 2006 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

A handwritten signature in black ink, appearing to read 'MURRAY D'ALMEIDA', with a long horizontal line extending to the right.

MURRAY D'ALMEIDA
Director
Perth, 29 September 2006

INCOME STATEMENT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Company	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
Revenue	2	19	-	142	18,904
Material and Subcontractor expenses		-	-	-	(10,420)
Employee benefits expense		(75)	-	(57)	(2,154)
Depreciation and amortisation expense		(6)	-	-	(66)
Finance costs		-	-	-	(4)
Occupancy expense		(94)	-	-	(231)
Patent fees		(84)	-	(64)	-
Corporate costs		(144)	(6)	(249)	-
Consultancy fees		(1,106)	(107)	(290)	-
Travel & Accommodation		(183)	(2)	(59)	-
Insurance expense		(16)	-	-	(243)
Costs resulting from going into administration and write offs to recoverable amount		-	-	(220)	(7,258)
Impairment of non-current assets		(10,543)	-	-	-
Transfer from asset revaluation reserve					856
Other expenses from ordinary activities		(116)	(9)	(21)	(324)
Loss Before Income Tax Expense	2	<u>(12,348)</u>	<u>(124)</u>	<u>(818)</u>	<u>(940)</u>
Income tax expense	3	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loss After Related Income Tax Expense		<u>(12,348)</u>	<u>(124)</u>	<u>(818)</u>	<u>(940)</u>
Net Loss attributable to the members of the parent entity		<u>(12,348)</u>	<u>(124)</u>	<u>(818)</u>	<u>(940)</u>
 Earnings Per Share - Basic (cents per share)	28	(9.11)	(0.16)		
- Diluted (cents per share)	28	(9.11)	(0.16)		

Notes to the financial statements are included on pages 27 to 63.

Environmental Solutions International Limited
Balance Sheet

BALANCE SHEET AS AT 30 JUNE 2006

	Note	Consolidated		Company	
		2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
<i>Current Assets</i>					
Cash and cash equivalents	7	218	48	217	-
Trade and other receivables	8	141	12	45	9
Other current assets	9	34	108	-	-
<i>Total Current Assets</i>		393	168	262	9
<i>Non-Current Assets</i>					
Other financial assets	10	-	-	1,959	-
Property, Plant and Equipment	11	15	-	-	-
Other Intangible Assets	12	16,388	-	-	-
Goodwill	13	-	-	-	-
<i>Total Non-Current Assets</i>		16,403	-	1,959	-
<i>Total Assets</i>		16,796	168	2,221	9
<i>Current Liabilities</i>					
Trade and other payables	14	330	79	35	947
Borrowings	15	-	-	-	118
<i>Total Current Liabilities</i>		330	79	35	1,065
<i>Non-Current Liabilities</i>					
Deferred tax liabilities	3	4,916	-	-	-
<i>Total Non-Current Liabilities</i>		4,916	-	-	-
<i>Total Liabilities</i>		5,246	79	35	1,065
<i>Net Assets /(Liabilities)</i>		11,550	89	2,186	(1,056)
<i>Equity</i>					
Issued Capital	16	23,992	213	27,284	23,254
Accumulated Losses	17	(12,472)	(124)	(25,128)	(24,310)
Reserves	18	30	-	30	-
<i>Total (Deficiency)/Equity</i>		11,550	89	2,186	(1,056)

Notes to the financial statements are included on pages 27 to 63.

STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Company	
		2006 \$'000	2005 \$'00 0	2006 \$'00 0	2005 \$'00 0
Net income recognised directly in equity		-	-	-	-
Loss for the period		(12,348)	(124)	(818)	(940)
Total recognised income and expense for the period		<u>(12,348)</u>	<u>(124)</u>	<u>(818)</u>	<u>(940)</u>
Attributable to:					
Equity holders of the parent		(12,348)	(124)	(818)	(940)
Minority interest		-	-	-	-
		<u>(12,348)</u>	<u>(124)</u>	<u>(818)</u>	<u>(940)</u>

Notes to the financial statements are included on pages 27 to 63.

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated Inflow (Outflow)		Company Inflow (Outflow)	
		2006	2005	2006	2005
		\$'000	\$'000	\$'000	\$'000
<i>Cash Flows From Operating Activities</i>					
Receipts from customers		-	-	-	21,103
Payments to suppliers and employees		(1,682)	(57)	(948)	(25,565)
Interest Received		3	-	17	-
<i>Net Cash Flow Used In Operating Activities</i>	27	(1,679)	(57)	(931)	(4,462)
<i>Cash Flows from Investing Activities</i>					
Payments for property, plant and equipment		(21)	-	-	-
<i>Net Cash Used In Investing Activities</i>		(21)	-	-	-
<i>Cash Flows from Financing Activities</i>					
Proceeds from the sale of fixed assets		-	-	-	961
Loans to subsidiary		-	-	(359)	-
Opening cash overdraft forgiven		-	-	118	-
Proceeds (Repayment) from borrowings		-	-	(922)	(79)
Proceeds from the issuing of shares		1,870	105	2,429	-
<i>Net Cash from Financing Activities</i>		1,870	105	1,266	882
<i>Net Increase in Cash and Cash Equivalents Held</i>		170	48	335	(3,580)
Cash and cash equivalents held at the beginning of the financial year		48	-	(118)	3,462
<i>Cash and cash equivalents at the End of the Financial Year</i>	27	218	48	217	(118)

Notes to the financial statements are included on pages 27 to 63.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

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2	Loss from operations
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4	Key management personnel remuneration
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6	Remuneration of auditors
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8	Current trade and other receivables
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NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Accounting Policies

Statement of Compliance

The 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 Interpretations, and complies with other requirements of the law. Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with the A-IFRS ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards ('IFRS'). The parent entity financial statements and notes also comply with IFRS except for the disclosure requirements in IAS 32 'Financial Instruments: Disclosure and Presentation' as the Australian equivalent Accounting Standard, AASB 132 'Financial Instruments: Disclosure and Presentation' does not require such disclosures to be presented by the parent entity where its separate financial statements are presented together with the consolidated financial statements of the consolidated entity.

The financial statements were authorised for issue by the directors on 29 September 2006.

Basis of Presentation of Financial Statements

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets.

In the application of A-IFRS management is required to make judgments, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgments. Actual results may differ from these estimates

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

Judgments made by management in the application of A-IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the financial statements.

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 consolidated entity changed its accounting policies on 1 July 2005 to comply with A-IFRS. The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition.

The consolidated comparatives are those of APCS rather than ESI. APCS was incorporated in April 2005, after the transition date of 1 July 2004.

There is no material differences between the financial reports presented under A-IFRS and the financial reports presented under the superseded policies.

An explanation of how the transition from superseded policies to A-IFRS has affected the company's and consolidated entity's financial position, financial performance and cash flows is discussed in note 33.

Basis of Presentation of Financial Statements (cont)

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2006, the comparative information presented in these financial statements for the year ended 30 June 2005, and in the preparation of the opening A-IFRS balance sheet at 1 July 2004 (as disclosed in Note 33) the consolidated entity's date of transition.

