traffic®
technologies.ltd

annual report 2005

Traffic Technologies Ltd

During 2005 Traffic Technologies has continued the development, marketing and sale of its Smart Traffic Light which uses LED technology rather than incandescent or halogen globes. This provides significantly improved performance when compared with existing traffic lights, reducing the power consumption, maintenance and operating costs for road traffic authorities. Traffic Technologies has entered into discussions with a number of road authorities in Australia and internationally regarding the supply of its Smart Traffic Light.

A number of Australian states and territories are now introducing or conducting trials into the use of LED traffic light systems. While the take up of LED technology for traffic lights has been slow to date, road traffic authorities throughout Australia are now implementing more rapid rollout programmes. The Directors anticipate that most major intersections throughout Australia will be converted to LED traffic light systems over time.

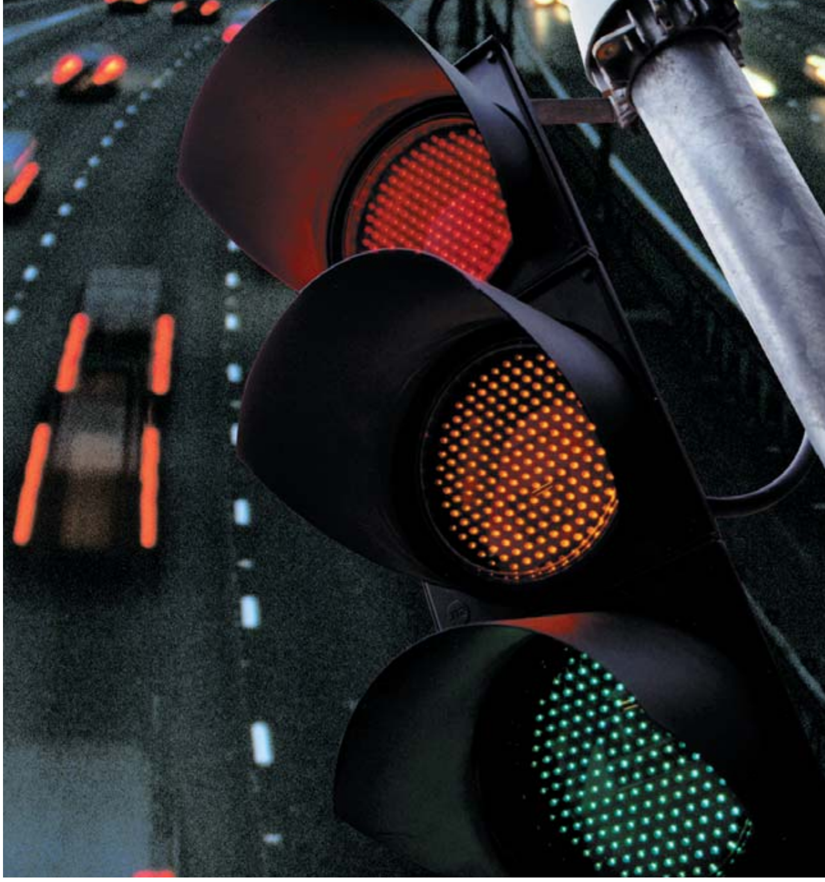
Since the re-quotation of the Company's Shares on ASX in January 2005, the Company has announced a number of strategic acquisitions of traffic management and related businesses, including Traffic Management Solutions Pty Ltd (Geelong), Ace Traffic Management Pty Ltd (Adelaide), Able Traffic Management Pty Ltd (Melbourne) and traffic signs manufacturer, De Neefe Pty Ltd. The company has also acquired a 10% strategic stake in Perth-based traffic management company Warp Pty Ltd.

In July 2005 Traffic Technologies entered into an agreement to acquire traffic sign company De Neefe.

A manufacturer of traffic signs, De Neefe has been operating for over 30 years and has operations in every State of Australia except Queensland.

Traffic Technologies views De Neefe as an ideal fit with its traffic management business and consistent with its strategy of offering traffic management services and equipment. Combined with Traffic Technologies' existing locations across Australia the enlarged group will offer combined signage and traffic services to traffic management customers.

Traffic Technologies plans to expand its product offering to include electronic road signage including variable message signs and signs using LED technology. Traffic Technologies has an existing suite of LED traffic lights and this expertise will be of assistance in marketing and selling De Neefe's product range.



TRAFFIC TECHNOLOGIES LIMITED
ABN 21 080 415 407
AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED

30 JUNE 2005

ABN 21 080 415 407
address. 110 Stephenson St, Richmond, Victoria, Australia 3121
phone. 61 3 9427 7411
facsimile. 61 3 9427 7455
web. www.traffictechnologies.com.au

TRAFFIC TECHNOLOGIES LIMITED
CHAIRMAN'S LETTER

Dear Shareholder,

I have pleasure in enclosing the Annual Report for Traffic Technologies Limited for the financial year ended 30 June 2005.

The company has gone through an exciting period since re-listing in January 2005 that has resulted in the creation of the first fully integrated traffic services company in Australia.

Through the acquisitions of Traffic Services Australia in August 2004 and the subsequent acquisition of Traffic Management Services in Geelong, Ace in Adelaide, Able in Melbourne and a 10% stake in Warp Group in Western Australia we now have a national traffic management business with annualised revenue of approximately $30m.

At the time of this report the company has also announced the acquisition of De Neefe Signs, the largest traffic sign manufacturer in Australia. These new acquisitions, coupled with the Company's LED traffic light and the BarrierGuard 800 barrier system for which the Company has been appointed the distributor in Australia, have created a group with annualised revenues estimated to be approximately $60m per annum.

As outlined previously our strategy is to consolidate a fragmented traffic management services industry in Australia. Traffic Technologies Limited expects to make further strategic acquisitions in the year ahead. The Company has also recently announced an $8m capital raising via a placement to Institutional Investor, Equity Partners, which is subject to shareholder approval, a $1.4m placement to sophisticated investors and a share purchase plan to existing eligible shareholders.

I, along with my fellow Directors, thank you for your support over the past year and look forward to creating shareholder value for you as we develop the Company's business in what we believe will be an exciting year ahead.

Yours faithfully,

Samuel Kavourakis
Chairman

Melbourne
2 September 2005

TRAFFIC TECHNOLOGIES LIMITED
CORPORATE DIRECTORY

DIRECTORS

Mr. Sam Kavourakis BSc. (Queensland) AIA
Mr. Constantine Scrinis
Mr. Constantinos Liosatos
Mr. Alan Brown FAICD
Mr. Cary Peter Stynes LL.B (Melb), MAICD

COMPANY SECRETARY

Mr. Peter Kenneth Crafter LL.B, MBA, FCA, CA, MCT, FAICD

REGISTERED OFFICE

110 Stephenson Street
RICHMOND VIC 3121

LAWYERS

Middletons
Level 29
200 Queen Street
MELBOURNE VIC 3000

AUDITORS

Pitcher Partners
Level 19
15 William Street
MELBOURNE VIC 3000

SHARE REGISTRY

Computershare Registry Services
452 Johnston Street
ABBOTSFORD VIC 3067
Tel: 1300 137 328

STOCK EXCHANGE LISTING

Traffic Technologies Limited’s ordinary shares are listed on the Australian Stock Exchange Limited.
(Stock Code: TTI).

STATE OF INCORPORATION

Victoria

TRAFFIC TECHNOLOGIES LIMITED
FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005
CONTENTS

TRAFFIC TECHNOLOGIES LIMITED
DIRECTORS' REPORT

The Directors present their report together with the financial report of the consolidated entity, consisting of Traffic Technologies Limited and the entities it controlled, for the financial year ended 30 June 2005 and independent audit report thereon. Traffic Technologies Limited is a publicly listed company.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Name	Qualifications, Experience and Special Responsibilities
Mr. Samuel Kavourakis BSc. (Queensland) AIA	(Age 60) Non-Executive Chairman. Appointed January 2004. Mr. Kavourakis has had a distinguished career spanning 30 years with National Mutual, including eight years as Managing Director of National Mutual Funds Management. Mr. Kavourakis has an in-depth understanding of what institutional investors require of listed companies. Since 1998, Mr. Kavourakis has been a Director of various companies and associations. Current Directorships include Ticor Limited, Collins House Financial Services, Australand Wholesale Investments Ltd, Centro Properties Ltd and the Rio Tinto Staff Superannuation Fund. Mr. Kavourakis is an Associate of the Institute of Actuaries and a graduate of the Harvard Business School Advanced Management Program. Mr. Kavourakis was appointed Non Executive Chairman of Traffic Technologies Limited in January 2004**.** During the past three years Mr. Kavourakis has also served as a Director of the following other listed companies: • Ticor Limited* • Centro Properties Ltd* * denotes current Directorship
Mr. Constantine A Scrinis	(Age 42) Joint Managing Director. Appointed April 2003. Mr. Scrinis has over 20 years experience in the lighting industry. After spending several years with Sunlighting and three years as owner and operator of various retail businesses, he along with Mr. Liosatos established Moonlighting in 1991. Since 1991, he and Mr. Liosatos built a manufacturing and distribution business in industrial and commercial lighting employing approximately 140 people. Mr. Scrinis and Mr. Liosatos have been involved in the development of the Smart Traffic Light since 1997 and achieved the first commercial sales of the Company's Smart Traffic Light product into Malaysia in 2000. Mr. Scrinis is the Joint Managing Director of Traffic Technologies Limited. Mr. Scrinis was appointed as a Director of Traffic Technologies in April 2003. Mr. Scrinis has not served as a Director of any other listed companies during the three years prior to June 2005. Mr. Scrinis was appointed a Director of Labtam Limited, a company currently suspended from trading on ASX, in November 2003.
Mr. Constantinos L Liosatos	(Age 42) Joint Managing Director. Appointed April 2003. Mr. Liosatos has over 20 years experience in the lighting industry. After spending 10 years with Sunlighting, he and Mr. Scrinis established Moonlighting in 1991. Since 1991, he and Mr. Scrinis built a manufacturing and distribution business in industrial and commercial lighting employing approximately 140 people. Mr. Liosatos has been involved in the development of the Smart Traffic Light since 1997 and achieved the first commercial sales of the Smart Traffic Light into Malaysia in 2000. Mr. Liosatos has qualifications in Mechanical Design and Lighting Engineering. Mr. Liosatos is the Joint Managing Director of Traffic Technologies Limited. Mr. Liosatos was appointed as a Director of Traffic Technologies Limited in April 2003. Mr. Liosatos has not served as a Director of any other listed companies during the three years prior to June 2005. Mr. Liosatos was a Director of Labtam Limited, a company currently suspended from trading on ASX, between November 2003 and March 2004.
Mr. Alan J Brown FAICD	(Age 59) Non-Executive Director. Appointed January 2004. Mr. Brown has extensive experience in both the private and public sectors. He is a Director of a range of private companies and has established several over a thirty-year period. He has wide ranging public sector involvement including state and local government, co-operative societies and statutory authorities. He was a Member of the Victorian Parliament from 1979-97 and is a former Leader of the Victorian Liberal Party. As Minister for Transport he implemented major reforms to Victoria's transport infrastructure. He has international business experience and as Agent General for Victoria in London from 1997-2000 had key responsibility for identification, negotiation and attraction of overseas investment to Victoria. Mr. Brown also had responsibility for facilitation of exports for Victorian goods and services to overseas markets. He is Chairman of Apprenticeships Plus and the Bass Coast Community Foundation. Mr. Brown was appointed a non-executive Director of Traffic Technologies Limited in January 2004. Mr. Brown has not served as a Director of any other listed companies during the three years prior to June 2005.

Mr. Cary P Stynes
LL.B (Melb) MAICD

(Age 41) Non-Executive Director. Appointed January 2004.
Mr. Stynes spent six years in a range of senior finance and management roles for a number of international companies. He spent five years as a commercial lawyer with law firm Minter Ellison specialising in commercial litigation, insolvency, media, mergers and acquisitions and corporate advisory work. He is admitted to practice in the Supreme Court of Victoria and the High Court of Australia. In 1993 he co-founded Point of Sale Media Pty Ltd, which was acquired in 1995 by ASX-listed Media Entertainment Group Limited. He was a Director of Media Entertainment Group Limited from September 1995 and was Managing Director from July 1997 until June 1999. He was Managing Director and Chief Executive Officer of ASX-listed Software Communication Group Limited from January 2000 to July 2001. He was Managing Director of ASX-listed CBD Energy Limited from June 2002 to June 2003 and has been Managing Director of ASX-listed The Swish Group Limited since January 2003. He is principal of Stynes Consulting and Stynes and Associates which are commercial and legal consulting practices. He is also a Director of a range of private companies. Mr. Stynes was appointed a non-executive Director of Traffic Technologies Limited in January 2004. During the past three years Mr. Stynes has also served as a Director of the following other listed companies:

- CBD Energy Limited
- The Swish Group Limited*

* denotes current Directorship

Company Secretary

Mr. Peter K Crafter
LL.B (Hons), MBA, FCA, CA, MCT, FAICD

(Age 48) Chief Financial Officer and Company Secretary. Appointed March 2004.
Mr. Crafter is a Chartered Accountant in both Australia and the UK and qualified Corporate Treasurer with extensive experience in financial management including several years with KPMG and Touche Ross in the United Kingdom. He holds an honours degree in Law from the University of London and an MBA from Heriot-Watt University, Scotland. He migrated to Australia in February 1999 and joined Software Communication Group Limited as Chief Financial Officer in May 1999. He was subsequently promoted to the position of Acting Chief Executive Officer of that Company in July 2001. He was Chief Financial Officer of ASX-listed CBD Energy Limited from July 2002 to July 2003 and was appointed Finance Director of The Swish Group Limited in January 2003. He was appointed Chief Financial Officer and Company Secretary of Traffic Technologies Limited in March 2004.

