ZICOM GROUP LIMITED

Appendix 4D

For the six months ended

31 December 2006

ZICOM GROUP LIMITED
ABN 62 009 816 871
HALF-YEAR REPORT – 31 DECEMBER 2006

Name of entity:	**ZICOM GROUP Limited**
ABN:	62 009 816 871
Reporting Period:	**Six Months Ended 31 December 2006**
Previous corresponding period:	Six Months Ended 31 December 2005

Results for announcement to the market

Revenues from ordinary activities	up	119.7% to	$38,745,752
Net Profit from ordinary activities after tax attributable to members	up	240.0% to	$3,147,671
Net Profit for the period attributable to members	up	240.0% to	$3,147,671

Dividends

	Amount per security	Unfranked amount per security
Interim dividend – paid 19 January 2007	0.15 cents	0.15 cents

Net tangible assets per security

	Dec 31, 2006	June, 30 2006
Net tangible asset backing per ordinary share	10.86 cents	9.63 cents

This Report is based on accounts to which one of the following applies.

☐	The accounts have been audited	✔	The accounts have been subject to review
☐	The accounts are in the process of being audited or subject to review.	☐	The accounts have not yet been audited or reviewed.

This half yearly report is to be read in conjunction with the half year financial report and the most recent annual financial report.

Signed

GL Sim
Chairman
Date: 26 February 2007

ZICOM GROUP LIMITED

Half-Year Financial Report

For the six months ended

31 December 2006

ZICOM GROUP LIMITED
ABN 62 009 816 871
HALF-YEAR REPORT – 31 DECEMBER 2006

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ABN 62 009 816 871
HALF-YEAR REPORT – 31 DECEMBER 2006

Corporate Information

This half-year report covers the consolidated entity comprising Zicom Group Limited and its subsidiaries (the Group). The Group's presentation currency is AUD ($).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on page 2. The directors' report is unaudited and does not form part of the financial report.

Directors

Giok Lak Sim	(Chairman and Managing Director)
Richard Edward Keevers	(Independent - Deputy Chairman)
Boon Heng Cheak	
Frank Leong Yee Yew	(Independent)
Yian Poh Lim	(Independent)
Hung Seah Tang	
Ian Robert Millard	(Independent)
Kok Hwee Sim	(alternate director to Mr H S Tang)

Joint Company Secretaries

Ian Robert Millard
Ann-Marie Rose Saunders

Registered Office

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Auditors

Ernst & Young
Level 5, Waterfront Place
1 Eagle Street
Brisbane, QLD 4000

Solicitors

Phillips Fox
Level 29, Waterfront Place
1 Eagle Street
Brisbane, QLD 4000

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000

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Bankers

Australia
Westpac Banking Corporation
Commonwealth Bank of Australia

Singapore
United Overseas Bank
Malayan Banking Berhad
Natexis Banque Populaires
Overseas Banking Corporation

Thailand
United Overseas Bank Thailand
Siam Commercial Bank

China
Industrial Commercial Banking Corporation

Malaysia
Affin Bank Berhad

ZICOM GROUP LIMITED
ABN 62 009 816 871
HALF-YEAR REPORT – 31 DECEMBER 2006

Report of the Directors

Your directors present their report on the consolidated accounts for the half-year ended 31 December 2006.

Directors

The following persons held office as directors of Zicom Group Limited at the date of this report and unless otherwise noted, for the whole of the period since 1 July 2006:

Mr G L Sim	(Chairman and Managing Director)
Mr R E Keevers	(Deputy Chairman)
Mr B H Cheak	
Mr F Leong	(appointed 24 July 2006)
Mr Y P Lim	(appointed 24 July 2006)
Mr H S Tang	(appointed 24 July 2006)
Mr I R Millard	(appointed 23 November 2006)
Mr K H Sim	(appointed 21 August 2006, alternate director to Mr H S Tang)

Secretaries

Mr I R Millard
Mrs A M Saunders

Review of Operations

Acquisition

On 1 July 2006, the company acquired the entire shareholdings in Zicom Holdings Pte Ltd ("ZHPL"). Prior to that, the company made a rights issue offer to shareholders on 22 June 2006 that closed on 7 July 2006, raising A$1.71m for the acquisition costs and working capital. Following the acquisition, the quotation of the company's shares was re-instated on the Australian Stock Exchange on 5 September 2006. To reflect the group's enlarged activities the company changed its name from Zicom Australia Limited to Zicom Group Limited ("ZGL") on 31 July 2006.