These consolidated financial statements comprise the financial statements of the Company and its subsidiaries ("the Group"), and have been prepared after giving effect to the transactions described in Note 22 below. The acquisition of Asia Pacific Coal & Steel Pty Limited ("APCS") was a reverse takeover whereby APCS is considered the accounting acquirer on the basis that the former shareholders of APCS controlled the Company subsequent to the transaction. As a result, APCS is the continuing entity for accounting purposes and the legal parent, ESI, is the accounting subsidiary.

The consolidated financial statements of the Company as at and for the year ended June 30, 2005 reflect the financial results of the APCS group and not those of the legal parent, ESI. However, the loss per share data is calculated based on the issued share capital of ESI.

Going Concern

The financial statements have been prepared on the basis that the consolidated entity is a going concern, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business. If the consolidated entity chooses to maintain its current high level of research and development expenditure, it will have to raise additional capital. The consolidated entity has utilised this option in the past. From the year end to the date of this report, the Company has raised \$249,750 through a capital raising and a further \$31,500 through a the exercise of options.

If the consolidated entity does not raise additional capital in the short term it can continue as a going concern by substantially reducing research and development expenditure until funding is available and/or entering joint venture arrangements.

The Directors are of the opinion that the basis upon which the financial statements are prepared is appropriate in the circumstances.

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.

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 21 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Basis of Presentation of Financial Statements (cont)

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entity.

In preparing the consolidated financial statements, all inter-company balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

The acquisition of Asia Pacific Coal & Steel Pty Limited ("APCS") was a reverse takeover whereby APCS is considered the accounting acquirer on the basis that the former shareholders of APCS controlled the Company subsequent to the transaction. As a result, APCS is the continuing entity for accounting purposes and the legal parent, ESI, is the accounting subsidiary.

(B) PROPERTY, PLANT AND EQUIPMENT

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method is reviewed at the end of each annual reporting period.

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

- Plant and equipment *5 years*

(C) INCOME TAX

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Basis of Presentation of Financial Statements (cont)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(D) INTANGIBLES

(i) LICENCES, PATENTS AND RIGHTS TO TECHNOLOGY ASSETS

Patents, trademarks and licences

Patents, trademarks and licences are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives of 10 years. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets acquired in a business combination

All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

Basis of Presentation of Financial Statements (cont)

(ii) GOODWILL

Goodwill, representing the excess of the cost of acquisition over the fair value of the identifiable assets, liabilities and contingent liabilities acquired, is recognised as an asset and not amortised, but tested for impairment annually and whenever there is an indication that the goodwill may be impaired. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

(E) RECEIVABLES

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

(F) PAYABLES

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.

(G) EMPLOYEE BENEFITS

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, long service 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.

Contributions to defined contribution superannuation plans are expensed when incurred.

Provisions made in respect of employee entitlements 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.

(H) 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 balance sheet classification of the related debt or equity instruments.

(I) 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.

(J) 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.

Basis of Presentation of Financial Statements (cont)

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.

(K) INVESTMENTS

Investments other than investments in subsidiaries, associates and joint venture entities are recorded at cost.

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

(L) BORROWINGS

Borrowings are recorded initially at fair value, net of transaction costs.

Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowing using the effective interest rate method.

(M) BORROWING COSTS

Borrowing costs directly attributable to buildings under construction are capitalised as part of the cost of those assets.

(N) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

(O) FINANCIAL ASSETS

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, investments in subsidiaries are measured at cost. Subsequent to initial recognition, investments in associates are accounted for under the equity method in the consolidated financial statements and the cost method in the company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'held-to-maturity' investments, 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

(P) IMPAIRMENT OF ASSETS

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Basis of Presentation of Financial Statements (cont)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(Q) PROVISIONS

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(R) LEASES

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

(S) JOINTLY CONTROLLED ASSETS

Jointly controlled assets and operations

Interests in jointly controlled assets and operations are reported in the financial statements by including the consolidated entity's share of assets employed in the joint ventures, the share of liabilities incurred in relation to the joint ventures and the share of any expenses incurred in relation to the joint ventures in their respective classification categories.

(T) ACCOUNTING POLICIES NOT YET EFFECTIVE

Except for the revised AASB 119 *Employee Benefits* (issued December 2005), Australian Accounting Standards that have recently been issued but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006.

Basis of Presentation of Financial Statements (cont)

Amendment	Affected Standard	Nature of Change to Accounting Policy	Application date of Standard	Application date for Group
2005-1	AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy therefore no impact	1 January 2006	1 July 2006
2005-5	AASB 1: First time adoption of AIFRS, AASB 139: Financial Instruments: Recognition and Measurement	No change to accounting policy, therefore no impact	1 January 2006	1 July 2006
2005-6	AASB 3 Business Combinations	No Change to accounting policy required, therefore no impact.	1 January 2006	1 July 2006
2005-9	AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts, AASB 139: Financial Instruments" Recognition and Measurement and AASB 132: Financial Instruments: Disclosure and Presentations	No Change to accounting policy required, therefore no impact.	1 January 2006	1 July 2006
2005-10	AASB 132: Financial Instruments: Disclosure and Presentations, AASB 101: Presentation of Financial Statements, AASB 114: Segment Reporting, AASB 117: Leases, AASB 133: Earnings per Share, AASB 139: Financial Instruments" Recognition and Measurement, AASB 1: First time adoption of AIFRS, AASB 4: Insurance Contracts, AASB 1023: General Insurance Contracts and AASB 1038: Life Insurance Contracts	No impact	1 January 2007	1 July 2007
New Standard	AASB 7 Financial Instruments; Disclosure	No change required	1 January 2007	1 July 2007

UIG interpretations that have recently been published that are not mandatory for the annual reporting period ended 30 June 2006:

UIG	Nature of Change to Accounting Policy	Application date of Standard	Application date for Group
UIG 4: Determining whether an asset contains a lease	No change required	1 January 2006	1 July 2006
UIG 5: Rights to interests arising from Decommissioning, restoration and environmental rehabilitation funds	No change required	1 January 2006	1 July 2006
UIG 6: Liabilities arising from participating in a specific market – waste electrical and electronic equipment	No change required	1 December 2006	1 July 2007

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
2. Loss from operations				
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
Rental revenue from sub-leases	16	-	-	-
Share of Joint Venture Rendering of Services	-	-	-	1,221
	<u>16</u>	<u>-</u>	<u>-</u>	<u>12,304</u>
Interest Revenue:				
Bank deposits	3	-	17	-
Total Operating Revenue	<u>19</u>	<u>-</u>	<u>17</u>	<u>12,304</u>
(ii) Non-Operating Revenue				
Other Revenue:				
Debts forgiven under DOCA	-	-	125	6,208
Profit from sale of assets	-	-	-	392
Total Non-operating Revenue	<u>-</u>	<u>-</u>	<u>125</u>	<u>6,600</u>
Total Revenue from ordinary activities	<u>19</u>	<u>-</u>	<u>142</u>	<u>18,904</u>

