

ASX PRELIMINARY FINAL REPORT

CANDLE AUSTRALIA LIMITED
ABN 43 002 724 334

FULL YEAR ENDED 30 JUNE 2006

Lodged with the ASX under Listing Rule 4.3A

HIGHLIGHTS

Net Profit After Tax – up 56% to \$11.8 million

Revenue – up 17% to \$270.3 million

Earnings Before Interest and Tax – up 53% to \$17.0 million

Earnings Per Share up 38% to 24.4 cents

Operating Cash Flow – positive \$6.6 million

Final Dividend – 9.0 cents per share fully franked

Special Dividend – 2.0 cents per share fully franked

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COMMENTARY ON RESULTS FOR YEAR ENDED 30 JUNE 2006

Financial performance

Candle Australia Limited, Australia's leading white collar recruitment company, announces 56% growth in net profit after tax to \$11.8 million for the year ended June 2006.

Profit was ahead of that announced as guidance on 16 June 2006 and is the company's 23rd consecutive year of profit.

The 56% profit increase was achieved on a 17% increase in revenues to \$270.3 million, demonstrating the leverage in the business model. Both sales and profit were a record for the Candle group.

The Board has declared a fully franked final dividend of 9.0c per share which represents an increase of 50% compared to last year. The Board also declared a fully advanced special dividend of 2.0c per share.

The total fully franked dividend for the year ended 30 June 2006 is 19.0c per share, representing a payout ratio of 80%.

Operating cash flow was \$6.6 million. At 30th June 2006, the company had a cash balance of \$4.1 million.

Basic Earnings Per Share (EPS) increased by 6.7 cents, or 38% on the previous year, to 24.4 cents per share.

Earnings before Interest and Tax (EBIT) was \$17.0 million, an increase of 53% compared to the previous corresponding period.

Zero debt

At 30 June 2006, the company had no borrowings despite three acquisitions this financial year.

Management comments on record result

"We are extremely pleased with this year's record results. The 56% lift in profits comes after similar growth last year and is a testament to the efforts of Candle Australia's management team and talented staff across Australia and New Zealand," says Robert Collins, managing director Candle Australia Limited.

"Our overall margin growth was 45%, but more pleasing was the higher growth in profits, demonstrating the increased efficiencies in our business. This is further indicated by the conversion ratio (EBITDA as a percentage of gross margin); last financial year this metric was just under 30%, this year it was 31%. Increases in revenue, margins, profits and efficiencies are evidence that our balanced scorecard strategy is really working," says Collins.

"Across all our brands operating margin (EBIT over sales) is now close to 6% and there is more opportunity in this area," he adds.

Success of acquisition and diversification strategy

During the year, Candle Australia made three acquisitions: Parker Bridge Australia and Choice IT in July 2005 and Lloyd Morgan in December 2005. All of these acquisitions have exceeded expectations and have contributed positively to the year end result.

The successful integration of these businesses into the Candle Australia model has come as a direct result of management's adherence to strict financial disciplines and acquisition criteria.

"Our acquisition criteria include the aim of EPS accretion in the first year, talent retention and cultural fit. Additionally, we like the vendors to take a combination of cash and scrip, thus ensuring they become focused on our broader goals," says Collins.

Positive organic growth and performance across all brands

In addition to growth from acquisitions, organic growth was also solid. On a margin basis, organic growth was close to 16% and the performance across all of the brands has been excellent.

Candle ICT, the information and communications technology (ICT) division, remains a market leader, and the ICT market still provides the company with one of the biggest opportunities for further growth.

Alliance Recruitment, the specialist administration and office and accounting support recruitment division also grew substantially. Several new offices were established and at least five are planned for the year ahead.

All other businesses operated at or above internal goals and are expected to grow in the year ahead.

Strong business model

There has been increased demand for skilled talent over the past 12 months. All suppliers would have benefited from this increase in demand. But Candle Australia's growth has outstripped general increases in demand, demonstrating the strength of the business model.

Permanent revenue was slightly stronger than management had anticipated earlier in the year, boosted by the acquisitions of Parker Bridge and Lloyd Morgan, which are (currently) predominantly permanent recruitment businesses. Permanent placements accounted for around 44% of gross margin; the balance came from contract and temporary assignments, which also grew during the year.

Given that contract and temporary revenue provides future revenues, the goal is to direct the percentage of contract and temporary margin back to around the 60%-70% of gross margin band over the next 12 months. Already Candle Australia is growing the contracting and temporary side of the Lloyd Morgan business and is pleased with the success to date.

Consolidation of particular brands

Several brand consolidations were effected this year in order to strengthen the market take-up of our specialist brands. Workskills Professionals and Premier Personnel were merged into the Alliance Recruitment brand. Executive Search and Selection was merged into Lloyd Morgan and effective in July 06, Choice IT was re-branded into the larger Candle ICT.

"This consolidation approach allows us to acquire strong businesses and over time, transition them to our platform and business model. This evolutionary approach is in the best interest of our staff, clients and candidates. We have seen the results of this approach in the EPS growth over the past four years," says Collins. "Undertaking these transitions deliberately but slowly is a key part of our success."

Continued growth expected

"Candle Australia is a strong, sustainable business with an experienced management, sales and delivery team. Our consistent approach of low debt, benchmark productivity and a proven operating model has generated growth of profit faster than revenues. We

are certain of our ability to grow our business organically, by geographic expansion, cross selling and via good quality acquisitions,” says Collins.

Our priorities for the year ahead will be further brand consolidation, establishment of a shared services back office operation, continued expansion of the front of house sales force, ongoing efficiency improvements, and further geographic and lines of business expansion while at the same time remaining financially strong.

“If the current level of demand for recruitment services continues, the company is confident of further strong profit and EPS growth over the next twelve months,” Collins adds.

Increased dividend payout ratio

“With an interim and final dividend of 17.0c per share fully franked, the company has maintained a payout ratio of 70% of reported earnings. In addition, given our solid cash flows, we are in the position to declare a special dividend of 2.0c per share, taking the total payout ratio to just under 80% of reported earnings. This is the benefit of continuing sound financial management,” says Collins.

Dividend Reinvestment Plan (DRP)

The DRP shall apply to the final dividend. As previously announced no discount shall apply. The last date for the receipt of election notices is 8 September 2006. Details of the Plan including the application form are available at www.candle.com.au or by request to the company.

Annual General Meeting

The AGM will be held at 3pm on Thursday 30 November 2006, at Room II, Level 3, The Establishment, 252 George Street, Sydney 2000.

About Candle Australia Limited

Candle Australia Limited (ASX: CND) is a recruitment and staff augmentation company providing specialist technical, executive and office support personnel in the areas of information and communications technology, banking, finance, insurance, commercial accounting, library, records management, sales and marketing.

Established over twenty two years ago and listed on the Australian Stock Exchange in 1997, Candle Australia has a reputation for high quality delivery and ethical business practices within the industry, and remains one of the largest and longest standing recruitment suppliers in Australasia.

Candle Australia operates through six divisions consisting of a number of quality recruitment brands: the information, communications and technology division represented by Candle ICT and Technology Co-Sourcing Solutions; the banking and finance division represented by Freeman Adams; the commercial accounting division represented by Parker Bridge Australia; the business support division represented by Alliance Recruitment; the library and records management division represented by The One Umbrella; and the executive division represented by Lloyd Morgan.

Candle Australia now employs over 30 staff through a network of 31 offices located in Sydney, Melbourne, Brisbane, Perth, Adelaide and Canberra in Australia, and Auckland and Wellington in New Zealand.

For further information

Robert Collins, Managing Director – Tel: 02 9250 8100

Mark Langan, Chief Financial Officer – Tel: 02 9250 8131

Hedgie Gundry, PR Manager – Tel: 02 9250 8146

For a copy of the Full Year Report, visit our website www.candle.com.au

RESULTS FOR ANNOUNCEMENT TO THE MARKET

This announcement is to be read in conjunction with the attached audited financial report

Year ended 30 June 2006

Previous corresponding period is year ended 30 June 2005. All comparisons are based on Australian International Financial Reporting Standards (AIFRS).

| | | | | \$'000 |
|--|----|-----|----|---------|
| Revenue from ordinary activities | Up | 17% | To | 270,328 |
| Profit / (loss) from ordinary activities after tax attributable to members | Up | 56% | To | 11,809 |
| Net profit / (loss) for the period attributable to members | Up | 56% | To | 11,809 |

| | | | | Cents |
|-------------------------------|----|-----|----|-------|
| Earnings per security | | | | |
| Basic EPS (cents per share) | Up | 38% | To | 24.4 |
| Diluted EPS (cents per share) | Up | 39% | To | 22.6 |

| | |
|----------------------------------|----------------------|
| Operating cash flow | \$ 6.6 million |
| Net tangible assets per security | 30.1 cents per share |

| Dividends | Amount per security | Franked amount per security |
|----------------------------------|---------------------|-----------------------------|
| Final dividend | \$0.09 | 100% |
| Special dividend | \$0.02 | 100% |
| Interim dividend (paid 17/03/06) | \$0.08 | 100% |

| | |
|---|-------------------|
| Record date for determining entitlement to final dividend | 8 September 2006 |
| Ex-dividend date | 4 September 2006 |
| Payment date of final dividend | 15 September 2006 |



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**AUDITED FINANCIAL REPORT
FOR THE YEAR ENDED 30 JUNE 2006**

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DIRECTORS' REPORT

Your directors present their report on Candle Australia Limited (the "Company") and its controlled entities (the "Economic Entity") for the financial year ended 30 June 2006.

Directors

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

| | | |
|------------------|------------------------|---------------------------|
| Geoffrey J Moles | Executive Chairman | |
| Ian K Crow | Non-executive Director | Resigned 29 November 2005 |
| Robert J Collins | Managing Director | |
| Lawrence J Gibbs | Non-executive Director | |
| Peter D Bunting | Non-executive Director | |
| Penelope Morris | Non-executive Director | Appointed 23 August 2005 |

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated above.

Principal activities

The principal activities of the Economic Entity during the financial year were the provision of contract and temporary personnel to, and recruitment services for business and Government in Australia and New Zealand.

There were no significant changes in the nature of the Economic Entity's principal activities during the financial year.

Operating results

The consolidated profit of the Economic Entity after providing for income tax for the financial year amounted to \$11,809,000 (2005: \$7,593,000).

Dividends paid or recommended

Dividends paid to members during the financial year were as follows:

| | 2006 \$000 | 2005 \$000 |
|--|---------------|---------------|
| Fully franked final dividend of 6.0 cents per share and a fully franked special dividend of 2.0 cents per share was paid on 16 September 2005: | 3,730 | 2,088 |
| Fully franked interim dividend of 8.0 cents per share was paid on 17 March 2006 amounting to: | 3,942 | 2,391 |

On the 22 August 2006 the directors resolved to declare a fully franked final dividend of 9.0 cents per share and a fully franked special dividend of 2.0 cents per share to be paid on 15 September 2006 amounting to \$5,612,000.

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Review of operations

Profit from ordinary activities after tax was \$11,809,000 up by 56% on 17% higher revenues compared to the prior year. In addition to the positive contribution from the current year acquisitions, there has been significant growth within the existing businesses. Further information is included in the executive chairman and managing director's review section of the annual report.

Financial position

The net assets of the Economic Entity have increased by \$12,177,000 from 30 June 2005. This increase has been the result of the following:

- continuation of the company's acquisition strategy with the acquisition of Choice IT Pty Limited, Parker Bridge (Australia) Pty Limited, Lloyd Morgan International Pty Limited and Lloyd Morgan (Brisbane) Pty Limited;
- underwriting of the dividend re-investment plan to fund acquisitions; and
- strong profit growth from the business and from recent acquisitions.

Overall the Economic Entity is in a very strong position with un-drawn financing facilities and the potential to raise further capital as and when required. The directors believe the Economic Entity is in a strong financial position to continue to grow both organically and through acquisition.

Significant changes in state of affairs

There were no significant changes in the state of affairs of the Economic Entity during the financial year, other than the acquisition of the businesses referred to above.

Future developments

The likely developments in the operations of the Economic Entity and the expected results of those operations in financial years subsequent to the year ended 30 June 2006 are included in greater detail in the executive chairman's and managing director's review section of the annual report.

These developments, together with the current strategy of continuous productivity improvement are expected to assist in the achievement of the Company's long term goals.

After balance date events

On the 22 August 2006 the Company resolved to pay a fully franked final dividend of 9.0 cents per share and a fully franked special dividend of 2.0 cents per share on 15 September 2006.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Economic Entity, the results of those operations, or the state of affairs of the Economic Entity in subsequent financial years.

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Environmental issues

The Economic Entity's operations are regulated by the relevant Commonwealth and State legislation. The nature of the Company's business does not give rise to any significant environmental issues.

Information on directors

Geoffrey J Moles

Executive Chairman

Geoffrey Moles has over thirty five years commercial experience in information technology (IT) and recruitment at senior management levels. In 1984, he established Candle Computer Services Pty which became Candle Australia Limited when listed on the ASX in 1997. Prior to Candle Geoff worked in the IT industry with Burroughs Limited and Datec Pty Limited (now DMR), one of Australia's leading systems integration companies.

He is chairman of the Board Remuneration and Nominations Committee.

Robert J Collins

Managing Director

Robert Collins is currently managing director of Candle Australia Limited. He was, until 30th June 2005, on the Board of Commissioners at the Health Insurance Commission, which administers government programs including Medicare and the PBS System. Previously, he was CEO of FreeOnLine Holdings Limited, prior to which he was also CEO of Icon Recruitment Pty Limited and Ajilon Australia Pty Limited, companies owned by the worldwide Adecco Group. He was managing director of Information Builders Pty Limited, the local subsidiary of the worldwide Information Builders Inc.

Robert is a Fellow of the Australian Institute of Management and Australian Institute of Company Directors and was founding president of the Information Technology Contracting and Recruiting Association. He holds a Bachelor of Science degree from Monash University.