Directors' interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the Directors in the shares and options of the Company were:

	Ordinary Shares		
Director	**Directly**	**Indirectly**	**Options**
Mr. Samuel Kavourakis	40,601	770,500	500,000
Mr. Constantine A Scrinis	-	3,543,945	300,000
Mr. Constantinos L Liosatos	-	3,643,945	300,000
Mr. Alan J Brown	40,601	956,500	300,000
Mr. Cary P Stynes	-	375,000	300,000

For more information relating to interests of Directors refer to Note 22 of the Financial Statements

EARNINGS PER SHARE

	Cents
Basic earnings per share	(3.7)
Diluted earnings per share	(3.4)

DIVIDENDS

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2005.

CORPORATE INFORMATION

Corporate structure

Traffic Technologies Limited is a Company limited by shares that is incorporated and domiciled in Australia. Traffic Technologies Limited has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. The Company's subsidiary entities are set out in Note 7 to the financial statements.

Employees

The consolidated entity employed 521 employees as at 30 June 2005 (2004: 8 employees).

Nature of operations and principal activities

The consolidated entity's principal activity is the provision of traffic management services. Since re-listing on ASX in January 2005 the Company has entered into a number of acquisitions in the traffic management area as detailed below.

REVIEW AND RESULTS OF OPERATIONS

Results

The consolidated loss after income tax attributable to the members of Traffic Technologies Limited was $0.9m (2004: $0.4m).

Review of operations

A review of the operations of the consolidated entity during the financial year and the results of those operations are as follows:

Traffic lights

Traffic Technologies, through its subsidiary Traffic Technology International Pty Ltd, is involved in the development, marketing and sale of a new type of traffic light that utilises LED technology (**Smart Traffic Light**). The Smart Traffic Light delivers significantly improved performance when compared with existing traffic lights reducing the traffic lights' power consumption, maintenance and operating costs for road traffic authorities.

Traffic management

In August 2004 the Company acquired Traffic Services Australia Holdings Pty Ltd (**TSA**). TSA is one of Australia's largest traffic management companies, providing temporary traffic management services to road traffic authorities and construction companies. TSA's core business is the provision of traffic management services for the effective flow of traffic through, or around, road and other construction projects. This includes the provision of traffic management control plans, traffic controllers and the vehicles and equipment necessary for the installation of temporary traffic guidance systems. TSA is based in Brisbane and has operations in Sydney, Cairns and on the Sunshine and Gold Coasts.

Re-quotation of securities on ASX

In November 2004 the Company issued a Prospectus offering for subscription 30,000,000 Shares at an issue price of $0.20 each, payable in full on Application, to raise $6,000,000. The capital raising was undertaken to complete the acquisition of TSA, further develop the Company's traffic management business, enable strategic and complementary acquisitions as and when opportunities arise, provide working capital and pay the costs of the capital raising. On 12 January 2005 quotation of the Company's securities was reinstated on the Australian Stock Exchange Limited (ASX).

Acquisitions

Since relisting on ASX the Company has focused on building its traffic management businesses across Australia, including Smart Traffic Lights, traffic control, roadside crash barriers and traffic signs. Since January 2005, the Company has announced a number of acquisitions of traffic management businesses, including Traffic Management Solutions Pty Ltd (Geelong) in April 2005 and Ace Traffic Management Pty Ltd (Adelaide) in July 2005. In June 2005 the Company announced that it had acquired a 10% strategic investment in Perth-based Warp Pty Ltd. In July 2005 the Company also announced the acquisitions of Able Traffic Management Pty Ltd (Melbourne) and traffic signs manufacturer, De Neefe Pty Ltd.

Review and results of operations (continued)

Financial performance

The results for the financial year ended 30 June 2005 are not comparable with the previous financial year. Total revenue for the financial year ended 30 June 2005 was $19.3m, compared to $0.1m in the financial year ended 30 June 2004.

In August 2004 the Company acquired Traffic Services Australia Holdings Pty Ltd (**TSA**). TSA is one of Australia's largest traffic management companies, providing temporary traffic management services to road traffic authorities and construction companies.

Following re-quotation of the Company's securities on ASX in January 2005, the Company acquired Traffic Management Solutions Pty Ltd (**TMS**) in April 2005. TMS is the dominant traffic management business in the Geelong area.

Total costs for the financial year ended 30 June 2005 were $20.2m, including direct costs of $14.3m. Costs incurred in the financial year ended 30 June 2004 of $0.5m largely comprised administrative costs incurred in connection with restructuring the Company as a provider of traffic management systems and ensuring that the Company complied with ASX and ASIC requirements in the period prior to re-quotation of its securities on ASX in January 2005.

Costs of developing the Company's Smart Traffic Light system have been capitalised and amortised where future benefits are expected, beyond any reasonable doubt, to exceed those costs.

Financial position

Consolidated net assets as at 30 June 2005 was $5.4m, compared to net assets of $30,677 as at 30 June 2004. Net assets included $4.2m of receivables, $3.3m of plant and equipment and $5.2m of intangible assets, comprising goodwill and capitalised research and development expenditure. The Company had $5.4m of interest-bearing liabilities at 30 June 2005 (2004: $Nil).

Cash flows

During the year ended 30 June 2005 the Company had net operating cash outflows of $0.2m. Consolidated cash as at 30 June 2005 was $1.0m.

The Company has a bank facility, hire purchase arrangements and access to $3.6m of debtor factoring facilities of which $2.9m had been drawn as at 30 June 2005. The Company has also drawn down a $1.0m third-party loan to finance acquisitions.

Since relisting on the ASX in January 2005 the Company has focused on building its traffic management businesses across Australia, including Smart Traffic Lights, traffic control, roadside crash barriers and traffic signs. During the March quarter, the Company paid the final instalment of $0.3m due under the share sale agreement for Traffic Services Australia Holdings Pty Ltd (**TSA**), the final instalment of $1.85m due under the administrator agreement for TSA and certain acquisition costs associated with TSA. During the March quarter the Company also paid capital raising costs in connection with the relisting of its shares on ASX and certain related party debt to entities associated with Directors, Mr. Con Scrinis and Mr. Con Liosatos, and accrued Directors' fees.

Outlook for the next twelve months

The Company is currently in the process of completing and integrating a number of acquisitions that it expects will significantly enhance the Company's operations. However, the Board is not yet in a position to give an accurate forecast of revenue and profitability for the financial year ending 30 June 2006. Through the acquisition of Traffic Services Australia in August 2004 and the subsequent acquisition of Traffic Management Services in Geelong, Ace in Adelaide, Able in Melbourne and 10% of the Warp Group in WA, the Company now has a national traffic management business with annualised revenue of approximately $30m. This coupled with the acquisition of De Neefe Signs, the largest traffic sign manufacturer in Australia, the company's LED traffic light and the BarrierGuard 800 barrier system, is expected to create a group with revenues of approximately $60m and with further acquisitions currently being contemplated we expect annualised revenues to exceed $100m by late 2006.

RISK MANAGEMENT

The Board has adopted a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Company believes that it is crucial for all Board members to be a part of this process and, as such, the Board has not established a separate risk management committee.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company acquired control over the following entity during the year ended 30 June 2005:

Date	Subsidiary entity	% Interest	Description	Contribution to Consolidated Profit/(loss)
6 August 2004	Traffic Services Australia Holdings Pty Ltd	100%	Traffic management	$(662,697)

On 7 January 2005, the Company issued 30,000,000 shares as a result of the Prospectus capital that raised $6,000,000. In January 2005 the Company also issued 5,000,000 fully paid ordinary shares on conversion of debt, including 1,250,000 fully paid ordinary shares to each of Astra Glen Pty Ltd (associated with Director Mr. Con Scrinis) and Contelite Pty Ltd (associated with Director Mr. Con Liosatos), and 375,000 fully paid ordinary shares to CPS Holdings Pty Ltd (associated with Director Mr. Cary Stynes) in consideration of professional services.

On 12 January 2005 quotation of the Company's securities was reinstated on the Australian Stock Exchange Limited (ASX). At the date of this report, the Company has a total of 44,431,916 fully paid ordinary shares on issue, of which 39,387,824 are quoted on ASX and 5,044,092 are subject to escrow restrictions until 12 January 2007.

On 8 April 2005 the Company issued 800,000 fully paid ordinary shares at $0.25 (25 cents) per share as part consideration for the acquisition of the business and assets of Traffic Management Solutions Pty Ltd.

The Company did not lose control over any entities during the year ended 30 June 2005.

SUBSEQUENT EVENTS AFTER THE BALANCE DATE

On 5 July 2005 the Company announced that the acquisition of ACE Traffic Management, a traffic management business based in South Australia, would be completed for a consideration of $1.5m in cash and shares.

On 7 July 2005 the Company announced the acquisition of Able Traffic Management, a traffic management business based in Melbourne, for a consideration of $450,000 in cash and shares.

On 19 July 2005 the Company announced the acquisition of De Neefe, a traffic sign manufacturer based in Melbourne, for a consideration of $2.1m in cash and shares.

On 23 August 2005 the Company announced that it had entered into an agreement to raise $6m in equity and $2m via convertible notes to fund continuing acquisitions and that it would also implement a share purchase plan to allow existing eligible shareholders to access new shares at 25 cents each.

On 30 August 2005 the Company announced a placement to sophisticated investors of 5,744,000 fully paid ordinary shares at $0.25 (25 cents) per share to raise $1,436,000 for acquisitions.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

SHARE OPTIONS

At the date of this report there are 3,200,000 unissued ordinary shares in respect of which options are outstanding.

There are 1,700,000 options held by the Directors exercisable at $0.20 (20 cents) per share, that were issued on 30 January 2004 and expire on 30 January 2009.

There are 500,000 options held by third party financiers in part consideration of convertible loans made to the Company. These options are exercisable at $0.20 (20 cents) per share, were issued on 7 January 2005 and expire on 12 January 2006.

There are 600,000 options held by executives of the Company to purchase shares that were issued on 22 April 2005 and expire on 30 January 2009, of which 500,000 options are exercisable at $0.20 (20 cents) per share and 100,000 options are exercisable at $0.25 (25 cents) per share.

There are 400,000 options held by executives and staff of the Company, exercisable at $0.25 (25 cents) per share that were issued on 8 August 2005 expiring on 8 August 2010.

INDEMNIFICATION OF DIRECTORS, OFFICERS AND AUDITORS

During the financial year ended 30 June 2005, the consolidated entity has paid premiums of $12,750 in respect of a Directors' and Officers' insurance policy insuring Directors and Officers in respect of claims which may be brought against them.

REMUNERATION REPORT

This report outlines the remuneration arrangements in place for Directors and executives of the Company.

Remuneration objective

The performance of the Company depends upon the quality of its Directors and executives. To be successful, the Company must attract, motivate and retain highly skilled Directors and executives. To this end, the Company seeks to provide competitive rewards to attract high calibre executives.

Remuneration committee

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for the Directors, the Joint Managing Directors and the executive team. The Remuneration Committee comprises all Board members, which includes a majority of independent Directors, and is chaired by Mr. Samuel Kavourakis, who is an independent Director. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration structure

In accordance with best practice corporate governance, the structure of non-executive Director and executive remuneration is separate and distinct.

Non-executive Director remuneration

The Company's constitution provides that the Directors are paid for their services as Directors such fees as the Directors determine not exceeding in aggregate a maximum sum that is from time to time approved by the Members in a general meeting. The notice convening a general meeting at which it is proposed to seek approval to increase that maximum aggregate sum must specify the proposed new maximum aggregate sum and the amount of the proposed increase. Aggregate non-executive Directors' remuneration is currently $124,500. In addition, shareholders approved the issue of a total of 1,700,000 options to the non-executive Directors on 30 January 2004. These options, which vested immediately and have a five year term, are exercisable at 20 cents per share. The issue of these options was not based on Company performance.

REMUNERATION REPORT (Continued)

Senior manager and executive Director remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- Reward executives for Company and individual performance;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure

Currently remuneration is paid in the form of cash remuneration, superannuation contributions and share options where applicable. The Company paid no bonuses during the financial year ended 30 June 2005. Further details of the remuneration of Directors and executives are provided in Note 22 to the financial statements.

Share options

All Directors and executives have the opportunity to qualify for participation in the Company Share Option Plan. The issue of options under this plan is at the discretion of the Board and is not currently based on Company performance. Options are used by the Company as a non-cash form of remuneration and have the objective of aligning employee interests with the objective of increasing shareholder wealth. Any issue of options under the plan to Directors is subject to shareholder approval. Details regarding the issue of share options under the Company Share Option Plan during the year are provided in Note 22 to the financial statements.

Non-executive Director agreements

The non-executive Directors have entered into non-executive Director agreements with the Company. The non-executive Director agreements entrench a Director's rights to be indemnified by the Company to the maximum extent permitted by law; require the Company to take out an appropriate Directors' and officers' insurance policy to protect the Director from liability (to the extent permitted by law); and access the books and records of the Company, which relate to the period the Director acted as a Director of the Company. After resignation as a Director, the Director can only use this information for the purposes of defending a claim.