Environmental Solutions International Limited
Notes to the Financial Statements

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(b) Profit before income tax				
Profit/(loss) before income tax has been arrived at after crediting/ (charging) the following gains and losses from continuing and discontinued operations:				
Depreciation or amortisation of:				
Plant and Equipment	(6)	-	-	(66)
Impairment of Goodwill	(10,543)	-	-	-
Transfer to/from provisions:				
Employee entitlements	-	-	-	1,411
Annual leave	-	-	-	412
Long service leave	-	-	-	331
Operating lease rental expenses	(53)	-	-	(87)
Intangible assets recoverable amount write down	-	-	-	(122)
Finance Leases	-	-	-	-
Finance Charges	-	-	-	(1)
Loans to directors forgiven	-	-	-	(135)
Costs resulting from going into administration and write offs to recoverable amount	-	-	(220)	(7,287)
(c) Sales of assets				
Sales of assets in the ordinary course of business have given rise to the following profits:				
Net Profits	-	-	-	392
	<u>-</u>	<u>-</u>	<u>-</u>	<u>392</u>

3 Income Taxes

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	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
(a) Income tax expense				
Current tax expense /(income)	(529)	(37)	(271)	(534)
Deferred tax expense /(income) relating to the originating and reversal of temporary differences	-	-	-	-
Benefits arising from previously unrecognised tax losses, tax credits or temporary differences not recognised	529	37	271	534
Total tax expense /(income)	-	-	-	-
Income tax expense /(income) attributable to loss from continuing operations	-	-	-	-
The prima facie income tax expense /(revenue) on pre-tax accounting profit from operations reconciles to the income tax expense as follows:				
Loss from continuing operations	(12,348)	(124)	(818)	(1,796)
Income tax expense /(revenue) calculated at 30% (2005: 30%)	(3,704)	(37)	(245)	(534)
Tax effect of amounts which are not deductible /taxable in calculating taxable income:				
Impairment of goodwill	3,163	-	-	-
Accrued expenses	3	-	3	-
Tax benefit not recognised	538	37	242	534
Total tax expense /(benefit)	-	-	-	-
(b) Current tax liabilities				
Current tax payable to parent entity	-	-	-	-

3. Income Taxes (cont)

	Consolidated			
	Opening Balance \$'000	Movements charges to income \$'000	Movements due to acquisition \$'000	Closing Balance \$'000
2006				
Gross deferred tax assets:				
Tax losses not recognised	37	538	-	575
	37	538	-	575
Gross deferred tax liabilities:				
Deferred tax asset not recognised	37	538	-	575
Intangible assets – licences, patents and rights to use technology	-	-	4,916	4,916
	37	538	4,916	5,491
Net deferred tax liability /asset	-	-	4,916	4,916

2005				
Gross deferred tax assets:				
Accruals	-	-	-	-
Tax losses not recognised	37	37	-	37
	37	37	-	37
Gross deferred tax liabilities:				
Deferred tax asset not recognised	37	37	-	37
	37	37	-	37
Net deferred tax liability /asset	-	-	-	-

	Company			
	Opening Balance \$'000	Movements charges to income \$'000	Movements due to acquisition \$'000	Closing Balance \$'000
2006				
Gross deferred tax assets:				
Accruals	-	3	-	3
Tax losses not recognised	-	242	-	242
	-	245	-	245
Gross deferred tax liabilities:				
Deferred tax asset not recognised	-	245	-	245
	-	245	-	245
Net deferred tax liability /asset	-	-	-	-

3. Income Taxes (cont)

	Opening Balance \$'000	Company Movements charges to income \$'000	Movements due to acquisition \$'000	Closing Balance \$'000
2005				
Gross deferred tax assets:				
Accruals	-	-	-	-
Tax losses not recognised	-	-	-	-
	-	-	-	-
Gross deferred tax liabilities:				
Deferred tax asset not recognised	-	-	-	-
	-	-	-	-
Net deferred tax liability /asset	-	-	-	-
Unrecognised deferred tax balances				
The following deferred tax assets have not been brought to account as assets:				
Tax losses	37	538	-	575
Temporary differences	-	(3)	-	(3)
	37	535	-	572

As part of the reconstruction of ESI during its period of administration, additional shares were issued such that it is likely that there was a greater than 50% change in beneficial ownership of the Company from when losses were incurred to their realisation. There is therefore some doubt as to the ability of the Company to utilise these losses. As such, the Company has not recognised any carried forward tax losses from prior to 15 December 2005.

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 from the prior year.

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.

At the date of this report the Company and its wholly-owned Australian resident subsidiaries have not made the decision to form a tax-consolidated group. Accordingly the directors have elected that all entities within the consolidated entity will continue to be taxed as separate entities for the time being.

4 Key Management Personnel Remuneration

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

Key Management Personnel

T E O'Connor	(Mr O'Connor ceased to be a director from 15 December 2005).
D H O'Neill	(Mr O'Neil ceased to be a director from 15 December 2005).
J B H Cheak	(Mr Cheak ceased to be a director from 15 December 2005).
M D'Almeida	<i>Chairman, Managing Director</i> (appointed 23 May 2006)
S Fraval	(appointed 27 October 2005)
F Ismail	(appointed 27 October 2005, retired on 22 June 2006)
G Fendis	(appointed 27 October 2005)
J McMullan	(appointed 22 June 2006)
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)
S P Henbury	(Company Secretary)

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 was payable to the 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.

4 Key Management Personnel Remuneration (cont)

Service agreements

The company has entered into service contracts with Mr S Fraval, Mr G Fendis, MR F Ismail and Mr S Henbury.

By Service Agreement dated 6 January 2006, the Company agreed to appoint Mr S Fraval as its Chairman effective for a six month period commencing on 1 January 2006.

Mr Fraval is to be paid \$12,500 per month and will be reimbursed for all reasonable expenses incurred in carrying out the services of a director (as further specified in the agreement).

The agreement may be terminated by the Company, without notice where Mr Fraval is guilty of grave misconduct; becomes bankrupt or of unsound mind; is convicted of any criminal offence; becomes permanently incapacitated or dies.

Mr Fraval may also terminate the agreement with 1 months notice or without notice in certain circumstances including the Company entering into liquidation, the Company breaching the Agreement or where Mr Fraval is demoted.

By Service Agreement dated 5 January 2006, the Company agreed to appoint Mr G Fendis as a director effective for a six month period commencing on 1 January 2006.

Mr Fendis is to be paid \$12,500 per month and will be reimbursed for all reasonable expenses incurred in carrying out the services of a director (as further specified in the agreement).

The agreement may be terminated by the Company, without notice where Mr Fendis is guilty of grave misconduct; becomes bankrupt or of unsound mind; is convicted of any criminal offence; becomes permanently incapacitated or dies.

Mr Fendis may also terminate the agreement with 1 months notice or without notice in certain circumstances including the Company entering into liquidation, the Company breaching the Agreement or where Mr Fendis is demoted.

By Service Agreement dated 1 January 2006, the Company agreed to appoint Mr F Ismail as a director effective for a six month period commencing on 1 January 2006.

Mr Ismail was to be paid \$10,000 per month and will be reimbursed for all reasonable expenses incurred in carrying out the services of a director (as further specified in the agreement).