Applicable Accounting Standards

Australian Accounting Standards AASB 3 on Business Combinations (equivalent to IFRS 3) came into force on 1 July 2005. Consequently, the group has adopted this standard in preparing our consolidated accounts for the half year ended 31 December 2006. AASB 3 regulates the treatment of purchase price allocation and accounting for acquisition. Deloitte & Touche Corporate Finance Pte Ltd, Singapore, was engaged to advise the board on the purchase price allocation. In accordance with AASB3, we have adopted the Reverse Acquisition methodology for the group consolidation. The effect of this is that the consolidation of the accounts has been prepared on the basis that ZHPL is the "acquirer" and ZGL is the "acquiree" although ZGL remains the legal parent entity.

In adopting the Reverse Acquisition methodology, the consolidated accounts now presented to you will show ZHPL as an accounting parent, and ZGL as an accounting subsidiary. The dollar value of paid up capital of ZHPL and the notional purchase consideration it would have paid to ZGL for acquiring ZGL, are reflected as the group's paid up equity against the total number of shares issued by ZGL. The comparative figures are those of ZHPL for the corresponding period of the previous year.

Your directors therefore present the group's accounts based on the above accounting methodology.

Results

The half year's results show a very significant improvement over the corresponding previous half year:-

Key Financials	Change (%)	6 months ended 31 Dec 06 (A$ million)	6 months ended 31 Dec 05 (A$ million)
Revenue	+120	38.75	17.63
Earnings before interest, tax, depreciation, & amortization	+227	5.16	1.58
Net profits after tax (NPAT)	+240	3.15	0.93

- Revenue **increased by 120%.**
- EBITDA **increased by 227%.**
- NPAT **increased by 240%.**

The improvement has come from the combination of ZGL and ZHPL. ZHPL has maintained a strong growth and profit record for several years. Prior to the combination on 1 July 2006, ZGL's sole activity was in the manufacture of concrete mixers. Following the combination, the group's expertise has expanded to that of a hydraulic, process and precision engineering company manufacturing equipment for a cross section of industries. Its activities now include the manufacturer of deck machinery, oil and gas regulating and metering stations and terminal automation for the offshore marine, oil and gas sectors, concrete mixers and foundation equipment for the construction sector, precision engineering and automation equipment manufacture for the pharmaceutical, semi-conductor and biomedical sectors and sales of hydraulic system drives to industrial and mobile equipment manufacturers.

The following is an analysis of the segmental results:-

Revenue by Business Segments	Change (%)	6 months ended 31 Dec 06 (A$ million)	6 months ended 31 Dec 05 (A$ million)
Offshore Marine, Oil and Gas	+ 33	15.3	11.5
Construction	+ 263	16.7	4.6
Precision Engineering & Automation	-	4.1	-
Industrial & Mobile Equipment	+ 23	1.6	1.3

- Revenue from offshore marine, oil and gas equipment increased by 33%. Revenue from these sectors remains strong, with orders in hand extending into the financial year ending 2008. Normally, such orders have a back log of up to 6 months.

- Construction equipment revenue increased by 263%. Construction equipment revenue, for this half year, has included the revenue of Cesco Australia Ltd together with the sales of foundation equipment and concrete mixers in Asia. Growth for this sector remains healthy.

- Revenue from precision engineering and automation provided an accretive contribution of A$4.1m in revenue to the group. Sys-Mac Automation Engineering Pte Ltd the principal generator of this revenue was acquired on 30 June 2006. We expect significant growth in revenue from this sector over the next few years as we climb up the value chain in manufacturing for Original Equipment Manufacturers in the USA and Europe.

- Revenue from sales of hydraulic drive systems and parts to the Industrial and Mobile Equipment sector increased by 23%. This sector is mainly made up of mobile equipment manufacturers in the agricultural and industrial sectors. We expect growth in these sectors to sustain in line with the general economic growth now being experienced.

Financial Position

The group's financial position is strong. Net assets of the group have increased from A$18.44m as at 30 June 2006 to A$25.59m as at 31 December 2006. Current net tangible asset backing per share increased from 9.63 cents to 10.86 cents. Earnings per share based on a weighted average of 178,599,523 shares issued increased from 0.6 cents to 1.8 cents.

Net current working capital is A$11.28m compared with A$7.15m as at 30 June 2006. Cash and cash equivalents as at 31 December 2006 stand at A$6.77m.

Growth Steps

The following significant steps have been undertaken in line with the group's growth plans:-

- In Australia, Cesco Australia Limited plans to consolidate its operations into a new and bigger premises by the end of 2007. Negotiations are currently being carried out. New improved commercial banking facilities with significant cost savings and more suited to our current and future needs, have been secured from our bankers to replace the previous banking facilities.

- In Singapore, piling work on a 5112sqm new factory for the manufacture of heavy duty deck machinery for the offshore marine sector has commenced. Total investments are estimated at A$3.6m. The factory, scheduled to be completed by October 2007, aims to meet our shortage in production space and to achieve better efficiency and productivity.