Ian K Crow (resigned 29 November 2005)

Non-executive Director

Ian Crow is a director of National Wealth Management Holdings Limited, and several of its subsidiaries. He is also a director of Calliden Group Limited, and a number of private companies. Ian has a Bachelor of Commerce degree and Masters degree in Business Administration. He is also a Certified Practicing Accountant.

He was also a member of the Board Audit, Risk and Compliance Committee and the Board Remuneration and Nominations Committee.

Lawrence J Gibbs

Non-executive Director

Lawrence Gibbs is currently managing director of BG Capital Corporation Limited, an independent investment banking firm. Lawrence was previously executive director and head of investment banking at Burdett Buckridge & Young Limited, a well known Australian stockbroking and investment banking firm. He has 30 years experience in the financial

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services industry, including senior executive positions in funds management, corporate advisory, investment banking and stockbroking. Lawrence's other directorships include The Knox Foundation, president of the American Club and a director of private investment companies. Lawrence holds a Bachelor of Commerce degree.

He is also a member of the Board Audit, Risk and Compliance Committee and the Board Remuneration and Nominations Committee.

Peter D Bunting

Non-executive Director

Peter Bunting LLB FCA, worked for 30 years in the accounting profession with 16 years as a partner in Deloitte. From 2000 to 2005 he was chairman of the Health Insurance Commission, a major Federal Government agency, delivering health programs including Medicare and the PBS. He is director of several unlisted companies.

Peter is chairman of the Board Audit, Risk and Compliance Committee and is a member of the Board Remuneration and Nominations Committee.

Penelope Morris (appointed 23 August 2005)

Non-executive Director

Penny Morris AM has been a professional company director since 1994 serving on a diverse range of public company and government enterprise boards. She is currently a director of Aristocrat Leisure Limited, Mirvac Limited and the NSW Institute of Teachers. Prior to this period, Penny spent several years in senior management at Lend Lease. Penny has a Bachelor of Architecture (Hons.), a Masters of Environmental Science and Diplomas of Company Directorship and International Company Directorship.

She is also a member of the Board Audit, Risk and Compliance Committee (appointed 23 August 2005).

Director's interests in shares and options

At the date of this report, the particulars of shares and options in which each director has a relevant interest either directly or indirectly are:

Geoffrey J Moles

- 2,757,212 ordinary shares

Robert J Collins

- 1,393,500 ordinary shares and options to acquire a further 1,800,000 ordinary shares.

Lawrence J Gibbs

- 42,681 ordinary shares

Peter D Bunting

- 7,500 ordinary shares

Company secretary

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Nicholas Geddes FCA FCIS was appointed company secretary on the 18th November 1996. Mr Geddes is the principal of Australian Company Secretaries, a company secretarial practice that he formed in 1993. Nicholas is a member of the National Council of Chartered Secretaries Australia and Chairman of the NSW branch of that Institute. His previous experience, as a chartered accountant and company secretary, includes investment banking and development and venture capital in Europe, Africa, the Middle East and Asia. Nicholas is a Fellow of the Institute of Company Secretaries in Australia and a Fellow of both the Institute of Chartered Accountants in Australia and England and Wales.

Remuneration report

The remuneration report is set out under the following headings:

- (a) Non-executive Director remuneration
- (b) Principles used to determine the nature and amount of executive remuneration
- (c) Details of remuneration
- (d) Employment contracts
- (e) Share-based payments

The information provided under these headings includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report.

(a) Non-executive Director remuneration

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Remuneration and Nominations Committee determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Economic Entity. Non-executive directors do not receive options.

(b) Principles used to determine the nature and amount of executive remuneration

Executive Remuneration Policy

The Executive Remuneration Policy, setting the terms and conditions for the chief executive and other senior executives (excluding the executive chairman), was developed by the Board Remuneration and Nominations Committee and approved by the Board after seeking professional advice from independent external consultants. All executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives. The Remuneration and Nominations Committee reviews executive packages annually by reference to the Economic Entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The Executive Remuneration Policy has been designed to align executive and shareholder interests and objectives. The Board believes the Executive Remuneration Policy to be

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appropriate and effective in attracting and retaining skilled executives to run and manage the business.

The performance of executives is measured against criteria agreed annually with each executive and the criteria is based predominantly on the forecast growth of the Economic Entity's profits and shareholder value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract skilled executives and reward them for performance that results in long-term growth in shareholder wealth.

Executives are also entitled to participate in the employee share option arrangements.

The non-executive directors and executives receive a superannuation guarantee contribution required by the Government and do not receive any other retirement benefits.

All remuneration paid to executives is valued at cost to the Company and expensed. Options are valued using the American Call Option Pricing methodology.

Performance based remuneration

As part of the chief executive and senior executives' remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate congruence of goals between executives and those of the business and shareholders. The KPIs are set annually, with a degree of consultation with executives to ensure their commitment. The measures are specifically tailored to the areas of each executives involvement and over which they have control.

The KPIs target areas the Board believes hold greater potential for the Economic Entity's expansion and profitability, covering financial and non-financial as well as short-term and long-term goals. The level set for each KPI is based on budgeted figures for the Economic Entity and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Remuneration and Nominations Committee in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Economic Entity's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, the Company bases the assessment on audited figures, however, where the KPI involves comparison of the Economic Entity or a division within the Economic Entity to the market, independent reports are obtained from organisations such as Standard & Poors.

Options issued as part of remuneration

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Options are issued to the Managing Director and senior executives as part of their remuneration. The options are not issued based on performance criteria alone, as they are also issued to encourage staff retention within the Economic Entity. The key goal is to increase congruence of goals between executives, staff, directors and shareholders.

(c) Details of directors' and executives' remuneration

The remuneration of each director is as follows:

| Parent Entity | | Salary | Directors' Fees | Super-annuation | Bonus | Total | Non-cash options |
|------------------|------|---------|-----------------|-----------------|---------|---------|------------------|
| | | | | | | | annualised value |
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Geoffrey J Moles | 2006 | 209,305 | - | 12,139 | - | 221,444 | - |
| | 2005 | 202,728 | - | 15,655 | - | 218,383 | - |
| Ian K Crow | 2006 | - | 21,666 | 1,950 | - | 23,616 | - |
| | 2005 | - | 52,000 | 1,170 | - | 53,170 | - |
| Robert J Collins | 2006 | 466,985 | - | 12,139 | 185,000 | 664,124 | 79,054 |
| | 2005 | 474,686 | - | 11,584 | 150,000 | 636,270 | - |
| Lawrence J Gibbs | 2006 | - | 45,871 | 4,129 | - | 50,000 | - |
| | 2005 | - | 43,119 | 3,881 | - | 47,000 | - |
| Peter D Bunting | 2006 | - | 47,194 | 4,247 | - | 51,441 | - |
| | 2005 | - | 40,825 | 3,675 | - | 44,500 | - |
| Penelope Morris | 2006 | - | 40,546 | - | - | 40,546 | - |
| | 2005 | - | - | - | - | - | - |

The remuneration of executives of the Economic Entity not included above is as follows:

| Economic Entity | | Salary | Super-annuation | Bonus | Total | Non-cash options |
|------------------|------|---------|-----------------|---------|---------|------------------|
| | | | | | | annualised value |
| | | \$ | \$ | \$ | \$ | \$ |
| Trevor A Taylor | 2006 | 161,300 | 5,602 | - | 166,902 | - |
| | 2005 | 250,000 | 11,584 | 190,000 | 451,584 | 9,450 |
| Mark A Langan | 2006 | 187,738 | 12,139 | 25,000 | 224,877 | 12,148 |
| | 2005 | 173,638 | 11,584 | - | 185,222 | - |
| Kym L Quick | 2006 | 199,998 | 12,139 | 40,000 | 252,137 | 7,537 |
| | 2005 | - | - | - | - | - |
| Jane A Bianchini | 2006 | 27,714 | 2,494 | - | 30,208 | - |
| | 2005 | - | - | - | - | - |

Trevor A Taylor ceased employment on the 10 November 2005. Kym L Quick was promoted on 1 July 2005, and Jane A Bianchini was appointed on 15 May 2006.

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(d) Employment contracts

Remuneration and other terms of employment for the managing director and other key management executives are formalised in contracts of employment. Each of these agreements provide for the remuneration terms including the provision of performance-related cash bonuses and other benefits. There are no specified lengths of service included within the contract. The managing director's contract may be terminated by either party with six months notice. All other contracts with executives may be terminated by either party with between two weeks and two months notice.

(e) Share-based payments

Non Cash Benefits include the annualised value of the options granted over unissued ordinary shares during the financial year valued using the American call option pricing model. Options vest over four financial years and only on the satisfaction of a performance hurdle.

Option holdings

| | Balance 1/7/2005 | Granted | Exercised | Other Change | Balance 30/6/2006 | Vested 30/6/2006 |
|-------------------|-----------------------------|------------------|------------------|-------------------------|------------------------------|-----------------------------|
| Directors | | | | | | |
| Geoffrey J Moles | - | - | - | - | - | - |
| Robert J Collins | 1,333,334 | 1,800,000 | 733,334 | - | 2,400,000 | - |
| Ian K Crow | - | - | - | - | - | - |
| Lawrence J Gibbs | - | - | - | - | - | - |
| Peter D Bunting | - | - | - | - | - | - |
| Penelope Morris | - | - | - | - | - | - |
| Executives | | | | | | |
| Trevor A Taylor | 763,334 | 350,000 | 163,334 | (950,000) | - | - |
| Mark A Langan | 299,000 | 300,000 | 69,000 | - | 530,000 | 220,000 |
| Kym L Quick | 131,000 | 200,000 | 100,000 | - | 271,000 | 110,667 |
| Jane A Bianchini | - | - | - | - | - | - |
| Total | 2,526,668 | 2,650,000 | 1,065,668 | (950,000) | 3,201,000 | 330,667 |

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Options that were granted over unissued ordinary shares pursuant to the rules of the Share Option Plan, during the financial year by the Company to executives as part of their remuneration are as follows:

- 1,800,000 options at an exercise price of \$2.08 expiring on 1 July 2011 were granted to Robert J Collins. The total value at the grant date was \$316,215 and the options will vest over four years. Fair value of the options at grant date was \$2.08 each.
- 200,000 options at an exercise price of \$2.08 expiring on 1 July 2009 and 100,000 options at an exercise price of \$2.97 expiring on 17 March 2010 were granted to Mark A Langan. The total value at grant date was \$48,754 and the options will vest over four years. Fair value of the options at grant date was \$2.08 each and \$2.97 each respectively.
- 200,000 options at an exercise price of \$2.08 expiring on 1 July 2009 were granted to Kym L Quick. The total value at grant date was \$35,357 and the options will vest over four years. Fair value of the options at grant date was \$2.08 each.

Shareholdings

| | Balance 1/7/2005 | Received as Remuneration | Options Exercised | Other Change | Balance 30/6/2006 |
|-------------------|---------------------|-----------------------------|----------------------|--------------------|----------------------|
| Directors | | | | | |
| Geoffrey J Moles | 3,255,575 | - | - | (498,363) | 2,757,212 |
| Robert J Collins | 1,860,167 | - | 733,333 | (1,800,000) | 793,500 |
| Lawrence J Gibbs | 40,273 | - | - | 2,408 | 42,681 |
| Peter D Bunting | 7,500 | - | - | - | 7,500 |
| Penelope Morris | - | - | - | - | - |
| Executives | | | | | |
| Trevor A Taylor | 93,333 | - | 163,334 | (256,667) | - |
| Mark A Langan | 65,973 | - | 69,000 | (134,973) | - |
| Kym L Quick | - | - | 60,000 | (60,000) | - |
| Jane A Bianchini | - | - | - | 2,500 | 2,500 |
| Total | 5,322,821 | - | 1,025,667 | (2,750,095) | 3,603,393 |

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Shares issued on exercise of options during the year

| | No. of Shares Issued | Amount Paid per Share \$ | Amount Unpaid per share \$ |
|-------------------|----------------------|--------------------------------|----------------------------------|
| Directors | | | |
| Robert J Collins | 133,333 | 0.85 | - |
| | 600,000 | 1.00 | - |
| Executives | | | |
| Trevor A Taylor | 33,334 | 0.82 | - |
| | 10,000 | 1.06 | - |
| | 100,000 | 1.29 | - |
| | 20,000 | 1.61 | - |
| Mark A Langan | 7,000 | 0.95 | - |
| | 12,000 | 1.07 | - |
| | 50,000 | 1.86 | - |
| Kym L Quick | 30,000 | 0.82 | - |
| | 30,000 | 0.95 | - |
| Jane A Bianchini | - | - | - |

Meetings of directors

During the financial year, seventeen meetings of directors were held. Attendances were:

| Director | Number of meetings held while a Director | Number of meetings attended |
|--|---|--------------------------------|
| Geoffrey J Moles | 17 | 14 |
| Robert J Collins | 17 | 17 |
| Ian K Crow (resigned 29 November 2005) | 9 | 8 |
| Lawrence J Gibbs | 17 | 17 |
| Peter D Bunting | 17 | 16 |
| Penelope Morris (appointed 23 August 2005) | 14 | 13 |

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

DIRECTORS' REPORT

Board Audit Risk and Compliance Committee meetings

During the financial year, six Committee meetings were held. Attendances were:

| Director | Number of meetings held while a member | Number of meetings attended |
|---|---|--|
| Ian K Crow (resigned 29 Nov 2005) | 4 | 4 |
| Lawrence J Gibbs | 6 | 5 |
| Peter D Bunting | 6 | 6 |
| Penelope Morris (appointed 23 Aug 2005) | 3 | 2 |

Board Remuneration and Nominations Committee meetings

During the financial year, four Committee meetings were held. Attendances were:

| Director | Number of meetings held while a member | Number of meetings attended |
|--|---|--|
| Geoffrey J Moles | 4 | 4 |
| Ian K Crow (resigned 29 November 2005) | 4 | 4 |
| Lawrence J Gibbs | 4 | 4 |
| Peter D Bunting (appointed 1 January 2006) | 0 | 0 |

Indemnifying officers or auditor

The Company has not, during or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability incurred as an officer for the costs of expenses to defend legal proceedings;

with the exception of the following:

- during the year the Company paid a premium to insure the directors listed in this report against liabilities for the costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of directors of the Company. The terms of the policy prohibit disclosure of the premium paid; and
- the Company has entered into deeds of indemnity, insurance and access with each of the directors and the company secretary. These were approved by shareholders at the 2001 annual general meeting. The indemnity will only indemnify a director to the extent permitted by the law and the Company's constitution.