The agreement may be terminated by the Company, without notice where Mr Ismail is guilty of grave misconduct; becomes bankrupt or of unsound mind; is convicted of any criminal offence; becomes permanently incapacitated or dies.

Mr Ismail may also terminate the agreement with 1 months notice or without notice in certain circumstances including the Company entering into liquidation, the Company breaching the Agreement or where Mr Ismail is demoted.

Asia Pacific Coal and Steel contract with McMullan Solicitors, of which Mr McMullan is a partner to provide ad hoc legal advice in regard to corporation's law.

By service agreement effective 21 December 2005, the Company agreed to engage FJH Solutions ("the consultant") of which Mr Sean Henbury is a director, to support the Company's secretarial and accounting functions. The engagement is for an initial term of twelve months from December 2005 and may be extended by written notice not less than four weeks from the date the initial term is due to expire.

The agreement may be terminated by the Company, without notice where Mr Henbury is guilty of grave misconduct; becomes bankrupt or of unsound mind; is convicted of any criminal offence; becomes permanently incapacitated or dies. If the Company terminates the agreement and none of the prementioned circumstances apply, the Company must pay an agreed termination payment.

Mr Henbury may also terminate the agreement with 4 weeks notice.

4 Key Management Personnel Remuneration (cont)

Share-based compensation

At the time when ESI was under the control of the external Administrator², Mr Fraval, Mr Fendis and Mr Ismail were each issued 6,000,000 options in the share capital of the Company for successfully recapitalising and reconstructing the Company and achieving the Company to be re-listed on the Australian Stock Exchange, which occurred on 19 January 2006. These options were granted on 15 December 2005, have an exercise price of \$0.01 and are exercisable any time before 1 November 2008.

As at 30 June 2006, the Company had issued 30,393,000 share options (30 June 2005: 1,414,750). Of this amount \$28,510,857 is outstanding at 30 June 2006.

The value attributed to the equity options were calculated using the Black Scholes model based on the following input:

Inputs into the model

Grant date share price	\$0.01
Exercise price	\$0.01
Expected volatility	15%
Option life	685 days
Dividend yield	0%
Risk-free interest rate	5.63%

The following share-based payments were made during the period:

Key Management Personnel

Options series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Issued 15 December 2005	18,000,000	15 December 2005	1 November 2008	\$0.01	\$18,000

Others

Options series	Number	Grant date	Expiry date	Exercise price	Fair value at grant date
Issued 15 December 2005	12,000,000	15 December 2005	1 November 2008	\$0.01	\$12,000

There has not been any other share based compensation to the directors or employees.

4 Key Management Personnel Remuneration (cont)

Aggregate compensation

The aggregate compensation of the key management personnel of the consolidated entity and the company is set out below:

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Short term employee benefits (including annual leave accrued)	305,426	-	305,426	-
Share based payments	18,000	-	18,000	-
	<u>323,426</u>	<u>-</u>	<u>323,426</u>	<u>-</u>

Key management personnel compensation

2006	Short term employee benefits			Post employment benefits		Share based payments	
	Salary & fees	Consulting Fee	Non Monetary	Super-Annuation	Prescribed Benefits	Options	Total
	\$	\$	\$	\$	\$	\$	\$
T E O'Connor QC	-	-	-	-	-	-	-
D P Glennon	-	-	-	-	-	-	-
D H O'Neill	-	-	-	-	-	-	-
J B H Cheak	-	-	-	-	-	-	-
F. Fraval	12,000	75,000	-	-	-	6,000	93,000
G Fendis	12,000	75,000	-	-	-	6,000	93,000
M D Almeida	2,000	12,500	-	-	-	-	14,500
F Ismail	11,500	71,500	-	-	-	6,000	89,000
J McMullan	-	-	-	-	-	-	-
S Henbury	-	33,926	-	-	-	-	33,926
Total:	37,500	267,926	-	-	-	18,000	323,426

	Options Granted	Options Exercised	Options Lapsed	Total value of Options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options
	Value at grant date \$	Value at exercise date \$	Value at time of lapse \$			%
F. Fraval	6,000	-	-	6,000	6,000	6.45
G Fendis	6,000	-	-	6,000	6,000	6.45
F Ismail	6,000	-	-	6,000	6,000	6.74

5 Executive 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 is no employee share option plan for the year ended 30 June 2006. Three Directors of the Company, being Mr S Fraval, Mr G Fendis, and Mr F Ismail each received 6,000,000 options in the company as part of the administration process.

Prior to entering into the Deed of Company Arrangement, the company had 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.

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
6. Remuneration of auditors				
Auditor of the parent entity				
Deloitte Touche Tohmatsu	32,275	-	32,275	18,000
Other services	-	-	-	-
	<u>32,275</u>	<u>-</u>	<u>32,275</u>	<u>18,000</u>

7. Cash and cash equivalents

Cash on deposit	<u>218</u>	<u>48</u>	<u>217</u>	<u>-</u>
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8. Current trade and other receivables

Trade Receivables	31	-	-	-
Goods and services tax (GST) recoverable	110	12	45	9
Sundry debtors and prepayments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>141</u>	<u>12</u>	<u>45</u>	<u>9</u>

No interest is charged on the trade receivables.

9. Other current assets

Deposits paid	32	-	-	-
Prepayments	-	-	-	-
Sundry Debtors	<u>2</u>	<u>108</u>	<u>-</u>	<u>-</u>
	<u>34</u>	<u>108</u>	<u>-</u>	<u>-</u>

10. Other non-current financial assets

Loans to wholly owned subsidiary	-	-	359	-
Non quoted investments				
Shares in wholly-owned controlled entities, at cost	-	-	1,600	-
	<u>-</u>	<u>-</u>	<u>1,959</u>	<u>-</u>

During the year, Environmental Solutions International Ltd loaned \$359,000 to its wholly owned subsidiary Asia Pacific Coal and Steel. No interest is charged on this loan.

	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 1 July 2005	-	-	-	-	-	-
Additions	21	-	21	-	-	-
Balance at 30 June 2006	<u>21</u>	<u>-</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>-</u>
Accumulated Depreciation						
Balance at 1 July 2005	-	-	-	-	-	-
Depreciation expense	(6)	-	(6)	-	-	-
Balance at 30 June 2006	<u>(6)</u>	<u>-</u>	<u>(6)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Book Value						
As at 30 June 2006	<u>15</u>	<u>-</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>-</u>
As at 30 June 2005	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

	Consolidated		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
12. Other Intangible assets				
Licences, patents and rights to technology				
Gross Value				
Balance at the beginning of the financial year	-	-	550	550
Additions (note 22)	<u>16,388</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at the end of the financial year	<u>16,388</u>	<u>-</u>	<u>550</u>	<u>550</u>

Environmental Solutions International Limited
Notes to the Financial Statements
12. Other Intangible assets (cont)

	Consolidated		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Accumulated Amortisation and Impairment				
Balance at the beginning of the financial year	-	-	(550)	(505)
Recoverable amount write down (note (i) below)	-	-	-	(45)
Balance at the end of the financial year	-	-	(550)	(550)
Net Book Value				
At the beginning of the financial year	-	-	-	45
At the end of the financial year	16,388	-	-	-

(i) The company had written down the carrying value of the ENERSLUDGE™ technology and goodwill in the previous year as the commercialisation of the technology had been slower than anticipated.