- Strategic alliances forged by Sys-Mac Automation Engineering Pte Ltd with USA and European manufacturers have been successfully established, leading to initial significant orders that are accretive to our revenue and the formation of a joint venture, MTA-Sysmac Automation Pte Ltd, in Singapore to position the group to undertake sophisticated turn-key automated production lines in Asia.

The group continues to focus on its other growth strategies and to expand into new markets concurrently.

The group's forward orders in hand are healthy going into the 2008 financial year. Your directors are confident that the results for the remaining part of the year will remain satisfactory barring no unforeseen circumstances. On 19 January 2007, we paid an interim dividend of 0.15 cents per share, totalling A$272,068, out of post-acquisition profits. We are hopeful of being able to declare a final dividend for the year ending 30 June 2007.

Board Changes

Changes have occurred on the board during the year. Mr Kevin Crombie retired and withdrew from his re-election as a director in the AGM on 23 November 2006. In a board meeting on 23 November 2006, following the AGM, Mr Ian Millard was appointed to the board to fill the casual vacancy created by Mr Crombie's retirement and Mr Richard Keevers stood down as the Chairman due to his commitments as a full time CEO of another public company and was elected the Deputy Chairman. The board appointed Mr G L Sim, the Group Managing Director, as the Group Chairman.

Signed in accordance with a resolution of the Board of Directors.

GL Sim
Chairman
26 February 2006

ERNST & YOUNG

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Australia

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Auditor's Independence Declaration to the Directors of Zicom Group Limited

In relation to our review of the financial report of Zicom Group Limited for the half-year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Mike Reid
Partner
26 February 2007

Consolidated Income Statement
for the half-year ended 31 December 2006

	Note	31-Dec-06	31-Dec-05
		$	$
Revenue from continuing operations	4	37,746,706	17,355,509
Other revenue	4	999,046	278,000
Total revenue		38,745,752	17,633,509
Expenses			
Cost of materials		24,067,283	11,886,176
Employee, contract labour and related costs		6,926,259	2,475,225
Depreciation		570,894	304,736
Premises rental and outgoings		403,176	189,945
Finance costs	4	298,211	122,247
Share of profit of associate		-	(633)
Other expenses	4	2,347,756	1,541,641
Profit before income tax		**4,132,173**	**1,114,172**
Income tax expense	5	814,330	188,497
Profit after income tax		**3,317,843**	**925,675**
Profit attributable to minority interest		170,172	(37)
Profit attributable to members of Zicom Group Limited		**3,147,671**	**925,712**
		Cents	Cents
Basic earnings per share		1.8	0.6
Diluted earnings per share		1.8	0.6

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

Consolidated Balance Sheet
as at 31 December 2006

	Note	31-Dec-06 $	30-Jun-06 $
Current Assets			
Cash and cash equivalents	6	6,768,731	4,395,410
Receivables		18,245,669	12,516,224
Inventories		8,531,967	6,042,237
		33,546,367	22,953,871
Non-Current Assets			
Property, plant and equipment		9,762,181	9,428,572
Intangible assets		5,896,176	3,023,364
Other non current assets		108,599	443,992
		15,766,956	12,895,928
Total Assets		49,313,323	35,849,799
Current Liabilities			
Payables		14,240,240	10,856,780
Dividend payable	7	272,068	-
Interest bearing liabilities		6,183,282	4,028,036
Unearned revenue		435,581	-
Income tax payable		1,138,205	920,049
		22,269,376	15,804,865
Non-Current Liabilities			
Payables		559,447	-
Interest bearing liabilities		496,683	1,262,349
Provisions		83,530	-
Deferred taxation		318,154	345,294
		1,457,814	1,607,643
Total Liabilities		23,727,190	17,412,508
Net Assets		25,586,133	18,437,291
Equity			
Contributed equity	9	23,225,317	18,607,504
Reserves		(881,885)	(399,524)
Accumulated profits/(losses)		1,920,531	(955,072)
Minority interest		1,322,170	1,184,383
Total Equity		25,586,133	18,437,291

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

Consolidated Statement of Changes in Equity
for the half-year ended 31 December 2006