Executive Service and Management Agreements

Traffic Technologies has entered into executive service agreements with Mr. Constantine Scrinis and Mr. Constantinos Liosatos. Under the agreements, Mr. Scrinis agreed to act as Joint Managing Director of Traffic Technologies and Mr. Liosatos agreed to act as Joint Managing Director of Traffic Technologies for a total remuneration of $75,000 per annum each increasing to $200,000 per annum from 1 January 2005, with a review in June 2006. Under the agreements there is no additional obligation of the Company to pay superannuation contributions. On 30 January 2004 shareholders approved the issue of 300,000 options each to Mr. Scrinis and Mr. Liosatos. The agreements are for a term of two years from 1 November 2004. Each executive has an employment or contractor agreement with notice periods varying between seven days and one month.

REMUNERATION REPORT (Continued)

Emoluments of Directors of the Company

Details of the nature and amount of each element of the emoluments of each Director of the Company for the financial year ended 30 June 2005 are as follows:

Name		Primary Emoluments Base Salary $	Superannuation Contributions $	Equity Number of Options Granted No.	Value of Options Granted $	Total $
2005						
Mr. Sam Kavourakis	Non-Exec Chairman	50,000	4,500	-	-	54,500
Mr. Con Scrinis	Joint Managing Director	137,500	-	-	-	137,500
Mr. Con Liosatos	Joint Managing Director	137,500	-	-	-	137,500
Mr. Alan Brown	Non Executive	35,000	-	-	-	35,000
Mr. Cary Stynes	Non Executive	35,000	-	-	-	35,000
Total		395,000	4,500	-	-	399,500
2004						
Mr. Sam Kavourakis	Non-Exec Chairman	20,833	-	500,000	19,500 *48%*	40,333
Mr. Con Scrinis	Joint Managing Director	31,250	-	300,000	11,700 *27%*	42,950
Mr. Con Liosatos	Joint Managing Director	31,250	-	300,000	11,700 *27%*	42,950
Mr. Alan Brown	Non Executive	14,583	-	300,000	11,700 *45%*	26,283
Mr. Cary Stynes	Non Executive	14,583	-	300,000	11,700 *45%*	26,283
Mr. Peter Stedwell	Non Executive	5,000	-	-	- -	5,000
Total		117,499	-	1,700,000	66,300 *37%*	183,799

Of total Directors' remuneration, $260,000 (2004: $112,499) was not paid to the Directors during the financial year ended 30 June 2005 and has been accrued.

The percentage value of each person's remuneration that consists of options is shown in italics.

Emoluments of the most highly paid executive officers of the Company and the consolidated entity

Details of the nature and amount of each element of the emoluments of the officers of the consolidated entity for the financial year ended 30 June 2005 are as follows:

Name		Primary Emoluments Base Salary $	Superannuation Contributions $	Equity Number of Options Granted No.	Value of Options Granted $	Total $
2005						
Mr. Geoff Burke	Fmr TSA General Manager	81,524	7,337	-	-	88,861
Mr. James Hopping	TSA General Manager	87,445	-	200,000	18,927 *18%*	106,372
Mr. Peter Crafter	Company Secretary	35,000	-	300,000	28,391 *45%*	63,391
Total		203,969	7,337	500,000	47,318 *18%*	258,624
2004						
Mr. Peter Crafter	Company Secretary	10,740	-	-	-	10,740
Total		10,740	-	-	-	10,740

The percentage value of each person's remuneration that consists of options is shown in italics.

For more information relating to interests of Directors and executives refer to Note 22 of the Financial Statements.

REMUNERATION REPORT (Continued)

Options

In the financial year ended 30 June 2005 the Company granted a total of 600,000 options to executives of the Company to purchase shares expiring on 30 January 2009, of which 500,000 options have an exercise price at $0.20 (20 cents) per share and 100,000 options have an exercise price at $0.25 (25 cents) per share. Options granted as remuneration are valued at grant date in accordance with AASB 2 Share-based Payments. No options previously granted as remuneration have lapsed or been exercised during the year.

In addition, 500,000 options were issued to third party financiers on 7 January 2005 in part consideration of convertible loans made to the Company. These options have an exercise price at $0.20 (20 cents) per share and expire on 12 January 2006.

Fair value of options

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used:

	2005	**2004**
Dividend yield	$Nil	$Nil
Expected volatility	78%	45%
Historical volatility	78%	45%
Risk-free interest rate	5.50%	5.715%
Expected life of options – 500,000 (third party financiers)	0.5 years	5.0 years
Expected life of options – 600,000 (executives)	3.75 years	5.0 years

The dividend yield reflects the assumption that no dividends will be paid by the Company for the foreseeable future. The expected life of the options is based on the term of the options and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

All options issued to date have vested. Currently the fair values of options are not recognised as expenses in the financial statements. On first time adoption of the Australian equivalents of International Financial Reporting Standards, the Company will be required to recognise the fair value of options issued as remuneration as an expense in the Statement of Financial Performance.

DIRECTORS' MEETINGS

The number of meetings of Directors (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director was as follows:

	Directors' Meetings	**Audit Committee**	**Remuneration Committee**	**Corporate Governance Committee**
Number of meetings held:	14	2	1	2
Number of meetings attended:				
Mr. Samuel Kavourakis	14	2	1	2
Mr. Constantine A Scrinis	14	2	1	2
Mr. Constantinos L Liosatos	13	2	-	2
Mr. Alan J Brown	12	2	1	1
Mr. Cary P Stynes	10	2	1	1

TAX CONSOLIDATION

The Company and its subsidiaries have not, as at the date of this report, elected to form a tax consolidated group.

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

A copy of an auditor's independence declaration from the Company's auditor, Pitcher Partners, in relation to the audit for the financial year is provided with this report. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised. The following non-audit services were provided by the Company's auditor during the financial year ended 30 June 2005.

Amounts paid or payable to the auditor for non-audit services provided during the year by the auditor to any entity that is part of the consolidated entity for:	**2005** **$**	**2004** **$**
Taxation compliance services	27,390	-
Due diligence and related services	169,740	-
Investigating accountant's report, for the prospectus	25,520	15,000

Signed in accordance with a resolution of the Directors

Samuel Kavourakis
Chairman

2 September 2005

Melbourne

PITCHER PARTNERS

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Traffic Technologies Limited

In relation to the independent audit for the financial year ended 30 June 2005, to the best of my knowledge and belief there have been:

(i) No contraventions of the auditor independence requirements of the Corporations Act 2001; and

(ii) No contraventions of any applicable code of professional conduct.

PITCHER PARTNERS

Dated on 2 September 2005
Melbourne

S P CATLIN
Partner

The Board of Directors of Traffic Technologies Limited is responsible for the corporate governance of the consolidated entity.

The Board of Directors has implemented the Best Practice Recommendations of the ASX Corporate Governance Council to the extent appropriate for the size and nature of the Company's business as described below. The format of the Corporate Governance Statement now follows the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations". The Corporate Governance Statement must now contain specific information and also report on the Company's adoption of the Council's best practice recommendations on an exception basis, whereby disclosure is required of any recommendations that have not been adopted by the Company, together with the reasons why they have not been adopted.

The Board has established a Corporate Governance Committee, which is responsible for reviewing the Company's compliance with best practice corporate governance requirements, including compliance with the ASX Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations". The Corporate Governance Committee comprises all Board members and is chaired by Mr. Samuel Kavourakis. For details of meetings of the Corporate Governance Committee held during the year and the attendees at those meetings, refer to the Directors' report. The Company's corporate governance practices were in place throughout the year ended 30 June 2005.

Principle 1: Lay solid foundations for management and oversight

The Board has been structured to ensure that an appropriate mix of experience and expertise is available to provide strategic guidance for the Company and effective oversight of management.

Since re-listing on ASX in January 2005 the Company has announced a number of acquisitions that it is currently in the process of completing and integrating. Whilst the Company has laid down a system of corporate governance to comply with ASX Recommendations, the Company expects to develop its corporate governance procedures and internal control systems further as its business develops.

The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The Board acts on behalf of and is accountable to shareholders. The Board seeks to identify the expectations of shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. The Board guides and monitors and fulfils its responsibility to protect shareholder interests and enhance shareholder value by:

- Approving and periodically reviewing the business and financial objectives and strategies and plans of the consolidated entity;
- Monitoring the financial performance of the consolidated entity, including approval of the consolidated entity's financial statements;
- Ensuring that adequate internal control systems and procedures exist and that compliance with these systems and procedures is maintained;
- Identifying areas of significant business or financial risk to the consolidated entity and ensuring management takes appropriate action to manage those risks;
- Reviewing the performance and remuneration of Board members and key members of staff;
- Monitoring the operations of the consolidated entity and the performance of management;
- Establishing and maintaining appropriate ethical standards; and
- Reporting to the shareholders, the Australian Securities and Investments Commission and the Australian Stock Exchange as required.

The Board delegates to the Joint Managing Directors and the executive team responsibility for the operation and administration of the consolidated entity.

Principle 2: Structure the Board to add value

It is the intention of the Company that the composition of the Board will be determined having regard to the following concepts:

- That the Board will comprise a majority of Non-Executive Directors;
- That the Board will comprise a minimum of five Directors and the actual number may be higher where additional expertise is required in specific areas and an outstanding candidate is located;
- That the Chairman of the Board will be a Non-Executive Director; and
- That the Board members should represent a broad range of expertise and experience.

Principle 2: Structure the Board to add value (Continued)

The Directors in office and the term in office of each Director at the date of this report are as follows:

Name	Position	Term in office
Mr. Samuel Kavourakis	Independent Non-Executive Chairman	1 year 7 months
Mr. Constantine Scrinis	Joint Managing Director	2 years 3 months
Mr. Constantinos Liosatos	Joint Managing Director	2 years 3 months
Mr. Alan Brown	Independent Non-Executive Director	1 year 7 months
Mr. Cary Stynes	Independent Non-Executive Director	1 year 7 months

The skills, experience and expertise relevant to the position held by each Director in office at the date of the annual report is included in the Directors' Report. Directors are considered to be independent when they are independent of management, are not a substantial shareholder and are free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In the context of Director independence, "materiality" is considered from both the company and individual Director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include where a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors which point to the actual ability of the Director in question to shape the direction of the company's loyalty.

In accordance with the definition of independence above, three of the five Directors of the Company, as set out above, were independent during the year ended 30 June 2005 and as at the date of this report, as required by Recommendation 2.1. The Company had an independent chairman throughout the year ended 30 June 2005, as required by Recommendation 2.2, and the roles of Chairman and the Joint Managing Directors were split in accordance with Recommendation 2.3.

The Company's constitution provides that a Director other than the Managing Director may not retain office for more than three calendar years or beyond the third annual general meeting following his or her election, whichever is longer, without submitting for re-election. One third of the Directors retire each year and are eligible for re-election. The Directors who retire by rotation at each annual general meeting are those with the longest length of time in office since their appointment or last election. All Directors must be elected by the members. It is not a requirement for a person who is a Director to own shares in the Company.

Recommendation 2.4 requires listed entities to establish a Nomination Committee. During the year ended 30 June 2005, the Company did not have a separately established Nomination Committee. However, the duties and responsibilities typically delegated to such a committee are expressly included in the Board's own charter as being the responsibility of the full Board. The Board does not believe that any marked efficiencies or enhancements would be achieved by the creation of a separate Nomination Committee.

The Company provides the capacity for any Director to obtain separate professional advice on any matter being discussed by the Board and for the consolidated entity to pay the cost incurred. Before the engagement is made, the Director is required to obtain the Chairman of the Board's approval. Approval will not be unreasonably denied and the Director will be expected to provide the Board with a copy of that advice.

Principle 3: Promote ethical and responsible decision-making

All Directors and officers of the Company are required to discharge their responsibilities ethically and with integrity.

The Board has drawn up a code of conduct to guide Board members, executives and employees in carrying out their duties and responsibilities, to guide compliance with legal and other obligations and to maintain confidence in the Company's integrity, as required by Recommendations 3.1 and 10.1. Executives and employees are encouraged to report to Board members any concerns regarding potentially unethical practices.

Principle 3: Promote ethical and responsible decision-making (Continued)

Dealings are not permitted in the Company's securities at any time when Directors, officers or employees are in the possession of price sensitive information not already available to the market, as required by Recommendation 3.2. In addition, the Corporations Act 2001 prohibits the purchase or sale of securities whilst a person is in possession of inside information and the ASX Listing Rules require disclosure of any trading undertaken by Directors or their related entities in the Company's securities. The company secretary must be notified of any intended trading and must also be provided with confirmation that the trading has occurred.

Principle 4: Safeguard integrity in financial reporting

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records and the reliability of financial information. The Board has delegated the responsibility for the establishment and maintenance of a framework of internal control to the Audit Committee.

With effect from the financial year ended 30 June 2005 Mr. Constantine Scrinis, the Joint Managing Director, and the Chief Financial Officer have provided a written statement to the Board that the company's financial reports present a true and fair view of the company's financial condition and operational results and are in accordance with relevant accounting standards and that the company's risk management and internal compliance and control systems are operating efficiently and effectively, as required by Recommendations 4.1 and 7.2.