The consolidated entity purchased the ENERSLUDGE™ technology as part of the purchase of the wholly owned subsidiary. See note 22 for further information.

The directors have performed an initial valuation using a discounted cash flow methodology based on the following assumptions:

- the ability of the Company and the consolidated entity to secure further funds through equity issues or debt funding;
- securing new contracts and licensing agreements for the ENERSLUDGE® technology; and
- the ability to successfully and profitably market its products.

The Directors believe the Company will be successful in achieving the matters set out above and accordingly are satisfied that the carrying value is recoverable.

13. Goodwill

Gross Value

Balance at the beginning of the financial year	-	-	110	110
Additions (note 21)	10,543	-	-	-
Balance at the end of the financial year	10,543	-	110	110

Accumulated Amortisation and Impairment

Balance at the beginning of the financial year	-	-	(110)	(33)
Impaired losses for the year (note (ii) below)	(10,543)	-	-	-
Recoverable amount write down (note (ii) below)	-	-	-	(77)
Balance at the end of the financial year	-	-	(110)	(110)

Net Book Value

At the beginning of the financial year	-	-	-	77
At the end of the financial year	-	-	-	-

Environmental Solutions International Limited

Notes to the Financial Statements

13. Goodwill (cont)

Goodwill is calculated on the consolidation of the wholly owned entity, being APCS, refer to note 22 for further information.

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

(i) During the financial year, the consolidated entity assessed the recoverable amount of goodwill, and determined that goodwill associated with the purchase of ESI by APCS was impaired by the total amount of goodwill, being \$10,543,000 (2005: nil).

(ii) The company had written down the carrying value of the ENERSLUDGE™ technology and goodwill in the previous year as the commercialisation of the technology had been slower than anticipated.

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
14. Current trade and other payables				
Unsecured				
Payables (i)	308	79	25	930
Payroll Liabilities	13	-	-	-
Sundry creditors and accruals	9	-	10	17
	<u>330</u>	<u>79</u>	<u>35</u>	<u>947</u>

(i) The unsecured payables from the previous year relate to payments made post year end to the Deed Administrators to be paid to the creditors.

The balance consisted of \$630,000 which has been paid in this financial year to the Commonwealth Bank and \$300,000 which has been paid into the unsecured creditors trust.

(ii) No interest is charged on trade creditors. The consolidated entity has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
15. Current borrowings				
Unsecured				
Bank Overdraft	-	-	-	118
	<u>-</u>	<u>-</u>	<u>-</u>	<u>118</u>

	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000

16. Issued capital
(a) Issued Capital

245,516,648 fully paid ordinary shares
(2005:77,097,512)

	2006		2005	
	No.	\$'000	No.	\$'000
	'000		'000	
Company				
Fully Paid Ordinary Shares				
Balance at beginning of the financial year	77,097	23,254	77,097	23,254
Issue of shares	230,082	4,030	-	-
1:5 Consolidation of Shares	(61,663)	-	-	-
Balance at end of the financial year	<u>245,516</u>	<u>27,284</u>	<u>77,097</u>	<u>23,254</u>

16. Issued capital (cont)

Consolidated Group	2006		2005	
	No. '000	\$'000	No. '000	\$ '000
Fully Paid Ordinary Shares				
Balance at beginning of the financial year	77,097	213	77,097	-
Issue of shares by APCS		1,229		213
Capital adjustment for reverse acquisition accounting		22,550		-
Balance at end of the financial year	245,516	23,992	77,097	213

The company does not have a limited amount of authorised capital and issued shares do not have a par value.

(b) Fully Paid Ordinary Share Capital

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

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

(c) Share Options

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

	2006			2005		
	Number of Options	Exercise Price	Expiry Date	Number of Options	Exercise Price	Expiry Date
Unlisted Ordinary Options	-	-	-	1,413,750	\$0.40	30/11/2005
Unlisted Ordinary Options	196,500	3.25	19/03/07	-	-	-
Unlisted Ordinary Options	196,500	3.75	20/03/07	-	-	-
Unlisted Ordinary Options	28,117,857	\$0.01	01/11/08	-	-	-
Total Options	28,510,857			1,413,750		

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

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

As part of the reconstruction, 30,000,000 options were issued. The fair value of these options is \$30,000 and this amount was expensed accordingly. Mr Fraval, Mr Fendis and Mr Ismail each received 6,000,000 of these options (refer to note 4 for further information). There were 1,882,143 options exercised during the year for a total consideration of \$18,821.

Options on issue at 30 June 2005 were exercisable 30 November 2005. These options were not exercised by this date and therefore expired.

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
17. Accumulated Losses				
Balance at beginning of financial year	(124)	-	(24,310)	(23,370)
Net Loss attributable to members of the parent entity	(12,348)	(124)	(818)	(940)
Balance at end of financial year	<u>(12,472)</u>	<u>(124)</u>	<u>(25,128)</u>	<u>(24,310)</u>

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
18. Reserves				
Share options	<u>30</u>	<u>-</u>	<u>30</u>	<u>-</u>
	<u>30</u>	<u>-</u>	<u>30</u>	<u>-</u>
<i>Share option reserve</i>				
Balance at the beginning of the financial year	-	-	-	-
Issue of 30,000,000 options	<u>30</u>	<u>-</u>	<u>30</u>	<u>-</u>
Balance at the end of the financial year	<u>30</u>	<u>-</u>	<u>30</u>	<u>-</u>

The share option reserve arises from the issue of 30,000,000 options with an exercise price of \$0.01 on 15 December 2005. The options have an expiry date of 1 November 2008.

19. Contingent Liabilities and Contingent Assets

At the date of this report, there has been no material contingent liabilities or contingent assets.

20. Subsequent Events

On 3 July 2006 the Company issued 1,000,000 ordinary shares for a consideration of \$0.01 per share. These shares were issued through the exercise of 1,000,000 options.

On 5 September 2006, the Company placed 555,555 ordinary shares at \$0.45 per share to raise net proceeds of \$250,000.

On 26 September 2006, the Company issued 2,150,000 ordinary shares for a consideration of \$0.01 per share. These shares were issued through the exercise of 2,150,000 options.

There has not been any matter or circumstance, other than that referred to in the financial statements or notes thereto, 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.

21. Details of Controlled Entities

Parent Entity:

Environmental Solutions International Limited

Controlled Entities:

	Place of Incorporation	Percentage of Shares	
		2006	2005
Asia Pacific Coal and Steel Pty Ltd	VIC	100%	-
ESI Research and Development Pty Ltd (i)	WA	-	100%
DF No. 1 Pty Ltd (i)	NSW	-	100%
Campbell Group Unit Trust (Surda Pty Ltd) (i)	WA	-	100%
E.S.I. Marketing Pty Ltd (i)	NSW	-	100%
ESA Technologies Pty Ltd (i)	WA	-	100%
Campbell Environmental Ltd (i)	WA	-	100%
ESI Marketing and Sales Pty Ltd (i)	ACT	-	100%
ESI Eire Joint Venture Pty Ltd (i)	QLD	-	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

22. Acquisition of Businesses

<u>Names of businesses acquired</u>	<u>Principal activity</u>	<u>Date of acquisition</u>	<u>Proportion of shares acquired (%)</u>	<u>Cost of acquisition \$'000</u>
2006:				
Australia Pacific Coal and Steel	Research & Development	25 May 2006	100%	1,600
				1,600
2005:				
-	-	-	-	-
				-

Asia Pacific Coal and Steel was purchased during the year. Settlement of the transaction took place on 25th of May 2006. Consideration for the purchase was 16,000,000 ESI shares.