	Share capital	Share premium	Capital reserve	Foreign currency translation reserve	Share based payments reserve	Accumulated profits/ (losses)	Total	Minority interests	Total equity
Balance at 01/07/05									
- as previously stated	8,507,586	3,884,186	58,641	(480,125)	-	(1,789,241)	10,181,047	70,425	10,251,471
- adjustment arising from costs incurred previously not accounted for	-	-	-	-	-	(213,211)	(213,211)	-	(213,211)
- as restated	8,507,586	3,884,186	58,641	(480,125)	-	(2,002,452)	9,967,836	70,425	10,038,260
Foreign currency translation adjustment	-	-	-	21,703	-	-	21,703	(252)	21,451
Profit for the year	-	-	-	-	-	2,278,087	2,278,087	(97)	2,277,990
Total recognised income and expenses for the year	-	-	-	-	-	2,278,087	2,278,087	(349)	2,299,441
Shares issued	6,215,733	-	-	-	-	-	6,215,733	-	6,215,733
Transfer of capital reserves to accumulated profits/ (losses) account	-	-	(58,641)	-	-	58,641	-	-	-
Transfer of share premium to share capital account	3,884,186	(3,884,186)	-	-	-	-	-	-	-
Final dividends at 13.7c per share less tax at 20% in respect to 2005	-	-	-	-	-	(1,289,348)	(1,289,348)	-	(1,289,348)
Acquisition of subsidiary	-	-	-	-	-	-	-	1,176,042	1,176,042
Acquisition of additional interest in a subsidiary company from minority shareholders	-	-	-	-	-	-	-	(61,735)	(61,735)
Foreign currency translation adjustment	-	-	-	58,898	-	-	58,898	-	58,898
Balance at 30/06/06	18,607,505	-	-	(399,524)	-	(955,072)	17,252,909	1,184,383	18,437,291
Balance at 01/07/06	18,607,505	-	-	(399,524)	-	(955,072)	17,252,909	1,184,383	18,437,291
Foreign currency translation adjustment	-	-	-	(490,511)	-	-	(490,511)	(32,385)	(522,896)
Profit for the half year	-	-	-	-	-	3,147,671	3,147,671	170,172	3,317,843
Total recognised income and expenses for the half year	-	-	-	(490,511)	-	3,147,671	2,657,160	137,787	2,794,947
Purchase consideration of ZGL	4,617,812	-	-	-	-	-	4,617,812	-	4,617,812
Dividends paid or provided for	-	-	-	-	-	(272,068)	(272,068)	-	(272,068)
Cost of share based payments	-	-	-	-	8,150	-	8,150	-	8,150
Balance at 31/12/06	23,225,317	-	-	(890,035)	8,150	1,920,531	24,263,963	1,322,170	25,586,133

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

Consolidated Cash Flow Statement

for the half-year ended 31 December 2006

	31-Dec-06	31-Dec-05
	$	$
Cashflows from operating activities		
Receipts from customers	43,391,596	18,507,572
Payments to suppliers and employees	(40,434,060)	(16,827,365)
Interest received	33,610	3,367
Borrowing costs	(298,211)	(122,247)
Income taxes paid	(606,120)	(382,052)
Net operating cash inflows/ (outflows)	2,086,815	1,179,275
Cash flows from investing activities		
Subscription of rights from ZGL	(511,044)	-
Decrease in amount due from related parties	19,444	22,887
Purchase of fixed assets	(218,960)	(212,516)
Proceeds on sale of fixed assets	388,101	49,288
Net cash acquired from acquisition of business	940,043	115,162
Increase in investment in joint venture	-	(16,435)
Proceeds from disposal of assoc	1,289,348	-
Payment of dividends	(1,289,348)	-
Net investing cash inflows/ (outflows)	617,584	(41,614)
Cash flows from financing activities		
Decrease in amount due to directors	(13,287)	(199,504)
Repayment made to shareholders	-	(84,998)
Proceeds from bank borrowings	343,605	423,334
Payment to HP creditors	(661,397)	(302,086)
Net financing cash inflows/ (outflows)	(331,079)	(163,254)
Net increase/ (decrease) in cash held	2,373,320	974,407
Cash at beginning of financial year	4,395,411	1,442,343
Cash at the end of the financial year	6,768,731	2,416,750

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

Notes to the Consolidated Financial Statements

Note 1 Corporate Information

The financial report of Zicom Group Limited ("ZGL") for the half-year ended 31 December 2006 was authorized for issue in accordance with a resolution of the directors on 26 February 2007. Zicom Group Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

The nature of the operation and principal activities of the Group are described in note 3.

Note 2 Summary of significant accounting policies

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is also recommended that the half-year financial report be considered together with any public announcements made by Zicom Group Limited and its controlled entities during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001.*

(a) Basis of preparation of half-year financial report

The half-year consolidated financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, applicable Accounting Standards, including AASB134 *Interim Financial Reporting* and other mandatory professional reporting requirements. The half-year financial report has been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

Zicom Holdings Pte Ltd ("ZHPL") was deemed to have acquired Zicom Group Limited ("ZGL") on 1 July 2006 through a reverse takeover, and accordingly the consolidated financial statements of ZGL represent a continuation of the ZHPL consolidated group. Therefore, the consolidated accounts include the results of both ZHPL and ZGL from 1 July 2006. The comparative financial statements are those of ZHPL.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Zicom Group Limited ("company" or "parent entity") as at 31 December 2006 and the results of all subsidiaries for the period ended. Zicom Group Limited and its subsidiaries together are referred to in the financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group 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 Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between Group 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 Group.

