annual report 2006

traffic technologies

HIGHLIGHTS

- EBITDA growing strongly as restructure and integration benefits materialize
- FY'06 adjusted EBITDA of $1.9m up from $421k 2005
- 2H'06 adjusted EBITDA of $1.23 million up from $684,000 in 1H'06
- Traffic Management successfully restructured with division EBITDA margins now >10% coupled with strong organic growth (+19%)
- DeNeefe restructuring costs of $582,000 were significantly below budget, full impact of benefits to come through over next 18 months
- Acquisition of Ace Traffic Management
- Acquisition of DeNeefe Signs
- Acquisition of Able Traffic Management
- Acquisition of Line Marking Services
- Acquisition of Sunny Signs
- Acquisition of Guardrail Installations (July 06)
- Acquisition of Protech Traffic Management (July 06)
- New products launched:
  Enforcement equipment
  On and Off Street Parking Meters
  Temporary Steel Barrier - BG800

TRAFFIC TECHNOLOGIES LIMITED
ABN 21 080 415 407
AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE FINANCIAL YEAR ENDED

30 JUNE 2006

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Victoria 3101 Australia
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facsimile. +61 3 9855 5855
web. www.trafficltd.com.au

Traffic Technologies Limited and Controlled Entities
Chairman's Letter

Dear Shareholder,

I have pleasure in enclosing the Annual Report for Traffic Technologies Limited for the financial year ended 30 June 2006.

Traffic Technologies completed its first full year as a listed Company by expanding rapidly through acquisition of a number of related businesses and importantly through organic growth. This activity is consistent with the strategy to consolidate a fragmented traffic services industry in Australia.

Traffic Technologies is now the dominant traffic services and hardware provider in Australia. The Company operates four divisions namely Traffic Management, Signage, Signals and Hardware and the newly established installation division, Asset Management. Revenues this year will exceed $100 Million and with over 1,300 employees, 26 locations and 400 vehicles the company is poised for a strong year in 2007.

The company has made significant progress with the integration of acquisitions within the traffic management division.

The turnaround of the De Neefe sign business has been a major priority throughout the year. Efficiencies were accelerated by the later acquisition of Sunny Signs. The businesses have been able to leverage off their combined strengths resulting in manufacturing and purchasing gains.

TT has now established an asset management division with the acquisition of Guardrail Installations. This enables TT to close the loop of designing, supplying, installing, and maintaining its complete range of products and services making TT the only company in Australia with this integrated capability.

The company's signals and hardware division has introduced new products in 2006 including street lighting, speed detection equipment, traffic cones and the BarrierGuard 800 steel barrier system. As with all new products adopted by TT, these have undergone extensive testing and trials. We expect significant sales from this division in 2007.

The Company is poised for a solid 2006 / 2007, and I, along with my fellow directors thank you for your support and look forward to creating shareholder value for you as we develop the Company business.

Yours faithfully,

Samuel Kavourakis
Chairman

Melbourne
29 September 2006

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Traffic Technologies Limited and Controlled Entities
Joint Managing Directors' Report

Dear Shareholder,

Traffic Technologies has rapidly expanded over its first full year as a listed company. The company achieved an adjusted EBITDA of $1.9 million for the year to 30 June 2006, up from $0.4 million in the previous year. Importantly a further seven acquisitions during the year have created the platform for substantial growth.

Traffic Technologies is the dominant traffic products supplier to the road maintenance and construction industry in Australia. There are four divisions: Traffic Management, Signage, Signals and Hardware, and Asset Management.

2006 Highlights

- EBITDA growing strongly as restructure and integration benefits materialise
- FY06 adjusted EBITDA of $1.9m up from $421k in 2005
- 2H06 adjusted EBITDA of $1.23m up from $684k in 1H06
- Traffic Management successfully restructured with division EBITDA margins now >10% coupled with strong organic growth (+19%)
- De Neefe restructuring costs of $582,000 were significantly below budget, full impact of benefits expected over the next 18 months
- Acquisition of Ace Traffic Management
- Acquisition of De Neefe Signs
- Acquisition of Able Traffic Management
- Acquisition of Line Marking Services
- Acquisition of Sunny Signs
- Acquisition of Guardrail Installations (July 06)
- Acquisition of Protech Traffic Management (July 06)
- New products including enforcement equipment, parking meters, BarrierGuard 800

Review of Operations

Traffic Management Division

The restructuring and integration of new acquisitions into the Traffic Management Division have progressed smoothly. Fleet upgrades and improvements to our proprietary national operating software have helped increase operating margins. The division reported strong organic growth of over 19% driven by strong demand and the financial benefits of restructuring and acquisitions are expected in 2007.

Traffic Technologies Limited
Joint Managing Directors' Report
(continued)

Traffic Signage Division

Restructuring of the De Neefe sign business (acquired in October 2005) is nearing completion with the benefits expected to begin over the next 18 months. A new senior management team is in place and ongoing improvements are expected as supplier negotiations continue and offshore componentry sourcing is expected to deliver savings. The integration of Sunny Signs (acquired in April 2006) has been completed and the business is performing to expectations. Strong synergies exist between these two businesses across manufacturing, geographical spread and purchasing power.

Signals and Hardware Division

The company's Signals and Hardware Division has introduced new products in 2006 including street lighting, speed detection equipment, traffic cones, parking equipment and the BarrierGuard 800 steel barrier system. All these products have passed performance and market testing and are expected to contribute around $5 million in sales in 2007.

Asset Management Division

Traffic Technologies established an Asset Management Division with the acquisition of Guard Rail Installations (GRI) in July 2006. The De Neefe line marking division was also merged with this new business. Significant organic growth opportunities exist within the Asset Management Division, such as the leveraging of BarrierGuard 800 through existing GRI sales channels and other cross-selling. Traffic Technologies also intends to establish De Neefe sign installation across the eastern seaboard.

Outlook

Annualised revenue is expected to exceed $100 million in 2007 with the full integration of recent acquisitions. Ongoing improvements in operating margins are expected in the Traffic Management Division and the De Neefe business.

Traffic Technologies' integrated traffic management solutions make it the most obvious outsourcing option for the road maintenance and construction industry. Increasing regulation increases barriers to entry and entrenches the company's strong position. Traffic Technologies is positioned for further organic growth, profitability growth and further acquisitions in the year ahead.

Yours faithfully,

Mr. Constantine Scrinis Joint Managing Director	Mr. Constantinos Liosatos Joint Managing Director

Melbourne
29 September 2006

Corporate Information

This annual report covers both Traffic Technologies Limited as an individual entity and the consolidated entity comprising Traffic Technologies Limited and its subsidiaries. The Group's functional and presentation currency is AUD ($).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report. The director's report is not part of the financial report.

Directors

Mr. Samuel Kavourakis BSc. (Queensland) AIA
Mr. Constantine Scrinis
Mr. Constantinos Liosatos
Mr. Alan Brown FAICD
Mr. Cary Peter Stynes LL.B (Melb), MAICD
Dr. Richard Gregson (appointed February 2006)
Mr. Rajeev Dhawan (alternate director appointed May 2006)

Company Secretary

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

Registered Office

Level 2
87 High Street South
KEW VIC 3101

Principal Place of Business

Level 2
87 High Street South
KEW VIC 3101

Share Register

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

Lawyers

Middletons
Level 29
200 Queen Street
MELBOURNE VIC 3000

Auditors

Pitcher Partners
Level 19
15 William Street
MELBOURNE VIC 3000

Traffic Technologies Limited and Controlled Entities
Financial Report for the year ended 30 June 2006
Contents

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 year ended 30 June 2006 and independent audit report thereon. Traffic Technologies Limited is a publicly listed company. The financial report has been prepared in accordance with the Australian equivalents of International Financial Reporting Standards ("AIFRS")

Directors

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

Name	Qualifications, Experience and Special Responsibilities
Mr. Samuel Kavourakis BSc. (Queensland) AIA	(Age 61) 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 Collins House Financial Services, Australand Wholesale Investments Ltd, Centro Property Group Limited, Centro Retail Trust 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 Property Group Limited* * denotes current Directorship Mr Kavourakis is Chairman of the Remuneration and Corporate Governance committees and a member of the Audit committee.
Mr. Constantine A Scrinis	(Age 43) 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 Limited in April 2003. Mr. Scrinis has not served as a Director of any other listed companies during the three years prior to June 2006 except as noted. Mr. Scrinis was a Director of New Age Exploration Limited (formerly Labtam Limited) between November 2003 and August 2005. Mr Scrinis is a member of the Remuneration and Corporate Governance committees.

Name	**Qualifications, Experience and Special Responsibilities**
Mr. Constantinos L Liosatos	(Age 44) 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 2006, except as noted. Mr. Liosatos was a Director of New Age Exploration Limited (formerly Labtam Limited) between November 2003 and March 2004. Mr Liosatos is a member of the Remuneration and Corporate Governance committees.
Mr. Alan J Brown FAICD	(Age 60) 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. He is also Chairman of Tasmanian company Work & Training Limited. 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 2006. Mr. Brown is Chairman of the Audit committee and a member of the Remuneration and Corporate Governance committees.

Name	**Qualifications, Experience and Special Responsibilities**
Mr. Cary P Stynes	(Age 42) Non-Executive Director. Appointed January 2004.
LL.B (Melb) MAICD	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 Mr. Stynes is a member of the Audit, Remuneration and Corporate Governance committees.
Dr. Richard Gregson	(Age 56) Non-Executive Director. Appointed February 2006.
PhD, MBA, BSc (Hons)	Dr. Richard Gregson is the co-founder and Managing Director of private equity funds management group, Equity Partners. In this capacity, Dr. Gregson has assisted with the development and expansion of many small-to-medium enterprises since 1989. He is currently a non-executive director of private companies in industries including healthcare, logistics, resources and financial services. Dr. Gregson is a member of the Audit, Remuneration and Corporate Governance committees. Dr. Gregson has also served as a director and remains a director of the following listed companies during the last three years. ▪ Energy Developments Limited* ▪ Portland Orthopaedics Limited* * denotes current Directorship

Name	Qualifications, Experience and Special Responsibilities

Mr. Rajeev Dhawan
BComm, CA, MBA

(Age 40) Alternate Director, for Dr Gregson. Appointed May 2006.

Mr. Dhawan has 13 years' venture capital and private equity experience. Prior to joining Equity Partners in 2005, he worked at Hambro-Grantham Management/CFSPE from 1993, where he focused on mid size expansion capital and buyouts. He was a Director from 1998 and led the majority of CFSPE's investments from then. Prior to the private equity industry, Rajeev was a Manager in the Financial Consulting Practice of Arthur Anderson. Mr. Dhawan has also served as a director and remains a director of the following listed companies during the last three years.

- Snowball Group Limited*
- Portland Orthopaedics Limited*

* denotes current Directorship

Company Secretary

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

(Age 49) 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 is also Chief Financial Officer of Purity Australia Limited. He was appointed Chief Financial Officer and Company Secretary of Traffic Technologies Limited in March 2004. He retired as Chief Financial Officer in February 2006.

- CBD Energy Limited
- The Swish Group Limited*

* denotes current Directorship

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

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

	Ordinary Shares		
Director	Directly	Indirectly	Options
Mr Samuel Kavourakis	-	1,131,101	2,000,000
Mr Constantine A Scrinis	-	3,863,945	3,300,000
Mr. Constantinos L Liosatos	-	3,963,945	3,300,000
Mr. Alan J Brown	60,601	1,256,500	1,200,000
Mr. Cary P Stynes	-	395,000	1,200,000
Dr. Richard Gregson	-	5,837,890	900,000
Mr. Rajeev Dhawan	-	5,837,890	-

	Preference Shares		
Director	Directly	Indirectly	Options
Mr Samuel Kavourakis	-	-	-
Mr Constantine A Scrinis	-	-	-
Mr. Constantinos L Liosatos	-	-	-
Mr. Alan J Brown	-	-	-
Mr. Cary P Stynes	-	-	-
Dr. Richard Gregson	-	24,000,000	-
Mr. Rajeev Dhawan	-	24,000,000	-

Dividends

The Directors do not recommend the payment of a dividend for the financial year ended 30 June 2006.