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

DIRECTORS' REPORT

Directors' benefits

No director has received or become entitled to receive, during or since the end of the financial year, a benefit because of a contract made by the Company, controlled entity or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest other than as disclosed in note 7 of the financial statements.

This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in the Company's financial statements, or the fixed salary of a full-time employee of the Company, controlled entity or a related body corporate.

Proceedings on behalf of the Company

No person has applied for leave of Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceeding to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Board of Directors, in accordance with the advice from the Board Audit Risk and Compliance Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- the nature and scope of all non-audit services are reviewed and approved by the Board Audit Risk and Compliance Committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid to the external auditors during the year ended 30 June 2006:

| | |
|-------------------|---------------|
| | \$ |
| Taxation services | 14,485 |
| Business services | 598 |
| Total | <u>15,083</u> |

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
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DIRECTORS' REPORT

Auditor's independence

The lead auditor's independence declaration for the year ended 30 June 2006 has been received and can be found on page 15 of the directors' report.

Rounding of amounts

The Company has applied the relief available to it in ASIC Class Order 98/100, and, accordingly, amounts in the financial statements and the director's report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors

.....
Geoffrey J Moles - Executive Chairman

.....
Robert J Collins - Managing Director

Dated at Sydney this 22nd day of August 2006.

CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Candle Australia Limited and controlled entities for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relations to the audit.

.....
WHK Greenwoods

.....
B Hatchman

Dated at Sydney this 22nd day of August 2006.

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

**INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2006**

| | Note | Economic Entity | | Parent Entity | |
|--|------|-----------------|---------------|---------------|---------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Revenues from continuing operations | 3 | 270,328 | 231,890 | 221,018 | 208,024 |
| On hired labour costs | | (207,348) | (187,607) | (178,866) | (168,049) |
| Employee benefits expense | | (33,255) | (22,872) | (21,752) | (18,538) |
| Depreciation and amortisation expense | 4 | (1,766) | (1,405) | (1,152) | (1,248) |
| Operating rental expense | | (2,162) | (1,592) | (1,332) | (1,088) |
| Borrowing costs expense | 4 | (95) | (246) | (101) | (252) |
| Other expenses | | (8,520) | (7,162) | (5,983) | (4,640) |
| Profit before income tax | | 17,182 | 11,006 | 11,832 | 14,209 |
| Income tax expense | 5 | (5,373) | (3,413) | (3,868) | (3,148) |
| Profit for the year attributable to the members of Candle Australia Limited | | 11,809 | 7,593 | 7,964 | 11,061 |
| Basic earnings per share (cents per share) | 9 | 24.4 | 17.7 | | |
| Diluted earnings per share (cents per share) | 9 | 22.6 | 16.3 | | |

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

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

**BALANCE SHEET
AS AT 30 JUNE 2006**

| | Note | Economic Entity | | Parent Entity | |
|--------------------------------------|------|-----------------|---------------|----------------|---------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| CURRENT ASSETS | | | | | |
| Cash assets and cash equivalents | 11 | 4,087 | 7,395 | 1,713 | 5,652 |
| Trade and other receivables | 12 | 49,085 | 35,860 | 41,564 | 33,561 |
| Deferred tax assets | 13 | 2,231 | 1,573 | 1,608 | 1,437 |
| TOTAL CURRENT ASSETS | | 55,403 | 44,828 | 44,885 | 40,650 |
| NON-CURRENT ASSETS | | | | | |
| Trade and other Receivables | 12 | - | - | 4,758 | 5,307 |
| Property, plant and equipment | 14 | 3,249 | 1,808 | 1,967 | 1,442 |
| Other financial assets | 15 | - | - | 30,762 | 10,932 |
| Intangible assets | 17 | 56,711 | 39,126 | 23,523 | 23,880 |
| TOTAL NON-CURRENT ASSETS | | 59,960 | 40,934 | 61,010 | 41,561 |
| TOTAL ASSETS | | 115,363 | 85,762 | 105,895 | 82,211 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 18 | 38,809 | 23,046 | 34,909 | 20,674 |
| Current tax liabilities | 19 | 1,797 | 1,792 | 1,778 | 1,732 |
| Provisions | 20 | 1,953 | 1,028 | 796 | 789 |
| TOTAL CURRENT LIABILITIES | | 42,559 | 25,866 | 37,483 | 23,195 |
| NON-CURRENT LIABILITIES | | | | | |
| Trade and other Payables | 18 | 22 | 23 | - | - |
| Deferred tax liabilities | 19 | - | 52 | - | 52 |
| Provisions | 20 | 1,085 | 301 | 704 | 295 |
| TOTAL NON-CURRENT LIABILITIES | | 1,107 | 376 | 704 | 347 |
| TOTAL LIABILITIES | | 43,666 | 26,242 | 38,187 | 23,542 |
| NET ASSETS | | 71,697 | 59,520 | 67,708 | 58,669 |
| EQUITY | | | | | |
| Contributed equity | 21 | 54,072 | 45,441 | 54,072 | 45,441 |
| Reserves | 22 | (93) | 498 | 116 | - |
| Retained profits | 23 | 17,718 | 13,581 | 13,520 | 13,228 |
| TOTAL EQUITY | | 71,697 | 59,520 | 67,708 | 58,669 |

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

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2006**

| | Note | Economic Entity | | Parent Entity | |
|--|------|-----------------|---------------|---------------|---------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Total equity at the beginning of the financial year | | 59,520 | 47,335 | 58,669 | 43,085 |
| Exchange difference on translation of foreign operations | 22 | (707) | 69 | - | - |
| Net income recognised directly in equity | | (707) | 69 | - | - |
| Profit for the year | | 11,809 | 7,593 | 7,964 | 11,061 |
| Total recognised income and expense for the year | | 11,102 | 7,662 | 7,964 | 11,061 |
| Dividends paid or provided for | 6 | (7,672) | (4,479) | (7,672) | (4,479) |
| Shares issued during the year | 21 | 8,631 | 9,002 | 8,631 | 9,002 |
| Employee share options | 22 | 116 | - | 116 | - |
| Total equity at the end of the financial year | | 71,697 | 59,520 | 67,708 | 58,669 |

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

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

**CASH FLOW STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2006**

| | Note | Economic Entity | | Parent Entity | |
|---|------|-----------------|---------------|---------------|---------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| CASH FLOWS OPERATING ACTIVITIES | | | | | |
| Receipts from customers | | 316,802 | 250,734 | 260,009 | 219,680 |
| Payments to suppliers and employees | | (287,406) | (222,689) | (244,813) | (191,632) |
| Interest received | | 262 | 111 | 573 | 96 |
| Interest and other borrowing costs paid | | (95) | (252) | (101) | (252) |
| Income tax paid | | (5,444) | (3,798) | (3,868) | (3,522) |
| GST paid | | (17,520) | (15,518) | (8,233) | (14,097) |
| Net cash provided by operating activities | 10 | 6,599 | 8,588 | 3,567 | 10,273 |
| CASH FLOWS INVESTING ACTIVITIES | | | | | |
| Payment for purchase of business | 30 | (6,825) | (2,951) | (7,082) | (2,951) |
| Purchase of plant and equipment | | (1,091) | (384) | (943) | (239) |
| Proceeds from disposal of non-current assets | | - | 1 | - | - |
| Payments for software development and intangible assets | | (193) | - | (185) | - |
| Net cash used in investing activities | | (8,109) | (3,334) | (8,210) | (3,190) |
| CASH FLOWS FINANCING ACTIVITIES | | | | | |
| Loan to vendor of business | | (400) | - | (457) | - |
| Loan from related party | | 690 | - | - | - |
| Repayment of borrowings | | - | (3,386) | - | (5,977) |
| Proceeds from borrowings | | - | - | 2,550 | - |
| Repayment of loan to vendor of business | | (495) | - | - | - |
| Dividends paid to shareholders | | (5,880) | (3,399) | (3,031) | (3,399) |
| Proceeds from the issue of shares | | 4,492 | 6,161 | 1,642 | 6,161 |
| Net cash used in financing activities | | (1,593) | (624) | 704 | (3,215) |
| Net increase / (decrease) in cash held | | (3,103) | 4,630 | (3,939) | 3,868 |
| Cash at the beginning of the financial year | | 7,395 | 2,772 | 5,652 | 1,784 |
| Effect of exchange rates on cash holdings in foreign currencies | | (205) | (7) | - | - |
| Cash at the end of the financial year | 11 | 4,087 | 7,395 | 1,713 | 5,652 |

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

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), Urgent Issues Economic Entity Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

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

The following is a summary of the material accounting policies adopted by the Economic Entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

BASIS OF PREPARATION

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards ("AIFRS")

These financial statements are the first Candle Australia Limited financial statements to be prepared in accordance with AIFRS. AASB 1 *First-time adoption of Australian Equivalents to the International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Candle Australia Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing Candle Australia Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. The 2005 comparative figures have been restated to reflect these adjustments.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS are given in note 30.

Reporting basis and conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

(a) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Candle Australia Limited as at 30 June 2006 and the results of all subsidiaries for the year ended 30 June 2006. Candle Australia Limited and its subsidiaries together are referred to in this financial report as the Economic Entity.

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

Subsidiaries are all those entities (including special purpose entities) over which the Economic Entity has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Economic Entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Economic Entity. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Economic Entity.

Intercompany transactions, balances and unrealised gains on transactions between the Economic Entity companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Economic Entity.

(b) Revenue recognition

Contracting revenue is brought to account when the services are provided. Services provided but not yet billed are taken up as accrued revenue. Recruitment revenue is brought to account when the position has been filled. Where the Economic Entity provides only payrolling services to clients, only the fee derived is accounted for in revenue.

(c) Income tax

The charge for current income tax expense is based on profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

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

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

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

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

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

Tax consolidation legislation

Candle Australia Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime.

The head entity, Candle Australia Ltd and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Candle Australia Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the Economic Entity. Details about the tax funding agreement are disclosed in note 5.

(d) Employee benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured as the amounts expected to be paid when the liability is settled, plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the Economic Entity to employee superannuation funds and are charged as expenses when incurred.

Share based payments

Share options granted before 7 November 2002 and/or vested before 1 January 2005
No expense is recognised in respect of these options.

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

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

The fair value of options granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using the American option call pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

At each balance sheet date, the entity revises its estimate of the number options that are expected to become exercisable. The employee benefits expense recognised each period takes into account the most recent estimate.

(e) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the Economic Entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are amortised over their estimated useful lives. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(f) Intangible assets

(i) Candidate databases, logos and goodwill

Intangible assets, excluding software development costs, represent the Economic Entity's candidate databases that were acquired. These assets are recorded at their respective cost of acquisition, which were supported by independent valuations performed immediately prior to the respective acquisitions.

The candidate databases represent accumulated private and proprietary information regarding the technical resource base of the various businesses. They are amortised on a straight line basis over a period of two years from the date of acquisition.

The only candidate databases recorded in the balance sheet are those that were purchased. Therefore, the candidate databases for the ICT division in New South Wales and Australian Capital Territory, which were not purchased, have not been recorded.

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

The candidate databases are constantly updated as an integral part of the business and are the major basis for the generation of revenue and profit. All costs incurred in maintaining, upgrading and improving the candidate databases are expensed as incurred.

Goodwill is recorded initially at the amount by which the purchase price for a business exceeds the fair value attributed to its net assets at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired, and carried at cost less accumulated impairment losses.

(ii) Software development costs

Software development costs are capitalised where future benefits are expected to exceed those costs. Otherwise such costs are expensed in the period in which they are incurred. Capitalised software development costs are amortised on the basis of the expected useful life of the software. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable. Any amount so identified is written off.

(g) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price at the date of exchange. Transactions costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the net assets acquired is recorded as goodwill.

(h) Property, plant and equipment

Plant and equipment is brought to account at cost less, where applicable, any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed annually to ensure it is not in excess of the recoverable amount from these assets.

**CANDLE AUSTRALIA LIMITED
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ABN 43 002 724 334**

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

The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

The depreciable amount of all fixed assets, including capitalised leased assets is depreciated over their useful lives to the Economic Entity commencing from the time the asset is held ready for use. Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements. The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the consideration at the date of acquisition plus costs incidental to the acquisition.

The gain or loss on disposal of all fixed assets, is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal and is included in operating profit before income tax of the Economic Entity in the year of disposal.

The depreciation rates and methods used for each class of depreciable assets are:

| Class of Asset | Rate | Method |
|------------------------|-------------|-------------------|
| Plant & Equipment | 9% - 37.5% | Diminishing value |
| Leasehold Improvements | 20% - 50% | Straight line |

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an assets fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(i) Foreign currency transactions and balances

(i) Functional and presentation currency - Items included in the financial statements of each of the entities that make up the Economic Entity are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Candle Australia Limited's functional and presentation currency.

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

(ii) Transactions and balances – foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Candle Australia Limited companies – the results and financial position of all the entities making up the Economic Entity (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) income and expenses for each income statement are translated at average exchange rates unless this is not a reasonable approximation of the accumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- (c) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of a foreign entity and translated at the closing rate.

(j) Cash

For the purpose of the statement of cash flows, cash includes:

- (i) cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- (ii) investments in money market instruments with less than 14 days to maturity.

(k) Rounding of accounts

The Company has applied the relief available under ASIC Class Order 98/100 and accordingly, amounts in the financial report and Directors' report have been rounded to the nearest thousand dollars.

(l) Financial instruments

(i) Loans and receivables – are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Economic Entity provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in the current assets, except for those with maturities greater than 12 months after balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

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

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

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

(m) 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.

(n) Dividends

A provision is recognised for dividends when they have been declared, determined or publicly recommended by the Directors on or before the end of the year but not distributed at balance date.