Notes to the Consolidated Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

The presentation currency of Zicom Group Limited and its Australian subsidiaries is Australian dollars (A$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement.

Non-monetary items are measured at fair value in a foreign currency and translated using the exchange rates at the date when the fair value was determined.

The functional currency of the major overseas subsidiaries is Singapore Dollars (S$).

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Zicom Group Limited at the rate of exchange ruling the balance sheet date and the income statements are translated at the average exchange rates for the year.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

(i) Sale of goods

Revenue on sale of goods are recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer, which generally coincides with delivery and acceptance of the goods sold.

In order to accurately represent the results of its Australian subsidiary company, the Group has adopted the policy of recognising revenue on a product which has been fully assembled and paid by the customer although undelivered. The financial impact of this change in accounting policy is an increase in profit for the current and preceding period of the Australian subsidiary by A$85,197 and A$79,752 respectively. This change in accounting policy has also been adjusted retrospectively in the financial statements of the Australian subsidiary and opening accumulated losses decreased by A$37,088.

(ii) Revenue recognised on projects

Revenue on contract jobs is recognised on the percentage of completion method. The stage of completion is measured using the proportion of costs incurred to the estimated total costs to complete the project. Losses, if any, are immediately recognised when their existence is foreseen.

Notes to the Consolidated Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Revenue recognition (continued)

(iii) Rendering of services

Revenue is recognised when the services required to be performed have been performed and the entitlement to the revenue earned.

(iv) Interest

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

(v) Dividends

Dividend income is recognised when the Group's right to receive payment is established.

(vi) Rental income

Rental income is accounted for on a straight-line basis over the lease terms on ongoing leases. The aggregate cost of incentives provided to lessees is recognised as a reduction of rental income over the lease term on a straight-line basis.

(vii) Commission income

Commission income is recognised on an accrual basis.

(f) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation
Zicom Group Limited and its wholly owned Australian controlled entities have decided not to elect to become a consolidated group.

Zicom Group Limited and its wholly owned Australian controlled entities have significant tax losses. No deferred tax balances have been recognised, as recovery of losses (and temporary differences) is not probable at this time.

Notes to the Consolidated Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. 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 asset's 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).

(h) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in liabilities. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the estimated useful life of the asset. Where there is no reasonable certainty that the lessee will obtain ownership, the asset is depreciated over the shorter of the lease term and the assets useful life.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease term.

(i) Acquisition of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) 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 value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction 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, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

(j) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined about, net of outstanding bank overdrafts.

Notes to the Consolidated Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade and other receivables are due for settlement no more than 30 days from the date of recognition.

Collectibility of trade and other receivables is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises of direct materials, direct labour and labour oncosts. Individual item stock values are based on weighted average costs. In the case of work-in-progress, the cost is substantially made up of materials, direct labour and factory overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(m) Construction contracts

Contract revenue and contract costs are recognised as revenue and expenses, respectively, by reference to the stage of completion of the contract activity at the balance sheet date, when the outcome of a construction contract can be estimated reliably. The stage of completion is measured by proportion that the costs incurred to date bear to the estimated total costs of the contract.

An expected loss on the construction contract is recognised as an expense immediately when it is probable that total contract costs will exceed total contract revenue.

Only cost that reflect services performed are included in the estimated total costs of the contract. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(n) Investments and other financial assets

(i) Loans and receivables

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 Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(ii) Held-to-maturity investments

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

(iii) Financial liabilities

Non-derivative financial liabilities not held for active trading or designated as fair value through profit and loss are initially recognised at fair value plus directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method. Gains and loses are recognised in the profit and loss account when the liabilities are derecognized, as well as through the amortization process.

Notes to the Consolidated Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.
The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(p) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items, including import duties and non-refundable purchase taxes.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on a straight line basis to write off the net cost or revalued amount of each item of property, plant and equipment (excluding land) over its expected useful life to the Group. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The expected useful lives are as follows:

Leasehold property	over remaining period of the lease expiring year 2040 to 2041
Plant and equipment	1 - 10 years
Leased plant and equipment	3 – 5 years
Motor vehicles	5 - 10 years

Where items of plant and equipment have separately identifiable components which are subject to regular replacement, those components are assigned useful lives distinct from the item of plant and equipment to which they relate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Notes to the Consolidated Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortized. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(r) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair values as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the estimated economic useful lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful live are reviewed at least at each financial year-end. The amortization expense on intangible assets with finite lives is recognised in the profit and loss account.