REVIEW AND RESULTS OF OPERATIONS

Operating Results for the Year

The proforma results from operations describing the effects of non recurring restructuring costs, discount on acquisition and share base payments are reconciled as follows:

	2006 $	2005 $	Change %
Revenue	57,933,396	19,300,742	200%
Net loss from total operations	(193,098)	(530,192)	64%
De Neefe restructuring costs	(582,529)	-	-
Discount on acquisition	289,222	-	-
Share based payments	(426,891)	(79,388)	438%
Net loss for the year	(913,296)	(609,580)	50%

a) Financial performance

The results for the financial year ended 30 June 2006 are not comparable to the previous financial year. Since the re-quotation of the Company's Shares on the ASX in January 2005, the Company has made a number of strategic acquisitions of traffic management and related businesses, including Traffic Management Solutions (Geelong), Advanced Contract Employment, Ace (SA) and Ace Administration (Adelaide), Able Traffic Management Melbourne), traffic signs manufacturers, De Neefe and Sunny Signs Pty Ltd and Adelaide-based line marking business, Line Marking Services. Since 30 June 2006 the Company has also settled the acquisitions of the businesses of Guard Rail Installations and Protech Traffic Management.

b) Financial position

Net assets of $19.5m at 30 June 2006 (2005: $5.9m) reflect the expansion of the Company's business activities during the financial year and the acquisitions made during this period.

The increase in trade receivables and payables reflect the significantly increased level of trading activity compared with the previous financial year. Inventory largely comprises traffic signage inventory. Fixed assets comprise $9.7m.

Total borrowings of $11.2m include $5.2m drawn down under the debtor factoring facility as at 30 June 2006 and a $2m convertible note made available to the Company by Equity Partners Two Pty Ltd.

c) Cash flows

Total cash balances of $6.7m at 30 June 2006 (2005: $1.0m) take account of equity and debt capital raisings.

Net operating cash outflow was $2.6m during the financial year ended 30 June 2006 (2005: net outflow $0.2m), reflecting costs incurred in restructuring acquired businesses.

Net cash used in investing activities was $6.9m (2005: $6.1m) including $4.8m cash spent on acquiring businesses, $2.4m spent on capital expenditure and $0.5m received from the disposal of fixed assets.

Net cash from financing activities was $15.2m (2005: $7.3m). The Company raised a total of $4.3m from placements to sophisticated investors, $2.6m from a Share Purchase Plan and $8 million capital injection from private equity firm Equity Partners Two Pty Ltd which was approved by shareholders in February 2006 comprising $2 million raised through the issue of convertible notes and $6 million through the issue of preference shares. The Company has made use of a debtor financing facility in financing its receivables. The facility is drawn down as trade receivables are financed by the factoring company and repaid when the debtor pays the debt to the Company.

Principal Activities

Traffic Technologies is now a diverse traffic product related company operating across four divisions.

Traffic Management Division

The Traffic Management division provides temporary traffic management services to road traffic authorities and construction companies. Its 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.

Traffic Sign Division

The Traffic Sign division provides a wide range of traffic sign, traffic control products, vests, brackets and traffic cones to road traffic authorities, municipal councils and construction companies.

Asset Management Division

The Asset Management division provides traffic sign and traffic control related product, installation and line marking services. The line marking business services private, council, contractors and road authorities. The line marking services include line marking products, pre-formed thermoplastic hot-tapes, pavement markers and adhesives.

Signals and Hardware Division

The Signals and Hardware division is a multi-product division specialising in the design, manufacture and installation of traffic signals, road barriers, speeds and safety camera systems, exterior lighting and telecommunications masts. The broad base of products and related services enables the Group to provide a total turnkey solution to meet the exact requirements of customers.

RISK MANAGEMENT

The Group takes 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 Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

The Group 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. Instead sub-committees are convened as appropriate in response to issues and risks identified by the Board as a whole, and the sub-committee further examines the issues and reports back to the Board.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Group's vision, mission and strategy statements, designed to meet stakeholder's needs and manage business risk;
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of KPIs of both a financial and non-financial nature; and
- The establishment of sub-committees to report on and monitor specific business risks.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The Company acquired control over the following businesses during the year ended 30 June 2006.

Date	Subsidiary entity	%	Description	Consideration	Net identifiable assets acquired	Goodwill / Discount on acquisition
July 2005	Advanced Contract Employment	100%	Traffic management	$1,438,317	$300,000	$1,138,317
October 2005	Able Traffic Management	100%	Traffic management	$594,656	$250,000	$344,656
October 2005	De Neefe Signs	100%	Traffic sign manufacturer	$1,568,777	$1,857,999	($289,222)
October 2005	Line Marking Services	100%	Line marking services	$205,390	$205,390	$-
March 2006	Sunny Signs Pty Ltd	100%	Traffic sign manufacturer	$2,332,825	$526,304	$1,806,521

Issue of shares

During the year the Company issued a total of 31,978,586 ordinary shares, comprising:

- 5,744,000 shares at a value of 25 cents per share for a placement to sophisticated investors;
- 10,468,000 shares at a value of 25 cents per share for a share purchase plan to eligible existing shareholders;
- 800,000 shares at a value of 25 cents per share for consideration as part of the acquisition of Ace Traffic Management;
- 800,000 shares at a value of 25 cents per share for consideration as part of the acquisition of Able Traffic Management;
- 900,000 shares at a value of 25 cents per share for the deferred consideration as part of the acquisition of 10% in Warp Pty Ltd;
- 1,600,000 shares at a value of 25 cents per share for consideration as part of the acquisition of De Neefe Signs;
- 1,200,000 shares at a value of 25 cents per share for a placement to directors;
- 250,000 shares as a result of the exercise of options to acquire shares at 20 cents per share;
- 250,000 shares as a result of the exercise of options to acquire shares at 20 cents per share; and
- 9,966,586 shares at a value of 29 cents per share for a placement to sophisticated investors.

On 21 February 2006 shareholders approved the issue of 24,000,000 preference shares to private equity firm, Equity Partners Two Pty Ltd. The share issue raised $6 million.

Debt

During the year the Company drew down on a $2m convertible note facility provided by Equity Partners Two Pty Ltd.

During the year the Company repaid a $1 million loan from CVC Limited.

During the year the economic entity acquired property, plant and equipment with an aggregate value of $2,970,000 (2005: $891,222) by means of finance leases and hire purchase agreements.

AFTER BALANCE DATE EVENTS

In July 2006 the Company completed the acquisition of the business of Guard Rail Installations Pty Ltd and Protech Traffic Management Pty Ltd. Except for the above matters, no other matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of these operations or the state of affairs of the economic entity in future financial years.

ENVIRONMENTAL REGULATION

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.

PROCEEDINGS ON BEHALF OF THE COMPANY

Claims for unspecified amounts were lodged during the year against the Company. The Company has disclaimed liability and is defending the actions. It is not practical to estimate the potential effect of these claims but legal advice indicates that any liability that may arise in the unlikely event that the claim is successful will not be significant.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The Company has not yet had the benefit of a full year's result from several of the acquisitions made during the year ended 30 June 2006. It is estimated that the Company's annualised revenues are now in excess of $100 million per annum. The Company expects to report a profit for the financial year ending 30 June 2007.

SHARE OPTIONS

Unissued Shares

As at the date of this report, there were 15,000,000 unissued ordinary shares under options (15,000,000 at the reporting date). Refer to note 16(b) of the financial statements for further details of the options outstanding.

Option holders do not have any right, by virtue of their yet to be exercised options, to participate in any share issue of the company or any related body corporate or in the interest issue of any other registered scheme.

Shares Issued as a Result of the Exercise of Options

During the year, no employees and executives have exercised options to acquire fully paid ordinary shares. Since the end of the financial year, no employees or executives have exercised options.

INDEMNIFICATION AND INSURANCE OF DIRECTORS, OFFICERS AND AUDITORS

During the financial year ended 30 June 2006, the consolidated entity paid premiums of $32,468 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 Traffic Technologies Limited.

Remuneration Philosophy

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.

Remuneration Committee

The Remuneration Committee is responsible for determining and reviewing remuneration arrangements for the Directors and Joint Managing Directors and the executive team. The Remuneration Committee comprises all Board members, 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 maximum non-executive Directors' remuneration is currently $400,000. In addition, shareholders approved the issue of a total of 4,200,000 options to the non-executive Directors on 21 February 2006. The issue of these options was not based on Company performance.

Structure

Non-executive directors have been encouraged by the Board to hold shares in the company (purchased by the director on market). It is considered good governance for directors to have a stake in the company on whose board they sit.

The remuneration of non-executive directors for the year ending 30 June 2006 is detailed within this Directors' report.

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 2006. Further details of the remuneration of Directors and executives are provided in Note 26 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 during the year are provided in Note 16 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

The Joint Managing Directors, Mr. Constantine Scrinis and Mr. Constantinos Liosatos are employed under contract. The current employment contracts commenced on 1 November 2004 and terminate on 31 October 2006, at which time the Group may choose to commence negotiation to enter into a new employment contract with Mr. Constantine Scrinis and Mr. Constantinos Liosatos. The Joint Managing Directors received a total fixed remuneration each of $200,000 during the financial year. The total fixed remuneration for each Joint Managing Director was increased to $250,000 per annum following a review at June 2006.

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

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee engaged an external consultant to provide independent advice both in the form of a written report detailing market levels of remuneration for comparable executive roles and by participating in the meeting from which the Committee makes its recommendations to the Board.

REMUNERATION 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 2006 are as follows:

		Short-term Benefits	**Post-employment Benefits**	**Share-based Payments**			
		Fixed Remuneration	**Superannuation**	**Number of Options issued during the year**	**Value of Options issued during the year**		**Total**
Directors		**$**	**$**	**$**	**$**		**$**
2006							
Mr. Sam Kavourakis	Non-Exec Chairman	50,000	6,750	1,500,000	40,901	*42%*	97,651
Mr. Con Scrinis	Joint Managing Director	200,000	-	3,000,000	116,355	*37%*	316,355
Mr. Con Liosatos	Joint Managing Director	200,000	-	3,000,000	116,355	*37%*	316,355
Mr. Alan Brown	Non Executive	35,000	-	900,000	24,541	*41%*	59,541
Mr. Cary Stynes	Non Executive	35,000	-	900,000	24,541	*41%*	59,541
Dr. Richard Gregson	Non Executive	14,533	-	900,000	24,541	*63%*	39,074
Mr. Rajeev Dhawan	Alternate Director	-	-	-		-	-
Total		534,533	6,750	10,200,000	347,234	*39%*	888,517
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

Of total Directors' remuneration, $Nil (2005: $260,000) was not paid to the Directors during the financial year ended 30 June 2006 and has been accrued.

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

REMUNERATION OF THE KEY MANAGEMENT PERSONNEL OF THE COMPANY

Details of the nature and amount of each element of the emoluments of the executives of the consolidated entity for the financial year ended 30 June 2006 are as follows:

		Short-term Benefits	Post-employment Benefits	Share-based Payments		
		Fixed Remuneration	Superannuation	Number of Options issued during the year	Value of Options issued during the year	Total
Executives		$	$	$	$	$
2006						
Mr. Andrew Harris	Chief Financial Officer	67,500	-	1,500,000	-	67,500
Mr. James Hopping	Divisional Manager	143,211	-	-	-	143,211
Mr. Stephen O'Dwyer	Divisional Manager	42,883	3,444	300,000	-	46,327
Mr. Ron Hunt	Divisional Manager	28,437	2,813	-	-	31,250
Mr. Peter Crafter	Company Secretary	59,000	4,462	-	-	63,462
Total		341,031	10,719	1,800,000	-	351,750
2005						
Mr. Geoff Burke	Fmr TSA General Mgr	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

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 26 of the Financial Statements.