(o) Financial liabilities

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

(p) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

(q) Comparative figures

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

(r) Earnings per share

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

(i) Basic earnings per share – is calculated by dividing the profit attributable to equity holders of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share – adjusts the figures used in the determination of basic earnings per share to take into account the dilutive effect of outstanding employee options. The adjustment takes account of the weighted average income tax effect of interest and other associated financing costs.

(s) Critical accounting estimates and judgements

Estimates and judgements incorporated in the financial statements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(i) Estimated impairment of goodwill

The Economic Entity tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy in note 1(f). The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 17 for details of these assumptions and the potential impact of changes in these assumptions.

(ii) Income taxes

The Economic Entity is subject to income taxes in Australia and jurisdictions where it has foreign operations. An element of interpretation is required in determining the worldwide provision for income taxes.

(t) Financial risk management

The Economic Entity's activities expose it to a variety of financial risks:

(i) Credit risk

The Economic Entity has a large number of customers and there is active management of credit risk.

(ii) Liquidity risk

Due to the dynamic nature of the underlying business, the Economic Entity aims at maintaining flexibility in funding by ensuring sufficient cash and committed credit lines are available.

(iii) Cash flow and fair value interest rate risk

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As the Economic Entity has no significant interest-bearing assets or liabilities, the income and operating cash flows are not materially exposed to changes in interest rates. The Economic Entity regularly reviews its financial position to ensure that there are no potential exposures.

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2. SEGMENT REPORTING

a) Segments

| GEOGRAPHIC SEGMENTS | Australia | | New Zealand | | Economic Entity | |
|--|----------------|----------------|---------------|---------------|-----------------|----------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| REVENUE | | | | | | |
| External sales | 257,245 | 216,302 | 12,775 | 15,477 | 270,020 | 231,779 |
| Other revenue | 270 | 100 | 38 | 11 | 308 | 111 |
| Total segment revenue | <u>257,515</u> | <u>216,402</u> | <u>12,813</u> | <u>15,488</u> | <u>270,328</u> | <u>231,890</u> |
| RESULT | | | | | | |
| Segment result before tax and intercompany charges | 16,157 | 9,789 | 1,025 | 1,217 | 17,182 | 11,006 |
| Intercompany charges | 510 | 1134 | (510) | (1134) | - | - |
| Segment result before taxation | <u>16,667</u> | <u>10,923</u> | <u>515</u> | <u>83</u> | <u>17,182</u> | <u>11,006</u> |
| Income tax expenses | | | | | (5,373) | (3,413) |
| Net profit for the year | | | | | <u>11,809</u> | <u>7,593</u> |
| Segment assets | 103,443 | 72,077 | 6,974 | 7,906 | 110,417 | 79,983 |
| Segment liabilities | 37,605 | 18,313 | 1,115 | 2,150 | 38,720 | 20,463 |
| Intercompany balances | 4,945 | 5,779 | (4,945) | (5,779) | - | - |
| Net assets | | | | | <u>71,697</u> | <u>59,520</u> |
| Acquisitions of non current segment assets | 1,230 | 257 | 85 | 127 | 1,315 | 384 |
| Depreciation and amortisation | <u>1,690</u> | <u>1,256</u> | <u>76</u> | <u>149</u> | <u>1,766</u> | <u>1,405</u> |

b) Segment accounting policies - segment information is prepared in accordance with the accounting policies of the entity as disclosed in note 1 and accounting standard *AASB 114: Segment Reporting*. During the year, there were no changes in segment accounting policies that had a material effect on the segment information.

(c) The Economic Entity derived income from the provision of contract and temporary personnel to and recruitment services for business and Government in Australia and New Zealand.

(d) The pricing of inter-segment transactions is the same as prices charged on transactions with parties outside the Economic Entity. Such transactions are eliminated on consolidation.

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3. Revenue

| | Note | Economic Entity | | Parent Entity | |
|--|------|-----------------|----------------|----------------|----------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| From continuing operations | | | | | |
| - sales revenue | | 270,020 | 231,779 | 220,399 | 203,409 |
| - interest received | 3(a) | 262 | 111 | 573 | 458 |
| - unrealised gain on loan to controlled entity | | - | - | - | 65 |
| | | <u>270,282</u> | <u>231,890</u> | <u>220,972</u> | <u>203,932</u> |
| Other revenue | | | | | |
| - software royalties | | 46 | - | 46 | - |
| - dividend from wholly-owned subsidiary | | - | - | - | 4,092 |
| | | <u>46</u> | <u>-</u> | <u>46</u> | <u>4,092</u> |
| Total revenue | | <u>270,328</u> | <u>231,890</u> | <u>221,018</u> | <u>208,024</u> |
| Interest revenue from: | | | | | |
| - wholly owned subsidiaries | | - | - | 389 | 361 |
| - other persons | | 262 | 111 | 184 | 97 |
| Total interest revenue | | <u>262</u> | <u>111</u> | <u>573</u> | <u>458</u> |

4. Expenses

| | Note | Economic Entity | | Parent Entity | |
|--|------|-----------------|---------------|---------------|---------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Profit before income tax includes the following specific expenses: | | | | | |
| Borrowing costs: | | | | | |
| - other persons | | 95 | 246 | 90 | 247 |
| - wholly owned subsidiaries | | - | - | 11 | 5 |
| Total borrowing costs & expenses | | <u>95</u> | <u>246</u> | <u>101</u> | <u>252</u> |
| Depreciation of non-current assets | | | | | |
| - plant and equipment | | 789 | 542 | 471 | 433 |
| Amortisation of non-current assets | | | | | |
| - leasehold improvements | | 215 | 238 | 139 | 178 |
| - capitalised computer software | | 294 | 328 | 294 | 328 |
| - candidate databases | | 468 | 297 | 248 | 309 |
| Total amortisation | | <u>977</u> | <u>863</u> | <u>681</u> | <u>815</u> |
| Total depreciation and amortisation expense | | <u>1,766</u> | <u>1,405</u> | <u>1,152</u> | <u>1,248</u> |
| Bad and doubtful debts | | | | | |
| - trade debtors | | 10 | 104 | 10 | 90 |
| Loss on sale of plant and equipment | | 78 | 22 | 24 | 8 |

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5. Income tax expense

| | Note | Economic Entity | | Parent Entity | |
|---|------|-----------------|---------------|---------------|---------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Current tax | | 6,083 | 3,869 | 4,091 | 3,574 |
| Deferred tax | | (710) | (456) | (223) | (426) |
| | | <u>5,373</u> | <u>3,413</u> | <u>3,868</u> | <u>3,148</u> |
| Deferred income tax expense included in income tax expense comprises: | | | | | |
| Decrease/ (increase) in deferred tax assets | 13 | (658) | (446) | (171) | (416) |
| (Decrease)/ Increase in deferred tax liabilities | 19 | (52) | (10) | (52) | (10) |
| | | <u>(710)</u> | <u>(456)</u> | <u>(223)</u> | <u>(426)</u> |
| The prima facie tax on profit before income tax is reconciled to the income tax as follows: | | | | | |
| Prima facie tax payable on profit before income tax at 30% | | | | | |
| - economic entity | | 5,155 | 3,302 | | |
| - parent entity | | | | 3,550 | 4,263 |
| | | <u>5,155</u> | <u>3,302</u> | <u>3,550</u> | <u>4,263</u> |
| Add tax effect of: | | | | | |
| - non-deductible amortisation | | 75 | 93 | 75 | 93 |
| - other non-allowable items | | 121 | 60 | 75 | 47 |
| - tax rate adjustment on wholly owned foreign subsidiaries | | 15 | - | - | - |
| Less tax effect of: | | | | | |
| - non-taxable unrealised exchange loss / (gain) on loan to controlled entity | | - | - | 158 | (19) |
| tax offset for franked dividends within the Economic Entity | | - | - | - | (1,229) |
| Sundry items | | 7 | (42) | 10 | (7) |
| Total income tax expense | | <u>5,373</u> | <u>3,413</u> | <u>3,868</u> | <u>3,148</u> |

Tax consolidation legislation

Candle Australia Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation. The accounting policy in relation to this legislation is set out in note 1(c).

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On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the directors, limits the joint and several liability of the wholly owned entities in the case of a default by the head entity, Candle Australia Limited.

The entities have also entered into a tax compensation deed and a deed of tax sharing under which the wholly-owned entities fully compensate Candle Australia Limited for any current tax payable assumed and are compensated by Candle Australia Limited for any current tax receivable that is transferred to Candle Australia Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon the receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year.

6. Dividends

| | Economic Entity | | Parent Entity | |
|---|-----------------|--------------|---------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| Note | \$000 | \$000 | \$000 | \$000 |
| 2005 final fully franked dividend at 6.0 cents per share (2004 final: 5.0) | 3,730 | 2,065 | 3,730 | 2,065 |
| 2006 interim fully franked dividend at 8.0 cents per share (2005 interim: 5.5) | 3,942 | 2,391 | 3,942 | 2,391 |
| Under-provision for prior year | - | 23 | - | 23 |
| | <u>7,672</u> | <u>4,479</u> | <u>7,672</u> | <u>4,479</u> |
| The balance of the franking account at period end adjusted for franking credits arising from payment of income tax payable and excludes payment of proposed dividends | <u>13,530</u> | <u>8,969</u> | <u>10,807</u> | <u>8,316</u> |

7. Directors' and executives' remuneration

The names of the parent entity directors who have held office during the financial year are:

| | |
|------------------|--|
| Geoffrey J Moles | Executive Chairman |
| Robert J Collins | Managing Director |
| Ian K Crow | Non-executive Director (resigned 29 Nov 2005) |
| Lawrence J Gibbs | Non-executive Director |
| Peter D Bunting | Non-executive Director |
| Penelope Morris | Non-executive Director (appointed 23 Aug 2005) |

The names of the specified executives who held office during the financial year are:

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| | |
|------------------|--|
| Trevor A Taylor | National Manager ICT (ceased employment 10 Nov 2005) |
| Jane A Bianchini | National Manager ICT (appointed 15 May 2006) |
| Mark A Langan | Chief Financial Officer |
| Kym L Quick | National Manager Alliance (promoted 1 July 2005) |

The Company has taken advantage of the relief provided by the Corporations Amendment Regulations 2006 (no 4) and has transferred the detailed remuneration disclosures to the directors' report. The relevant information can be found in the remuneration report on pages 6 to 11.

Option holdings

The number of options over ordinary shares in the Company held during the financial year by each director of Candle Australia Limited and other key management personnel of the Economic Entity, including their personally related parties, are set out below.

| | Balance 1/7/2005 | Granted | Exercised | Other change | Balance 30/6/2006 | Vested 30/6/2006 |
|-------------------|-----------------------------|------------------|------------------|-------------------------|------------------------------|-----------------------------|
| Directors | | | | | | |
| Geoffrey J Moles | - | - | - | - | - | - |
| Robert J Collins | 1,333,334 | 1,800,000 | 733,334 | - | 2,400,000 | - |
| Ian K Crow | - | - | - | - | - | - |
| Lawrence J Gibbs | - | - | - | - | - | - |
| Peter D Bunting | - | - | - | - | - | - |
| Penelope Morris | - | - | - | - | - | - |
| Executives | | | | | | |
| Trevor A Taylor | 763,334 | 350,000 | 163,334 | (950,000) | - | - |
| Mark A Langan | 299,000 | 300,000 | 69,000 | - | 530,000 | 220,000 |
| Kym L Quick | 131,000 | 200,000 | 100,000 | - | 271,000 | 110,667 |
| Jane A Bianchini | - | - | - | - | - | - |
| Total | 2,526,668 | 2,650,000 | 1,065,668 | (950,000) | 3,201,000 | 330,667 |

Further information regarding the option plan is set out in note 26.

Share holdings

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The number of shares in the Company held during the financial year by each director of Candle Australia Limited and other key management personnel of the Economic Entity, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

| | Balance 1/7/2005 | Received as remuneration | Options exercised | Other change | Balance 30/6/2006 |
|-------------------|-----------------------------|-------------------------------------|------------------------------|-------------------------|------------------------------|
| Directors | | | | | |
| Geoffrey J Moles | 3,255,575 | - | - | (498,363) | 2,757,212 |
| Robert Collins | 1,860,167 | - | 733,333 | (1,800,000) | 793,500 |
| Lawrence J Gibbs | 40,273 | - | - | 2,408 | 42,681 |
| Peter D Bunting | 7,500 | - | - | - | 7,500 |
| Penelope Morris | - | - | - | - | - |
| Executives | | | | | |
| Trevor A Taylor | 93,333 | - | 163,334 | (256,667) | - |
| Mark A Langan | 65,973 | - | 69,000 | (134,973) | - |
| Kym L Quick | - | - | 60,000 | (60,000) | - |
| Jane A Bianchini | - | - | - | 2,500 | 2,500 |
| Total | 5,322,821 | - | 1,025,667 | (2,745,095) | 3,603,393 |

Other transaction with directors

During the financial year corporate advisory services were provided by B G Capital Corporation Limited, a company associated with Lawrence Gibbs for \$60,000 (2005: \$60,000) on normal commercial terms.

8. Remuneration of auditors

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During the year, the following fees were paid or were payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | Economic Entity | | Parent Entity | |
|--|------------------------|----------------|----------------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| Remuneration of the auditor of the parent entity for: | | | | |
| - auditing or reviewing the financial report | 126,937 | 87,100 | 96,000 | 82,100 |
| - taxation services | 14,485 | 27,000 | 14,485 | 4,000 |
| - business services | 598 | 8,000 | 598 | 8,000 |
| | <u>142,020</u> | <u>122,100</u> | <u>111,083</u> | <u>94,100</u> |
| Remuneration of other auditors of subsidiaries for: | | | | |
| - auditing or reviewing the financial report of subsidiaries | 15,721 | 13,870 | - | - |

9. Earnings per share

| | Economic Entity | |
|----------------------------|------------------------|--------------|
| | 2006 | 2005 |
| | Cents | Cents |
| Basic earnings per share | 24.4 | 17.7 |
| Diluted earnings per share | 22.6 | 16.3 |

(a) Reconciliation of earnings used in calculating earnings per share

| | \$000 | \$000 |
|---|---------------|--------------|
| Net profit after tax used in calculating basic earnings per share | 11,809 | 7,593 |
| Adjustments for calculation of diluted earnings per share | | |
| Interest earned on conversion of options | 500 | 141 |
| Net profit used in calculating diluted earnings per share | <u>12,309</u> | <u>7,734</u> |

(b) Weighted average number of shares used as the denominator

| | Number 000 | Number 000 |
|--|-----------------------|-----------------------|
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS | 48,360 | 42,949 |
| Adjustment for calculation of diluted earnings per share: | | |
| Weighted average number of options | 6,164 | 4,514 |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | <u>54,524</u> | <u>47,463</u> |

(c) Classification of securities

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Options granted to employees under the Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 26.