(s) Impairment of non-financial assets

The group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset (i.e. goodwill acquired in a business combination) is required, the group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses of continuing operations are recognised in the profit and loss account as 'impairment losses'.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses recognised for an asset other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is changed in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Reversal of an impairment loss is recognised in the profit and loss account. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful live.

The group does not reverse in a subsequent period, any impairment loss recognised for goodwill.

Notes to the Consolidated Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the year which are unpaid. The amounts are unsecured and are usually paid within 30 to 90 days of recognition.

Payables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in the profit and loss account when the liabilities are derecognized as well as through the amortization process.

(u) Employee benefits

(i) Wages and salaries, annual and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in the provision for employee benefits in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave, applicable to Australian subsidiaries, is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

Contributions are made by the Group, for its Australian subsidiaries, to employee accumulation superannuation funds and are charged as expenses when they become payable.

The Group's companies in Singapore make contributions to the state pension scheme, the Central Provident Fund (CPF) and the Group's companies in Malaysia make contributions to the Employee Provident Fund (EPF). CPF and EPF are defined contribution schemes. Contributions to these schemes are recognised as compensation expenses in the same year as the employment that gave rise to the contribution.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Zicom Group Limited Employee Share Option Plan.

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 determined using an option pricing model that takes into account the exercise price, the term of the option, 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.

Notes to the Consolidated Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets and performance and service criteria). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

(v) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(w) Borrowing costs

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the asset for its intended use or sale are in progress and the expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) where as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(y) Derivative financial instruments

Derivative financial instruments are used to manage exposure to foreign exchange risks arising from operations, financing and investment activities that do not qualify for hedge accounting. Any gains or losses arising from changes in fair value on the Group's and Company's derivative financial instruments are taken to profit and loss account for the year.

(z) Other Taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of the acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

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

Notes to the Consolidated Financial Statements (continued)

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are show in equity as a deduction, net of tax, from the proceeds.

(ab) Earnings per share

(i) Basic earnings per share

Basic earnings per share is determined by dividing profit attributable to members of the company by the weighted average number of ordinary shares outstanding during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(ac) Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities with the next financial year are discussed below:

(i) Estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(q). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions.

(ii) Estimated income taxes

The group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgment is required in determining the group wide provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognizes liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(iii) Estimated depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Management estimates the useful lives of these property, plant and equipment to be within 1 to 35 years. Changes in the expected level of usage and technological developments could impact the economic useful lives and the residual values of these assets, therefore future depreciation charges could be revised.

Notes to the Consolidated Financial Statements (continued)

Note 3 Segment information

The consolidated entity comprises the following business segments:

- Offshore marine, oil and gas – manufacture and supply of deck machinery, gas metering stations and related equipment, parts and services
- Construction – manufacture and supply of concrete mixers and foundation equipment, including equipment rental, parts and related services
- Precision engineering and automation – manufacture of precision and automation equipment, including related parts and engineering services.
- Industrial and mobile equipment – supply of hydraulic drive systems, parts and services.

	Offshore Marine, Oil & Gas	Construction	Precision Engineering & Automation	Industrial & Mobile Equipment	Consolidated
Half-year ended 31 December 2006					
Total segment revenue	15,280,731	16,721,487	4,098,381	1,646,107	37,746,706
Other revenue	46	663	2,533	38	3,280
Unallocated revenue					995,766
Total revenue and other income					38,745,752
Segment result	4,010,401	2,669,930	561,376	374,924	7,616,631
Unallocated expenses					(3,484,458)
Profit before taxation					4,132,173
Half-year ended 31 December 2005					
Total segment revenue	11,472,397	4,602,583	-	1,280,529	17,355,509
Other revenue	114	266,388	-	8,094	274,596
Unallocated revenue					3,404
Total revenue and other income					17,633,509
Segment result	3,016,650	1,446,031	-	336,935	4,799,616
Unallocated expenses					(3,685,444)
Profit before taxation					1,114,172

Note 4 Revenue, income and expenses from continuing operations

	31-Dec-06	31-Dec-05
	$	$
(i) Revenue		
Sale of goods	34,065,089	15,372,539
Rendering of services	2,994,249	1,324,504
Rental revenue	687,368	658,466
	37,746,706	17,355,509

Notes to the Consolidated Financial Statements (continued)

Note 4 Revenue, income and expenses from continuing operations (continued)