Directors' Meetings

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

	Directors' Meetings		Audit Committee		Remuneration Committee		Corporate Governance Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr. Samuel Kavourakis	13	13	2	2	1	1	1	1
Mr. Constantine A Scrinis	13	13	-	-	1	1	1	1
Mr. Constantinos L Liosatos	13	13	-	-	1	1	1	1
Mr. Alan J Brown	13	11	2	2	1	1	1	1
Mr. Cary P Stynes	13	13	2	2	1	1	1	-
Dr. Richard Gregson (appointed 21 February 2006)	5	5	2	2	-	-	1	1
Mr. Rajeev Dhawan (alternate appointed 30 May 2006)	2	2	-	-	-	-	-	-

Auditor's Independence Declaration

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided with this report.

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Pitcher Partners. 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.

Pitcher Partners received or are due to receive the following amounts for the provision of non-audit services:

	2006 $	2005 $
Tax compliance services	38,872	27,390
Accounting advice and due diligence services	28,000	169,740
Investigating accountant's report for the prospectus	-	25,520

Signed in accordance with a resolution of the directors.

Samuel Kavourakis
Chairman

29 September 2006
Melbourne

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Traffic Technologies Limited

In relation to the independent audit for the year ended 30 June 2006, to the best of my knowledge and belief there have been:

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

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

PITCHER PARTNERS

S P CATLIN
Partner

Dated at Melbourne on 29 September 2006

Traffic Technologies Limited
Corporate Governance Statement

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 recommendation that has not been adopted by the Company, together with the reasons it has 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 2006.

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 these 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, 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

The Directors in office at the date of this report are as follows:

Name	**Position**
Mr. Samuel Kavourakis	Independent Non-Executive Chairman
Mr. Constantine Scrinis	Joint Managing Director
Mr. Constantinos Liosatos	Joint Managing Director
Mr. Alan Brown	Independent Non-Executive Director
Mr. Cary Stynes	Independent Non-Executive Director
Dr. Richard Gregson	Non-Executive Director

The skills, experience and expertise relevant to the position held by each Director in office at the date of this 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 a qualitative element 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 six Directors of the Company, as set out above, were independent during the year ended 30 June 2006 and as at the date of this report. The Company has an equivalent number of independent and non independent directors, which is not in compliance with Recommendation 2.1, which recommends that there be a majority of independent directors. The Company had an independent chairman through the year ended 30 June 2006, as required by Recommendation 2.2.

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 2006, 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.

Dealings are not permitted in the Company's securities at any time when Directors, officer 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 consolidated 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 2006 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 operations results, 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 with the exception of the Joint Managing Directors 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 unauthorized 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 recognizes 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, tabled in the appropriate format and with the appropriate notice period as required under the Corporations Act 2001, 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 responsibility

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, and is chaired by Mr. Samuel Kavourakis, who is an independent Director. For details of meetings of Remuneration Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

Non-executive directors are paid Directors' fees including options in lieu of cash. 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; and
- 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 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 recognizes 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 2006. 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 and Controlled Entities
Income Statement
For the year ended 30 June 2006

	Note	**Consolidated 2006 $**	Consolidated 2005 $	**Company 2006 $**	Company 2005 $
Revenue	2	**57,933,396**	19,300,742	**1,674,054**	1,019,358
Purchases and changes in inventory		**43,728,465**	14,316,538	**-**	-
		14,204,931	4,984,204	**1,674,054**	1,019,358
Employee benefits expense	3	**(8,447,769)**	(2,994,432)	**(1,109,589)**	(411,348)
Other expenses	3	**(4,561,072)**	(1,648,050)	**(852,699)**	(425,316)
Depreciation and amortisation expense	3	**(1,348,008)**	(533,106)	**(6,671)**	-
Finance costs	3	**(761,378)**	(418,196)	**(202,401)**	(1,062)
Profit/(loss) before income tax		**(913,296)**	(609,580)	**(497,306)**	181,632
Income tax expense	4	**-**	-	**-**	-
Profit/(loss) for the year		**(913,296)**	(609,580)	**(497,306)**	181,632
Earnings per share (cents per share)					
- Basic earnings per share	5	**(1.5)**	(2.4)		
- Diluted earnings per share	5	**(1.5)**	(2.4)		

The Income Statement should be read in conjunction with the notes to the financial statements.

Traffic Technologies Limited and Controlled Entities
Balance Sheet
As at 30 June 2006

	Note	**Consolidated 2006 $**	Consolidated 2005 $	**Company 2006 $**	Company 2005 $
Current Assets					
Cash and cash equivalents	20(a)	**6,728,840**	1,040,550	**4,576,576**	102,343
Trade and other receivables	6	**14,076,109**	4,224,415	**14,374,902**	6,675,865
Inventories	7	**3,762,462**	91,471	**-**	-
Total Current Assets		**24,567,411**	5,356,436	**18,951,478**	6,778,208
Non-Current Assets					
Property, plant and equipment	9	**9,736,213**	3,281,473	**86,503**	-
Intangible assets	10	**9,028,134**	5,635,027	**1,620**	-
Financial assets	8	**622,635**	529,581	**4,421,841**	1,992,238
Total Non-Current Assets		**19,386,982**	9,446,081	**4,509,964**	1,992,238
Total Assets		**43,954,393**	14,802,517	**23,461,442**	8,770,446
Current Liabilities					
Trade and other payables	12	**11,218,524**	3,028,385	**570,116**	963,275
Short-term borrowings	13	**6,210,914**	4,590,542	**30,135**	1,000,000
Short-term provisions	14	**1,290,590**	458,527	**1,296**	-
Current tax payable	12	**186,500**	-	**-**	-
Total Current Liabilities		**18,906,528**	8,077,454	**601,547**	1,963,275
Non-Current Liabilities					
Trade and other payables	12	**171,055**	-	**-**	-
Long-term provisions	14	**337,300**	27,134	**-**	-
Long-term borrowings	13	**5,024,554**	819,706	**2,000,000**	-
Total Non-Current Liabilities		**5,532,909**	846,840	**2,000,000**	-
Total Liabilities		**24,439,437**	8,924,294	**2,601,547**	1,963,275
Net Assets		**19,514,956**	5,878,223	**20,859,895**	6,807,171
Equity					
Contributed equity	15	**20,930,309**	41,679,189	**20,930,309**	41,679,189
Reserves	16(b)	**572,578**	145,688	**545,416**	118,525
Accumulated losses	16(a)	**(1,987,931)**	(35,946,654)	**(615,830)**	(34,990,543)
Total Equity		**19,514,956**	5,878,223	**20,859,895**	6,807,171

The Balance Sheet should be read in conjunction with the notes to the financial statements.

Traffic Technologies Limited and Controlled Entities
Statement of Changes In Equity
For the year ended 30 June 2006

	Consolidated 2006 $	Consolidated 2005 $	**Company 2006 $**	Company 2005 $
TOTAL EQUITY AT THE BEGINNING OF THE YEAR	**5,878,223**	53,701	**6,807,171**	218,600
Profit/(loss) for the year prior to share based payments	**(486,405)**	(530,192)	**(70,415)**	233,857
Options granted reserve adjustment due to share based payments	**(426,891)**	(79,388)	**(426,891)**	(52,225)
Profit/(loss) for the year	**(913,296)**	(609,580)	**(497,306)**	181,632
Total recognised income and expense for the period	**(913,296)**	(609,580)	**(497,306)**	181,632
Transactions with equity holders in their capacity as equity holders:				
Contribution – preference shares	**6,000,000**	-	**6,000,000**	-
Contribution – sophisticated investors	**4,326,310**	6,000,000	**4,326,310**	6,000,000
Contribution – share purchase plan	**2,617,000**	-	**2,617,000**	-
Issue of shares on conversion of debt	**-**	500,000	**-**	500,000
Issue of shares for acquisitions	**1,025,000**	200,000	**1,025,000**	200,000
Issue of shares to Directors	**300,000**	575,000	**300,000**	575,000
Exercise of options	**100,000**	-	**100,000**	-
Capital raising costs	**(245,172)**	(920,286)	**(245,172)**	(920,286)
	14,123,138	6,354,714	**14,123,138**	6,354,714
Transactions with option holders:				
Options granted reserve adjustment due to share based payments	**426,891**	79,388	**426,891**	52,225
Options granted reserve adjustment due to lapse of options	**(8,237)**	(8,237)	**(8,237)**	(8,237)
Options granted reserve adjustment due to exercise of options	**(23,664)**	(23,664)	**(23,664)**	(23,664)
Retained earnings adjustment due to exercise and lapse of options	**31,901**	31,901	**31,901**	31,901
	426,891	79,388	**426,891**	52,225
TOTAL EQUITY AT THE END OF THE YEAR	**19,514,956**	5,878,223	**20,859,894**	6,807,171

The Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

Traffic Technologies Limited and Controlled Entities
Cash Flow Statement
For the year ended 30 June 2006

	Note	**Consolidated 2006 $**	Consolidated 2005 $	**Company 2006 $**	Company 2005 $
Cash flows from operating activities					
Receipts from customers		**54,706,907**	18,442,912	**-**	-
Payments to suppliers and employees		**(56,543,087)**	(18,272,273)	**(306,378)**	(217,765)
Interest received		**29,833**	40,324	**27,849**	40,087
Interest paid		**(765,256)**	(418,196)	**(202,401)**	(1,062)
Other income		**-**	37,387	**-**	400
Net cash used in operating activities	20(b)	**(2,571,603)**	(169,336)	**(480,930)**	(178,340)
Cash flows from investing activities					
Purchase of businesses		**(4,844,501)**	(2,477,261)	**(2,394,973)**	(967,238)
Acquisition cost of financial assets		**(93,054)**	(4,581)	**(34,614)**	(4,581)
Purchase of plant and equipment		**(2,397,041)**	(159,053)	**(60,737)**	-
Proceeds of disposal of plant and equipment		**463,000**	228,672	**-**	-
Purchase of intangibles		**(48,670)**	(4,023)	**(1,800)**	-
Payment to TSA Administrator		**-**	(3,700,000)	**-**	-
Net cash used in investing activities		**(6,920,266)**	(6,116,246)	**(2,492,124)**	(967,238)
Cash flows from financing activities					
Proceeds of share issues		**13,343,312**	6,000,000	**13,343,312**	6,000,000
Process from borrowings		**49,814,588**	3,561,678	**2,000,000**	2,015,000
Repayment of borrowings		**(47,732,569)**	(1,430,481)	**(1,002,138)**	(229,994)
Capital raising costs		**(245,172)**	(845,286)	**(245,172)**	(845,286)
Advances to controlled entities		**-**	-	**(6,648,715)**	(5,699,181)
Net cash provided by financing activities		**15,180,159**	7,285,911	**7,447,287**	1,240,539
Net increase in cash and cash equivalents		**5,688,290**	1,000,329	**4,474,233**	94,961
Cash and cash equivalents at beginning of the financial year		**1,040,550**	40,221	**102,343**	7,382
Cash and cash equivalents at end of the financial year	20(a)	**6,728,840**	1,040,550	**4,576,576**	102,343

The Cash Flow Statement should be read in conjunction with the notes to the financial statements.

1. Summary of Significant Accounting Policies

a) Basis of Preparation

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Traffic Technologies Limited as an individual parent entity and Traffic Technologies Limited and controlled entities as a consolidated entity. Traffic Technologies Limited is a listed public company limited by shares, incorporated and domiciled in Australia.

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

The financial report has been prepared on an accruals basis and under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

This is the first financial report of Traffic Technologies Limited prepared in accordance with AIFRS. The financial reports of Traffic Technologies Limited were prepared in accordance with the previous Australian Generally Accepted Accounting Principles (AGAAP) until 30 June 2005. There are certain differences between accounting policies under AIFRS and AGAAP and where applicable the comparative figures have been restated to reflect these adjustments. A summary of the significant accounting policies under AIFRS is provided below. Reconciliations of equity and operating loss between AGAAP and AIFRS are provided in notes 28 and 29.

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Traffic Technologies Limited and its subsidiaries (the Group) as at 30 June each year.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

All acquisitions have been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

d) Critical accounting estimates and judgments

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

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

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated at 1(m). The recoverable amount of cash generating units has been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 11 for details of these assumptions.

e) Revenue recognition

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

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Rendering of services

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

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract.

When the contract outcome cannot be estimated reliably, revenue is recognized only to the extent of the expenses recognised that are recoverable.