10. Cash flow information

| | Economic Entity | | Parent Entity | |
|---|------------------------|--------------|----------------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$000 | \$000 | \$000 | \$000 |
| (a) Reconciliation of profit after tax to net cash flow from operating activities | | | | |
| Profit for the year | 11,809 | 7,593 | 7,964 | 11,061 |
| Non-cash flows in operating profit: | | | | |
| Depreciation and amortisation | 1,766 | 1,405 | 1,152 | 1,248 |
| Non-cash employee benefits expense – share based payments | 116 | | 116 | |
| Charges to provisions | 1,197 | 230 | 53 | 206 |
| Interest | - | (42) | - | (362) |
| Loss on disposal of plant and equipment | 78 | 22 | 24 | 8 |
| Movement in income taxes payable | 71 | (114) | (740) | 22 |
| Movement in deferred taxes | (710) | (457) | (222) | (428) |
| Unrealised foreign exchange movements on loan | - | (65) | 582 | (65) |
| Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries: | | | | |
| (Increase) / Decrease in trade and term debtors | (13,092) | (2,265) | (9,672) | (3,214) |
| (Increase) / Decrease in prepayments | 72 | (148) | 1,340 | (137) |
| Increase / (Decrease) in trade creditors and accruals | 5,292 | 2,429 | 2,970 | 1,934 |
| Net cash provided by operating activities | <u>6,599</u> | <u>8,588</u> | <u>3,567</u> | <u>10,273</u> |

(b) Non-cash financing and investing activities

Share issue – during the year the parent company issued shares set out in note 21.

(c) Credit standby arrangements with

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banks

| | | | | |
|---------------------------|--------|--------|--------|--------|
| Bank bill credit facility | 12,600 | 14,600 | 12,600 | 14,600 |
| Amount utilised | - | - | - | - |
| Unused credit facility | 12,600 | 14,600 | 12,600 | 14,600 |

The major facilities are summarised as follows:

Bank overdrafts

Bank overdraft facilities are arranged with both Australian (\$5,000,000) and New Zealand (\$822,000) banks with the general terms and conditions being set out and agreed to on a regular basis. Interest rates are variable and subject to adjustment.

(d) Overdraft facilities

| | Economic Entity | | Parent Entity | |
|---------------------------|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Overdraft facility | 5,822 | 3,873 | 5,000 | 3,000 |
| Amount utilised | - | - | - | - |
| Unused overdraft facility | 5,822 | 3,873 | 3,000 | 3,000 |

Finance will be provided under all facilities provided the Company and the Economic Entity have not breached any borrowing requirements and the required financial ratios are met.

11. Cash and cash equivalents

| | Economic Entity | | Parent Entity | |
|--------------------------|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Cash at bank and on hand | 3,140 | 6,919 | 1,713 | 5,652 |
| Deposits at call | 947 | 476 | - | - |
| | 4,087 | 7,395 | 1,713 | 5,652 |

The deposits are bearing interest rates of 5.45% (2005: 4.15%). These deposits are at call.

Reconciliation of cash

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

| | Economic Entity | | Parent Entity | |
|---------------------------|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Balances as above | 4,087 | 7,395 | 1,713 | 5,652 |
| Bank overdrafts (note 10) | - | - | - | - |
| | 4,087 | 7,395 | 1,713 | 5,652 |

12. Trade and other receivables

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| | Economic Entity | | Parent Entity | |
|------------------------------|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Current | | | | |
| Trade receivables | 37,696 | 24,633 | 31,223 | 21,601 |
| Allowance for doubtful debts | (221) | (250) | (153) | (202) |
| | <u>37,475</u> | <u>24,383</u> | <u>31,070</u> | <u>21,399</u> |
| Accrued income | 11,064 | 11,022 | 9,398 | 10,552 |
| Amounts receivable from: | | | | |
| - wholly-owned subsidiaries | - | - | 905 | 1,233 |
| - related parties | 205 | - | - | - |
| Prepayments | 256 | 411 | 179 | 334 |
| Other debtors | 85 | 44 | 12 | 43 |
| | <u>49,085</u> | <u>35,860</u> | <u>41,564</u> | <u>33,561</u> |
| Non-current | | | | |
| Amounts receivable from: | | | | |
| - controlled entity * | - | - | 4,758 | 5,307 |

* The parent company has agreed not to call upon this loan to the detriment of the company or its creditors for at least one year.

(a) Fair values

The fair value approximates to the carrying value of the non-current receivables.

(b) Interest rate risk

The trade and other receivables are non-interest bearing.

(c) Credit risk

The largest debtor comprises 14 percent of total debtors otherwise there is no material concentration of credit risk with respect to current and non-current receivables. Refer to note 1 for more information on the risk management policy of the Economic Entity.

13. Deferred tax assets

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| | Economic Entity | | Parent Entity | |
|---|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| The balance comprises temporary differences attributable to: | | | | |
| Doubtful debts | 68 | 75 | 46 | 60 |
| Employee benefits | 418 | 344 | 302 | 261 |
| Provision for make good on leased premises | 41 | - | 20 | - |
| Lease incentive | 252 | - | 65 | - |
| Accruals | 1,452 | 1,154 | 1,175 | 1,116 |
| | <u>2,231</u> | <u>1,573</u> | <u>1,608</u> | <u>1,437</u> |

| | Economic Entity | | Parent Entity | |
|---|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Movements | | | | |
| Balance at the beginning of the year | 1,573 | 1,127 | 1,437 | 1,021 |
| Credited/ (charged) to the income statement | 658 | 446 | 171 | 416 |
| Balance at the end of the year | <u>2,231</u> | <u>1,573</u> | <u>1,608</u> | <u>1,437</u> |

14. Property, plant and equipment

| | Economic Entity | | Parent Entity | |
|-------------------------------------|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Plant and equipment, at cost | 6,827 | 6,268 | 4,963 | 4,528 |
| Accumulated depreciation | (4,542) | (4,509) | (3,375) | (3,129) |
| | <u>2,285</u> | <u>1,759</u> | <u>1,588</u> | <u>1,399</u> |
| Leasehold improvements, at cost | 3,147 | 1,881 | 2,134 | 1,649 |
| Accumulated amortisation | (2,183) | (1,832) | (1,755) | (1,606) |
| | <u>964</u> | <u>49</u> | <u>379</u> | <u>43</u> |
| Total property, plant and equipment | <u>3,249</u> | <u>1,808</u> | <u>1,967</u> | <u>1,442</u> |

Movements in carrying amounts

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| | Plant and equipment \$000 | Leasehold improvements \$000 | Total \$000 |
|--------------------------------------|---------------------------------|------------------------------------|----------------|
| Economic Entity: | | | |
| Balance at the beginning of the year | 1,759 | 49 | 1,808 |
| Additions | 1,315 | 1,208 | 2,523 |
| Disposals | - | (78) | (78) |
| Depreciation expense | (789) | (215) | (1,004) |
| Carrying amount at the end of year | 2,285 | 964 | 3,249 |
| Parent entity: | | | |
| Balance at the beginning of year | 1,399 | 43 | 1,442 |
| Additions | 660 | 499 | 1,159 |
| Disposals | - | (24) | (24) |
| Depreciation expense | (471) | (139) | (610) |
| Carrying amount at the end of year | 1,588 | 379 | 1,967 |

15. Other financial assets

| | Economic Entity | | Parent Entity | |
|-------------------------------|-----------------|-------|---------------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$000 | \$000 | \$000 | \$000 |
| Investments comprise: | | | | |
| Shares in: | | | | |
| - controlled entities at cost | - | - | 30,762 | 10,932 |
| | - | - | 30,762 | 10,932 |

16. Subsidiaries

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

| | Country of incorporation | Class of shares | Equity holding* | |
|--|-----------------------------|--------------------|-----------------|-----------|
| | | | 2006 % | 2005 % |
| Freeman Adams Pty Limited | Australia | Ordinary | 100 | 100 |
| Candle IT & T Recruitment Pty Limited | Australia | Ordinary | 100 | 100 |
| Alliance Recruitment Pty Limited | Australia | Ordinary | 100 | 100 |
| Workskills Professionals Pty Limited | Australia | Ordinary | 100 | 100 |
| Premier Personnel Pty Limited | Australia | Ordinary | 100 | 100 |
| Executive Search & Selection Pty Ltd | Australia | Ordinary | 100 | 100 |
| The One Umbrella Pty Ltd | Australia | Ordinary | 100 | 100 |
| Candle Holdings Limited | New Zealand | Ordinary | 100 | 100 |
| Candle New Zealand Limited | New Zealand | Ordinary | 100 | 100 |
| Doughty Contractors Limited | New Zealand | Ordinary | 100 | 100 |
| Candle IT & T Recruitment Limited | New Zealand | Ordinary | 100 | 100 |
| Choice IT Pty Limited | Australia | Ordinary | 100 | - |
| Parker Bridge (Australia) Pty Limited | Australia | Ordinary | 100 | - |
| Lloyd Morgan International Pty Limited | Australia | Ordinary | 100 | - |
| Lloyd Morgan (Brisbane) Pty Limited | Australia | Ordinary | 100 | - |

* The proportion of ownership interest is equal to the proportion of voting power held.

17. Intangible Assets

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| | Economic Entity | | Parent Entity | |
|--|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Candidate databases | 2,623 | 2,183 | 1,039 | 1,039 |
| Accumulated amortisation | (2,363) | (1,895) | (998) | (750) |
| | <u>260</u> | <u>288</u> | <u>41</u> | <u>289</u> |
| Capitalised software development costs | 2,115 | 1,956 | 2,065 | 1,956 |
| Accumulated amortisation | (1,821) | (1,485) | (1,779) | (1,485) |
| | <u>294</u> | <u>471</u> | <u>286</u> | <u>471</u> |
| Goodwill at cost | <u>56,157</u> | <u>38,367</u> | <u>23,196</u> | <u>23,120</u> |
| Total intangible assets | <u>56,711</u> | <u>39,126</u> | <u>23,523</u> | <u>23,880</u> |

(a) Movements in carrying amounts

| | Candidate databases | Capitalised software costs | Goodwill | Total |
|--|------------------------|----------------------------------|---------------|---------------|
| Economic Entity | | | | |
| Balance at the beginning of the year | 288 | 471 | 38,367 | 39,126 |
| Additions | 440 | 117 | 18,292 | 18,849 |
| Amortisation expense | (468) | (294) | - | (762) |
| Exchange differences | - | - | (502) | (502) |
| Carrying amount at the end of the year | <u>260</u> | <u>294</u> | <u>56,157</u> | <u>56,711</u> |
| Parent Entity | | | | |
| Balance at the beginning of the year | 289 | 471 | 23,120 | 23,880 |
| Additions | - | 109 | 76 | 185 |
| Amortisation expense | (248) | (294) | - | (542) |
| Carrying amount at the end of the year | <u>41</u> | <u>286</u> | <u>23,196</u> | <u>23,523</u> |

Intangible assets, other than goodwill have finite useful lives. The current amortisation charges in respect of intangible assets are included under depreciation and amortisation expense per the income statement. Goodwill has an infinite life.

Impairment tests

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Goodwill is allocated to the Economic Entity's cash-generating units, which are based on the Economic Entity's individual brands.

| | 2006 \$000 | 2005 \$000 |
|-----------------------|---------------|---------------|
| Candle ICT | 12,092 | 12,092 |
| Candle New Zealand | 4,210 | 4,712 |
| Freeman Adams | 4,011 | 4,011 |
| Alliance Recruitment | 14,205 | 14,205 |
| The One Umbrella | 3,423 | 3,347 |
| Parker Bridge | 5,268 | - |
| Choice IT | 1,140 | - |
| Lloyd Morgan | 10,819 | - |
| International | | |
| Lloyd Morgan Brisbane | 989 | - |
| Total | 56,157 | 38,367 |

Impairment tests are carried out to ensure that assets are carried at amounts that are not in excess of their recoverable amount. Recoverable amount is assessed on the basis of value in use. Value in use is calculated using the present value of the future cash flows expected to be derived from each cash generating unit. The discounted cash flow (DCF) projections are based on current performance and financial forecasts extrapolated over a ten year period. Current estimated terminal values are in the range of 2.5 - 4.5 times. The cash flows are discounted in the range of 11% - 15%. Management derives its forecasts and input variables to the DCF model based on past performance and its expectations for the future.

18. Trade and other payables

| | Economic Entity | | Parent Entity | |
|----------------------------------|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Current | | | | |
| Trade creditors | 25,657 | 20,058 | 21,350 | 17,667 |
| Amounts payable to: | | | | |
| - controlled entities | - | - | 449 | 19 |
| - vendors of acquired businesses | 13,152 | 2,988 | 13,110 | 2,988 |
| | 38,809 | 23,046 | 34,909 | 20,674 |
| Non-current | | | | |
| Trade creditors | 22 | 23 | - | - |

(a) Interest rate exposure

All trade and other payables are non-interest bearing.

(b) Fair value

The fair value approximates to the carrying value of the non-current payables.