Included in the net loss for the period is a loss of \$243,002 attributable to Asia Pacific Coal and Steel.

22. Acquisition of businesses (cont)

The reverse takeover of ESI

This transaction has been recorded as a reverse takeover whereby APCS is identified as the acquirer for accounting purposes and the net assets of the Company has been considered as acquired by APCS. APCS has recorded this acquisition at an effective acquisition date of 25 May 2006. As APCS is considered to be the accounting acquirer, its assets, liabilities, deficit and results of operations are included in the financial statements at their historical carrying values on the basis that APCS is the continuing entity. As ESI was substantially inactive at the date of acquisition and substantially all of its assets were monetary, the fair value of the ESI net assets have been estimated to approximate their respective book values apart from the intangible assets which were valued using a discounted cash flow and management's best estimate. Details of the provisional fair value of ESI assets acquired are as follows:

	<i>Environmental Solutions International Ltd</i>			
	<u>Book value</u>	<u>Fair value</u>	<u>Fair value on</u>	<u>Total fair value</u>
		<u>adjustment</u>	<u>acquisition</u>	<u>on acquisition</u>
<u>Net assets acquired</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>	<u>\$'000</u>
Current assets:				
Cash	447	-	447	447
Loans	260	-	260	260
GST refundable	51	-	51	51
Licenses, patents and rights to technology	-	16,388	16,388	16,388
Current liabilities:				
Sundry creditors	(10)	-	(10)	(10)
Deferred tax liability	-	(4,916)	(4,916)	(4,916)
	748	11,472	12,220	12,220
Goodwill on acquisition				10,543
Fair value of assets acquired by APCS				22,763

During the financial year, the consolidated entity assessed the recoverable amount of goodwill, and determined that goodwill associated with the purchase of ESI by APCS was impaired by the total amount of goodwill, being \$10,543,000.

The cost of the acquisition to ESI is determined by the fair value of the consideration it gave to APCS shareholders, being 16 million shares in ESI. The directors of the Company have determined that the fair value to be placed on these shares should be 10 cents per share, based on the value of the company prior to consolidation with APCS. This valuation is provisional, and the directors will reassess the fair value of the Company prior to the first anniversary of the purchase of ESI by APCS.

The fair value of the licenses, patents and rights to technology owned by ESI is a best estimate made by directors based on expected discounted cash flows. This valuation is provisional, and the directors will reassess the fair value of the Company prior to the first anniversary of the purchase of ESI by APCS.

The directors have performed an initial valuation using a discounted cashflow methodology based on the following assumptions:

- the ability of the Company and the consolidated entity to secure further funds through equity issues or debt funding;
- securing new contracts and licensing agreements for the ENERSLUDGE® technology; and
- the ability to successfully and profitably market its products.

The Directors believe the Company will be successful in achieving the matters set out above and accordingly are satisfied that the carrying value is recoverable.

Further details of the business acquired during the financial year is disclosed in note 27(c).

23. Segment Information

The consolidated entity operated predominantly in Australia and in the Research and Development of dewatering technology industry. The nature of this activity comprises the design, construction, commissioning and operation of dewatering plants. The company went into administration on 19 November 2004 and then entered into a Deed of Company Arrangement and a Reconstruction Deed during the year ended 30 June 2006 has now been removed from administration. During this time, the Company has not operated in another industry.

24. 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.

25. Related Party Disclosures

Transactions With Key Management Personnel And Personally Related Entities

- (a) Directors who held office during the year were as follows:
- | | |
|-----------------|---|
| T E O'Connor QC | (Chairman, non-executive, ceased to be a director 15 December 2005) |
| D H O'Neill | (Non-executive, ceased to be a director 15 December 2005) |
| J B H Cheak | (Non-executive ceased to be a director 15 December 2005) |
| M D'Almeida | (Chairman, Executive, appointed 23 May 2006) |
| S Fraval | (Executive, appointed 27 October 2005) |
| G Fendis | (Non-executive, appointed 27 October 2005) |
| J Mc Mullin | (Non-executive, appointed 22 June 2006) |
| F Ismail | (Appointed 27 October 2005, resigned on 22 June 2006) |

During the previous year, the company entered into a Deed of Company Arrangement. During this year the Reconstruction Deed was entered into and new directors were appointed, and therefore for a portion of the year, the executives of the company were the Deed Administrators and the external Administrators. 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 4.
- (c) Specified directors and specified executives equity holding

Fully paid ordinary shares issued by Environmental Solutions International Ltd

	Balance 01/07/2005 No.	Granted as Compensation	Received on Exercise of Options No.	Net Other Change No.	Balance 30/6/2006 No.
T E O'Connor	250,000	-	-	(230,000)	20,000
D P Glennon	1,693,250	-	-	(1,693,250)	-
D H O'Neill	803,000	-	-	(752,400)	50,600
J B H Cheak	1,000,000	-	-	(1,000,000)	-
M D'Almeida	-	-	-	-	-

25. Related Party Disclosures (cont)

S Fraval	-	-	-	150,000	150,000
G Fendis	-	-	-	-	-
J McMullan	-	-	-	-	-
F Ismail	-	-	-	-	-
S Henbury	-	-	-	-	-
T R Bridle	800,000	-	-	(640,000)	160,000
M P Peters	230,000	-	-	(230,000)	-
J R Jennings	185,000	-	-	(185,000)	-
P A Hopps	100,000	-	-	(100,000)	-
	<u>5,061,250</u>	<u>-</u>	<u>-</u>	<u>(4,680,650)</u>	<u>380,600</u>

	Balance 01/07/2004 No.	Granted as Compensation	Received on Exercise of Options No.	Net Other Change No.	Balance 30/06/2005 No.
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
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>5,061,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,061,250</u>

Ordinary options issued by Environmental Solutions International Ltd

	Balance 1/07/2005 No.	Granted as Comp- ensation	Exercis- ed No.	Other Change No.	Balance 30/6/06 No.	Balance vested at 30/6/06 No.	Vested but not exercise- able No.	Vested and exercisable No.	Vested during the year No.
S Fraval	-	-	-	6,000,000	6,000,000	6,000,000	-	6,000,000	6,000,000
G Fendis	-	-	-	6,000,000	6,000,000	6,000,000	-	6,000,000	6,000,000
F Ismail	-	-	-	6,000,000	6,000,000	6,000,000	-	6,000,000	6,000,000
T E O'Connor	-	-	-	-	-	-	-	-	-
D P Glennon	1,413,750	-	-	(1,413,750)	-	-	-	-	-
D H O'Neill	-	-	-	-	-	-	-	-	-
J B H Cheak	-	-	-	-	-	-	-	-	-
	<u>1,413,750</u>	<u>-</u>	<u>-</u>	<u>16,586,250</u>	<u>18,000,000</u>	<u>18,000,000</u>	<u>-</u>	<u>18,000,000</u>	<u>18,000,000</u>

	Balance 1/07/2004 No.	Granted as Comp- ensation	Exercis- ed No.	Other Change No.	Balance 30/6/05 No.	Balance vested at 30/6/05 No.	Vested but not exercise- able 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>

The issue of the above ordinary options to directors was approved by shareholders at annual general meeting. Options on issue at 30 June 2005 were exercisable 30 November 2005. These options were not exercised by this date and therefore expired.