(iii) Interest income

Interest revenue is recognised on a proportional basis taking into account the interest rate applicable to the financial assets.

(iv) Dividends

Revenue is recognised when the Group's right to receive the dividend is established.

f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

g) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

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

h) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis; and
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

i) Financial instruments

Classification

The group classifies its financial instruments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates the designation at each reporting date.

Loans and Receivables

Loans and receivables are measured at fair value at inception.

Financial Liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

j) Impairment of financial assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired. An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

k) Income tax

Current income tax expense or revenue is the tax payable on the current year's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

l) Property, plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Land and buildings are measured at fair value less accumulated depreciation on buildings and any impairment losses recognised after the date of the revaluation.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

	2006	**2005**
Office furniture and fittings	**4 to 10 years**	4 to 10 years
Motor Vehicles	**8 years**	8 years
Plant and equipment, including signage	**3 to 10 years**	3 to 10 years
Leasehold improvements	**10 years**	10 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

(i) Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, with recoverable amount being estimated when events or changes in circumstances indicate that the carrying value may be impaired.

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating units exceeds its estimated recoverable amount. The asset or cash-generating unit is then written down to its recoverable amount.

(ii) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

m) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group’s primary or the Group’s secondary reporting format determined in accordance with AASB 114 *Segment Reporting.*

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. When the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

n) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

o) Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash-generating unit to which it belongs. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset or cash-generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset unless the asset is carried at revalued amount (in which case the impairment loss is treated as a revaluation decrease).

An assessment is also made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

p) Share-based payment transactions

(i) Equity settled transactions

The Group provides benefits to employees (including senior executives) of the Group in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes option pricing model, further details of which are given in note 17.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Traffic Technologies Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Group's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

If the terms of an equity-settled transaction are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled transaction is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the transaction is recognised immediately. However, if a new transaction is substituted for the cancelled transaction and designated as a replacement transaction on the date that it is granted, the cancelled and new transaction are treated as if they were a modification of the original transaction, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share (see note 5).

q) Contributed equity

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

r) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

2. Revenues

	Consolidated 2006	Consolidated 2005	Company 2006	Company 2005
Revenues from continuing activities				
Revenue from the sale of goods & services	**57,479,578**	18,839,490	**-**	-
Revenues from non-operating activities				
Dividend income	**13,334**	-	**-**	-
Other income	**121,429**	315,489	**1,646,205**	979,271
Profit on disposal of fixed assets	**-**	105,439	**-**	-
Interest revenue from:				
Financial institutions	**29,833**	40,324	**27,849**	40,087
Discount on acquisition	**289,222**	-	**-**	-
Total revenues from continuing activities	**57,933,396**	19,300,742	**1,674,054**	1,019,358

3. Expenses

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Profit/(loss) from continuing activities before income tax has been determined after:				
Other expenses				
Occupancy expenses	**928,992**	305,544	**34,948**	-
Advertising and marketing expenses	**377,872**	55,003	**60,073**	-
Insurance expense	**120,852**	245,802	**28,929**	15,938
Professional costs	**542,412**	217,455	**266,001**	210,481
Administrative costs	**1,998,409**	721,999	**462,748**	198,897
Equipment rental	**10,006**	102,247	**-**	-
Restructuring costs	**582,529**	-	**-**	-
Total other expenses	**4,561,072**	1,648,050	**852,699**	425,316
Depreciation and amortisation expense				
Depreciation of non-current assets:				
Plant and equipment, including signage	**560,688**	222,607	**6,124**	-
Office furniture and fittings	**173,238**	59,795	**367**	-
Motor vehicles	**603,453**	250,049	**-**	-
Leasehold improvements	**8,305**	-	**-**	-
Total depreciation of non-current assets	**1,345,684**	532,451	**6,491**	-
Amortisation of non-current assets:				
Patents and trademarks	**2,324**	655	**180**	-
Total amortisation of non-current assets	**2,324**	655	**180**	-
Total depreciation and amortisation expense	**1,348,008**	533,106	**6,671**	-
Finance costs				
Interest and facility fees	**761,378**	418,196	**202,401**	1,062
Total finance costs	**761,378**	418,196	**202,401**	1,062
Significant revenue and expense items				
Operating lease rentals	**999,136**	274,554	**76,127**	-
Doubtful debts	**-**	122,597	**-**	-
Bad debts expense	**21,492**	70,191	**-**	-
Employee benefits				
Share based payments	**426,891**	79,388	**426,891**	52,225
Wages and salaries	**6,929,485**	2,506,175	**627,081**	354,999
Superannuation	**236,532**	136,788	**20,246**	4,124
Other on costs	**854,861**	272,081	**35,371**	-
	8,447,769	2,994,432	**1,109,589**	411,348

4. Income Tax

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
(a) The amount provided in respect of income tax differs from the prima facie amount 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% (2005:30%)	**(273,989)**	(182,874)	**(149,192)**	54,490
Tax affect of permanent differences:				
Discount on acquisition	**(86,767)**	-	**-**	-
Amortisation of intangibles	**-**	197	**-**	-
Capital raising costs	**(69,929)**	(55,217)	**(69,929)**	55,217
Taxable capital profits	**-**	232,146	**-**	-
Other	**7,869**	(44,580)	**(3,609)**	2,121
Share based payments	**128,067**	23,816	**128,067**	15,668
Prior year tax losses deducted	**(304,843)**	-	**-**	(34,866)
Movement in timing differences not booked	**87,291**	26,512	**16,508**	16,350
Losses not brought to account	**512,301**	-	**78,155**	
Income tax expense	**-**	-	**-**	-
(b) Deferred tax assets and deferred tax liabilities not brought into account because recovery is not probable:				
Tax losses – revenue	**1,016,624**	820,716	**100,546**	22,391
Capital raising costs	**224,496**	220,869	**224,496**	220,869
Provisions	**601,222**	181,269	**389**	-
Other accruals	**266,306**	88,617	**33,669**	17,550
Total deferred tax assets	**2,108,648**	1,311,471	**359,100**	260,810
Fair value adjustment	**172,850**	-	-	-
Finance leases	**42,150**	41,227	-	-
Total deferred tax liabilities	**215,000**	41,227	-	-

The deferred tax asset will only be obtained if:

- Future assessable income is derived of a nature and of an amount sufficient to enable the assets to be realised;
- The conditions for deductibility imposed by tax legislation continue to be complied with; and
- No changes in tax legislation adversely affect the consolidated entity in realising the benefit.

Deferred tax liabilities have not been brought to account as they have been offset against deferred tax assets.

5. Earnings per Share

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	Consolidated 2006	Consolidated 2005
Basic earnings per share	**(1.5) cents**	(2.4) cents
Diluted earnings per share	**(1.5) cents**	(2.4) cents
Net loss	**(913,296)**	(609,580)
Weighted average number of shares used in calculating basic earnings per share	**60,093,608**	25,302,532
Share options	**5,094,953**	2,051,781
Weighted average number of shares used in calculating diluted earnings per share	**65,188,561**	27,354,313

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

6. Trade and Other Receivables

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Trade receivables	**14,162,991**	4,150,403	-	-
Allowance for doubtful debts	**(372,597)**	(122,597)	-	-
	13,790,394	4,027,806	-	-
Other receivable and prepaid expenses	**285,715**	196,609	**29,568**	10,090
Related party receivables:				
subsidiaries	-	-	**14,345,334**	6,665,775
	14,076,109	4,224,415	**14,374,902**	6,675,865

(i) Trade receivables are non-interest bearing and are generally on 30-90 day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The allowance for doubtful debts of $372,597 (2005: $122,597) (Company: $Nil (2005: $Nil)), for which the increase of $250,000 for the year was a transfer from the acquisition of De Neefe Signs and was not recognised as an expense for the current year.

7. Inventories

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Raw materials (at cost)	**1,107,322**	52,780	-	-
Work in progress (at cost)	**287,516**	-	-	-
Finished goods (at cost)	**2,367,624**	38,691	-	-
	3,762,462	91,471	-	-

8. Financial Assets

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Unlisted investments, at cost	**622,635**	529,581	**572,785**	529,581
Interests in subsidiaries, at cost	**-**	-	**3,849,056**	1,462,657
	622,635	529,581	**4,421,841**	1,992,238

Name of entity	Country of Incorporation	**% of equity interest held by the consolidated entity 2006 %**	% of equity interest held by the consolidated entity 2005 %	**Investment 2006 $**	Investment 2005 $
Traffic Technologies Signal & Hardware Division Pty Ltd	Australia	**100%**	100%	**500,000**	500,000
Traffic Technologies Traffic Management Division Pty Ltd	Australia	**100%**	100%	**1,016,227**	962,657
De Neefe Signs Pty Ltd	Australia	**100%**	-	**1**	-
Traffic Technologies Asset Management Division Pty Ltd	Australia	**100%**	-	**2**	-
Sunny Signs Pty Ltd	Australia	**100%**	-	**2,332,825**	-
Pro-Tech Traffic Management Pty Ltd	Australia	**100%**	-	**1**	-
				3,849,056	1,462,657

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.

9. Property, Plant and Equipment

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
a) Carrying values				
Plant and equipment, including signage:				
At cost	**4,959,944**	1,496,254	**-**	-
Accumulated depreciation	**(1,409,389)**	(725,778)	**-**	-
Total plant and equipment	**3,550,555**	770,476	**-**	-
Office furniture and fittings				
At cost	**853,941**	597,541	**62,914**	-
Accumulated depreciation	**(353,533)**	(299,417)	**(3,483)**	-
Total office furniture and fittings	**500,408**	298,124	**59,431**	-
Office equipment under lease				
At cost	**307,790**	-	**30,080**	-
Accumulated depreciation	**(112,623)**	-	**(3,008)**	-
Total office equipment under lease	**195,167**	-	**27,072**	-
Motor vehicles				
At cost	**1,706,475**	1,571,700	**-**	-
Accumulated depreciation	**(437,497)**	(250,049)	**-**	-
Total motor vehicles	**1,268,978**	1,321,651	**-**	-
Motor vehicles under lease				
At cost	**4,336,045**	891,222	**-**	-
Accumulated depreciation	**(517,475)**	-	**-**	-
Total motor vehicles under lease	**3,818,570**	891,222	**-**	-
Land and buildings				
At cost	**199,699**	-	**-**	-
Accumulated depreciation	**-**	-	**-**	-
Total land and buildings	**199,699**	-	**-**	-
Leasehold improvements				
At cost	**214,948**	-	**-**	-
Accumulated depreciation	**(12,112)**	-	**-**	-
Total leasehold improvements	**202,836**	-	**-**	-
Total property, plant and equipment				
At cost	**12,578,842**	4,556,717	**92,994**	-
Accumulated depreciation	**(2,842,629)**	(1,275,244)	**(6,491)**	-
Total written down value	**9,736,213**	3,281,473	**86,503**	-

b) Reconciliations

	Plant & Equipment	Office furniture & fittings	Office equipment under lease	Motor vehicles	Motor vehicles under lease	Land & buildings	Leasehold improvements	Total
Consolidated entity								
Year ended 30 June 2006								
Balance at the beginning of the year	**770,476**	**298,124**	**-**	**1,321,651**	**891,222**	**-**	**-**	**3,281,473**
Acquisition of subsidiary entities	**199,683**	**-**	**-**	**36,481**	**-**	**-**	**41,538**	**277,702**
Acquisition of business	**1,120,997**	**136,695**	**122,636**	**532,635**	**686,019**	**199,699**	**-**	**2,798,681**
Additions	**2,020,087**	**186,466**	**124,892**	**85,407**	**2,600,586**	**-**	**169,603**	**5,187,041**
Disposals	**-**	**-**	**-**	**(463,000)**	**-**	**-**	**-**	**(463,000)**
Depreciation expense	**(560,688)**	**(120,877)**	**(52,361)**	**(244,196)**	**(359,257)**	**-**	**(8,305)**	**(1,345,684)**
Balance at the end of the year	**3,550,555**	**500,408**	**195,167**	**1,268,978**	**3,818,570**	**199,699**	**202,836**	**9,736,213**
Year ended 30 June 2005								
Balance at the beginning of the year	39,833	-	-	-	-	-	-	39,833
Acquisition of subsidiary entities	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
Company								
Year ended 30 June 2006								
Balance at the beginning of the year	-	-	-	-	-	-	-	-
Acquisition of subsidiary entity	-	-	-	-	-	-	-	-
Acquisition of business	-	-	-	-	-	-	-	-
Additions	**-**	**62,914**	**30,080**	**-**	**-**	**-**	**-**	**92,994**
Disposals	-	-	-	-	-	-	-	-
Depreciation expense	**-**	**(3,483)**	**(3,008)**	**-**	**-**	**-**	**-**	**(6,491)**
Balance at the end of the year	**-**	**59,431**	**27,072**	**-**	**-**	**-**	**-**	**86,503**