The Board has established an Audit Committee as recommended by Recommendation 4.2, which operates under a charter approved by the Board, as required by Recommendation 4.1. The Audit Committee also provides the Board with additional assurance regarding the reliability of financial information for inclusion in the financial reports. Corporate Governance Council Recommendation 4.3 requires that the Audit Committee consists of only non-executive Directors and that a majority be independent Directors. All members of the Board are members of the Audit Committee. The Audit Committee is chaired by Mr. Alan Brown, who is an independent chairman and who is not chairman of the Board, in accordance with Recommendation 4.3. Although none of the Audit Committee members have formal accountancy qualifications, all have extensive business experience at Board level and in senior management positions. Audit Committee meetings are attended by the partner responsible for the Company's audit. For details of meetings of the Audit Committee held during the year and the attendees at those meetings, refer to the Directors' report

Principle 5: Make timely and balanced disclosure

The Company has established written policies and procedures to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance, as required by Recommendation 5.1. All ASX announcements are handled by Mr. Constantine Scrinis, the Joint Managing Director, and there are requirements within the Company to ensure that the ASX's continuous disclosure requirements are strictly followed and that unauthorised disclosure of price sensitive information is not made other than through the ASX's Company Announcements Office.

Principle 6: Respect the rights of shareholders

The Board recognises its duty to ensure that its shareholders are informed of all major developments affecting the Company's state of affairs, as required by Recommendation 6.1. Information is communicated to shareholders and the market through:

- The Annual Report which is distributed to shareholders;
- The Annual General Meeting and other shareholder meetings called to obtain approval for Board action as appropriate;
- The Half-Yearly Financial report; and
- Other announcements made in accordance with ASX Listing Rules.

The Company's reports and ASX announcements may be viewed and downloaded from the ASX website: www.asx.com.au (stock code: TTI).

It is the Company's policy that the external auditor attends the Annual General Meeting of the Company and is available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report, as required by Recommendation 6.2.

Principle 7: Recognise and manage risk

The Board has adopted a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Company's objectives and activities are aligned with the risks and opportunities identified by the Board. The Company believes that it is crucial for all Board members to be a part of this process and, as such, the Board has not established a separate risk management committee.

The Board has established policies on risk oversight and management, as required by Recommendation 7.1. The Board has drawn up a risk profile for the consolidated entity, which is regularly reviewed. The executive Directors are closely involved in the day-to-day management of the Company's operations and, given the current size of the operations of the consolidated entity, are in a position to continually monitor risk with the assistance of the executive team.

Principle 8: Encourage enhanced performance

The performance of the Board and key executives is reviewed regularly by the Board against their contribution to the performance of the Company, in accordance with Recommendation 8.1. Directors whose performance is consistently unsatisfactory may be asked to retire.

Principle 9: Remunerate fairly and responsibly

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating Directors and key executives fairly and appropriately with reference to relevant employment market conditions. To assist in achieving this objective, the Remuneration Committee takes account of the Company's financial and operating performance in setting the nature and amount of executive Directors' and executives' remuneration. In relation to the payment of bonuses, options or other incentive payments, discretion is exercised by the Remuneration Committee, having regard to the overall performance of the Company and the performance of the individual during the period.

The Board has established a Remuneration Committee in accordance with Recommendation 9.2. The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for the Directors, the Joint Managing Directors and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. The Remuneration Committee comprises all Board members, which includes a majority of independent Directors, and is chaired by Mr. Samuel Kavourakis, who is an independent Director. For details of meetings of the Remuneration Committee held during the year and the attendees at those meetings, refer to the Directors' report.

Non-executive directors are paid Directors' fees. However, all Directors and executives have the opportunity to qualify for participation in the Company Share Option Plan, including non-executive Directors, which represents a departure from Recommendation 9.3, which recommends that non-executive Directors should not receive options. The payment of part of the remuneration of non-executive Directors in a non-cash form preserves cash for use in the business. In common with other smaller-cap listed companies the Company believes that it must pay its non-executive Directors adequate remuneration in the form of cash and options in order to attract and retain non-executive Directors of appropriate qualifications and experience.

The expected outcomes of the remuneration structure are:

- Retention and motivation of key executives.
- Attraction of quality management to the Company.
- Performance incentives that allow executives to share the rewards of the success of the Company.

Further details of the Company's remuneration policy, including details of the amount of remuneration and all monetary and non-monetary components for each of the highest paid (non-Director) executives during the year and for all Directors, are set out in the Remuneration Report forming part of the Directors' Report, in accordance with Recommendation 9.1. There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive Directors. Shareholder approval is required for all equity-based remuneration payable to Board members, in accordance with Recommendation 9.4.

Principle 10: Recognise the legitimate interests of stakeholders

The Board recognises that the Company has wide ranging obligations to a broad range of stakeholders and must comply with legal requirements such as trade practices, equal opportunity and occupational health and safety issues.

The Company's corporate governance practices have been in place throughout the year ended 30 June 2005. With the exception of the departures from the Corporate Governance Council recommendations detailed above, the corporate governance practices of the Company are compliant with the Council's best practice recommendations.

TRAFFIC TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2005

	Note	**Consolidated 2005 $**	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Revenues from ordinary activities	2	**19,300,742**	114,866	**1,019,358**	139
Cost of sales		**(14,316,538)**	(52,343)	**-**	-
Gross profit		**4,984,204**	62,523	**1,019,358**	139
Salaries and employee benefits (indirect)		**(2,915,044)**	(228,056)	**(359,123)**	(69,989)
Occupancy expenses		**(305,544)**	(23,793)	**-**	-
Advertising and marketing expenses		**(55,003)**	(450)	**-**	-
Insurance expense		**(245,802)**	-	**(15,938)**	-
Professional costs		**(217,455)**	-	**(210,481)**	-
Administrative costs		**(564,432)**	-	**(26,620)**	
Equipment rental		**(102,247)**	-	**-**	-
Other costs		**(157,567)**	(168,809)	**(172,277)**	(133,989)
Depreciation and amortisation expenses	3	**(939,916)**	(33,031)	**-**	-
Borrowing costs expense	3	**(418,196)**	(147)	**(1,062)**	(1)
Profit/(loss) from ordinary activities before income tax expense		**(937,002)**	(391,763)	**233,857**	(203,840)
Income tax expense relating to ordinary activities	4	**-**	-	**-**	-
Profit/(loss) from ordinary activities after income tax expense		**(937,002)**	(391,763)	**233,857**	(203,840)
Total changes in equity other than those resulting from transactions with owner as owners	15	**(937,002)**	(391,763)	**233,857**	(203,840)
Basic earnings per share	21	**(0.037)**	(0.073)		
Diluted earnings per share	21	**(0.034)**	(0.065)		

The above Statement of Financial Performance is to be read in conjunction with the attached notes.

TRAFFIC TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2005

	Note	**Consolidated 2005 $**	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Current Assets					
Cash assets	17b	**1,040,550**	40,221	**102,343**	7,382
Receivables	5	**4,224,415**	132,682	**6,675,865**	11,976
Inventory	6	**91,471**	112,051	**-**	-
Total current assets		**5,356,436**	284,954	**6,778,208**	19,358
Non-current assets					
Plant and equipment	8	**3,281,473**	39,833	**-**	-
Intangible assets	9	**5,205,193**	630,152	**-**	-
Investments	7	**529,581**	-	**1,992,238**	500,000
Total non-current assets		**9,016,247**	669,985	**1,992,238**	500,000
Total assets		**14,372,683**	954,939	**8,770,446**	519,358
Current liabilities					
Payables	10	**3,028,385**	922,559	**963,275**	300,758
Interest-bearing liabilities	11	**4,590,542**	-	**1,000,000**	-
Provisions	12	**458,527**	1,703	**-**	-
Total current liabilities		**8,077,454**	924,262	**1,963,275**	300,758
Non-current liabilities					
Provisions	12	**27,134**	-	**-**	-
Interest-bearing liabilities	13	**819,706**	-	**-**	-
Total non-current liabilities		**846,840**	-	**-**	-
Total liabilities		**8,924,294**	924,262	**1,963,275**	300,758
Net assets		**5,448,389**	30,677	**6,807,171**	218,600
Equity					
Contributed equity	14	**41,679,189**	35,324,475	**41,679,189**	35,324,475
Accumulated losses	15	**(36,230,800)**	(35,293,798)	**(34,872,018)**	(35,105,875)
Total equity		**5,448,389**	30,677	**6,807,171**	218,600

The above Statement of Financial Position is to be read in conjunction with the attached notes.

TRAFFIC TECHNOLOGIES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2005

	Note	**Consolidated 2005 $**	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Cash flows from operating activities					
Receipts from customers		**18,442,912**	19,354	**-**	100
Payments to suppliers and employees		**(18,272,273)**	(384,065)	**(217,765)**	(197,712)
Interest received		**40,324**	36	**40,087**	1
Interest paid		**(418,196)**	(147)	**(1,062)**	(1)
Other income		**37,897**	-	**400**	-
Net cash used in operating activities	17a	**(169,336)**	(364,822)	**(178,340)**	(197,612)
Cash flows from investing activities					
Purchase of businesses		**(2,477,261)**	-	**(962,657)**	-
Acquisition cost of Unlisted Investment		**(4,581)**	-	**(4,581)**	-
Purchase of plant and equipment		**(159,053)**	(11,791)	**-**	-
Proceeds on disposal of P & Equipm.		**228,672**	-	**-**	-
Purchase of R&D		**(4,023)**	-	**-**	-
Payment to TSA administrators		**(3,700,000)**	-	**-**	-
Net cash used in investing activities		**(6,116,246)**	(11,791)	**(967,238)**	-
Cash flows from financing activities					
Proceeds from share issues		**6,000,000**	-	**6,000,000**	-
Proceeds from borrowings		**3,561,678**	416,834	**2,015,000**	214,994
Repayment of borrowings		**(1,430,481)**	-	**(229,994)**	-
Capital raising costs		**(845,286)**	-	**(845,286)**	-
Advances to controlled entities		**-**	-	**(5,699,181)**	(10,000)
Net cash used in financing activities		**7,285,911**	416,834	**1,240,539**	204,994
Net increase in cash held		**1,000,329**	40,221	**94,961**	7,382
Opening cash brought forward		**40,221**	-	**7,382**	-
Closing cash carried forward	17b	**1,040,550**	40,221	**102,343**	7,382

The above Statement of Cash Flows is to be read in conjunction with the attached notes.

1. SUMMARY OF ACCOUNTING POLICIES

(a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report covers the consolidated entity of Traffic Technologies Limited and controlled entities, and Traffic Technologies Limited as an individual parent entity. Traffic Technologies Limited is a public company, incorporated and domiciled in Australia, whose securities are listed on the Australian Stock Exchange.

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

(b) Significant accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report. The accounting policies have been consistently applied with those of the previous year.

(c) Going concern basis of accounting

The financial statements have been prepared on a going concern basis. The consolidated entity incurred a loss for the year ended 30 June 2005. The operations of the consolidated entity for the year ended 30 June 2005 were funded out of revenues, the proceeds of share issues and Hire Purchase and loan facilities provided by third parties. Since relisting on ASX in January 2005, the Company has announced a number of acquisitions of traffic management and related businesses. The Company has also recently announced an $8m capital raising via a placement to Institutional Investor, Equity Partners, which is subject to shareholder approval, a $1.4m placement to sophisticated investors and a share purchase plan to existing eligible shareholders. In view of the circumstances outlined above, the Directors are of the opinion that the consolidated entity will have sufficient funding and that it is appropriate to prepare the accounts on a going concern basis.

(d) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Traffic Technologies Limited (the parent entity) and all entities that Traffic Technologies Limited controlled from time to time during the year and at balance date.

Information from the financial statements of subsidiaries is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent company has control.

The financial statements are prepared for the same reporting period as the parent entity using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(e) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. The following specific criteria must also be met before revenue is recognised:

Sale of Goods

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Sale of services

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

Interest revenue

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

(f) Taxes

Income Tax

The consolidated entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences, which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income, are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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 tax legislation and the anticipation that the consolidated entity will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law.

Under AASB 112 *Income Taxes*, the consolidated entity will be required to use a balance sheet liability method that focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be a material impact as a result of adoption of this standard.

Goods and Services Tax

All revenue and expenses are stated net of the amount of Goods and Services Tax (GST).

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(g) Recoverable amounts

The carrying amounts of non-current assets do not exceed the net amounts that are expected to be recovered through the cash inflows and outflows arising from continued use and subsequent disposal of the asset. The expected net cash flows included in determining the recoverable amounts have not been discounted to their present value.

Where a group of assets work together to generate net cash inflows the recoverable amount test is applied to that group of assets.

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the group's current accounting policy under which non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds the recoverable amount. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. This policy will be impacted on first time adoption of Australian equivalents of International Financial Reporting Standards (IFRS). Refer to Note 26.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials and direct labour.

(i) Receivables

Trade accounts receivable, amounts due from related parties and other receivables represent the principal amounts due at balance date plus accrued interest less, where applicable, any unearned income and provisions for doubtful accounts.

(j) Plant and equipment

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

(k) Depreciation

The depreciable amount of all fixed assets is depreciated on a straight-line basis over the useful lives to the economic entity commencing from the time the assets are held ready for use.