25. Related Party Disclosures (cont)

Employee Share Plan options issued by Environmental Solutions International Ltd

	Balance 1/07/2005 No.	Granted as Comp- ensation	Exercised No.	Other Change No.	Balance 30/6/06 No.	Balance vested at 30/6/06 No.	Vested but not exercisable No.	Vested and exercisable No.	Options 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	-	-	-	-	-	-	-	-	-
M P Peters	-	-	-	-	-	-	-	-	-
J R Jennings	-	-	-	-	-	-	-	-	-
P A Hopps	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-
	Balance 1/07/2004 No.	Granted as Comp- ensation	Exercise d 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.	Options 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	-	-	-	-	-

During the previous financial year, the company entered into a Deed of Company Arrangement which resulted in the cessation of the Employee Share Plan.

Refer to Note 5 for further details of the Employee Share Plan.

(d) Loans to key management personnel

Loans to key management personnel	Balance at beginning \$	Interest charged \$	Interest not charged \$	Write-off \$	Balance at end \$	Number in group
2006	-	-	-	-	-	-
2005	135,129	-	-	135,129	-	4
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 were interest free. These loans were forgiven as part of the administration process.

Environmental Solutions International Limited

Notes to the Financial Statements

25. Related Party Disclosures (cont)**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.

26 Financing Facilities

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Entities in the consolidated entity have access to:				
Credit standby arrangements:				
- bank guarantee facility	-	-	-	15,000
- amount of credit used	-	-	-	13,469
- amount of credit unused	-	-	-	1,531

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

Consolidated		Company	
2006	2005	2006	2005
\$'000	\$'000	\$'000	\$'000

27 Notes to the Cash Flow Statement

(a) Reconciliation of Net Cash Flows from Operating Activities to Operating Loss after tax

Operating (loss)/profit after income tax	(12,348)	(124)	(818)	(940)
Transfer from asset revaluation reserve	-	-	-	(856)
Debts forgiven under DOCA	-	-	(125)	-
Issue of share options	30	-	30	-
Impairment of Intangibles	10,543	-	-	-
Depreciation and amortisation of non-current assets	6	-	-	66
Profit from sale of fixed assets	-	-	-	(392)
Recoverable amount write down of intangibles	-	-	-	122
Change in assets/liabilities				
Receivables	(129)	(12)	(36)	7,687
Amount due from customers for unbilled contract costs		-	-	2,672
Accounts Payable	229	79	18	(11,690)
Provisions		-	-	(1,364)
Deposits paid	(32)	-	-	-
Payroll liabilities	13	-	-	-
Sundry creditors and accruals	9	-	-	-
Employee Share Plan Loan forgiven	-	-	-	154
Non cash costs incurred due to being administration	-	-	-	79
Net Cash (used in) or from Operating Activities	<u>(1,679)</u>	<u>(57)</u>	<u>(931)</u>	<u>(4,462)</u>

(b) 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	218	48	217	-
Overdraft	-	-	-	(118)
	<u>218</u>	<u>48</u>	<u>217</u>	<u>(118)</u>

27. Notes to the Cash Flow Statement (cont)

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<u>(c) Businesses Acquired</u>				
During the financial year, 1 business was acquired. Details of the acquisition are as follows (note 21):				
Consideration				
Ordinary shares	22,763	-	-	-
Fair value of net assets acquired				
Current assets:				
Cash	447	-	-	-
Trade debtors		-	-	-
Loans	260	-	-	-
Deposits paid		-	-	-
GST refundable	51	-	-	-
Licenses, patents, and rights to technology	16,388	-	-	-
Current liabilities:				
Sundry creditors	(10)	-	-	-
Deferred tax liability	(4,916)	-	-	-
Net assets acquired	12,220	-	-	-
Goodwill on acquisition	10,543	-	-	-
Net cash outflow on acquisition				
Cash and cash equivalents consideration	(447)	-	-	-
Less cash and cash equivalent balances acquired	-	-	-	-
	(447)	-	-	-

(d) Non-cash financing and investing activities

During the financial year, the consolidated entity purchased a wholly owned subsidiary with an aggregate fair value of \$22,763,000 for the exchange of ordinary shares. This acquisition is reflected in part c of this note above.

During the previous financial 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.

	Consolidated	
	2006 Cents Per Share	2005 Cents Per Share
28 Earnings Per Share		
Basic earnings per share	(9.11)	(0.16)
Diluted earnings per share	(9.11)	(0.16)

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:

	2006 \$'000's	2005 \$'000's
Earnings (a)	(12,348)	(124)
	2006 No.	2005 No.
Weighted average number of ordinary shares (b)	135,541,938	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:

	2006 \$'000's	2005 \$'000's
Net (Loss)	(12,348)	(124)
Earnings used in the calculation of basic EPS	(12,348)	(124)

(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).

28. Earnings per share (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:

	2006 S'000's	2005 S'000's
Earnings (a)	<u>(12,348)</u>	<u>(124)</u>
	2006 No.	2005 No.
Weighted average number of ordinary shares and potential ordinary shares (b), (c)	<u>135,541,938</u>	<u>77,097,512</u>
(a) Earnings used in the calculation of diluted earnings per share reconciles to net profit in the statement of financial performance as follows:		
	2006 S'000's	2005 S'000's
Net Profit/(Loss)	(12,348)	(124)
Earnings used in the calculation of diluted EPS	<u>(12,348)</u>	<u>(124)</u>
(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:		
	2006 No.	2005 No.
Weighted average number of ordinary shares used in the calculation of basic EPS	135,541,938	77,097,512
Unlisted and employee options	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares and potential ordinary shares used in the calculation of diluted EPS	<u>135,541,938</u>	<u>77,097,512</u>
(c) Weighted average number of converted lapsed or cancelled potential ordinary shares used in the calculation of diluted earnings per share		
	2006 No.	2005 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.		
Ordinary share options	<u>28,903,857</u>	<u>1,413,750</u>