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19. Tax liabilities

| | Note | Economic Entity | | Parent Entity | |
|--|------|-----------------|---------------|---------------|---------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Current | | | | | |
| Income tax | | 1,797 | 1,792 | 1,778 | 1,732 |
| Deferred tax liabilities | | | | | |
| | | - | 52 | - | 52 |
| The balance comprises temporary differences attributable to: | | | | | |
| Depreciation | | - | 52 | - | 52 |
| Movements | | | | | |
| Balance at the beginning of the year | | 52 | 62 | 52 | 62 |
| Charged/ (credited) to the income statement | | (52) | (10) | (52) | (10) |
| Balance at the end of the year | | - | 52 | - | 52 |

20. Provisions

| | Note | Economic Entity | | Parent Entity | |
|---------------------------------------|------|-----------------|---------------|---------------|---------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Current | | | | | |
| Dividend cheques not presented | | 51 | 54 | 51 | 54 |
| Restructure & re-branding | | - | 130 | - | 130 |
| Employee benefits | | 1,040 | 844 | 530 | 605 |
| Lease incentive | | 862 | - | 215 | - |
| | | 1,953 | 1,028 | 796 | 789 |
| Non-current | | | | | |
| Employee benefits | | 569 | 301 | 478 | 295 |
| Make good on leased premises | | 516 | - | 226 | - |
| | | 1,085 | 301 | 704 | 295 |
| | | 3,038 | 1,329 | 1,500 | 1,084 |
| Aggregate employee benefits liability | | 1,609 | 1,145 | 1,008 | 900 |
| | | No. | No. | No. | No. |
| Number of employees at year end | | 369 | 226 | 228 | 185 |

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Dividend

This provision recognises dividends that were paid by cheque but not presented.

Restructure and re-branding

This provision was recognised in relation to the acquisitions of Workskills Professional and Premier Personnel for re-branding to the Alliance brand and employment separation costs in order to secure the benefits of the respective acquisitions.

Lease incentive

This provision represents the liability associated with rent free periods given under current operating contracts. Management has calculated this amount based on the current rental contracts.

Make-good

This amount represents the cost which will be paid on completion of current tenancy under the applicable rental contracts. The amount has been calculated based on an estimate of the costs to fulfil each individual rental contract requirements.

Movements in provisions

Movements in each class of provision during the financial year, other than employee benefits, are set out below:

Economic Entity

| | Dividends \$000 | Restructuring & re-branding \$000 | Lease incentive \$000 | Premises make- good \$000 | Total \$000 |
|----------------------------------|--------------------|---|-----------------------------|------------------------------------|----------------|
| Carrying amount at start of year | 54 | 130 | - | - | 184 |
| Additional provision recognised | - | - | 862 | 516 | 1,378 |
| Amounts utilised | (3) | (130) | - | - | (133) |
| Carrying amount at end of year | 51 | - | 862 | 516 | 1,429 |

Parent Entity

| | Dividends \$000 | Restructuring & re-branding \$000 | Lease incentive \$000 | Premises make- good \$000 | Total \$000 |
|----------------------------------|--------------------|---|-----------------------------|------------------------------------|----------------|
| Carrying amount at start of year | 54 | 130 | - | - | 184 |
| Additional provision recognised | - | - | 215 | 226 | 441 |
| Amounts utilised | (3) | (130) | - | - | (133) |
| Carrying amount at end of year | 51 | - | 215 | 226 | 492 |

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21. Contributed equity

| | Economic Entity | | Parent Entity | |
|--|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| 49,773,938 (2005: 45,389,002) fully paid ordinary shares | 54,072 | 45,441 | 54,072 | 45,441 |
| Ordinary shares at the beginning of the year | 45,441 | 36,439 | 45,441 | 36,439 |
| Shares issued during the year: | | | | |
| Issue of shares in relation to the acquisitions | 2,345 | 1,792 | 2,345 | 1,792 |
| Issue of shares under the Dividend Reinvestment Plan | 1,792 | 1,050 | 1,792 | 1,050 |
| Issue of shares pursuant to the exercise of options | 1,643 | 2,793 | 1,643 | 2,793 |
| Issue of shares in relation to the underwriting of the Dividend Re-investment Plan | 2,880 | 3,387 | 2,880 | 3,387 |
| Less transaction costs | (29) | (20) | (29) | (20) |
| At the end of the year | 54,072 | 45,441 | 54,072 | 45,441 |

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meetings each fully paid ordinary share is entitled to one vote.

| Ordinary shares | Economic Entity | | Parent Entity | |
|---|-----------------|-------------|---------------|-------------|
| | 2006 No. | 2005 No. | 2006 No. | 2005 No. |
| At the beginning of the year | 45,389,002 | 39,532,141 | 45,389,002 | 39,532,141 |
| Shares issued during year: | | | | |
| Exercise of Employee Options | 1,519,032 | 2,654,262 | 1,519,032 | 2,654,262 |
| Dividend Re-investment Plan | 657,711 | 535,919 | 657,711 | 535,919 |
| Issue of shares in relation to the acquisitions | 1,070,022 | 919,402 | 1,070,022 | 919,402 |
| Underwritten Dividend Re-investment Plan | 1,138,171 | 1,747,278 | 1,138,171 | 1,747,278 |
| At the end of the year | 49,773,938 | 45,389,002 | 49,773,938 | 45,389,002 |

Share options

Further information relating to the Company share option plan is set out in note 26. Details of options granted to directors and executive officers are set out in the director's report. At the 30 June 2006 there were 6,599,041 (2005: 3,889,741) options outstanding.

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22. Reserves

| | Note | Economic Entity | | Parent Entity | |
|------------------------------|-------|-----------------|---------------|---------------|---------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Share-based payments | 22(a) | 116 | - | 116 | - |
| Foreign currency translation | 22(a) | (209) | 498 | - | - |
| Total | | (93) | 498 | 116 | - |

(a) Movements

Share-based payments

Movements during the year

At the beginning of the year

| | | | | |
|--|---|---|---|---|
| | - | - | - | - |
|--|---|---|---|---|

| | | | | |
|----------------|-----|---|-----|---|
| Option expense | 116 | - | 116 | - |
|----------------|-----|---|-----|---|

| | | | | |
|------------------------|-----|---|-----|---|
| At the end of the year | 116 | - | 116 | - |
|------------------------|-----|---|-----|---|

Foreign currency translation reserve

Movements during the year

| | | | | |
|------------------------------|-----|-----|---|---|
| At the beginning of the year | 498 | 429 | - | - |
|------------------------------|-----|-----|---|---|

| | | | | |
|--|-------|----|---|---|
| Adjustment arising from the translation of foreign controlled entities' financial statements | (707) | 69 | - | - |
|--|-------|----|---|---|

| | | | | |
|------------------------|-------|-----|---|---|
| At the end of the year | (209) | 498 | - | - |
|------------------------|-------|-----|---|---|

Nature and purpose of reserves

(i) Share-based payments

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) Foreign currency translation reserve

The foreign currency translation reserve records exchange differences arising on translation of foreign controlled entities. The reserve is recognised in the profit and loss when the net investment is disposed.

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23. Retained profits

| | Note | Economic Entity | | Parent Entity | |
|---|------|-----------------|---------------|---------------|---------------|
| | | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| Retained profits at the beginning of the financial year | | 13,581 | 10,467 | 13,228 | 6646 |
| Net profit for the year | | 11,809 | 7,593 | 7,964 | 11,061 |
| Dividends paid | 6 | (7,672) | (4,479) | (7,672) | (4,479) |
| Retained profits at the end of the Financial year | | <u>17,718</u> | <u>13,581</u> | <u>13,520</u> | <u>13,228</u> |

24. Capital commitments and leasing

Commitments for minimum lease payments in relation to non-cancellable operating leases payable are as follows:

| | Economic Entity | | Parent Entity | |
|---|-----------------|---------------|---------------|---------------|
| | 2006 \$000 | 2005 \$000 | 2006 \$000 | 2005 \$000 |
| - within one year | 2,192 | 994 | 1,007 | 639 |
| - later that one year but not later than five years | 3,863 | 2,559 | 1,444 | 2,295 |
| - later than five years | 56 | - | - | - |
| | <u>6,111</u> | <u>3,553</u> | <u>2,451</u> | <u>2,934</u> |

Operating lease commitments refer to property leases for the 21 sites (2005: 17 sites) operating across Australia and New Zealand. In general leases are negotiated with fixed increases for the first three years and then a market review thereafter.

25. Contingent liabilities

There are no material contingent liabilities that need to be disclosed in the financial statements.

26. Employee benefits

Share option plan

A share option plan has been in place since the Company listed on the Australian Stock Exchange in 1997. The plan includes a performance hurdle for the exercise of options granted, whereby the Candle Australia Limited share price must outperform the relevant ASX Index on which the shares of Candle Australia Limited are listed.

The options hold no voting or dividend rights and are not transferable.

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Set out below are summaries of options granted under the plan:

Consolidated and parent entity - 2006

| Grant Date | Date of Expiry | Exercise Price | Balance at the start of year No. | Granted during year No. | Exercised during year No. | Forfeited/ lapsed during year No. | Balance at end of year No. |
|---------------------------------|----------------|----------------|-------------------------------------|----------------------------|------------------------------|---|-------------------------------|
| 9 Nov 01 | 9 Nov 05 | \$0.95 | 67,000 | - | 67,000 | - | - |
| 30 April 02 | 30 Apr 06 | \$1.07 | 16,000 | - | 16,000 | - | - |
| 1 July 02 | 1 July 06 | \$0.82 | 146,736 | - | 146,736 | - | - |
| 1 July 02 | 1 July 08 | \$0.85 | 133,334 | - | 133,334 | - | - |
| 30 Oct 02 | 30 Oct 06 | \$0.86 | 63,334 | - | 53,334 | - | 10,000 |
| 26 Feb 03 | 26 Feb 07 | \$0.76 | 235,000 | - | 35,000 | - | 200,000 |
| 1 July 03 | 1 July 09 | \$1.00 | 1,200,000 | - | 600,000 | - | 600,000 |
| 24 July 03 | 24 July 07 | \$1.06 | 323,337 | - | 149,997 | 13,334 | 160,006 |
| 1 Dec 03 | 2 Dec 07 | \$1.29 | 300,000 | - | 100,000 | 200,000 | - |
| 30 June 04 | 30 June 08 | \$1.61 | 745,000 | - | 179,298 | 85,334 | 480,368 |
| 29 Nov 04 | 29 Nov 08 | \$2.05 | 660,000 | - | 38,333 | 365,000 | 256,667 |
| 1 July 05 | 1 July 09 | \$2.08 | - | 1,987,000 | - | 455,000 | 1,532,000 |
| 1 July 05 | 1 July 11 | \$2.08 | - | 1,800,000 | - | - | 1,800,000 |
| 23 Dec 05 | 23 Dec 09 | \$2.45 | - | 100,000 | - | - | 100,000 |
| 17 Mar 05 | 17 Mar 10 | \$2.97 | - | 1,460,000 | - | - | 1,460,000 |
| | | | 3,889,741 | 5,347,000 | 1,519,032 | 1,118,668 | 6,599,041 |
| Weighted average exercise price | | | \$1.29 | \$2.33 | \$1.08 | \$1.88 | \$2.08 |

Consolidated and parent entity - 2005

| Grant Date | Date of Expiry | Exercise Price | Balance at the start of year No. | Granted during year No. | Exercised during year No. | Forfeited/ lapsed during year No. | Balance at end of year No. |
|---------------------------------|----------------|----------------|-------------------------------------|----------------------------|------------------------------|---|-------------------------------|
| 1 July 00 | 1 July 04 | \$3.15 | 30,000 | - | - | 30,000 | - |
| 25 July 00 | 25 July 04 | \$2.84 | 90,000 | - | - | 90,000 | - |
| 5 Dec 00 | 5 Dec 04 | \$1.96 | 60,000 | - | - | 60,000 | - |
| 2 April 01 | 2 April 07 | \$1.05 | 1,000,000 | - | 1,000,000 | - | - |
| 30 May 01 | 30 May 05 | \$1.32 | 20,000 | - | 20,000 | - | - |
| 9 Nov 01 | 9 Nov 05 | \$0.95 | 191,000 | - | 124,000 | - | 67,000 |
| 27 Feb 02 | 27 Feb 06 | \$1.05 | 21,000 | - | 21,000 | - | - |
| 30 April 02 | 30 Apr 06 | \$1.07 | 48,000 | - | 32,000 | - | 16,000 |
| 01 July 02 | 01 July 08 | \$0.85 | 266,667 | - | 133,334 | - | 133,334 |
| 30 Oct 02 | 30 Oct 06 | \$0.86 | 76,667 | - | 13,333 | - | 63,334 |
| 26 Feb 03 | 26 Feb 07 | \$0.76 | 315,000 | - | 70,000 | 10,000 | 235,000 |
| 01 July 03 | 01 July 09 | \$1.00 | 1,800,000 | - | 600,000 | - | 1,200,000 |
| 24 July 03 | 24 July 07 | \$1.06 | 515,000 | - | 159,663 | 32,000 | 323,337 |
| 01 Dec 03 | 02 Dec 07 | \$1.29 | 650,000 | - | 350,000 | - | 300,000 |
| 30 June 04 | 30 June 08 | \$1.61 | 804,000 | - | 47,666 | 11,334 | 745,000 |
| 29 Nov 04 | 29 Nov 08 | \$2.05 | - | 660,000 | - | - | 660,000 |
| | | Total | 6,140,669 | 660,000 | 2,654,262 | 256,666 | 3,889,741 |
| Weighted average exercise price | | | \$1.14 | \$2.05 | \$1.05 | \$2.13 | \$1.29 |

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The weighted average share price at the date of exercise during the year ended 30 June 2006 was \$2.55 (2005: \$1.84)

The weighted average remaining contractual life of share options outstanding at the year end was 3.5 years (2005: 3.02 years).

Fair value of options granted

The assessment of fair value of options is made at each grant date during the year. The range of fair values for options granted during the year was from \$0.20 to \$0.26. The fair value at grant date is independently determined using the American option call pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield, and the risk free interest rate for the term of the option. The expected price volatility is based on the historic volatility adjusted for any expected changes to future volatility due to publicly available information.