10. Intangible Assets

	Consolidated 2006 $	Consolidated 2005 $	**Company 2006 $**	Company 2005 $
Patents and trademarks				
At cost	**58,566**	6,545	**1,800**	-
Accumulated amortisation	**(2,324)**	(877)	**(180)**	-
	56,242	5,668	**1,620**	-
Goodwill				
At cost	**8,971,892**	5,629,359	**-**	-
Total intangible assets	**9,028,134**	5,635,027	**1,620**	-

	Consolidated Patents and trademarks	**Consolidated research and development**	**Consolidated Goodwill**	**Company Patents and trademarks**
At 1 July 2005 net book value	**5,668**	**-**	**5,629,359**	**-**
Additions	**52,898**	**-**	**-**	**1,800**
Acquisition of subsidiaries	**-**	**-**	**3,342,533**	**-**
Adoption of AIFRS adjustments	-	-	-	-
Amortisation	**(2,324)**	**-**	**-**	**(180)**
At 30 June 2006 net book value	**56,242**	**-**	**8,971,892**	**1,620**
At 1 July 2004 net book value	6,323	558,276	88,577	-
Additions	-	4,023	-	-
Acquisition of subsidiaries	-	-	4,978,483	-
Adoption of AIFRS adjustments	-	(562,299)	562,299	-
Amortisation	(655)	-	-	-
At 30 June 2005 net book value	5,668	-	5,629,359	-

11. Impairment Testing of Goodwill and Intangibles

a) Impairment Testing of Goodwill and Intangibles with Indefinite Lives

Goodwill acquired through business combinations has been allocated to three individual cash generating units, which are reportable segments, for impairment testing as follows:

- Traffic Management Division
- Traffic Sign Division
- Signals and Hardware Division

Traffic Management Division

The recoverable amount of the Traffic Management Division has been determined based on a value in use calculation using cash flow projections covering an eight year period and applying a discount rate of 12%.

Traffic Sign Division

All of the business combinations allocated to this reportable segment occurred during the year to 30 June 2006.

Signals and Hardware Division

The recoverable amount of the Signals and Hardware Division has been determined based on a value in use calculation using cash flow projections covering a five year period and applying a discount rate of 12%.

b) Carrying amount of Goodwill allocated to each of the cash generating units

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Summary by Division				
Traffic Management	**6,518,518**	4,982,506	**-**	-
Traffic Sign	**1,806,521**	-	**-**	-
Signals & Hardware	**646,853**	646,853	**-**	-
	8,971,892	5,629,359	**-**	-

c) Key assumptions used in value in use calculations for the Traffic Management and Signals and Hardware Divisions for 30 June 2006.

The Company has based its cash flow projections on budgets approved by management for the year ended 30 June 2007.

The cash flows have been extrapolated using expected growth rates for each business segment.

12. Trade and Other Payables

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Trade creditors	**5,087,261**	702,559	**108,105**	180,575
Payroll liabilities	**1,485,362**	536,268	**5,276**	11,055
Sundry creditors and accruals	**3,892,268**	1,054,558	**206,735**	36,645
Deferred consideration	**753,633**	475,000	**250,000**	475,000
Due to related parties	**-**	260,000	**-**	260,000
Trade and Other Payables (Current)	**11,218,524**	3,028,385	**570,116**	963,275
Tax payable (Current)	**186,500**	-	-	-
Trade & other payables (Non-Current)	**171,055**	-	-	-
Aggregate amounts payable to related parties:				
Payable to Directors and Director-related entities	**-**	260,000	**-**	260,000

a) Deferred Consideration

Deferred consideration relates to outstanding payments both in shares and cash due to vendors of businesses acquired.

$315,464 relates to the deferred cash consideration relating to acquisition of the De Neefe Signs business.

$8,169 relates to deferred cash consideration relating to the acquisition of intellectual property during the year.

$250,000 relates to the deferred share consideration relating to the acquisition of the TMS during the prior year. The deferred share consideration due to TMS is currently subject to a dispute. Refer to Note 22 Claims and Contingences.

$180,000 relates to the deferred cash consideration related for the acquisition of Able Traffic Management.

13. Borrowings

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Short-term borrowings				
Bank Loan	**-**	235,000	-	-
Lease liabilities	**637,248**	147,201	**30,135**	-
Hire Purchase liabilities	**421,348**	341,338	-	-
Loan	**-**	1,000,000	-	1,000,000
Debtor factoring	**5,152,318**	2,867,003	-	-
	6,210,914	4,590,542	**30,135**	1,000,000
Long-term borrowings				
Lease liabilities	**2,517,726**	819,706	**-**	-
Hire purchase liabilities	**506,828**	-	**-**	-
Convertible notes – related party	**2,000,000**	-	**2,000,000**	-
	5,024,554	819,706	**2,000,000**	-

Terms and conditions relating to the above financial instruments:

(i) Convertible Note

The Company has issued $2,000,000 of convertible notes to Equity Partners Two Pty Ltd, as trustee of the Equity Partners 2 Trust. The notes bear an interest rate of 8.0% per annum payable quarterly in arrears and are secured by a fixed and floating charge over the Company.

The Convertible notes are convertible at the option of the Note holder into Preference shares within two years of the date of issue (i.e. by 15 September 2007) at the face value of $0.26 (26 cents). Preference shares are convertible into fully paid Ordinary shares on the basis that each Preference share is convertible into one Ordinary share. No additional consideration is payable on conversion.

Equity Partners may only convert Preference shares to Ordinary shares so that the number of Ordinary shares to be issued on conversion does not result in Equity Partners' voting power in the Company increasing, in contravention of section 606 of the Corporations Act 2001.

The Company must redeem all outstanding Convertible notes in cash on the second anniversary of the issue date (i.e. 15 September 2007) if the Convertible Notes have not been converted into Preference shares. The Convertible notes do not confer voting rights. However, if the Convertible notes are converted into Preference shares, Preference shareholders may have certain voting rights.

(ii) The debtor factoring facility is secured by a specific charge over debtors and a fixed and a floating charge over the other assets of the Group.

(iii) The parent entity has provided guarantees with respect to certain finance lease and hire purchase agreements.

14. Provisions

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Short-term provisions				
Provision for annual leave	**986,930**	458,527	**1,296**	-
Provision for long service leave	**303,660**	-	**-**	-
	1,290,590	458,527	**1,296**	-
Long-term provisions				
Provision for long service leave	**337,300**	27,134	**-**	-
	337,300	27,134	**-**	-
Total provisions	**1,627,890**	485,661	**1,296**	-

	Consolidated Provision for annual leave	**Consolidated Provision for long service leave**	**Parent Provision for annual leave**
At 1 July 2005	**458,527**	**27,134**	**-**
Acquisition of subsidiaries	**606,890**	**680,077**	**-**
Provided during the year	**91,685**	**85,000**	**1,296**
Utilised	**(170,172)**	**(151,251)**	**-**
At 30 June 2006	**986,930**	**640,960**	**1,296**

15. Contributed Equity

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Ordinary shares	**14,930,309**	41,679,189	**14,930,309**	41,679,189
Preference shares	**6,000,000**	-	**6,000,000**	-
	20,930,309	41,679,189	**20,930,309**	41,679,189

a) Movement in Ordinary shares	Number of Shares	$
At 1 July 2004	8,256,916	35,324,475
Prospectus capital raising on 7 January 2005	30,000,000	6,000,000
Issue of shares on 7 January 2005	5,000,000	1,000,000
Issue of shares on 7 January 2005	375,000	75,000
Issue of shares on 8 April 2005	800,000	200,000
Capital raising costs	-	(920,286)
At 30 June 2005	44,431,916	41,679,189
At 1 July 2005	**44,431,916**	**41,679,189**
Share placement on 2 September 2005	**5,744,000**	**1,436,000**
Share purchase plan on 5 October 2005	**10,468,000**	**2,617,000**
Shares issued as acquisition consideration on 12 December 2005	**800,000**	**200,000**
Shares issued as acquisition consideration on 12 December 2005	**800,000**	**200,000**
Shares issued as acquisition consideration on 12 December 2005	**900,000**	**225,000**
Shares issued as acquisition consideration on 12 December 2005	**1,600,000**	**400,000**
Placement of shares to directors on 12 December 2005	**1,200,000**	**300,000**
Shares issued on exercise of options on 12 December 2005	**250,000**	**50,000**
Shares issued on exercise of options on 12 January 2006	**250,000**	**50,000**
Share placement on 27 June 2006	**9,966,586**	**2,890,310**
Capital reduction for lost capital of Infosentials business	**-**	**(34,872,019)**
Capital raising costs	**-**	**(245,171)**
At 30 June 2006	**76,410,502**	**14,930,309**

On 2 September 2005 the Company issued 5,744,000 fully paid ordinary shares as a share placement to sophisticated investors.

On 5 October 2005 the Company issued 10,468,000 fully paid ordinary shares to existing shareholders as part of a Share Purchase Plan.

On 12 December 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 Able Traffic Management Pty Ltd.

On 12 December 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 ACE Traffic Management Pty Ltd.

On 12 December 2005 the Company issued 900,000 fully paid ordinary shares at $0.25 (25 cents) per share as part consideration for the acquisition of a 10% interest in Warp Pty Limited.

On 12 December 2005 the Company issued 1,600,000 fully paid ordinary shares at $0.25 (25 cents) per share as part consideration for the acquisition of the business and assets of De Neefe Signs Pty Limited.

On 12 December 2005 the Company issued 1,200,000 fully paid ordinary shares as a placement to directors at $0.25 (25 cents). 300,000 shares were issued to Astra Glen Pty Ltd (associated with Director Mr. Con Scrinis), 300,000 shares were issued to Contelite Pty Ltd (associated with Director Mr. Con Liosatos), 300,000 shares were issued to Mr S and Mrs T Kavourakis Superannuation Fund (associated with Director Mr. Sam Kavourakis) and 300,000 shares were issued to Mr A and Mrs P Brown Superannuation Fund (associated with Director Mr. Alan Brown).

On 12 December 2005 the Company issued 250,000 fully paid ordinary shares on the exercise of options at a price of $0.20 (20 cents).

On 12 January 2006 the Company issued 250,000 fully paid ordinary shares on the exercise of options at a strike price of $0.20 (20 cents).

On 27 June 2006 the Company issued 9,966,586 fully paid ordinary shares at $0.29 (29 cents) by way of a share placement.

In accordance with Section 258F of the Corporations Act 2001, on 27 June 2006 the Company undertook a capital reduction in the amount of $34,872,019 resulting from accumulated losses from the Infosentials business which were unable to be utilized by the Company. The capital reduction has no effect on profit/(loss), net cash, the cash position of the Company or the number of shares on issue.

The Company incurred capital raising costs of $245,171 during the financial year ended 30 June 2006.

Terms and conditions of contributed equity

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of 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.

At the date of this report, the Company has a total of 76,410,502 fully paid ordinary shares on issue, of which 71,366,410 are quoted on ASX and 5,044,092 are subject to escrow restrictions until 12 January 2007.