29 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
2005					
Financial Assets:					
Cash	3%	-	48	-	48
Receivables	-	-	-	-	-
Goods and Services Tax recoverable	-	-	-	12	12
Sundry debtors and prepayments	-	-	-	108	108
		<u>-</u>	<u>48</u>	<u>120</u>	<u>168</u>
Financial Liabilities:					
Accounts Payable	-	-	-	79	79
Cash	-	-	-	-	-
Employee Entitlements	-	-	-	-	-
Finance Lease Liabilities	-	-	-	-	-
		<u>-</u>	<u>-</u>	<u>79</u>	<u>79</u>
2006					
Financial Assets:					
Cash	3%	217	-	-	217
Receivables	-	-	-	31	31
Goods and Services Tax recoverable	-	-	-	110	110
Sundry debtors and prepayments	-	-	-	34	34
		<u>217</u>	<u>-</u>	<u>175</u>	<u>392</u>
Financial Liabilities:					
Accounts Payable	-	-	-	330	330
Cash	-	-	-	-	-
Employee Entitlements	-	-	-	-	-
Finance Lease Liabilities	-	-	-	-	-
		<u>-</u>	<u>-</u>	<u>330</u>	<u>330</u>

29. Financial instruments (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) Fair Value

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

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

(e) Liquidity risk management

The consolidated entity manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

30 Leases

Operating leases

Leasing arrangements

Operating leases relate to office space in South Melbourne with a lease term of 3 years, with an option to extend for a further 3 years. All operating lease contracts contain market review clauses in the event that the company /consolidated entity exercise its option to renew. The company /consolidated entity does not have an option to purchase the leased asset at the expiry of the lease period.

	Consolidated		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
<u>Leases</u>				
Non-cancellable operating lease payments	88,000	-	-	-
Not longer than 1 year	132,000	-	-	-
Longer than 1 year and not longer than 5 years	-	-	-	-
Longer than 5 years	-	-	-	-
	<u>220,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

Sub lease

The company sub leases an area of its South Melbourne office space. The sub lease is on a monthly basis.

31 Other Information

Environmental Solutions International Limited is a listed public company incorporated and operating in Australia. The company had nil employees at year end (2005 – nil).

32 Dividends

	2006		2005	
	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.

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

The Company changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', except that for the reasons set out in Note 1, with 1 July 2005 as the date of transition.

Due to the reverse acquisition accounting as described in note 21, the consolidated comparatives are now those of APCS rather than ESI. APCS was incorporated in April 2005, after the transition date of 1 July 2004. The consolidated comparatives have been prepared in accordance with A-IFRS.

The Directors believe that the transition from superseded policies to A-IFRS has not affected the Company's income statement, balance sheet, statement of equity and cash flows as at 1 July 2005.

ADDITIONAL INFORMATION INCLUDED IN ACCORDANCE WITH THE LISTING REQUIREMENTS OF THE AUSTRALIAN STOCK EXCHANGE LIMITED

The information set out below was applicable as at 27 September 2006.

1. Distribution of Equity Securities and Voting Rights:

a. Distribution of Shareholders of Ordinary shares:

	No. of Holders
1 – 1,000	888
1,001 – 5,000	964
5,001 – 10,000	342
10,001 – 100,000	508
100,001 and above	79
Total No. of shareholders	<u>2,781</u>

- b. Each shareholder entitled to vote may vote in person or by proxy, attorney or representative. On a show of hands, every person present who is a shareholder or a proxy, attorney or representative of a shareholder has one vote. On a poll, every person present who is a shareholder or a proxy, attorney or representative of a shareholder shall, in respect of each fully paid share held by him, or in respect of which he is appointed a proxy, attorney or representative, have one vote for the share.

- c. There existed 999 shareholders who held less than a marketable parcel of shares.

2. Substantial Shareholders

The Company had 4 substantial shareholders as follows:

RC Johnson Pty Ltd	53,979,402 shares
Paladar Nominees Pty Ltd	42,251,798 shares
Jackson Street Pty Ltd	21,770,000 shares
Caracob Pty Ltd	18,455,933 shares

3 Top Twenty Shareholders

Shareholder Name	Units Held	Percentage of Issued Capital
ANZ NOMINEES LIMITED	52,622,573	21.29%
PALDAR NOMINEES PTY LIMITED	38,254,449	15.48%
R C JOHNSON PTY LTD	23,373,957	9.46%
JACKSON STREET PTY LTD	21,770,000	8.81%
R C JOHNSON PTY LTD	15,992,949	6.47%
CARACOB PTY LTD	15,931,901	6.45%
R C JOHNSON PTY LTD	7,894,168	3.19%
D WILSON INVESTMENTS PTY LTD	5,475,512	2.22%
PALDAR NOMINEES PTY LTD	3,997,349	1.62%
R C JOHNSON PTY LTD	2,761,181	1.12%
JOGEANWATODO PTY LTD	2,761,181	1.12%
DR LILIANA ELBERG	2,492,302	1.01%
MSV ENERGY PTY LTD	2,397,531	0.97%
SAXA HOLDINGS PTY LTD	2,274,657	0.92%
MR NEIL O'KEEFE &	1,936,181	0.78%
CD MANAGEMENT PTY LTD	1,863,632	0.75%
MR JOHN HUTCHINSON	1,844,519	0.75%

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Additional ASX Information

MR ADAM DAVID GILES	1,814,931	0.73%
CARACOB PTY LTD	1,489,032	0.60%
MR COLIN RAWDON MACNAMARA &	1,200,531	0.49%

4. Escrowed securities

The company currently has 14,256,503 ordinary shares subject to escrow. The escrow period on these shares ends 25 May 2007.

5. Preliminary Final Report

On 13 September 2006, the Company lodged its Preliminary Final Report to the ASX. This report disclosed a net loss for the consolidate group of \$1,002,000 and net assets of the consolidated group of \$1,972,000. These figures were released prior to the audit function being conducted. The net loss of the consolidated group is now \$12,348,000 and the net assets of the consolidated group are now \$11,550,000.

The differences can be attributed to the following:

- a. The acquisition of APCS by the ESI has now been treated as a reverse takeover of ESI by APCS for accounting purposes. Therefore the transaction has been recorded as a reverse takeover whereby APCS is identified as the acquirer for accounting purposes and the net assets of the Company has been considered as acquired by APCS. As APCS is considered to be the accounting acquirer, its assets, liabilities, deficit and results of operations are included in the financial statements at their historical carrying values on the basis that APCS is the continuing entity. As ESI was substantially inactive at the date of acquisition and substantially all of its assets were monetary, the fair value of the ESI net assets have been estimated to approximate their respective book values apart from the intangible assets which were valued using a discounted cash flow and management's best estimate. This has resulted in an additional fair value lift in the assets of \$22,015,000, which has been attributed to licences, patents, and rights to use technology of \$16,388,000 and goodwill of \$10,543,000. A deferred tax liability of \$4,916,000 is also brought to account as a result of this transaction.
- b. Following from above, the consolidated financial statements of the Company as at and for the year ended 30 June 2006 reflect the financial results of the APCS group, and not those of the legal parent, ESI. The comparative financial statements of the consolidated group are also those of APCS, rather than ESI.
- c. The consolidated entity assessed the recoverable amount of the goodwill generated through the reverse takeover, and determined that goodwill associated with the purchase of ESI by APCS was impaired by the total amount of goodwill, being \$10,543,000. Therefore the net loss of the consolidated group has been increased by this amount from the amount disclosed by way of the preliminary financial report.