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

Class of Fixed Asset	Depreciation Rate
Office furniture and fittings	10-25%
Motor vehicles	12.5%
Plant and equipment, including signage	10-30%

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(l) Intangibles

Goodwill

Goodwill on consolidation is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill on consolidation is amortised on a straight-line basis over a period of 10 years. Balances are reviewed annually and any balances representing future benefits for which realisation is considered to be no longer probable are written off.

Under AASB 3 *Business Combinations* goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. This will result in a change in the group's current accounting policy under which goodwill is amortised on a straight-line basis over 10 years. Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired. This policy will be impacted on first time adoption of Australian equivalents of International Financial Reporting Standards (IFRS). Refer to Note 26.

Patents and trademarks

Patents and trademarks are initially recorded at cost. Patents and trademarks are amortised on a straight-line basis over a period of 10 years. Balances are reviewed annually and any balances representing future benefits for which realisation is considered to be no longer probable are written off.

Research and development costs

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where research and development costs are deferred such costs are amortised over a period of 10 years. Unamortised costs are reviewed at each balance date to determine the amount, if any, that is no longer recoverable and any amounts identified are written off.

(m) Foreign currency transactions and balances

Foreign currency transactions during the period are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted to the rates of exchange ruling at that date.

The gains and losses from conversion of short-term assets and liabilities, whether realised or unrealised, are included in profit/loss from ordinary activities as they arise.

(n) Accounts payable

Accounts payable represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

(o) Employee benefits

The following liabilities arising in respect of employee benefits are measured at their nominal amounts:

- Wages and salaries and annual leave regardless of whether they are expected to be settled within twelve months of balance date.
- Other employee benefits that are expected to be settled within twelve months of balance date.

All other employee benefits, including long service leave, are measured at the present value of the estimated future cash outflows in respect of services provided up to balance date. Liabilities are determined after taking into consideration estimated future increase in wages and salaries and past experience regarding staff departures. Related on-costs are included.

Under AASB 2 *Share Based Payments*, the Company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. Effects of this change in accounting policy are set out in Note 26 below.

1. SUMMARY OF ACCOUNTING POLICIES (Continued)

(p) Leases

Leases are classified at their inception as either finance or operating leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases

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.

(q) Earnings per share

Basic earnings per share is calculated as net profit/loss attributable to members divided by the weighted average number of ordinary shares. Diluted earnings per share is calculated as net profit/loss attributable to members divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any non-discretionary changes in revenues during the period that would result from the dilution of potential ordinary shares.

(r) Comparative figures

Where necessary, comparatives have been reclassified and repositioned to conform to changes in presentation for the current financial year.

(s) Financial instruments

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement.

Interest and dividends

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

2. REVENUE FROM ORDINARY ACTIVITIES

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Revenues from operating activities				
Revenue from sale of goods	**179,904**	114,692	**-**	-
Revenue from sale of services	**18,659,586**	-	**-**	-
	18,839,490	114,692	**-**	-
Revenues from non-operating activities				
Other revenue	**315,489**	138	**979,271**	138
Profit on disposal of fixed assets	**105,439**			
Interest revenue from:				
Financial institutions	**40,324**	36	**40,087**	1
Total revenues from ordinary activities	**19,300,742**	114,866	**1,019,358**	139

3. EXPENSES AND LOSSES/(GAINS)

Profit/(loss) from ordinary activities before income tax has been determined after:

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Expenses				
Depreciation of non-current assets:				
Plant and equipment, including signage	**222,607**	5,934	**-**	-
Office furniture and fittings	**59,795**	-	**-**	-
Motor vehicles	**250,049**	-	**-**	-
Total depreciation of non-current assets	**532,451**	5,934	**-**	-
Amortisation of non-current assets:				
Patents and trademarks	**655**	222	**-**	-
Research and development	**55,956**	23,024	**-**	-
Goodwill	**350,854**	3,851	**-**	-
Total amortisation of non-current assets	**407,465**	27,097	**-**	-
Total depreciation and amortisation expenses	**939,916**	33,031	**-**	-
Borrowing costs				
Interest and facility fee:				
Other entities	**418,196**	147	**1,062**	1
Total borrowing costs expense	**418,196**	147	**1,062**	1
Operating lease rentals	**102,247**	23,933	**-**	-
Employee entitlements	**678,027**	1,801	**-**	-
Doubtful debts	**122,597**	-	**-**	-
Bad debts expense	**70,191**	-	**-**	-

Auditors remuneration

Amounts received or due and receivable by Pitcher Partners for:

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Auditing or reviewing the financial report	**112,745**	10,000	**112,745**	4,000
Other services	**222,650**	15,000	**222,650**	15,000
	335,395	25,000	**335,395**	19,000

4. INCOME TAX	**Consolidated 2005 $**	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
The amount provided in respect of income tax differs from the amount prima facie attributable to the operating profit/loss. The difference is reconciled as follows:				
Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30% (2004 – 30%)	**(281,101)**	(117,529)	**70,157**	(61,152)
Tax effect of permanent differences				
Amortisation of intangibles	**122,240**	8,129	**-**	-
Capital raising costs	**(55,217)**	-	**(55,217**	-
Taxable capital profits	**232,146**	-	**-)**	-
Other	**(44,580)**	-	**3,576**	-
Tax losses utilised	**-**	-	**(34,866)**	-
	(26,512)	(109,400)	**(16,350)**	(61,152)
Timing differences and tax losses not brought to account as future income tax benefits	**26,512**	109,400	**16,350**	61,152
	-	-	**-**	-
Future income tax benefits not brought to account as assets:				
Tax losses – revenue	**303,887**	313,333	**22,391**	57,257
Timing differences	**15,288**	-	**17,550**	1,200

The future income tax benefit will only be obtained if:

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

The Company and its subsidiaries have not, as at the date of this report, elected to form a tax consolidated group.

5. RECEIVABLES (CURRENT)

Trade receivables	**4,150,403**	113,469	**-**	-
Provision for doubtful debts	**(122,597)**	-	**-**	-
	4,027,806	113,469	**-**	-
Other receivables and prepaid expenses	**196,609**	19,213	**10,090**	1,976
Amounts receivable from related entities				
Subsidiary entities	**-**	-	**6,665,775**	10,000
Total receivables	**4,224,415**	132,682	**6,675,865**	11,976
Related party receivables – subsidiary entities	**-**	-	**6,665,775**	10,000

Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Trade receivables are non-interest bearing and are generally on 30-day terms.
(ii) Other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

6. INVENTORIES (CURRENT)

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Components	**52,780**	53,504	**-**	-
Sub assemblies and finished goods	**38,691**	58,547	**-**	-
	91,471	112,051	**-**	-

7. NON CURRENT INVESTMENTS

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Unlisted investments	**529,581**	-	**529,581**	-
Interests in subsidiaries	**-**	-	**1,462,657**	500,000
	529,581	-	**1,992,238**	500,000

Investments at cost comprise

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Unlisted shares	**529,581**	-	**529,581**	-
	529,581	-	**529,581**	-

The consolidated entity holds a 10% ownership interest in Warp Pty Ltd, an unlisted traffic management company based in Western Australia.

Interests in subsidiaries

Name of Entity	Country of Incorporation	Percentage of equity interest held by the consolidated entity		Investment	
		2005 %	2004 %	**2005 $**	2004 $
Traffic Technology International Pty Ltd	Australia	**100**	100	**500,000**	500,000
Traffic Services Australia Holdings Pty Ltd	Australia	**100**	-	**962,657**	-
Total				**1,462,657**	500,000

The parent entity acquired its interest in Traffic Technology International Pty Ltd in January 2004 for a consideration of $500,000. Traffic Technology International Pty Ltd is engaged in the development and commercialisation of a Smart Traffic Light product based on LED (light emitting diode) technology.

The parent entity acquired its interest in Traffic Services Australia Holdings Pty Ltd (**TSA**) in August 2004. TSA is one of Australia's largest traffic management companies, providing temporary traffic management services to road traffic authorities and construction companies. TSA is based in Brisbane and has operations in Sydney, Cairns and on the Sunshine and Gold Coasts.

The Directors review the carrying value of the parent entity's investment in its subsidiary entities on an ongoing basis. As at the date of this report the Directors have determined that the carrying values should be maintained at cost.

8. PLANT AND EQUIPMENT

(a) Carrying values

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Plant and equipment, including signage:				
At cost	1,496,254	73,345	-	-
Accumulated depreciation	(725,778)	(33,512)	-	-
Total plant and equipment	770,476	39,833	-	-
Office furniture and fittings				
At cost	597,541	-	-	-
Accumulated depreciation	(299,417)	-	-	-
Total office furniture and fittings	298,124	-	-	-
Motor vehicles				
At cost	1,571,700	-	-	-
Accumulated depreciation	(250,049)	-	-	-
Total motor vehicles	1,321,651	-	-	-
Motor vehicles under lease				
At cost	891,222	-	-	-
Accumulated depreciation	-	-	-	-
Total motor vehicles under lease	891,222	-	-	-
Total plant and equipment				
At cost	4,556,717	73,345	-	-
Accumulated depreciation	(1,275,244)	(33,512)	-	-
Total written down value	3,281,473	39,833	-	-

(b) Reconciliations

Consolidated entity	Plant and Equipment $	Office furniture & fittings $	Motor vehicles $	Motor vehicles under lease $	TOTAL $
Balance at the beginning of the year	39,833	-	-	-	39,833
Acquisition of subsidiary entity	722,550	296,367	1,533,571	-	2,552,488
Acquisition of business	150,000	-	250,000	-	400,000
Additions	97,501	61,552	-	891,222	1,050,275
Disposals	(16,801)	-	(211,871)	-	(228,672)
Depreciation expense	(222,607)	(59,795)	(250,049)	-	(532,451)
Balance at the end of the year	770,476	298,124	1,321,651	891,222	3,281,473

Parent entity

The parent entity did not own any plant and equipment.

9. INTANGIBLE ASSETS

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Patents and trademarks:				
At cost	**6,545**	6,545	**-**	-
Accumulated amortisation	**(877)**	(222)	**-**	-
	5,668	6,323	**-**	-
Research and development:				
At cost	**562,299**	558,276	**-**	-
Accumulated amortisation	**(78,980)**	(23,024)	**-**	-
	483,319	535,252	**-**	-
Goodwill:				
At cost	**5,070,910**	92,428	**-**	-
Accumulated amortisation	**(354,704)**	(3,851)	**-**	-
	4,716,206	88,577	**-**	-
Total intangible assets	**5,205,193**	630,152	**-**	-

10. PAYABLES (CURRENT)

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Trade creditors	**702,559**	86,494	**180,575**	16,764
Payroll liabilities	**536,268**	-	**11,055**	-
Sundry creditors and accruals	**1,054,558**	39,964	**36,645**	19,000
Deferred consideration (shares)	**475,000**	-	**475,000**	-
Due to related parties	**260,000**	796,101	**260,000**	264,994
	3,028,385	922,559	**963,275**	300,758

Aggregate amounts payable to related parties

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Payable to Directors and Director-related entities	**260,000**	796,101	**260,000**	264,994
	260,000	796,101	**260,000**	264,994

Deferred consideration (shares)

Relates to acquisitions during the year with retention clauses including $250,000 for the TMS acquisition (being 1,000,000 shares in the Company at 25 cents) and $225,000 for the 10% Warp investment (being the aggregate of 660,000 shares in the Company at 25 cents and 240,000 shares in the Company at 25 cents each to selected employees).

Terms and conditions relating to the above financial instruments:

(i) Trade payables are non-interest bearing and are normally settled on 30-day terms.
(ii) Other creditors are non-interest-bearing and are normally payable within 30 and 90 days
(iii) Details of the terms and conditions of related party payables are set out in Notes 22 and 23.

11. INTEREST-BEARING LIABILITIES (CURRENT)

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Secured:				
Bank loan	**235,000**	-	**-**	-
Lease liabilities	**147,201**	-	**-**	-
Hire purchase liabilities	**341,338**	-	**-**	-
Loan	**1,000,000**	-	**1,000,000**	-
Debtor factoring	**2,867,003**	-	**-**	-
	4,590,542	-	**1,000,000**	-

Terms and conditions relating to the above financial instruments:

(i) Bank loan - TSA is a party to a guarantee, by way of providing third party security to the Westpac Banking Corporation, in respect of an asset leased by a related entity of a former Director of TSA. TSA is fourth in line in relation to this guarantee, behind the asset and other related entities of the former Director. The confirmed balance of the contingent liability provided by the Westpac Banking Corporation is $589,755. The terms of the share sale agreement of TSA provide for the Company to be released as a guarantor to the Westpac Banking Corporation, upon TSA accepting liability for a bank loan for $235,000.

(ii) Hire Purchase liabilities are secured by the assets financed, being motor vehicles. Hire Purchase facilities bear interest at rates between 6.9% and 9.3% and are repayable by June 2009.

(iii) Loan – The Company has a loan from Continental Venture Capital Limited for $1,000,000. This loan was taken out on 6 April 2005 and is repayable on 6 October 2005. Interest of 15% is due and payable upon repayment of the loan. The liability is secured by a fixed and floating charge over the assets of the Company.

(iv) Debtor factoring – The Company has a $3,600,000 debtor factoring facility with Oxford Funding Pty Ltd that attracts an interest rate of 11.1%. The liability is secured by way of the factored debtors.