27. Related party disclosures

a) Parent entity

The ultimate parent entity and ultimate controlling party within the Economic Entity is Candle Australia Limited.

b) Subsidiaries

Interests in subsidiaries are set out in note 16.

c) Directors and key management personnel

Disclosures relating to director and key management personnel are set out in note 7.

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d) Transactions with related parties

| | Economic Entity | | Parent Entity | |
|---|-----------------|------|---------------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| <i>Sales of services</i> | | | | |
| Recruitment services to related parties | - | - | 20,098 | - |
| <i>Purchases</i> | | | | |
| Recruitment services received from subsidiaries | - | - | 209,153 | - |
| <i>Tax consolidation legislation</i> | | | | |
| Current tax payable assumed from wholly owned tax consolidated entities | - | - | 787,171 | - |
| <i>Dividend revenue</i> | | | | |
| Subsidiaries | - | - | - | 4,092,000 |

e) Loans

| | | | | |
|---|---------|---|-----------|-----------|
| Loans to subsidiaries | - | - | 5,970,787 | 6,540,513 |
| Loans to vendors of acquired business (secured) | 204,605 | - | - | - |
| Loans from subsidiaries | - | - | 754,864 | 18,528 |

No provision for doubtful debts has been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

f) Terms and conditions

All transactions were made on normal commercial terms and conditions, except that there are no fixed terms for the repayment of loans between parties.

28. Events subsequent to the reporting date

On the 22nd August the Company resolved to pay a fully franked final dividend of 9.0 cents per share and a fully franked special dividend of 2.0 cents per share on 15th September 2006.

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29. Acquisition of subsidiaries

- (i) On 4 July 2005, the parent entity gained effective control through the acquisition of all of the issued share capital in Parker Bridge (Australia) Pty Ltd, a dedicated accounting recruitment company.

Details of the purchase consideration, fair value of assets and liabilities acquired and goodwill are as follows:

| Purchase consideration | \$000 |
|--|--------------|
| Cash paid | 2,175 |
| Direct costs associated with the acquisition | 71 |
| Issue of 381,700 ordinary shares at market price | 725 |
| Balance of purchase price payable | 3,000 |
| | 5,971 |

The balance of the purchase price was paid on the 6 July 2006, and hence has been brought to account as a component of goodwill.

| Assets and liabilities acquired at acquisition date: | \$000 |
|---|------------------|
| Cash | 266 |
| Receivables | 1,564 |
| Property, plant and equipment | 284 |
| Intangibles | 354 |
| Payables | (1,765) |
| Total net assets acquired | 703 |
| Goodwill on consolidation | 5,268 |

The assets and liabilities arising from the acquisition are recognised at fair value which equals their carrying value at acquisition date.

Profit relating to Parker Bridge (Australia) Pty Ltd totalling \$1,027,000 is included in the consolidated income statement for the year ended 30 June 2006.

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- (ii) On 4 July 2005, the parent entity gained effective control through the acquisition of all of the issued share capital of Choice IT Pty Ltd, an ICT recruitment and contracting company.

Details of the purchase consideration, fair value of assets and liabilities and goodwill are as follows:

| Purchase consideration | \$000 |
|---|--------------|
| Cash paid | 489 |
| Direct costs associated with the acquisition | 26 |
| Issued of 105,297 ordinary shares at market price | 200 |
| Balance of purchase price payable | <u>724</u> |
| | <u>1,439</u> |

In the event that certain pre-determined targets are achieved by the subsidiary, contingent consideration becomes payable. At the date of this financial report, it is probable that some of these payments will be made, and hence have been brought to account as a component of goodwill. If it becomes probable that any element of the remaining consideration will be payable, it will be brought to account when the amount can be reliably measured.

| Assets and liabilities acquired at acquisition date: | \$000 |
|---|------------------|
| Cash | 282 |
| Receivables | 726 |
| Property, plant and equipment | 24 |
| Intangibles | 86 |
| Payables | <u>(819)</u> |
| Total net assets acquired | <u>299</u> |
| Goodwill on consolidation | <u>1,140</u> |

The assets and liabilities arising from the acquisition are recognised at fair value which equals their carrying value at acquisition date.

Profit relating to Choice IT Pty Ltd totalling \$241,000 is included in the consolidated income statement for the year ended 30 June 2006.

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

- (iii) On 1 December 2005, the parent entity gained effective control through the acquisition of all of the issued share capital in Lloyd Morgan International Pty Ltd, an executive recruitment and HR consulting company.

Details of the purchase consideration, fair value of assets and liabilities acquired and goodwill are as follows:

| Purchase consideration | \$000 |
|--|---------------|
| Cash paid | 1,258 |
| Direct costs associated to the acquisition | 55 |
| Issue of 301,255 ordinary shares at market price | 720 |
| Balance of purchase price payable | 9,336 |
| | <u>11,369</u> |

In the event that certain pre-determined targets are achieved by the subsidiary, contingent consideration becomes payable. At the date of this financial report, it is probable that some of these payments will be made, and hence have been brought to account as a component of goodwill. If it becomes probable that any element of the remaining consideration will be payable, it will be brought to account when the amount can be reliably measured.

| Assets and liabilities acquired at acquisition date: | \$000 |
|---|----------------|
| Cash overdraft | (19) |
| Receivables | 1,504 |
| Property, plant and equipment | 550 |
| Payables | <u>(1,485)</u> |
| Total net assets acquired | <u>550</u> |
| Goodwill on consolidation | <u>10,819</u> |

The assets and liabilities arising from the acquisition are recognised at fair value which equals their carrying value at acquisition date.

Profit relating to Lloyd Morgan International Pty Ltd amounting to \$1,233,000 is included in the consolidated income statement for the year ended 30 June 2006. The revenue relating to the period from 1 July to acquisition date of the acquired company is \$3,868,000 and the profit \$1,033,000 (based on unaudited accounts).

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

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

- (iv) On 1 December 2005, the parent entity gained effective control through the acquisition of all of the issued share capital in Lloyd Morgan (Brisbane) Pty Ltd, an executive recruitment and HR consulting company.

Details of the purchase consideration, fair value of assets and liabilities acquired and goodwill are as follows:

| Purchase consideration | \$000 |
|---|--------------|
| Cash paid | 540 |
| Issue of 75,314 ordinary shares at market price | 180 |
| Balance of purchase price payable | 330 |
| | 1,050 |

In the event that certain pre-determined targets are achieved by the subsidiary, contingent consideration becomes payable. At the date of this financial report, it is probable that some of these payments will be made, and hence have been brought to account as a component of goodwill. If it becomes probable that any element of the remaining consideration will be payable, it will be brought to account when the amount can be reliably measured.

| Assets and liabilities acquired at acquisition date: | \$000 |
|---|----------------|
| Cash | 79 |
| Receivables | 327 |
| Property, plant and equipment | 61 |
| Payables | (406) |
| Total net assets acquired | 61 |
| Goodwill on consolidation | 989 |

The assets and liabilities arising from the acquisition are recognised at fair value which equals their carrying value at acquisition date.

Profit relating to Lloyd Morgan (Brisbane) Pty Ltd amounting to \$193,000 is included in the consolidated income statement for the year ended 30 June 2006. The revenue relating to the period from 1 July to acquisition date of the acquired company is \$787,000 and the profit \$159,000 (based on unaudited accounts).

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

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

30. Explanation of transition to Australian equivalents of IFRS

(i) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principals (AGAAP) to equity under Australian equivalents to IFRS (AIFRS).

At the date of transition to AIFRS: 1 July 2004

| Notes | Economic Entity | | | Parent Entity | | |
|--------------------------------------|-------------------|--------------------------------|---------------|-------------------|--------------------------------|---------------|
| | Previous AGAAP | Effect of trans to AIFRS | AIFRS | Previous AGAAP | Effect of trans to AIFRS | AIFRS |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| CURRENT ASSETS | | | | | | |
| Cash and cash equiv. | 2,772 | | 2,772 | 1,784 | | 1,784 |
| Trade & other receivables | 33,305 | | 33,305 | 29,589 | | 29,589 |
| Deferred tax assets | 1,127 | | 1,127 | 1,021 | | 1,021 |
| TOTAL CURRENT ASSETS | 37,204 | | 37,204 | 32,394 | | 32,394 |
| NON-CURRENT ASSETS | | | | | | |
| Receivables | | | | 5,328 | | 5,328 |
| Plant and equipment | 2,122 | | 2,122 | 1,720 | | 1,720 |
| Other financial assets | - | | - | 10,932 | | 10,932 |
| Intangible assets | 34,049 | 931 | 34,980 | 19,062 | 712 | 19,774 |
| | | | | | | |
| TOTAL NON-CURRENT ASSETS | 36,171 | 931 | 37,102 | 37,042 | 712 | 37,754 |
| TOTAL ASSETS | 73,375 | 931 | 74,306 | 69,436 | 712 | 70,148 |
| CURRENT LIABILITIES | | | | | | |
| Payables | 21,262 | | 21,262 | 21,554 | | 21,554 |
| Interest bearing liabilities | 3,000 | | 3,000 | 3,000 | | 3,000 |
| Current tax liabilities | 1,691 | | 1,691 | 1,710 | | 1,710 |
| Provisions | 719 | | 719 | 528 | | 528 |
| TOTAL CURRENT LIABILITIES | 26,672 | | 26,672 | 26,792 | | 26,792 |
| NON-CURRENT LIABILITIES | | | | | | |
| Payables | 23 | | 23 | - | | - |
| Deferred Tax liabilities | 62 | | 62 | 62 | | 62 |
| Provisions | 214 | | 214 | 209 | | 209 |
| TOTAL NON-CURRENT LIABILITIES | 299 | | 299 | 271 | | 271 |
| TOTAL LIABILITIES | 26,971 | | 26,971 | 27,063 | | 27,063 |
| NET ASSETS | 46,404 | 931 | 47,335 | 42,373 | 712 | 43,085 |
| EQUITY | | | | | | |
| Contributed equity | 36,439 | | 36,439 | 36,439 | | 36,439 |
| Reserves | 429 | | 429 | - | | - |
| Retained profits | 9,536 | 931 | 10,467 | 5,934 | 712 | 6,646 |
| TOTAL EQUITY | 46,404 | 931 | 47,335 | 42,373 | 712 | 43,085 |

**CANDLE AUSTRALIA LIMITED
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ABN 43 002 724 334**

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

At the end of the last reporting period under previous AGAAP: 30 June 2005

| Notes | Economic Entity | | | Parent Entity | | |
|--------------------------------------|--------------------|--------------------------------|---------------|-------------------|--------------------------------|---------------|
| | Previous AGAAP | Effect of trans to AIFRS | AIFRS | Previous AGAAP | Effect of trans to AIFRS | AIFRS |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| CURRENT ASSETS | | | | | | |
| Cash assets | 7,395 | | 7,395 | 5,652 | | 5,652 |
| Trade & other receivables | 35,860 | | 35,860 | 33,561 | | 33,561 |
| Deferred tax assets | 1,573 | | 1,573 | 1,437 | | 1,437 |
| TOTAL CURRENT ASSETS | 44,828 | | 44,828 | 40,650 | | 40,650 |
| NON-CURRENT ASSETS | | | | | | |
| Receivables | | | | 5,307 | | 5,307 |
| Plant and equipment | 1,808 | | 1,808 | 1,442 | | 1,442 |
| Other financial assets | - | | - | 10,932 | | 10,932 |
| Intangible assets | 30b(ii) 30c(ii) | 1,374 | 39,126 | 23,004 | 876 | 23,880 |
| TOTAL NON-CURRENT ASSETS | 39,560 | 1,374 | 40,934 | 40,685 | 876 | 41,561 |
| TOTAL ASSETS | 84,388 | 1,374 | 85,762 | 81,335 | 876 | 82,211 |
| CURRENT LIABILITIES | | | | | | |
| Payables | 23,046 | | 23,046 | 20,674 | | 20,674 |
| Current tax liabilities | 1,792 | | 1,792 | 1,732 | | 1,732 |
| Provisions | 1,028 | | 1,028 | 789 | | 789 |
| TOTAL CURRENT LIABILITIES | 25,866 | | 25,866 | 23,195 | | 23,195 |
| NON-CURRENT LIABILITIES | | | | | | |
| Payables | 23 | | 23 | - | | - |
| Deferred Tax liabilities | 52 | | 52 | 52 | | 52 |
| Provisions | 301 | | 301 | 295 | | 295 |
| TOTAL NON-CURRENT LIABILITIES | 376 | | 376 | 347 | | 347 |
| TOTAL LIABILITIES | 26,242 | | 26,242 | 23,542 | | 23,542 |
| NET ASSETS | 58,146 | 1,374 | 59,520 | 57,793 | 876 | 58,669 |
| EQUITY | | | | | | |
| Contributed equity | 45,441 | | 45,441 | 45,441 | | 45,441 |
| Reserves | 498 | | 498 | - | | - |
| Retained profits | 12,207 | 1,374 | 13,581 | 12,352 | 876 | 13,228 |
| TOTAL EQUITY | 58,146 | 1,374 | 59,520 | 57,793 | 876 | 58,669 |

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

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

(ii) Reconciliation of profit under previous AGAAP to profit under Australian equivalents to IFRS (AIFRS).