	31-Dec-06	31-Dec-05
	$	$
(ii) Other income		
Interest income	33,610	3,367
Commission income	12,257	25,438
Rental income	-	2,383
Net gain on disposal of property, plant and equipment	102,511	-
Dividend income	46	9,737
Gain on divestment of associated company	698,898	-
Negative goodwill	-	169,112
Doubtful debts written back	-	8,094
Other revenue	151,724	59,869
	999,046	278,000
(iii) Finance costs		
Interest:		
Overdraft	12,913	10,871
Factory loan	11,555	12,082
Trust receipts	115,516	49,656
Hire purchase	69,682	46,606
Revolving credit facility	66,533	-
Others	22,012	3,032
	298,211	122,247
(iv) Other expenses		
Advertising and promotions	102,813	69,314
Amortisation of intangible assets	157,739	38,012
Audit fees	111,035	35,458
Bank charges	104,193	92,422
Commission	50,029	12,814
Entertainment	103,896	65,306
Insurance	96,997	69,061
Legal and professional fees	50,096	13,546
Loss on disposal of fixed assets	51,092	15,109
Machinery maintenance	306,015	300,554
Motor vehicle expenses	151,897	39,270
Provision for doubtful debts	8,765	64,646
Stocks written off	-	78,577
Telephone	119,537	64,036
Traveling expenses	264,542	155,835
Other	669,110	427,681
	2,347,756	1,541,641

Notes to the Consolidated Financial Statements (continued)

Note 5 Income tax

The major components of income tax expense for the half-year ended 31 December 2006 and 31 December 2005 are:

Consolidated Income Statement	2006	2005
Current income tax		
Current income tax charge	820,508	282,559
Adjustments in respect of current income tax of previous years	(21,737)	25,097
Deferred income tax		
Relating to origination and reversal of temporary differences	15,559	(3,997)
Overprovision	-	(115,162)
Income tax expense reported in the consolidated income statement	814,330	188,497

The effective tax rate for the current period is 20% (2005:17%) which is in line with the corporate tax rate in Singapore where the major subsidiary companies reside. The Australian subsidiary is not liable to tax due to available tax losses brought forward. The lower effective tax rate of preceding period is due to an overprovision of deferred tax written back in the said period.

Note 6 Cash and cash equivalents

	31-Dec-06	30-Jun-06
	$	$
For the purpose of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	6,676,678	4,511,754
Short-tem fixed deposits	568,636	119,825
	7,245,314	4,631,579
Bank overdrafts	(476,583)	(236,169)
	6,768,731	4,395,410

Note 7 Dividends paid and proposed

	31-Dec-06	31-Dec-05
	$	$
Ordinary Shares		
Dividends provided for during the half-year		
Interim unfranked dividend for the half-year 31 December 2006: 0.15 cents (2005: 0.00 cents)	272,068	-

Note 8 Contingent liabilities

A claim was received in the 2005 financial year from a third party for personal injury damages of $700,000 sustained in an alleged accident three years ago. Cesco Australia Limited and Zicom Group Limited are named as second and third respondents. The claim is nearing completion of the pre-mediation process, however any damages that may be awarded are likely to be satisfied by insurance cover. Accordingly the directors believe the consolidated entity is unlikely to incur any costs exceeding the insurance excess.

Notes to the Consolidated Financial Statements (continued)

Note 9 Contributed equity

	2006 Shares	2005 Shares	2006 $	2005 $
(a) Share capital				
Ordinary fully paid shares	181,378,762	84,408,756	23,225,317	18,607,504

(b) Movement in ordinary share capital

		Number of shares
At 1 July 2005		84,408,756
Issue of shares to employees - 9 Feb 2006	(d)	12,500
Issue of shares to option holder - 15 June 2006		900,000
At 30 June 2006		85,321,256
Issue of shares to employees - 18 July 2006	(d)	387,500
Issue of shares under Rights Issue - 14 July 2006	(e)	85,321,256
		171,030,012
Consolidation of shares (1:8)	(f)	21,378,762
Issue of shares in consideration of acquisition	(g)	160,000,000
At 31 December 2006		181,378,762

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amount paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options

Information relating to the Zicom Group Limited Executive Share Option Plan, including details of options issued, exercised and lapsed to the half year are set out below:

Grant Date	Expiry Date	Exercise Price	Balance at start of the year	Granted during the year	Exercised during the year	Lapsed during the year	Cancelled during the year	Balance at the end of year	Balance exercisable at the end of year
2006									
6 Jan 2004	18 July 2006	$0.02	1,295,000	nil	(387,500)		(907,500)	-	-
6 Jan 2004	31 Dec 2008	$0.02	1,357,500	nil	(12,500)	(50,000)	nil	1,295,000	585,000
2005									
6 Jan 2004	31 Dec 2008	$0.02	1,820,000	nil	(112,500)	(350,000)	nil	1,357,500	255,000
2004									
6 Jan 2004	31 Dec 2008	$0.02	-	1,890,000	-	(70,000)	nil	1,820,000	-

Notes to the Consolidated Financial Statements (continued)

Note 9 Contributed equity (continued)

(e) Rights issue

On 22 June 2006 the company invited its shareholders to subscribe to a rights issues of 84,408,756 ordinary shares at an issue price of $0.02 per share on the basis of 1 share for every 1 share held at the record date 16 June 2006. In addition a further 12,661,313 shares were also offered to shareholders. The rights issue was underwritten by Sysmet Holdings Pte Ltd and Ventrade (Asia) Pte Ltd.