12. PROVISIONS

The aggregate employee entitlement liability recognised and included in the financial statements is as follows:
Provision for employee entitlements:

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Current				
Provision for annual leave	**458,527**	1,703	**-**	-
Non-Current				
Provision for long service leave	**27,134**	-	**-**	-
	485,661	1,703	**-**	-

13. INTEREST-BEARING LIABILITIES (NON CURRENT)

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Secured:				
Lease liabilities	**819,706**	-	**-**	-
	819,706	-	**-**	-

Terms and conditions relating to the above financial instruments:

Hire Purchase liabilities are secured by the assets financed, being plant and equipment. Hire Purchase facilities bear interest at rates between 6.9% and 9.3% and are repayable by June 2009.

14. CONTRIBUTED EQUITY

(a) Issued and paid up capital

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Ordinary shares fully paid	**41,679,189**	35,324,475	**41,679,189**	35,324,475

(b) Movements in shares on issue

	2005		2004	
	Number of shares	**$**	Number of Shares	$
Beginning of the financial year	**8,256,916**	**35,324,475**	260,492,611	34,824,475
Shares issued during the year				
1. Consolidation of shares on 30 January 2004	**-**	**-**	(257,235,695)	-
2. Issue of shares on 30 January 2004	**-**	**-**	5,000,000	500,000
3. Prospectus capital raising on 7 January 2005	**30,000,000**	**6,000,000**	-	-
4. Issue of shares on 7 January 2005	**5,000,000**	**1,000,000**	-	-
5. Issue of shares on 7 January 2005	**375,000**	**75,000**	-	-
6. Issue of shares on 8 April 2005	**800,000**	**200,000**	-	-
7. Capital raising costs	**-**	**(920,286)**	-	-
As at 30 June 2005	**44,431,916**	**41,679,189**	8,256,916	35,324,475

1. On 30 January 2004 shareholders approved the consolidation of the Company's share capital on the basis of one fully paid ordinary share for every 80 shares previously held.

2. On 30 January 2004 shareholders approved the issue of 5,000,000 shares at $0.10 (10 cents) per share to the vendors of Traffic Technologies International Pty Ltd (associated with Director Mr. Con Scrinis, Mr. Con Liosatos, Mr. Samuel Kavourakis and Mr. Alan Brown) as consideration for the acquisition of that company.

3. On 7 January 2005 the Company issued 30,000,000 shares as a result of the Prospectus capital raising which raised $6,000,000.

4. On 7 January 2005 the Company issued 5,000,000 fully paid ordinary shares on conversion of debt (including 1,250,000 fully paid ordinary shares to each of Astra Glen Pty Ltd (associated with Director Mr. Con Scrinis) and Contelite Pty Ltd (associated with Director Mr. Con Liosatos).

5. On 7 January 2005 the Company issued 375,000 fully paid ordinary shares to CPS Holdings Pty Ltd (associated with Director Mr. Cary Stynes) in consideration of professional services.

6. On 8 April 2005 the Company issued 800,000 fully paid ordinary shares at $0.25 (25 cents) per share as part consideration for the acquisition of the business and assets of Traffic Management Solutions Pty Ltd.

7. The Company incurred capital raising costs of $920,286 during the financial year ended 30 June 2005.

(c) Share options

At the date of this report there are 3,200,000 unissued ordinary shares in respect of which options are outstanding.

There are 1,700,000 options held by the Directors exercisable at $0.20 (20 cents) per share that were issued on 30 January 2004 and expiring on 30 January 2009.

There are 500,000 options held by third party financiers in part consideration of convertible loans made to the Company. These options are exercisable at $0.20 (20 cents) per share that were issued on 7 January 2005 and expiring on 12 January 2006.

14. CONTRIBUTED EQUITY (Continued)

(c) Share options (Continued)

There are 600,000 options held by executives of the Company to purchase shares that were issued on 22 April 2005 and expiring on 30 January 2009, of which 500,000 options are exercisable at $0.20 (20 cents) per share and 100,000 options are exercisable at $0.25 (25 cents) per share.

Subsequent to year end there are 400,000 options held by executives and staff of the Company exercisable at $0.25 (25 cents) per share that were issued on 8 August 2005 expiring on 8 August 2010.

(d) Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

On 12 January 2005 quotation of the Company's securities was reinstated on the Australian Stock Exchange Limited (ASX).

At the date of this report, the Company has a total of 44,431,916 fully paid ordinary shares on issue, of which 39,387,824 are quoted on ASX and 5,044,092 are subject to escrow restrictions until 12 January 2007.

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
15. ACCUMULATED LOSSES				
Accumulated losses at the beginning of the financial year	**(35,293,798)**	(34,902,035)	**(35,105,875)**	(34,902,035)
Total changes in equity other than those resulting from transactions with owner as owners	**(937,002)**	(391,763)	**233,857**	(203,840)
Accumulated losses at the end of the financial year	**(36,230,800)**	(35,293,798)	**(34,872,018)**	(35,105,875)

16. EXPENDITURE COMMITMENTS

(a) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

	Consolidated 2005 $	Consolidated 2004 $	Company 2005 $	Company 2004 $
Premises				
No later than one year	**250,566**	28,122	**28,836**	-
Later than one year and not later than five years	**546,538**	-	**-**	-
	797,104	28,122	**28,836**	-

Non-cancellable operating leases contracted for but not capitalised in the financial statements.

Operating lease payments are recorded as expense payments.

(b) Capital expenditure commitments

There were no capital expenditure commitments at the reporting date.

17. STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit/(loss) after income tax to net cash flows from operating activities:

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Operating profit/(loss) after income tax	**(937,002)**	(391,763)	**233,857**	(203,840)
Non-cash items:				
Depreciation and amortisation of non-current assets	**939,916**	33,031	**-**	-
Profit on sale of fixed assets	**(105,439)**	-	**-**	-
Gain from licence fee	**(300,000)**	-	**-**	-
Changes in assets and liabilities:				
(Increase)/decrease in trade receivables	**(468,536)**	(132,682)	**(8,114)**	(11,976)
(Increase)/decrease in inventories	**20,580**	(112,051)	**-**	-
Increase/(decrease) in payables	**467,052**	236,940	**(404,083)**	18,204
Increase/(decrease) in provisions	**214,093**	1,703	**-**	-
Net cash generated by/(used in) operating activities	**(169,336)**	(364,822)	**(178,340)**	(197,612)

(b) Reconciliation of cash

For the purpose of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Cash at bank and in hand	**1,035,394**	35,065	**102,343**	7,382
Security deposit	**5,156**	5,156	**-**	-
	1,040,550	40,221	**102,343**	7,382

(c) Financing facilities available

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Financing facilities available:				
Debtor factoring facility	**3,600,000**	-	**-**	-
Loan facility	**1,000,000**	-	**1,000,000**	-
Bank facility	**235,000**	-	**-**	-
Convertible Note facility – related party	**-**	1,000,000	**-**	1,000,000
Total facilities available	**4,835,000**	1,000,000	**1,000,000**	1,000,000
Facilities used				
Debtor factoring facility	**2,867,003**	-	**-**	-
Loan facility	**1,000,000**	-	**1,000,000**	-
Bank facility	**235,000**	-	**-**	-
Total facilities used	**4,102,003**	-	**1,000,000**	-
Facilities unused				
Debtor factoring facility	**732,997**	-	**-**	-
Convertible Note facility – related party	**-**	1,000,000	**-**	1,000,000
Total facilities unused	**732,997**	1,000,000	**-**	1,000,000

17. STATEMENT OF CASH FLOWS (Continued)

During the financial year ended 30 June 2004, Springbuild Pty Ltd (a company associated with Directors, Mr. Constantine Scrinis and Mr. Constantinos Liosatos) provided an equity facility of up to $1,000,000, which could be drawn down by the Company on agreed terms and as required by the Company. The facility was undrawn and expired on 26 February 2005.

(d) Businesses acquired

During the 2005 financial year the consolidated entity acquired the share capital of Traffic Services Australia Holdings Pty Ltd as follows:

Consideration:	**$**
Cash paid under share sale agreement	**700,000**
Professional fees	**262,657**
Total consideration	**962,657**
Fair value of net assets acquired:	
Assets	
Cash	**912,113**
Receivables	**3,574,001**
Plant and equipment	**2,552,488**
Total assets acquired	**7,038,602**
Liabilities	
Trade creditors and accruals	**(6,521,987)**
Interest-bearing liabilities	**(2,575,374)**
Provision for employee entitlements	**(392,462)**
Total liabilities acquired	**(9,489,823)**
Fair value of net liabilities acquired	**(2,451,221)**
Goodwill on acquisition	**3,413,878**

During the 2005 financial year the consolidated entity acquired the business and assets of Traffic Management Solutions Pty Ltd as follows:

Consideration:	
Cash paid under share sale agreement	**1,458,118**
Professional fees	**56,486**
Total cash paid	**1,514,604**
Shares issued as consideration	**200,000**
Deferred consideration:	
Shares	**250,000**
Total acquisition cost	**1,964,604**

17. STATEMENT OF CASH FLOWS (Continued)

(d) Businesses acquired (continued)	**$**
Fair value of net assets acquired:	
Assets	
Plant and equipment	**400,000**
Fair value of net assets acquired	**400,000**
Goodwill on acquisition	**1,564,604**

During the 2004 financial year the consolidated entity acquired the share capital of Traffic Technology International Pty Ltd as follows:

Consideration:	**$**
Fully paid ordinary shares	**500,000**
Fair value of net assets acquired:	
Assets	
Cash	**16,969**
Receivables	**21,628**
Inventory	**101,830**
Plant and equipment	**33,975**
Intangible assets	**552,426**
Total assets acquired	**726,828**
Liabilities	
Trade creditors and accruals	**(173,617)**
Payable to Director-related entity	**(143,416)**
Provision for employee entitlements	**(2,223)**
Total liabilities acquired	**(319,256)**
Fair value of net assets acquired	**407,572**
Goodwill on acquisition	**92,428**

(e) Use of proceeds

The consolidated entity has to date used the proceeds of the Prospectus capital raising completed on 12 January 2005 as follows:

		Prospectus $	Actual $
1.	Fund the final instalment due under the Share Sale Agreement for TSA	300,000	300,000
2.	Fund the final instalment due under the Administrator Agreement for TSA	1,850,000	1,850,000
3.	Repay debt due to Moonlighting Australasia Pty Ltd	583,600	658,600
4.	Fund the commercialisation of the Company's LED traffic light product	250,000	4,024
5.	Enable strategic and complementary acquisitions in the traffic management area	1,000,000	1,458,118
6.	Provide working capital	1,165,400	621,315
7.	Fund the costs of the Issue	722,000	845,286
8.	Fund the costs of the acquisition of TSA	129,000	262,657
	Total	6,000,000	6,000,000

17. STATEMENT OF CASH FLOWS (Continued)

(e) Use of proceeds (Continued)

Debt repaid to Moonlighting Australasia Pty Ltd (associated with Mr. Con Scrinis & Mr. Con Liosatos) $658,600 included $75,000 advanced since 30 June 2004.

Part of the cost of the acquisition of Traffic Management Solutions Pty Ltd was paid for out of a loan taken out by the Company in April 2005.

Part of the cost of the acquisition of TSA was funded out of loans subsequently converted to equity in January 2005.

(f) Non-cash Financing and Investing Activities
During the year the economic entity acquired plant and equipment with an aggregate value of $891,222 by means of finance leases. These acquisitions are not reflected in the statement of cash flows.

18. EMPLOYEE ENTITLEMENTS

On 30 January 2004 shareholders approved a new Company Share Option Plan for Directors, employees and contractors of the Company under which the Board can issue options at no cash consideration to purchase fully paid ordinary shares in the Company on the basis of one option for one share at an exercise price to be determined by the Board at the time the options are issued. Options will be exercisable from the time of issue and will lapse on the fifth anniversary of the date of grant if they have not been exercised before that time. Options can be issued up to a maximum of 10% of the issued share capital of the Company. The options cannot be transferred and will not be quoted on the ASX.

Eligible persons under the Company Share Option Plan are Directors, employees and contractors of the Company. If the Directorship, employment or contract of the participant terminates, the participant may, within 28 days after the date of termination, exercise all or part of those of the participant's options, which the participant is then entitled to exercise. Any option not exercised within that 28-day period will lapse.

Options outstanding

	2005 Number of Options	**2005 Weighted Average Exercise Price**	2004 Number of Options	2004 Weighted Average Exercise Price
Balance at beginning of year	**1,700,000**	**$0.20**	12,600,000	$0.20
Granted	**1,100,000**	**$0.20**	1,700,000	$0.20
Expired	**-**	**-**	(12,600,000)	$0.20
Balance at end of year	**2,800,000**	**$0.20**	1,700,000	$0.20
Exercisable at end of year	**2,800,000**	**$0.20**	1,700,000	$0.20

Options granted

Options granted during the financial year ended 30 June 2005	Number of Options	Grant Date	Vesting Date	Expiry Date	Weighted Average Exercise Price
Lenders	500,000	7 Jan 2005	12 Jan 2005	12 Jan 2006	$0.20
Employees	500,000	22 Apr 2005	22 Apr 2005	30 Jan 2009	$0.20
Employees	100,000	22 Apr 2005	22 Apr 2005	30 Jan 2009	$0.25

There are 400,000 options held by executives and staff of the Company exercisable at $0.25 (25 cents) per share that were issued on 8 August 2005 expiring on 8 August 2010.