Upon execution of an Investor Agreement between Equity Partners, Mr. Constantine Scrinis and Mr. Constantinos Liosatos on 15 September 2005, Equity Partners acquired an interest in a total of 5,837,890 voting shares in the Company, as described immediately below:

a) Mr. Constantine Scrinis will be prevented from selling, assigning, transferring or encumbering, or effecting any arrangement with respect to any of the above of all of the 3,543,945 shares he holds personally or through his company Astra Glen Pty Ltd for a period of 3 years after the date of the Investors' Agreement, other than by accepting into a takeover bid provided certain conditions are satisfied.

b) Mr. Constantinos Liosatos will be prevented from selling, assigning, transferring or encumbering, or effecting any arrangement with respect to any of the above of all of the 2,293,945 shares he holds personally or through his company Contelite Pty Ltd for a period of 3 years after the date of the Investors' Agreement, other than by accepting into a takeover bid provided certain conditions are satisfied.

b) Movement in Preference Shares

	Consolidated 2006 $	Consolidated 2005 $	**Company 2006 $**	Company 2005 $
Balance at 1 July	**-**	-	**-**	-
Issue of shares to Equity Partners Two Pty Limited on 9 March 2006	**6,000,000**	-	**6,000,000**	-
Balance at 30 June	**6,000,000**	-	**6,000,000**	-

On 9 March 2006 the Company issued 24,000,000 Preference shares at a price of $0.25 (25 cents) to Equity Partners Two Pty Ltd as trustee of the Equity Partners 2 Trust (associated with Directors Dr. Richard Gregson and Mr. Rajeev Dhawan). Preference shares are convertible into fully paid Ordinary shares on the basis that each Preference shares is convertible at the option of the Preference shareholder into one Ordinary share. There is no time limit specified within which Preference shares must be converted. No additional consideration is payable on conversion.

Equity Partners may only convert so that the number of shares to be issued on conversion does not result in Equity Partners' voting power in the Company increasing in contravention of section 606 of the Corporations Act 2001.

Preference shares are redeemable only on the occurrence of an "Insolvency Event", (an application made to a court to wind up the Company, the appointment of a liquidator, provisional liquidator, receiver, manager, administrator or controller or the Company entering into an arrangement with one or more of its creditors or failing to comply with a statutory demand) or the Company ceasing to trade, at the option of the Preference shareholder.

Preference shareholders will not be entitled to vote at any general meeting of the Company except in the following circumstances:

a) on a proposal:
   (i) to reduce the share capital of the Company;
   (ii) that affects the rights attached to Preference shares;
   (iii) to wind up the Company; and
   (iv) for the disposal of the whole of the property, business and undertakings of the Company.
b) on a resolution to approve the terms of a share buy-back agreement;
c) during a period win which a Dividend or part of a Dividend is in arrears;
d) during the winding-up of the Company.

Subject to the Preference share terms, but in any event only if the Directors declare a dividend on the Ordinary shares, each Preference share entitles the Preference shareholder on a Record Date to receive on the relevant Dividend payment date in preference to the holder of Ordinary shares a non-cumulative dividend in an amount equal to the greater of the dividend declared on the Ordinary shares and the 90 day Bank Bill Swap Rate. Dividends will be payable on the dates on which dividends on Ordinary shares are payable. Preference shareholders are entitled to receive dividends in priority to holder of Ordinary shares and equally with the holders of other Preference shares that may be issued with the consent of the holders of the majority of the Preference shares.

16. Accumulated Losses and Reserves

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
a) Movement in Retained Earnings/(Accumulated Losses)				
Balance at 1 July	**(35,946,654)**	(35,337,074)	**(34,990,543)**	(35,172,175)
Net profit/(loss) for the year	**(913,296)**	(609,580)	**(497,306)**	181,632
Cancellation of losses	**34,872,019**	-	**34,872,019**	-
Balance at 30 June	**(1,987,931)**	(35,946,654)	**(615,830)**	(34,990,543)

In accordance with Section 258F of the Corporations Act 2001, on 27 June 2006 the Company undertook a capital reduction in the amount of $34,872,019 resulting from accumulated losses from the Infosentials business which were unable to be utilized by the Company. The capital reduction has no effect on profit/(loss), net cash, the cash position of the Company or the number of shares on issue.

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
b) Reserves				
Options Granted Reserve				
Balance at 1 July	**145,688**	66,300	**118,525**	66,300
Share based payments	**426,891**	79,388	**426,891**	52,225
Balance at 30 June	**572,579**	145,688	**545,416**	118,525

Share Options

At the date of this report there are 15,000,000 unissued ordinary shares in respect of which options are outstanding.

There are 11,900,000 options held by directors on the following terms.

1,700,000 options issued to Directors on 30 January 2004, exercisable at $0.20 (20 cents) per share on or before 30 January 2009.

6,000,000 options issued to executive directors on 12 December 2005 the terms of which are as follows:

- 2,000,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 2,000,000 at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 2,000,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

4,200,000 options issued to non-executive directors on 21 February 2006 the terms of which are as follows:

- 1,400,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 1,400,000 at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 1,400,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

There are 2,300,000 options held by executives of the Company exercisable on the following terms:

500,000 options issued to executives on 22 April 2005 exercisable at $0.20 (20 cents) per share on or before 30 January 2009.

1,800,000 options issued to executives on 29 June 2006 the terms of which are as follows:

- 600,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 600,000 at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 600,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

17. Share Based Payment Plans

During the year ended 30 June 2006 options were issued to directors and employees on the following terms.

400,000 options issued to employees on 8 August 2005 exercisable at $0.25 (25 cents) vesting on 8 August 2005, expiring on 8 August 2010. The market price of the underlying shares on issue was $0.33 (33 cents).

6,000,000 options issued to executive directors on 12 December 2005 the terms of which are as follows:

- 2,000,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 2,000,000 at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 2,000,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

The market price of the underlying shares on issue was $0.26 (26 cents).

4,200,000 options issues to non-executive directors on 21 February 2006 the terms of which are as follows:

- 1,400,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 1,400,000 at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 1,400,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

The market price of the underlying shares on issue was $0.25 (25 cents).

1,800,000 options issued to executives on 29 June 2006 the terms of which are as follows:

- 600,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 600,000 at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 600,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

The market price of the underlying shares on issue was $0.34 (34 cents).

During the year ended 30 June 2005 options were issued to employees on the following terms:

- 600,000 options issued to employees on 22 April 2005 exercisable at $0.20 (20 cents) per share vesting on 22 April 2005, expiring on or before 30 January 2009. The market price of the underlying shares on issue was $0.20 (20 cents).

The fair value of each option is estimated on the date of issue using the Black-Scholes option pricing model with the following assumptions, along with those specified above:

	June 2006	**December 2005**	**June 2005**
Dividend yield	$Nil	$Nil	$Nil
Expected volatility	38%	45% - 58%	78%
Risk free interest rate	5.75%	5.36% - 5.75%	5.50%

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 volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

The expense recognised within the income statement in relation to share-based payments is disclosed in note 3.

18. Financial Instruments

a) Financial Risk Management Objectives and Policies

The Group's principal financial instruments comprise a debtor factoring facility, convertible notes, finance leases, hire purchase contracts, and cash and short-term deposits.

The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group does not enter into derivative transactions and it has been the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk and credit risk.

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

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates to changes in the rate of interest charged under the debtor factoring facility and for new finance lease and hire purchase contracts.

The Group's exposure to the risk of changes in market interest rates in practice relates primarily to interest charged under the debtor factoring facility. The Group does not actively manage its exposure to interest rate fluctuations with respect to the facility, as the facility agreement governs the rate.

Foreign currency risk

The Group currently purchases small amounts of material and derives immaterial revenues in foreign currencies. The Group does not enter into any forward foreign exchange contracts or undertake foreign currency hedging.

Credit risk

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There are no significant concentrations of credit risk within the Group.

(b) Financial Instruments

	Less than one year	More than 1 year and less than 5 years	More than 5 years	Total	Weighted Average effective interest rate
As at 30 June 2006					
Consolidated					
Financial Assets					
Trade and other receivables	**14,076,109**	**-**	**-**	**14,076,109**	**0.0%**
Cash assets	**6,728,840**	**-**	**-**	**6,728,840**	**3.75%**
	20,804,949	**-**	**-**	**20,804,949**	
Financial Liabilities					
Trade and other payables	**11,405,024**	**171,055**	**-**	**11,576,079**	**0.0%**
Obligations under finance leases and hire purchase contracts	**1,058,596**	**3,024,554**	**-**	**4,083,150**	**7.5% - 8.5%**
Convertible notes	**-**	**2,000,000**	**-**	**2,000,000**	**8.0%**
Debtor factoring facility	**5,152,318**	**-**	**-**	**5,152,318**	**7.3%**
	17,615,938	**5,195,609**	**-**	**22,811,547**	
Company					
Financial Assets					
Other receivables	**29,568**	**-**	**-**	**29,568**	**0.0%**
Cash assets	**4,576,576**	**-**	**-**	**4,576,576**	**3.75%**
Intercompany receivables	**14,345,334**	**-**	**-**	**14,345,334**	**0.0%**
	18,951,478	**-**	**-**	**18,951,478**	
Financial Liabilities					
Trade payables	**570,116**	**-**	**-**	**570,116**	**0.0%**
Obligations under finance leases and hire purchase contracts	**30,135**	**-**	**-**	**30,135**	**7.5% - 8.5%**
Convertible notes	**-**	**2,000,000**	**-**	**2,000,000**	**8.0%**
	600,251	**2,000,000**	**-**	**2,600,251**	
As at 30 June 2005					
Consolidated					
Financial Assets					
Trade and other receivables	4,224,415	-	-	4,224,415	0.0%
Cash assets	1,040,550	-	-	1,040,550	3.75%
	5,264,965	-	-	5,264,965	
Financial Liabilities					
Trade and other payables	3,028,385	-		3,028,385	0.0%
Obligations under finance leases and hire purchase contracts	488,539	819,706	-	1,308,245	7.5% - 8.5%
Loan	1,000,000	-	-	1,000,000	15.0%
Bank loan	235,000	-	-	235,000	8.9%
Debtor factoring facility	2,867,003	-	-	2,867,003	8.9%
	7,618,927	819,706	-	8,438,633	
Company					
Financial Assets					
Cash assets	102,343	-	-	102,343	3.75%
Intercompany and other receivables	6,675,865	-	-	6,675,865	0.0%
	6,778,208	-	-	6,778,208	
Financial Liabilities					
Trade and other payables	963,275	-	-	963,275	0.0%
Loan	1,000,000	-	-	1,000,000	15%
	1,963,275	-	-	1,963,275	

19. Expenditure Commitments

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
a) Premises rent commitments				
Not later than 1 year	**1,374,088**	250,566	**130,503**	28,836
Later than 1 year and not later than 5 years	**3,434,368**	546,538	**466,236**	-
	4,808,456	797,104	**596,739**	28,836
b) Finance lease & hire purchase				
Not later than 1 year	**1,351,571**	610,890	**10,043**	-
Later than 1 year and not later than 5 years	**3,485,823**	972,095	**26,507**	-
Minimum lease payments	**4,837,394**	1,582,985	**36,550**	-
Deduct: future finance charges	**754,244**	274,740	**6,415**	-
Lease liability	**4,083,150**	1,308,245	**30,135**	-

20. Statement of Cash Flows

a) Reconciliation of Cash

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Cash	**6,728,840**	1,035,394	**4,576,576**	102,343
Security deposits	**-**	5,156	**-**	-
	6,728,840	1,040,550	**4,576,576**	102,343

Cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at bank earns interest at floating rates based on daily bank deposit rates. Deposits at call earn interest at short-term deposit rates.

b) Reconciliation of net loss after tax to net cash flows from operations

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Net loss	**(913,296)**	(613,603)	**(497,306)**	181,632
Adjustments for:				
Depreciation and amortisation of non-current assets	**1,348,008**	533,106	**6,671**	-
Loss/(profit) on sale of fixed assets	**-**	(101,416)	**-**	-
Gain from licence fee	**-**	(300,000)	**-**	-
Share based payments	**426,891**	79,388	**426,891**	52,225
Discount on acquisition	**(289,222)**	-	**-**	-
Changes in assets and liabilities:				
(Increase)/decrease in trade and other receivables	**(2,635,228)**	(468,536)	**(19,477)**	(8,114)
(Increase)/decrease in inventories	**(1,113,839)**	20,580	**-**	-
Increase/(decrease) in trade and other payables	**693,568**	467,052	**(399,005)**	(404,083)
Increase/(decrease) in provisions	**(88,485)**	214,093	**1,296**	-
Net cash used in operating activities	**(2,571,603)**	(169,336)	**(480,930)**	(178,340)

c) Non cash financing and investing actuals

During the year the economic entity acquired property, plant and equipment with an aggregate value of $2,970,000 (2005: $891,222) by means of finance leases and hire purchase agreements.