A total of 85,321,256 shares were issued to shareholders on 14 July 2006 as a result of the rights issue.

(f) Consolidation of shares

At the general meeting of Zicom Group Limited held on 7 July 2006, shareholders passed a resolution to consolidate the existing share capital of Zicom Group Limited. The consolidation is based on every 8 ZGL shares to be consolidated into 1 ZGL share with fractional entitlements to be rounded to the nearest whole share.

(g) Acquisition of Zicom Holdings Pte Ltd (ZHPL)

The consolidated entity completed the purchase of Zicom Holding Pte Ltd, (ZHPL), on 24 July 2006, as approved at a General Meeting held 7 July 2006. The effective time of acquisition as stated in the Sales and Purchase Agreement was 1 July 2006. The company purchased all of the issued capital of ZHPL for a consideration of 160,000,000 shares. Further information related to the acquisition can be found in note 10.

Note 10 Business combination

On 1 July 2006, the consolidated group acquired 100% of voting shares of Zicom Holdings Pte Ltd ("ZHPL"), an unlisted company based in Singapore, specialising in hydraulic, process and precision engineering, manufacture of offshore and marine deck machinery, foundation equipments, precision and automation engineering, gas regulating and metering stations and hydraulic drives for mobile equipments. ZHPL also manufactures transit concrete mixers in Singapore, Malaysia, Thailand and China using the blades that are made by the consolidated entity.

AASB 3 *Business Combinations* requires an acquirer in a business combination to be identified. With respect to the acquisition of ZHPL by ZGL, ZHPL has been identified as the acquirer.

As ZHPL has been identified as the acquirer, the methodology of 'reverse acquisition accounting' has been applied to this transaction and accordingly we have 'fair valued' the assets of ZGL (the subsidiary for accounting purposes) and recognised the goodwill based on the fair value of the purchase consideration.

Notes to the Consolidated Financial Statements (continued)

Note 10 Business combination (continued)

The provisional fair values of the identifiable assets of ZGL as at the date of acquisition were:

	Recognised on acquisition	Carrying values
Cash and cash equivalents	1,040,043	1,040,043
Receivables	2,159,813	2,159,813
Inventories	1,980,385	1,868,419
Property, plant and equipment	478,147	478,147
Intangible assets	1,222,279	-
Other	308,321	308,321
	7,188,988	5,854,743
Payables	2,851,850	2,851,850
Interest bearing liabilities	570,841	570,841
Provisions	430,725	430,725
Other	509,247	509,247
	4,362,663	4,362,663
Net identifiable assets	2,826,325	1,492,080
Add: Goodwill arising on acquisition	1,537,306	
Add: Goodwill existing in ZGL's accounts	354,179	
Total purchase consideration	**4,717,810**	

Note 11 Events occurring after the balance sheet date

The following were significant events after the balance sheet date:

a) Acquisition of MTA-Sysmac Automation Pte Ltd
Sys-Mac Automation Engineering Pte Ltd ("Sys-Mac"), one of the Group's subsidiary company, has acquired 51% shareholdings in MTA-Sysmac Automation Engineering Pte Ltd ("MTA-Sysmac") for a consideration of S$5,101 (A$4,286) on 31 January 2007.

MTA- Sysmac which is owned by Sys-Mac and major shareholders of Missouri Tooling and Automation Inc, USA, was set up to leverage on the combined strengths of MTA and Sys-Mac to market and build automated production lines in the USA and in Asia.

b) New finance facility granted
The Australian subsidiary, Cesco Australia Limited, has secured a new finance facility and paid off the previous credit facility established 31/12/03.

The new facility covers overdraft financing, trade credit, asset and invoice financing to a total limit of A$5.1m.

Directors' Declaration

In accordance with a resolution of the directors of Zicom Group Limited, I state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

(i) give a true and fair view of the financial position as at 31 December 2006 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB134 *Interim Financial Reporting* and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board

G L Sim
Chairman

Brisbane
26 February 2007

ERNST & YOUNG

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To the members of Zicom Group Limited

Report on the Half-Year Condensed Financial Report

We have reviewed the accompanying half-year financial report of Zicom Group Limited and the entities it controlled during the half-year, which comprises the condensed balance sheet as at 31 December 2006, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report
The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of Zicom Group Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence
In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Zicom Group Limited and the entities it controlled during the half-year, is not in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and

  (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Ernst & Young

Ernst & Young

Mike Reid
Partner
Brisbane
26 February 2007