No options were exercised during the financial year or until the date of this report.

18. EMPLOYEE ENTITLEMENTS (Continued)

Options expired

No options expired during the financial year.

(b) Superannuation commitments

The consolidated entity contributes 9% of employees' wages and salaries to superannuation plans that provides various benefits on retirement, disability or death. Such contributions at the rate of 9% are legally enforceable in Australia.

(c) Employee entitlements

The provision for aggregate employee entitlement liability recognised and included in the financial statements is set out in Note 12.

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
(d) Employee Numbers				
Number of employees at year end	**521**	8	**9**	5

19. CONTINGENT LIABILITIES

TSA is a party to a guarantee, by way of providing third party security to the Westpac Banking Corporation, in respect of an asset leased by a related entity of a former Director of TSA. TSA is fourth in line in relation to this guarantee, behind the asset and other related entities of the former Director. The confirmed balance of the contingent liability provided by the Westpac Banking Corporation is $589,755. The terms of the share sale agreement of TSA provide for the Company to be released as a guarantor to the Westpac Banking Corporation, upon TSA accepting liability for a bank loan for $235,000. Liability for this loan has been provided for in the consolidated accounts.

20. SUBSEQUENT EVENTS

On 5 July 2005 the Company announced that the acquisition of ACE Traffic Management Pty Ltd, a traffic management business based in South Australia, would be completed for a consideration of $1.5m in cash and shares.

On 7 July 2005 the Company announced the acquisition of Able Traffic Management Pty Ltd, a traffic management business based in Melbourne, for a consideration of $450,000 in cash and shares.

On 19 July 2005 the Company announced the acquisition of De Neefe Pty Ltd, a traffic sign manufacturer based in Melbourne, for a consideration of $2.1m in cash and shares.

On 23 August 2005 the Company announced that it had entered into an agreement to raise $6m in equity and $2m via convertible notes to fund continuing acquisitions and that it would also implement a share purchase plan to allow existing eligible shareholders to access new shares at 25 cents each.

On 30 August 2005 the Company announced a placement to sophisticated investors of 5,744,000 fully paid ordinary shares at $0.25 (25 cents) per share to raise $1,436,000 for acquisitions.

21. EARNINGS PER SHARE

	Consolidated 2005 Dollars per share	Consolidated 2004 Dollars per share
Basic earnings per share	**$(0.037)**	$(0.073)
Diluted earnings per share	**$(0.034)**	$(0.065)
Earnings used in calculating basic and diluted earnings per share	**$(937,002)**	$(391,763)

	Number of shares 2005	Number of shares 2004
Weighted average number of ordinary shares used In calculating basic earnings per share	**25,302,532**	5,333,418
Dilutive potential ordinary shares Share options	**2,051,781**	706,011
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	**27,354,313**	6,039,429

22. DIRECTORS' AND SPECIFIED EXECUTIVES REMUNERATION

(a) Details of Specified Directors and Specified Executives

(i) Specified Directors

Mr. Samuel Kavourakis	Non-Executive Chairman
Mr. Constantine Scrinis	Joint Managing Director
Mr. Constantinos Liosatos	Joint Managing Director
Mr. Alan Brown	Non-Executive Director
Mr. Cary Stynes	Non-Executive Director

(ii) Specified Executives

Mr. Peter Crafter	Chief Financial Officer and Company Secretary
Mr. James Hopping	TSA General Manager
Mr. Geoff Burke	Fmr. TSA General Manager

(b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for the Directors, the Joint Managing Directors and the executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Currently remuneration is paid in the form of cash remuneration, superannuation contributions and share options where applicable. The Company paid no bonuses during the financial year ended 30 June 2005.

All Directors and executives have the opportunity to qualify for participation in the Company Share Option Plan. The issue of options under this plan is at the discretion of the Board and is not currently based on Company performance. Options are used by the Company as a non-cash form of remuneration and have the objective of aligning employee interests with the objective of increasing shareholder wealth. Any issue of options under the plan to Directors would be subject to shareholder approval.

22. DIRECTORS' AND SPECIFIED EXECUTIVES REMUNERATION (Continued)

The Company has entered into executive service agreements with Mr. Constantine Scrinis and Mr. Constantinos Liosatos. Under the agreements, Mr. Scrinis agreed to act as Joint Managing Director of Traffic Technologies and Mr. Liosatos agreed to act as Joint Managing Director of Traffic Technologies for a total remuneration of $75,000 per annum each increasing to $200,000 per annum from 1 January 2005, with a review in June 2006. Under the agreements there is no additional obligation of the Company to pay superannuation contributions. On 30 January 2004 shareholders approved the issue of 300,000 options each to Mr. Scrinis and Mr. Liosatos. The agreements are for a term of two years from 1 November 2004.

The Company has accrued Director's fees in respect of each of the Non-Executive Directors (see below), which were not however paid during the financial year ended 30 June 2005. On 30 January 2004 shareholders approved the issue of a total of 1,100,000 options to the Non-Executive Directors (see below).

Each executive has an employment or contractor agreement with notice periods varying between seven days and one month.

(ii) Remuneration of Specified Directors and Specified Executives

Specified Directors		**Primary Emoluments Base Salary $**	**Superannuation Contributions $**	**Equity Number of Options Granted No.**	**Value of Options Granted $**	**Total $**
2005						
Mr. Sam Kavourakis	Non-Exec Chairman	50,000	4,500	-	-	54,500
Mr. Con Scrinis	Joint Managing Director	137,500	-	-	-	137,500
Mr. Con Liosatos	Joint Managing Director	137,500	-	-	-	137,500
Mr. Alan Brown	Non Executive	35,000	-	-	-	35,000
Mr. Cary Stynes	Non Executive	35,000	-	-	-	35,000
Total		395,000	4,500	-	-	399,500
2004						
Mr. Sam Kavourakis	Non-Exec Chairman	2,833	-	500,000	19,500 *48%*	40,333
Mr. Con Scrinis	Joint Managing Director	31,250	-	300,000	11,700 *27%*	42,950
Mr. Con Liosatos	Joint Managing Director	31,250	-	300,000	11,700 *27%*	42,950
Mr. Alan Brown	Non Executive	14,583	-	300,000	11,700 *45%*	26,283
Mr. Cary Stynes	Non Executive	14,583	-	300,000	11,700 *45%*	26,283
Mr. Peter Stedwell	Non Executive	5,000	-	-	-	5,000
Total		117,499	-	1,700,000	66,300 *37%*	183,799

Of total Directors' remuneration, $260,000 (2004: $112,499) was not paid to the Directors during the financial year ended 30 June 2005 and has been accrued.

The percentage value of each person's remuneration that consists of options is shown in italics.

Details of the nature and amount of each element of the emoluments of the Specified Executives of the consolidated entity for the financial year ended 30 June 2005 are as follows:

22. DIRECTORS' AND SPECIFIED EXECUTIVES REMUNERATION (Continued)

Specified Executives		Primary Emoluments Base Salary $	Superannuation Contributions $	Equity Number of Options Granted No.	Value of Options Granted $	Total $
2005						
Mr. Geoff Burke	Fmr TSA General Manager	81,524	7,337	-	-	88,861
Mr. James Hopping	TSA General Manager	87,445	-	200,000	18,927 *18%*	106,372
Mr. Peter Crafter	Company Secretary	35,000	-	300,000	28,391 *45%*	63,391
Total		203,969	7,337	500,000	47,318 *18%*	258,624
2004						
Mr. Peter Crafter	Company Secretary	10,740	-	-	-	10,740
Total		10,740	-	-	-	10,740

The percentage value of each person's remuneration that consists of options is shown in italics.

(c) Remuneration options: granted and vested during the year

During the financial year ended 30 June 2005 no options were granted to Specified Directors.

During the financial year ended 30 June 2004 options were granted as equity compensation benefits to Specified Directors as set out below. The options were issued at no cash consideration. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity. The options vest immediately on grant. The issue of options was at the discretion of the Board and was not based on specified performance criteria.

	Vested Number	Granted Number	Grant Date	Terms & Value per option at grant date $	Conditions Exercise price per share $	For Each First Exercise Date	Grant Last Exercise Date
Specified Directors							
2004							
Mr. Samuel Kavourakis	500,000	500,000	30 Jan 04	$0.20	$0.20	30 Jan 04	30 Jan 09
Mr. Constantine Scrinis	300,000	300,000	30 Jan 04	$0.20	$0.20	30 Jan 04	30 Jan 09
Mr. Constantinos Liosatos	300,000	300,000	30 Jan 04	$0.20	$0.20	30 Jan 04	30 Jan 09
Mr. Alan Brown	300,000	300,000	30 Jan 04	$0.20	$0.20	30 Jan 04	30 Jan 09
Mr. Cary Stynes	300,000	300,000	30 Jan 04	$0.20	$0.20	30 Jan 04	30 Jan 09
Total	1,700,000	1,700,000					
Specified Executives							
2005							
Mr. Peter Crafter	300,000	300,000	22 Apr 05	$0.20	$0.20	22 Apr 05	30 Jan 09
Mr. James Hopping	200,000	200,000	22 Apr 05	$0.20	$0.20	22 Apr 05	30 Jan 09
Mr. Geoff Burke	-	-	-	-	-	-	-
Total	500,000	500,000					

During the financial year ended 30 June 2004 no options were granted to Specified Executives.

22. DIRECTORS' AND SPECIFIED EXECUTIVES REMUNERATION (Continued)

(d) Shares issued on exercise of remuneration options

No shares have been issued as a result of the exercise of remuneration options.

(e) Option holdings of Specified Directors and Specified Executives

	Balance at beginning of period 1 July 2004 Number of options	Granted as remuneration Number of options	Balance at end of period 30 June 2005 Number of options	Vested at 30 June 2005 Number of options
Specified Directors				
Mr. Samuel Kavourakis	500,000	-	500,000	500,000
Mr. Constantine Scrinis	300,000	-	300,000	300,000
Mr. Constantinos Liosatos	300,000	-	300,000	300,000
Mr. Alan Brown	300,000	-	300,000	300,000
Mr. Cary Stynes	300,000	-	300,000	300,000
Total	1,700,000	-	1,700,000	1,700,000
Specified Executives				
Mr. Peter Crafter	-	300,000	300,000	300,000
Mr. James Hopping	-	200,000	200,000	200,000
Mr. Geoff Burke	-	-	-	-
Total	-	500,000	500,000	500,000

Fair value of options

The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used:

	2005	*2004*
Dividend yield	$Nil	$Nil
Expected volatility	78%	45%
Historical volatility	78%	45%
Risk-free interest rate	5.50%	5.715%
Expected life of option	3.75 years	5.0 years

The dividend yield reflects the assumption that no dividends will be paid by the Company for the foreseeable future. The expected life of the options is based on the term of the options and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

All options issued to date have vested. Currently the fair values of options are not recognised as expenses in the financial statements.

22. DIRECTORS' AND SPECIFIED EXECUTIVES REMUNERATION (Continued)

(f) Shareholdings of Specified Directors and Specified Executives

	Balance at beginning of period 1 July 2004 $	Purchased during year $	Issued during year $	Sold during year $	Balance at end of period 30 June 2005 $
Specified Directors					
Mr. Samuel Kavourakis	40,601	770,500	-	-	811,101
Mr. Constantine Scrinis	2,293,945	-	1,250,000	-	3,543,945
Mr. Constantinos Liosatos	2,293,945	100,000	1,250,000	-	3,643,945
Mr. Alan Brown	40,601	956,500	-	-	997,101
Mr. Cary Stynes	-	-	375,000	-	375,000
Total	4,669,092	1,827,000	2,875,000	-	9,371,092
Specified Executives					
Mr. Peter Crafter	-	10,000	-	-	10,000
Mr. James Hopping	-	-	-	-	-
Mr. Geoff Burke	-	-	-	-	-
Total	-	10,000	-	-	10,000

(g) Loans to Specified Directors and Specified Executives

There were no loans made to Specified Directors or Specified Executives during the financial year and none are outstanding as at the date of this report.

23. RELATED PARTY TRANSACTIONS

Ultimate parent

Traffic Technologies Limited is the ultimate parent company.

Wholly owned group transactions

Loans

During the financial year ended 30 June 2005 Traffic Technologies Limited made interest-free advances to its wholly owned subsidiary entity Traffic Technology International Pty Ltd of $548,830 (2004: $10,000). This amount is repayable on demand.

During the financial year ended 30 June 2005 Traffic Technologies Limited made interest-free advances to its wholly owned subsidiary entity Traffic Services Australia Holdings Pty Ltd of $6,122,791. This amount is repayable on demand.

23. RELATED PARTY TRANSACTIONS (Continued)

Loans with Directors or Director-related entities

Moonlighting Australasia Pty Ltd (a company associated with Directors, Mr. Constantine Scrinis and Mr. Constantinos Liosatos) made interest free loans to the consolidated entity during the financial year ended 30 June 2005 of $75,000 (2004: $583,601) to provide working capital. The loans were repaid in February 2005. The balance at 30 June 2005 was $Nil (2004: $583,601).

Astra Glen Pty Ltd (a company associated with Director, Mr. Constantine Scrinis) was owed $100,000 at 30 June 2005 (2004: $81,250) in respect of accrued Directors' fees and other advances made to the Company.