During the year the Company acquired plant and equipment with an aggregate value of $32,257 (2005: $Nil) by means of finance leases. These acquisitions are not reflected in the statements of cash flow.

d) Financing facilities available

	Consolidated 2006	Consolidated 2005	**Company 2006**	Company 2005
Total facilities				
Debtor factoring	**10,000,000**	3,600,000	**-**	-
Loan facility	**-**	1,000,000	**-**	1,000,000
Bank loans	**-**	235,000	**-**	-
Convertible notes	**2,000,000**	-	**2,000,000**	-
	12,000,000	4,835,000	**2,000,000**	1,000,000
Facilities used at reporting date				
Debtor factoring	**5,152,318**	2,867,003	**-**	-
Loan facility	**-**	1,000,000	**-**	1,000,000
Bank loans	**-**	235,000	**-**	-
Convertible notes	**2,000,000**	-	**2,000,000**	-
	7,152,318	4,102,003	**2,000,000**	1,000,000
Facilities unused at reporting date				
Debtor factoring	**4,847,682**	732,997	**-**	-
Loan facility	**-**	-	**-**	-
Bank loans	**-**	-	**-**	-
Convertible notes	**-**	-	**-**	-
	4,847,682	732,997	**-**	-

21. Business Combination

a) The Consolidated entity acquired the business and assets of the following businesses during the year ended 30 June 2006:

(i) During July 2005 the Company acquired the business and assets of ACE Traffic Management, a provider of traffic management services.

Consideration:	**$**
Cash paid under asset agreement	**1,200,000**
Professional fees	**38,317**
Total cash paid	**1,238,317**
Shares issued as consideration	**200,000**
Total acquisition cost	**1,438,317**
Fair value of net assets acquired:	
Assets	
Plant and equipment	**300,000**
Total assets acquired	**300,000**
Fair value of net assets acquired	**300,000**
Goodwill on acquisition	**1,138,317**

(ii) In September 2005 the Company acquired the business and assets of De Neefe Signs, a traffic sign manufacturer.

Consideration:	**$**
Cash paid under asset agreement	**655,000**
Professional fees	**198,313**
Total cash paid	**853,313**
Shares issued as consideration	**400,000**
Deferred consideration:	
Cash (subject to settlement adjustment)	**315,464**
Total acquisition cost	**1,568,777**
Net assets acquired:	
Assets	
Cash	**267,993**
Receivables	**5,060,201**
Inventory	**2,250,000**
Plant and equipment	**1,308,573**
Property	**190,000**
Total assets acquired	**9,076,767**
Liabilities	
Trade and other payables	**(5,864,851)**
Borrowings	**(375,764)**
Provisions	**(1,267,375)**
Total liabilities acquired	**(7,507,990)**
Net assets acquired	**1,568,777**
Fair value adjustment to plant and equipment	**289,222**
Fair value of net assets acquired	**1,857,999**
Goodwill / (Discount) on acquisition	**(289,222)**

(iii) In October 2005 the Company acquired the business and assets of Able Traffic Management, a provider of traffic management services.

Consideration:	**$**
Cash paid under asset agreement	**200,000**
Professional fees	**14,656**
Total cash paid	**214,656**
Shares issued as consideration	**200,000**
Deferred consideration:	
Cash	**180,000**
Total acquisition cost	**594,656**
Fair value of net assets acquired:	
Assets	
Plant and equipment	**250,000**
Total assets acquired	**250,000**
Fair value of net assets acquired	**250,000**
Goodwill on acquisition	**344,656**

(iv) In October 2005 the Company acquired the business and assets of Line Marking Services, a provider of line marking services.

Consideration:	**$**
Cash paid under share sale agreement	**205,390**
Total cash paid	**205,390**
Total acquisition cost	**205,390**
Fair value of net assets acquired:	
Assets	
Inventory	**5,390**
Plant and equipment	**200,000**
Total assets acquired	**205,390**
Fair value of net assets acquired	**205,390**
Goodwill on acquisition	**-**

(v) During March 2006 the Company acquired the share capital of Sunny Signs Pty Limited

Consideration:	**$**
Cash paid under share sale agreement	**2,305,687**
Professional fees	**27,138**
Total acquisition cost	**2,332,825**
Net assets acquired:	
Assets	
Cash	**461,022**
Receivables	**1,038,225**
Inventory	**301,762**
Plant and equipment	**277,702**
Other assets	**59,070**
Total assets acquired	**2,137,781**
Liabilities	
Trade and other payables	**(726,991)**
Borrowings	**(186,500)**
Provisions	**(697,986)**
Total liabilities acquired	**(1,611,477)**
Net assets acquired	**526,304**
Goodwill on acquisition	**1,806,521**

The Company did not lose control over any entities during the year ended 30 June 2006.

During the year the company also acquired three 100% subsidiaries for the consideration of $1 (or $2) each being De Neefe Signs Pty Ltd (formerly Mykios Pty Ltd), Traffic Technologies Line Marking Division Pty Ltd and Pro-Tech Traffic Management Pty Ltd, as disclosed at Note 8.

The contribution of the above entities to the reporting entities' profit/(loss) from continuing activities during the period of the entities have been integrated and subject to restructuring with the business segments and has been more appropriately disclosed in the business segment disclosed in note 27.

Similarly the contribution of the above entities to the reporting entities' profit/(loss) from continuing activities for the whole of the previous corresponding period has not been disclosed. The information was not disclosed due to the integration and restructuring of each of the acquisitions into the business segments as disclosed in note 27.

b) Acquisitions subsequent to the end of the financial year.

(i) In July 2006 the Company acquired the business and assets of Guard Rail Installations Pty Ltd.

	$
Purchase consideration:	
Cash	**3,600,000**
Total cash paid	**3,600,000**
Purchase consideration – shares	**400,000**
Deferred purchase consideration	**750,000**
	4,750,000
Net assets acquired	
Receivables	**2,626,630**
Inventory	**383,765**
Fixed assets	**1,737,061**
Payables	**(3,525,066)**
Net assets acquired	**1,222,390**
Goodwill on acquisition	**3,527,610**

(ii) In July 2006 the Company acquired the business of Protech Traffic Management.

	$
Purchase consideration:	
Cash	**2,014,165**
Total cash paid	**2,014,165**
Net assets acquired	
Fixed assets	**22,457**
Provisions	**(85,836)**
Net liabilities acquired	**(63,379)**
Goodwill on acquisition	**2,077,544**

22. Claims and Contingencies

Claims for unspecified amounts were lodged during the year against the Company. The Company has denied liability and is defending the actions. It is not practical to estimate the potential effect of these claims but legal advice indicates that any liability that may arise in the unlikely event that the claim is successful will not be significant.

23. Related Party Disclosures

Ultimate Party Transactions

Traffic Technologies Limited is the ultimate parent Company.

Wholly owned group transactions.

Loans

During the financial year ended 30 June 2006 Traffic Technologies Limited made interest-free advances to its wholly owned subsidiaries as shown below. These amounts are repayable on demand.

Subsidiary	**2006**	**2005**
Traffic Technologies Signal and Hardware Division Pty Ltd	**1,840,455**	548,830
Traffic Technologies Traffic Management Division Pty Ltd	**8,284,868**	6,122,791
De Neefe Signs Pty Ltd	**3,342,514**	-
Traffic Technologies Asset Management Division Pty Ltd	**223,497**	-

Loans with Directors or Directors-related entities

During the financial year ended 30 June 2006 the company issued $2,000,000 of convertible notes to Equity Partners Two Pty Ltd as trustee for the Equity Partners 2 Trust, an entity associated with Dr. Richard Gregson and Mr. Rajeev Dhawan.

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

	Consolidated	Consolidated	**Company**	Company
	2006	2005	**2006**	2005
	$	$	**$**	$
Payables (Current)				
Payable to Astra Glen Pty Ltd	**-**	100,000	**-**	100,000
Payable to Contelite Pty Ltd	**-**	100,000	**-**	100,000
Unpaid Directors' fees	**-**	60,000	**-**	60,000
	-	260,000	**-**	260,000

Other transactions with Directors or Director related entities

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

Director	Transaction	**Consolidated 2006 $**	Consolidated 2005 $	**Company 2006 $**	Company 2005 $
Cary Stynes	Legal and business consulting fees	**58,340**	140,729	**58,340**	140,729

During the year the parent entity charged management fees to subsidiaries of $1,632,871 (2005: $978,871).

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

24. Events after the Balance Date

In July 2006 the Company settled the acquisitions of the businesses of Guard Rail Installations Pty Ltd and Protech Traffic Management Pty Ltd. The details of these acquisitions are provided at note 21.

25. Auditor's Remuneration

Amounts received or due and receivable by Pitcher Partners and other members of the Pitcher Partners association of independent accounting firms to:

	Consolidated 2006 $	Consolidated 2005 $	**Company 2006 $**	Company 2005 $
An audit or review of the financial report of the entity and any other entity in the consolidated entity	**161,000**	112,745	**161,000**	112,745
Other services	**66,872**	222,650	**66,872**	222,650
	227,872	335,395	**227,872**	335,395

26. Directors and Executive Disclosures

a) Details of Directors and Executives

(i) 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
Dr. Richard Gregson	Non-Executive Director
Mr. Rajeev Dhawan	Alternate Director

(ii) Executives

Mr. Peter Crafter	Company Secretary
Mr. James Hopping	General Manager Asset Management Division
Mr. Stephen O'Dwyer	General Manager Traffic Management Division
Mr. Ron Hunt	General Manager Traffic Signage Division
Mr. Andrew Harris	Chief Financial Officer

b) Remuneration of Directors and 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 2006.

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.

The Joint Managing Directors, Mr. Constantine Scrinis and Mr. Constantinos Liosatos are employed under contract. The current employment contracts commenced on 1 November 2004 and terminate on 31 October 2006, at which time the Group may chose to commence negotiation to enter into a new employment contract with Mr. Constantine Scrinis and Mr. Constantinos Liosatos. The Joint Managing Directors received a total remuneration each of $200,000 during the financial year. The total remuneration for each Joint Managing Director was increased to $250,000 per annum following a review at June 2006.

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

(ii) Remuneration of Directors and Executives

		Short-term Benefits	Post-employment Benefits	Share-based Payments		
		Fixed Remuneration	**Superannuation**	**Number of Options issued during the year**	**Value of Options issued during the year**	**Total**
Directors		**$**	**$**	**$**	**$**	**$**
2006						
Mr. Sam Kavourakis	Non-Exec Chairman	50,000	6,750	1,500,000	40,901 *42%*	**97,651**
Mr. Con Scrinis	Joint Managing	200,000	-	3,000,000	116,355 *37%*	**316,355**
Mr. Con Liosatos	Joint Managing	200,000	-	3,000,000	116,355 *37%*	**316,355**
Mr. Alan Brown	Non Executive	35,000	-	900,000	24,541 *41%*	**59,541**
Mr. Cary Stynes	Non Executive	35,000	-	900,000	24,541 *41%*	**59,541**
Dr. Richard Gregson	Non Executive	14,533	-	900,000	24,541 *63%*	**39,074**
Mr. Rajeev Dhawan	Alternate	-	-	-	-	-
Total		534,533	6,750	10,200,000	347,234 *39%*	**888,517**
2005						
Mr. Sam Kavourakis	Non-Exec Chairman	50,000	4,500	-	-	54,500
Mr. Con Scrinis	Joint Managing	137,500	-	-	-	137,500
Mr. Con Liosatos	Joint Managing	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

Of total Directors’ remuneration, $Nil (2005: $260,000) was not paid to the Directors during the financial year ended 30 June 2006 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 Executives of the consolidated entity for the financial year ended 30 June 2006 are as follows:

		Short-term Benefits	**Post-employment Benefits**	**Share-based Payments**		
Executives		**Fixed Remuneration $**	**Superannuation $**	**Number of Options issued during the year $**	**Value of Options issued during the year $**	**Fixed Remun-eration $**
2006						
Mr. Andrew Harris	Chief Financial Officer	67,500	-	1,500,000	-	67,500
Mr. James Hopping	Divisional Manager	143,211	-	-	-	143,211
Mr. Stephen O'Dwyer	Divisional Manager	42,883	3,444	300,000	-	46,327
Mr. Ron Hunt	Divisional Manager	28,437	2,813	-	-	31,250
Mr. Peter Crafter	Company Secretary	59,000	4,462	-	-	63,462
Total		341,031	10,719	1,800,000	-	351,750
2005						
Mr. Geoff Burke - Fmr TSA General Mgr		81,524	7,337	-	-	88,861
Mr. James Hopping - TSA General Mgr		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

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

(i) Directors remuneration

During the year ended 30 June 2006 options were granted as equity compensation benefits to 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 issue of options to non-executive directors was not based on specified performance criteria. The vesting of options to executive directors is subject to performance criteria.