Reconciliation of profit for the year ended 30 June 2005

| | Notes | Economic Entity | | | Parent Entity | | |
|--|--------------------|-----------------|--------------------------|-----------|----------------|--------------------------|-----------|
| | | Previous AGAAP | Effect of trans to AIFRS | AIFRS | Previous AGAAP | Effect of trans to AIFRS | AIFRS |
| | | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Revenues from ordinary activities | | 231,890 | | 231,890 | 208,024 | | 208,024 |
| On hired labour costs | | (187,607) | | (187,607) | (168,049) | | (168,049) |
| Employee benefits expense | | (22,872) | | (22,872) | (18,538) | | (18,538) |
| Depreciation and amortisation expense | 31b(ii) 31c(ii) | (1,848) | 443 | (1,405) | (1,412) | 164 | (1,248) |
| Operating rental expense | | (1,592) | | (1,592) | (1,088) | | (1,088) |
| Borrowing costs expense | | (246) | | (246) | (252) | | (252) |
| Other expenses from ordinary activities | | (7,162) | | (7,162) | (4,640) | | (4,640) |
| Profit from ordinary activities before income tax expense | | 10,563 | 443 | 11,006 | 14,045 | 164 | 14,209 |
| Income tax expense relating to ordinary activities | | (3,413) | | (3,413) | (3,148) | | (3,148) |
| Profit from ordinary activities after related income tax expense | | 7,150 | 443 | 7,593 | 10,897 | 164 | 11,061 |

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

(a) **Business combinations - intangible assets**

The Economic Entity has resolved to apply AASB 3 retrospectively to all past business combinations. A retrospective application of AASB 3 includes the following:

Identification and recognition of assets acquired

AASB138 Intangible Assets requires the valuation of specifically identifiable assets to be recognised on acquisition. Application of this standard excludes the recognition of intangible assets that include any component of goodwill. Under AGAAP the original valuation of identifiable intangibles was assessed on the basis of a royalty methodology which included attributes that under AIFRS are interpreted as goodwill. Accordingly the Economic Entity has had these particular groups of assets re-valued to remove the components of the candidate databases acquired which took into account the value of continuing support and development of the candidate databases and the information thereon. The board has adopted the revised valuation of the candidate databases prepared independently by PKF Corporate Advisers for all past acquisitions on a basis consistent with AASB 138. This has resulted in a transferring from Identifiable Intangibles to Goodwill a total value of \$23,303,427 for the Economic Entity.

The effect is:

(i) **At 1 July 2004**

For the Economic Entity there has been an increase in Goodwill of \$21,511,000 and a corresponding decrease in Intangible assets of \$21,511,000. The effect on the parent entity is an increase in Goodwill of \$13,465,000 and a corresponding decrease in Intangible Assets of \$13,465,000.

(ii) **At 30 June 2005**

For the Economic Entity there has been a total increase in Goodwill of \$23,303,000 and a total corresponding decrease in Intangible assets of \$23,303,000. The effect on the parent entity is an increase in Goodwill of \$13,465,000 and a corresponding decrease in Intangible Assets of \$13,465,000.

(b) **Intangibles - amortisation of candidate databases**

Due to the application of AASB 3 and the revised valuation methodology, AASB 3 requires assets with a finite life to be amortised over their useful life (as described in note 17 above). The Economic Entity has assessed the useful life of the revalued candidate databases to be two years, and will retrospectively amortise these assets over this period from the original date of acquisition. The effect of the above decreases opening retained earnings by \$1,895,000 for the Economic Entity.

The effect is:

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

(i) At 1 July 2004

For the Economic Entity there has been a decrease in retained earnings of \$1,586,000 and a decrease in intangibles of \$1,586,000. The effect on the parent entity is a decrease in retained earnings of \$442,000 and a decrease in intangibles of \$442,000.

(ii) At 30 June 2005

For the Economic Entity there has been a decrease in retained earnings of \$1,895,000 and a decrease in intangibles of \$1,895,000. The effect on the parent entity is a decrease in retained earnings of \$750,000 and a decrease in intangibles of \$750,000.

(c) Intangible assets - goodwill

As per AASB 3 Business Combinations, goodwill is not permitted to be amortised but instead is subject to annual impairment testing, focusing on the cash flows of the related cash generating unit (CGU). This will result in a change to the current accounting policy, as goodwill has been amortised on a straight line basis over a 20 year period. Under AIFRS goodwill amortisation is prohibited, however goodwill will be written down to the extent it is impaired. The effect of this transaction will be a write back of accumulated amortisation of goodwill to opening retained earnings of \$3,269,000 for the Economic Entity.

The effect is:

(i) At 1 July 2004

For the Economic Entity there has been an increase in retained earnings of \$2,517,000 and an increase in intangible assets - goodwill of \$2,517,000. The effect on the parent entity is an increase in retained earnings of \$1,154,000 and an increase in intangibles of \$1,154,000.

(ii) At 30 June 2005

For the Economic Entity there has been an increase in retained earnings of \$3,269,000 and an increase in intangible assets - goodwill of \$3,269,000. The effect on the parent entity is an increase in retained earnings of \$1,626,000 and an increase in intangibles of \$1,626,000.

(d) Reconciliation to the 30 June 2005 Pro forma AIFRS accounts

The balances as at 30 June 2005 reflect certain minor refinements in the application of IFRS when compared to the Pro Forma presentation in the Economic Entity's financial statements reported in the 2005 annual report. The impact of this refinement on total equity is \$30,000.

CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334

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

| | Notes | Economic Entity | | Parent Entity | |
|--|-------|-------------------------|--------------------------|-------------------------|--------------------------|
| | | 1 July 2004 \$000 | 30 June 2005 \$000 | 1 July 2004 \$000 | 30 June 2005 \$000 |
| Accumulated amortisation of candidate databases | (b) | (1,586) | (1,895) | (442) | (750) |
| Write back of accumulated amortisation to goodwill | (c) | 2,517 | 3,269 | 1,154 | 1,626 |
| Total for Economic Entity | | 931 | 1,374 | 712 | 876 |

Net effect on income statement

| | Notes | Economic Entity | Parent Entity |
|--|-------|-------------------------------------|-------------------------------------|
| | | Year to 30 June 2005 \$000 | Year to 30 June 2005 \$000 |
| Amortisation of candidate databases | (b) | (308) | (308) |
| Write back of amortisation to goodwill | (c) | 751 | 472 |
| Total for Economic Entity | | 443 | 164 |

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. The financial statements and notes, as set out on pages 16 to 61, are in accordance with the *Corporations Act 2001*:
 - (a) comply with Accounting Standards and the *Corporations Regulations 2001*; and
 - (b) give a true and fair view of the financial position as at 30 June 2006 and performance for the year ended on that date of the Company and the Economic Entity;
2. The managing director and chief financial officer have each declared that:
 - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements and notes for the financial year comply with Accounting Standards; and
 - (c) the financial statements and notes for the financial year give a true and fair view.
3. In the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
4. The audited remuneration disclosures set out on pages 6 to 11 of the directors' report comply with the Accounting Standards AASB 124 Related Party Disclosures and the *Corporations Regulations 2001*.

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

.....
Geoffrey J Moles - Executive Chairman

.....
Robert J Collins - Managing Director

Dated at Sydney this 22nd day of August 2006

INDEPENDENT AUDIT REPORT TO THE MEMBERS
OF CANDLE AUSTRALIA LIMITED

Scope

We have audited the financial report of Candle Australia Limited and controlled entities for the year ended 30 June 2006 as set out on pages 16 to 61.

The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

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

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

Independence

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

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

**INDEPENDENT AUDIT REPORT TO THE MEMBERS
OF CANDLE AUSTRALIA LIMITED**

Audit opinion

In our opinion, the financial report of Candle Australia Limited and controlled entities is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

.....
WPK Greenwoods

.....
B Hatchman

Dated at Sydney this 22nd day of August 2006

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
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ADDITIONAL INFORMATION

The following information is required by the Australian Stock Exchange Limited.

1. Shareholding

(a) There is only one class of equity securities, being ordinary shares.

(b) Distribution of Shareholders Number

| Category | Number of holders |
|------------------|--------------------------|
| 1 - 1,000 | 692 |
| 1,001 - 5,000 | 1,762 |
| 5,001 - 10,000 | 616 |
| 10,001 - 100,000 | 420 |
| 100,001 and over | 47 |
| | <hr/> |
| | 3,537 |

(c) The number of shareholdings held in less than marketable parcels is 120.

(d) The names of the substantial shareholders listed in the holding Company's register as at 7 August 2006 are:

| Shareholder | Number of ordinary shares |
|--------------------------------------|----------------------------------|
| Perpetual Trustees Australia Limited | 2,590,191 |
| Mr G J Moles and related parties | 2,756,441 |
| SAS Trustee Corporation | 3,209,681 |
| Westpac Banking Corporation | 4,151,302 |

(e) The voting rights in respect of the ordinary shares are established by the Constitution, which reads as follows:

Clause 47.3: "one vote for every fully paid share"

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
ABN 43 002 724 334**

(f) 20 largest shareholders as at 7 August 2006:

| Shareholder's Name | Number of ordinary fully paid shares held | % held of issued ordinary capital |
|--|--|--|
| National Nominees Limited | 3,470,963 | 6.8 |
| Westpac Custodian Nominees | 3,157,188 | 6.2 |
| RBC Dexia Investor Services | 2,580,950 | 5.1 |
| Springhope Holdings Pty Limited | 2,479,606 | 4.9 |
| Citicorp Nominees Pty Limited | 2,169,563 | 4.3 |
| Citicorp Nominees Pty Limited | 2,024,275 | 4.0 |
| Cogent Nominees Pty Limited | 1,478,802 | 2.9 |
| Perman Investments Pty Ltd | 1,442,137 | 2.8 |
| ANZ Nominees Ltd | 1,426,172 | 2.8 |
| Mr Robert Collins | 1,342,500 | 2.6 |
| J P Morgan Nominees Australia | 1,203,197 | 2.4 |
| Mr Ian Wallace & Mrs Josephine Edwards | 718,927 | 1.4 |
| Citicorp Nominees Pty Limited | 691,390 | 1.4 |
| Bond Street Custodian Limited | 637,758 | 1.3 |
| RBC Dexia Investor Services | 578,489 | 1.1 |
| Engoordina Pty Ltd | 457,674 | 0.9 |
| Dynmon Pty Ltd | 403,382 | 0.8 |
| Australian Executor Trustees | 337,551 | 0.7 |
| Gracelite Pty Ltd | 336,569 | 0.7 |
| Escrow Apps Pty Ltd | 326,797 | 0.6 |
| | 27,263,890 | 53.50 |

(g) There is currently no On-Market Buy-Back

2. **The name of the Company secretary is Mr Nicholas J V Geddes.**

3. **The address of the registered office is:**

| | |
|-----------------------|------------------|
| Level 5 | Postal Address: |
| 255 George Street | GPO Box 4231 |
| Sydney NSW 2000 | Sydney, NSW 2001 |
| Phone: (02) 9252 1933 | |

4. **The register of shares is held at the following address:**

| | |
|-----------------------|---------------------|
| Registries Limited | |
| Level 2 | |
| 28 Margaret Street | |
| Sydney NSW 2000 | |
| Phone: (02) 9279 0677 | Fax: (02) 9279 0664 |

5. **Stock Exchange**

The Company is listed on the Australian Stock Exchange under the code CND.

**CANDLE AUSTRALIA LIMITED
AND CONTROLLED ENTITIES
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CORPORATE DIRECTORY

Board of Directors

Geoffrey J Moles - Executive Chairman
Robert J Collins - Managing Director
Lawrence J Gibbs - Non-executive Director
Peter D Bunting - Non-executive Director
Penelope Morris - Non-executive Director

Company Secretary and Registered Office

Nicholas J V Geddes
Australian Company Secretaries Pty Limited
Level 5
255 George Street
Sydney, NSW 2000

Share Registry

Registries Limited
Level 2
28 Margaret Street
Sydney, NSW 2000

Auditors

WHK Greenwoods
Level 15
309 Kent Street
Sydney, NSW 2000

Solicitors

RBHM Commercial Lawyers
5/53 Berry Street, North Sydney, NSW, 2060,
Australia

Bankers

Westpac Banking Corporation
273 George Street
Sydney, NSW 2000

Principal Places of Business

**Candle Australia Head Office /
Candle ICT**

Sydney
Level 14, 1 York Street
Sydney, NSW 2000

Candle ICT contd.

Melbourne
Level 5
34 Queen Street
Melbourne, VIC 3000

Brisbane

50 McDougall Street
Milton, QLD 4065

Canberra

Suite 2G, 65 Canberra Avenue
Griffith, ACT 2603

Perth

Level 3, 191 St Georges Terrace
Perth, WA 6000

Candle New Zealand

Auckland

Level 16, 1 Queen Street,
Auckland

Wellington

Level 10, 3-11 Hunter Street,
Wellington

Freeman Adams

Sydney

Level 5, 1 York Street
Sydney, NSW 2000

Melbourne

Level 9, 50 Queen Street,
Melbourne, VIC 3000

Brisbane

Suite 14, 320 Adelaide Street,
Brisbane, QLD 4000

**CANDLE AUSTRALIA LIMITED
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Alliance Recruitment

Adelaide

Level 2, 74 Pirie Street,
Adelaide, SA 5000

Brisbane

Suite 14, 320 Adelaide Street,
Brisbane, QLD 4000

Melbourne

Level 7, 488-490 Bourke Street
Melbourne, VIC 3000

Mount Waverley

The Central,
Building 2, Suite 32,
1 Ricketts Road, Mount Waverley
VIC 3149

Perth

Suite 4/1 Scarborough Beach Road
North Perth WA 6006

Sydney

Level 13, 55 Clarence St.
Sydney NSW 2000

Fairfield

Level 1, 45-47 Smart Street
Fairfield NSW 1860

Blacktown

Level 1, 1 Campbell Street
Blacktown NSW 2148

Parramatta

Suite 106, Level 1,
20-22 Macquarie Street
Parramatta NSW 2150

Hurstville

Suite 28, Level 5,
33 MacMahon Street
Hurstville NSW 2220

Parker Bridge

Sydney

Level 13, 55 Clarence St.
Sydney NSW 2000

Level 3, 815 Pacific Highway
Chatswood NSW 2067

Choice IT Pty Ltd

Adelaide

Level 2, 74 Pirie Street,
Adelaide, SA 5000

Lloyd Morgan

Melbourne

Level 14, 333 Collins Street,
Melbourne, VIC 3000

Sydney

Level 13, 55 Clarence St.
Sydney NSW 2000

Brisbane

Level 14, 500 Queen Street,
Brisbane, QLD 4000

The One Umbrella

Sydney

Level 9, 162 Goulburn Street
Surry Hills NSW 2010

Brisbane

6/2 Old Cleveland Road
Stones Corner QLD 4120

Canberra

Suite 2G, 65 Canberra Avenue
Griffith ACT 2603

Melbourne

63 Stead Street
South Melbourne VIC 3205