Contelite Pty Ltd (a company associated with Director, Mr. Constantinos Liosatos) was owed $100,000 at 30 June 2005 (2004: $81,250) in respect of accrued Directors' fees and other advances made to the Company.

On 7 January 2005 the Company issued 1,250,000 fully paid ordinary shares to Astra Glen Pty Ltd (associated with Director Mr. Con Scrinis) on conversion of debt of $250,000 advanced to the Company by Astra Glen Pty Ltd and 1,250,000 fully paid ordinary shares to Contelite Pty Ltd (associated with Director Mr. Con Liosatos) on conversion of debt of $250,000 advanced to the Company by Contelite Pty Ltd.

During the financial year ended 30 June 2004, Springbuild Pty Ltd (a company associated with Directors, Mr. Constantine Scrinis and Mr. Constantinos Liosatos) provided an equity facility of up to $1,000,000, which could be drawn down by the Company on agreed terms and as required by the Company. The facility was to be provided by way of a convertible loan to the Company and secured by way of a fixed and floating charge over the Company. The loan was convertible into shares in the Company at $0.20 (20 cents) per share. The convertible note facility bore interest at 8.95% to the extent that it was not converted. The facility was undrawn and expired on 26 February 2005.

Other unpaid Directors' fees totalling $260,000 (2004: $50,000) at balance date comprised $25,000 (2004: $20,833) due to Mr. Samuel Kavourakis, $17,500 (2004: $14,583) due to Mr. Alan Brown and $17,500 (2004: $14,583) due to Mr. Cary Stynes.

Other transactions with Directors or Director-related entities

A number of Directors of the Company, or their Director-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of these entities.

On 30 January 2004 shareholders approved the acquisition of Traffic Technology International Pty Ltd from Moonlighting Australasia Pty Ltd (a company associated with Mr. Constantine Scrinis, Mr. Constantinos Liosatos, Mr. Samuel Kavourakis and Mr. Alan Brown) for $500,000 in consideration the issue of 5,000,000 fully paid ordinary Shares in the Company.

The terms and conditions of the transactions with Directors and their Director-related entities were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-Director related entities on an arm's length basis.

23. RELATED PARTY TRANSACTIONS (Continued)

The aggregate amounts recognised during the year relating to Directors and their Director-related entities were as follows:

Director	Transaction	**Consolidated 2005 $**	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Cary Stynes	Legal and business consulting fees	**140,729**	31,570	**140,729**	31,570

Amounts recognised at the reporting date in relation to loans with Director-related entities

	Consolidated 2005 $	Consolidated 2004 $	**Company 2005 $**	Company 2004 $
Payables (Current)				
Payable to Moonlighting Australasia Pty Ltd	**-**	583,601	**-**	214,994
Payable to Astra Glen Pty Ltd	**100,000**	81,250	**100,000**	-
Payable to Contelite Pty Ltd	**100,000**	81,250	**100,000**	-
Unpaid Directors' fees	**60,000**	50,000	**60,000**	50,000
	260,000	796,101	**260,000**	264,994

Other transactions

There were no other transactions or balances receivable from or payable to Specified Directors or Specified Executives during the financial year or at the date of this report.

24. SEGMENT INFORMATION

The consolidated entity operates only in the provision of traffic management systems segment and operates in Australia with export sales of LED traffic lights to South-East Asia. Export sales were $4,926 during the financial year ended 30 June 2005 (2004: $74,570).

25. FINANCIAL INSTRUMENTS: INTEREST RATE RISK AND CREDIT RISK EXPOSURES

(a) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

(b) Interest rate risk and exchange rate risk

The consolidated entity manages its exposure to interest rate and foreign currency fluctuations through a formal set of policies and procedures approved by the Board of Directors. The consolidated entity does not engage in any significant transactions that are speculative in nature.

25. FINANCIAL INSTRUMENTS: INTEREST RATE RISK AND CREDIT RISK EXPOSURES (Continued)

Exposures of the consolidated entity to interest rate risks on financial assets and liabilities are summarised as follows:

2005	**Non-interest Bearing $**	**Floating Interest Rate $**	**Total $**
Financial Assets:			
Cash	**-**	**1,040,550**	**1,040,550**
Receivables	**4,224,415**	**-**	**4,224,415**
	4,224,415	**1,040,550**	**5,264,965**
Financial Liabilities:			
Payables	**3,028,385**	**-**	**3,028,385**
Interest-bearing liabilities	**-**	**5,410,248**	**5,410,248**
	3,028,385	**5,410,248**	**8,438,633**
Net financial assets/ (liabilities)	**1,196,030**	**(4,369,698)**	**(3,173,668)**
Weighted average interest rate	**-**	**8.9%**	**-**

2004	**Non-interest Bearing $**	**Floating Interest Rate $**	**Total $**
Financial Assets:			
Cash	-	40,221	40,221
Receivables	132,682	-	132,682
	132,682	40,221	172,903
Financial Liabilities:			
Payables	922,559	-	922,559
	922,559	-	922,559
Net financial assets/ (liabilities)	(789,877)	40,221	(749,656)
Weighted average interest rate	-	1.52%	-

(c) Credit Risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has adopted the policy of only dealing with creditworthy counter-parties and obtaining sufficient "collateral" or other security, where appropriate, as a means of mitigating the risk of financial loss from default. The consolidated entity measures risk on a fair value basis. The carrying amount of financial assets recorded in the financial statements, net of any provision for losses, represents the consolidated entity's maximum exposure to credit risk, without taking account of the value of any collateral or other security obtained. The consolidated entity had no significant concentrations of credit risk with any single counterparty or group of counterparties.

(d) Net Fair Value

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective net fair values, determined in accordance with the accounting policies disclosed in Note 1 of the financial statements.

26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS)

The Company has evaluated the key differences in accounting policies that are expected to arise from adopting AIFRS's, which will be applicable for the financial year ending 30 June 2006. The Company has, in consultation with its professional advisers, performed an assessment to identify key areas that will be impacted by the transition to IFRS. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, the Company's transition date to AIFRS. This will form the basis of accounting for AIFRS in the future and is required when the Company prepares its first fully AIFRS compliant financial report for the year ending 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and the Company's best estimate of the quantitative impact of the changes in total equity as at the date of transition and 30 June 2005 and on net loss for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to ongoing work being undertaken to assess the impact of AIFRS on the Company, potential amendments to AIFRS's and Interpretations thereof being issued by the standard-setters and IFRIC and emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

(a) Reconciliation of total equity as presented under AGAAP to that under AIFRS

	Consolidated 30 June 2005 $	Consolidated 1 July 2004 $	**Company 30 June 2005 $**	Company 1 July 2004 $
Total equity under AGAAP	**5,448,389**	30,677	**6,807,171**	218,600
Adjustments to retained earnings (net of tax)				
Write-back of goodwill amortisation	**350,854**	-	**-**	-
Share based payments	**(79,388)**	(66,300)	**(52,225)**	(66,300)
Adjustments to other reserves				
Options granted reserve	**79,388**	66,300	**52,225**	66,300
Total equity under AIFRS	**5,799,243**	30,677	**6,807,171**	218,600

(b) Reconciliation of net loss under AGAAP to that under AIFRS

Year ended 30 June 2005	**Consolidated 30 June 2005 $**	**Company 30 June 2005 $**
Net loss as reported under AGAAP	**(937,002)**	**233,857**
Adjustments to net earnings		
Write-back of goodwill amortisation	**350,854**	**-**
Share based payments	**(79,388)**	**(52,225)**
Net loss under AIFRS	**(665,536)**	**181,632**

(c) Reconciliation of statement of cash flows under AGAAP to that under AIFRS

No material impacts are expected to the cash flows under AGAAP on adoption of AIFRS.

26. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (AIFRS) (Continued)

(d) Notes on reconciliation of equity as presented under AGAAP to that under AIFRS

(i) Classification of financial instruments - Under AASB 139 *Financial Instruments: Recognition and Measurement*, financial instruments will be required to be classified into one of five categories that will, in turn, determine the accounting treatment of the item. This will result in a change in the current accounting policy that does not classify financial instruments. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been completed.

(ii) Goodwill - Under AASB 3 *Business Combinations* goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. This will result in a change in the group's current accounting policy under which goodwill is amortised on a straight-line basis over 10 years. Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired. The directors believe there was no material impairment of goodwill at 1 July 2004 and 30 June 2005.

(iii) Impairment of assets - Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in a change in the group's current accounting policy under which non-current assets are written down to recoverable amount where the carrying value of any non-current asset exceeds the recoverable amount. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. The directors believe there was no material impairment of assets at 1 July 2004 and 30 June 2005.

(iv) Share based payments - Under AASB 2 *Share Based Payments*, the Company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. Quantifying the effect of this change in accounting policy is impracticable as the details of future equity based remuneration plans are unknown.

(v) Income taxes - Under AASB 112 *Income Taxes*, the consolidated entity will be required to use a balance sheet liability method that focuses on the tax effects of transactions and other events that affect amounts recognised in either the Statement of Financial Position or a tax-based balance sheet. It is not expected that there will be a material impact as a result of adoption of this standard.

TRAFFIC TECHNOLOGIES LIMITED
DIRECTORS' DECLARATION
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2005

In accordance with a resolution of the Directors of the Company, the Directors declare that:

1. In the opinion of the Directors:

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

      (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2005 and of their performance for the financial year ended on that date; and

      (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

   (b) In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act for the financial period ending 30 June 2005.

On behalf of the board

Samuel Kavourakis
Chairman

Melbourne
2 September 2005

Additional information required by the Australian Stock Exchange Limited and not shown elsewhere in this report is as follows.

(a) Distribution of Equity Securities

The number of shareholders, by size of holding, in each class of share are:

	Ordinary Shares Number of Holders	Ordinary Shares Number of Shares
1 - 1,000	2,408	421,463
1,001 - 5,000	165	431,029
5,001 - 10,000	139	1,280,932
10,001 - 100,000	393	14,458,570
100,001 and over	68	27,839,922
	3,173	44,431,916
Holdings less than a marketable parcel	2,408	421,463

(b) Twenty Largest Holders

The names of the twenty largest holders of quoted shares are:

	Name	Ordinary Shares Number	Ordinary Shares Percentage
1.	Contelite Pty Ltd*	3,643,945	8.20
2.	Astra Glen Pty Ltd*	3,543,945	7.98
3.	CVC Sustainable Investments Ltd	2,500,000	5.63
4.	CVC Limited	1,250,000	2.81
5.	Equity Trustees Limited	1,250,000	2.81
6.	Mr. Michael Nicolls	1,250,000	2.81
7.	Wirl Nominees Pty Ltd	900,000	2.03
8.	Mr. S. & Mrs. T. Kavourakis Super Fund*	811,101	1.83
9.	Hedderwick Pty Ltd	661,875	1.49
10.	Mr. Michael John De La Haye	545,000	1.23
11.	Mr. A. & Mrs. P Brown Super Fund*	497,000	1.11
12.	Australian Corporate Property Services Pty Ltd*	459,500	1.03
13.	Mr. W. & Ms. P Saxelby Super Fund	383,000	0.86
14.	CPS Holdings Pty Ltd*	375,000	0.84
15.	Bunkers Pty Ltd	373,000	0.84
16.	Berkshire Nominees Pty Ltd	300,000	0.68
17.	Mr. Geoffrey John Rixon	300,000	0.68
18.	Mr. Warren Roy Saxelby	300,000	0.68
19.	Gregory J Wood & Associates Pty Ltd	285,000	0.64
20.	Mr. Peter Arthur Kimberley	275,000	0.62
	Total	19,903,366	44.80

* Associated with Directors.

(c) Substantial Shareholders (greater than 5%)

The names of substantial holders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

	Ordinary Shares	
Ordinary Shareholders	**Number**	**Percentage**
Contelite Pty Ltd	3,643,945	8.20%
Astra Glen Pty Ltd	3,543,945	7.98%
CVC Sustainable Investments Pty Ltd	2,500,000	5.63%

(d) Voting Rights

All ordinary shares carry one vote per share without restriction.

(e) Options

At the date of this report there are 3,200,000 unissued ordinary shares in respect of which options are outstanding.

There are 1,700,000 options held by the Directors exercisable at $0.20 (20 cents) per share that were issued on 30 January 2004 and expiring on 30 January 2009.

There are 500,000 options held by third party financiers in part consideration of convertible loans made to the Company. These options are exercisable at $0.20 (20 cents) per share that were issued on 7 January 2005 and expiring on 12 January 2006.

There are 600,000 options held by executives of the Company to purchase shares that were issued on 22 April 2005 and expiring on 30 January 2009, of which 500,000 options are exercisable at $0.20 (20 cents) per share and 100,000 options are exercisable at $0.25 (25 cents) per share.

There are 400,000 options held by executives and staff of the Company exercisable at $0.25 (25 cents) per share that were issued on 8 August 2005 expiring on 8 August 2010.

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF
TRAFFIC TECHNOLOGIES LIMITED

Scope

We have audited the financial report of Traffic Technologies Limited and controlled entities for the financial year ended 30 June 2005 comprising the Directors' Declaration, Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and notes to the financial statements.

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 in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and 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.

Audit Opinion

In our opinion, the financial report of Traffic Technologies Limited is in accordance with:

(a) the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 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.

Dated at Melbourne on 2 September 2005

PITCHER PARTNERS

S P CATLIN
Partner

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annual report

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