Mr Samuel Kavourakis

On 21 February 2006 options were granted to Mr Kavourakis on the following terms:

- 500,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 500,000 options exercisable at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 500,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

Mr Alan Brown

On 21 February 2006 options were granted to Mr Brown on the following terms:

- 300,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 300,000 options exercisable at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
  - 300,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

Mr Cary Stynes

On 21 February 2006 options were granted to Mr Stynes on the following terms:

- 300,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 300,000 options exercisable at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 300,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

Dr. Richard Gregson

On 21 February 2006 options were granted to Dr. Gregson on the following terms:

- 300,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 300,000 options exercisable at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 300,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

Mr Constantine Scrinis

On 12 December 2005 options were granted to Mr. Scrinis on the following terms subject to performance criteria:

- 2,000,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 2,000,000 options exercisable at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 2,000,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

Mr Constantinos Liosatos

On 12 December 2005 options were granted to Mr. Liosatos on the following terms subject to performance criteria:

- 2,000,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 2,000,000 options exercisable at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 2,000,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

During the year ended 30 June 2005 no options were granted to directors

(ii) ***Executive remuneration***

During the year ended 30 June 2006 options were granted as equity compensation benefits to executives 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 vesting of options to executives is subject to performance criteria.

Mr. Andrew Harris

On 29 June 2006 options were granted to Mr. Harris on the following terms subject to performance criteria:

- 500,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 500,000 options exercisable at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 500,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

Mr. Stephen O'Dwyer

On 29 June 2006 options were granted to Mr. O'Dwyer on the following terms subject to performance criteria:

- 100,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 100,000 options exercisable at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 100,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

During the year ended 30 June 2005 options were granted as equity compensation benefits to executives 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 issue of options was not based on specified performance criteria.

Mr Peter Crafter

- On 22 April 2005, 300,000 options were granted to Mr. Crafter exercisable at $0.20 (20 cents), expiring on 30 January 2009. The options vested upon issue.

Mr. James Hopping

- On 22 April 2005, 200,000 options were granted to Mr. Hopping exercisable at $0.20 (20 cents), expiring on 30 January 2009. The options vested upon issue.

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 Directors and Executives

	Balance at beginning of period 1 July 2005 Number of options	Granted as remuneration Number of options	Balance at end of period 30 June 2006 Number of options	Vested at 30 June 2006 Number of options
Directors				
Mr. Samuel Kavourakis	500,000	1,500,000	2,000,000	500,000
Mr. Constantine Scrinis	300,000	3,000,000	3,300,000	300,000
Mr. Constantinos Liosatos	300,000	3,000,000	3,300,000	300,000
Mr. Alan Brown	300,000	900,000	1,200,000	300,000
Mr. Cary Stynes	300,000	900,000	1,200,000	300,000
Mr. Richard Gregson	-	900,000	900,000	-
Total	1,700,000	10,200,000	11,900,000	1,700,000
Executives				
Mr. Peter Crafter	300,000	-	300,000	300,000
Mr. James Hopping	200,000	-	200,000	200,000
Mr. Andrew Harris	-	1,500,000	1,500,000	-
Mr. Stephen O'Dwyer	-	300,000	300,000	-
Total	500,000	1,800,000	2,300,000	500,000

Fair value of options

The basis on which the fair value of each option has been valued is described in note 17.

f) Shareholdings of Directors and Executives

	Balance at 1 July 2005 $	Purchased during year $	Issued during year $	Sold during year $	Balance at 30 June 2006 $
Directors					
Mr. Samuel Kavourakis	811,101	320,000	-	-	1,131,101
Mr. Constantine Scrinis	3,543,945	320,000	-	-	3,863,945
Mr. Constantinos Liosatos	3,643,945	320,000	-	-	3,963,945
Mr. Alan Brown	997,101	320,000	-	-	1,317,101
Mr. Cary Stynes	375,000	20,000	-	-	395,000
Total	9,371,092	1,300,000	-	-	10,671,092
Executives					
Mr. Peter Crafter	10,000	-	-	-	10,000
Mr. James Hopping	9,300	4,000	-	-	13,300
Mr. Stephen O'Dwyer	102,000	-	-	-	102,000
Mr. Ron Hunt	-	-	-	-	-
Mr. Andrew Harris	50,000	20,000	-	-	70,000
Total	171,300	24,000	-	-	195,300

g) Loans to Directors and Executives

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

27. Segment Information

	Traffic Management	Traffic Signs	Signals & Hardware	Asset Management	Unallocated	Total
Year ended 30 June 2006						
Revenue						
Sales to external customers	**33,112,757**	**23,744,979**	**528,783**	**505,694**	**41,183**	**57,933,396**
Inter-segment sales	**-**	**-**	**172,277**	**-**	**1,632,871**	**1,805,148**
Total segment revenue	**33,112,757**	**23,744,979**	**701,060**	**505,694**	**1,674,054**	**59,738,544**
Inter-segment elimination						**(1,805,148)**
Total consolidated revenue						**57,933,396**
Result						
Segment results before tax and finance costs	**2,129,770**	**(428,438)**	**(173,123)**	**75,377**	**(1,755,504)**	**(151,918)**
Finance costs						**(761,378)**
Profit/(loss) before income tax						**(913,296)**
Income tax expense						**-**
Net profit/(loss) for the year						**(913,296)**
Assets and Liabilities						
Segment assets	**22,751,570**	**12,852,432**	**1,962,743**	**243,098**	**8,144,550**	**45,954,393**
Segment liabilities	**11,199,816**	**9,925,892**	**544,881**	**167,302**	**2,601,546**	**24,439,437**
Other segment information						
Depreciation	**1,027,744**	**274,179**	**15,069**	**22,201**	**6,491**	**1,345,684**
Amortisation	**-**	**2,324**	**-**	**-**	**-**	**2,324**
Share based payments	**-**	**-**	**-**	**-**	**426,891**	**426,891**
Total non-cash expenses	**1,027,744**	**276,503**	**15,069**	**22,201**	**433,382**	**1,774,899**
Year ended 30 June 2005						
Revenue						
Sales to external customers	19,300,742	-	-	-	-	19,300,742
Inter-segment sales	-	-	-	-	-	-
Total segment revenue	19,300,742	-	-	-	-	19,300,742
Inter-segment elimination	-	-	-	-	-	-
Total consolidated revenue	19,300,742	-	-	-	-	19,300,742
Result						
Segment results before tax and finance costs	(191,384)	-	-	-	-	(191,384)
Finance costs	(418,196)	-	-	-	-	(418,196)
Profit/(loss) before income tax	(609,580)	-	-	-	-	(609,580)
Income tax expense	-	-	-	-	-	-
Net profit/(loss) for the year	(609,580)	-	-	-	-	(609,580)
Assets and liabilities						
Segment assets	14,802,517	-	-	-	-	14,802,517
Segment liabilities	8,924,294	-	-	-	-	8,924,294
Other segment information						
Depreciation	532,451	-	-	-	-	532,451
Amortisation	655	-	-	-	-	655
Share based payments	79,388	-	-	-	-	79,388
Total non-cash expenses	612,494	-	-	-	-	612,494

28. Transition to AIFRS

Consolidated

(a) At the date of transition to AIFRS – 1 July 2004

	AGAAP	Adjustment	AIFRS
ASSETS	**$**	**$**	**$**
Current assets			
Cash and cash equivalents	40,221	-	**40,221**
Trade and other receivables	132,682	-	**132,682**
Inventory	112,051		**112,051**
Total current assets	284,954	-	**284,954**
Non-current assets			
Property, plant and equipment	39,833	-	**39,833**
Intangible assets	630,152	23,024	**653,176**
Total non-current assets	669,985	23,024	**693,009**
TOTAL ASSETS	954,939	23,024	**977,963**
LIABILITIES			
Current liabilities			
Trade and other payables	922,559	-	**922,559**
Provisions	1,703	-	**1,703**
Total current liabilities	924,262	-	**924,262**
TOTAL LIABILITIES	924,262	-	**924,262**
NET ASSETS	**30,677**	**23,024**	**53,701**
EQUITY			
Contributed equity	35,324,475	-	**35,324,475**
Reserves	-	66,300	**66,300**
Accumulated losses	(35,293,798)	(43,276)	**(35,337,074)**
TOTAL EQUITY	**30,677**	**23,024**	**53,701**

b) At the end of the last reporting date under AGAAP – 30 June 2005

	AGAAP	Adjustment	AIFRS
ASSETS	**$**	**$**	**$**
Current assets			
Cash and cash equivalents	1,040,550	-	**1,040,550**
Trade and other receivables	4,224,415	-	**4,224,415**
Inventory	91,471		**91,471**
Total current assets	5,356,436	-	**5,356,436**
Non-current assets			
Property, plant and equipment	3,281,473	-	**3,281,473**
Intangible assets	5,205,193	429,834	**5,635,027**
Investments	529,581		**529,581**
Total non-current assets	9,016,247	429,834	**9,446,081**
TOTAL ASSETS	14,372,683	429,834	**14,802,517**
LIABILITIES			
Current liabilities			
Trade and other payables	3,028,385	-	**3,028,385**
Current portion of long-term borrowings	4,590,542	-	**4,590,542**
Provisions	458,527	-	**458,527**
Total current liabilities	8,077,454	-	**8,077,454**
Non-current liabilities			
Provisions	27,134	-	**27,134**
Long-term borrowings	819,706		**819,706**
Total non-current liabilities	846,840	-	**846,840**
TOTAL LIABILITIES	8,924,294	-	**8,924,294**
NET ASSETS	**5,448,389**	**429,834**	**5,878,223**
EQUITY			
Contributed equity	41,679,189	-	**41,679,189**
Reserves	-	145,688	**145,688**
Accumulated losses	(36,230,800)	284,146	**(35,946,654)**
TOTAL EQUITY	**5,448,389**	**429,834**	**5,878,223**

c) Reconciliation of profit for the year ended 30 June 2005

	AGAAP $	Adjustment $	AIFRS $
Revenue	19,300,742	-	**19,300,742**
Cost of sales	(14,316,538)	-	**(14,316,538)**
Employee benefits expense (indirect)	(2,915,044)	(79,388)	**(2,994,432)**
Administrative expenses	(1,648,050)	-	**(1,648,050)**
Depreciation and amortisation expenses	(939,916)	406,810	**(533,106)**
Finance costs	(418,196)	-	**(418,196)**
Loss before income tax	**(937,002)**	**327,422**	**(609,580)**
Income tax expense	-	-	**-**
Net loss for the year	**(937,002)**	**327,422**	**(609,580)**

29. Transition to AIFRS

Company

(a) At the date of transition to AIFRS – 1 July 2004

	AGAAP $	Adjustment $	AIFRS $
Assets			
Current assets			
Cash and cash equivalents	7,382	-	**7,382**
Trade and other receivables	11,976	-	**11,976**
Inventory	-	-	**-**
Total current assets	19,358	-	**19,358**
Non-current assets			
Property, plant & equipment	-	-	**-**
Intangible assets	-	-	**-**
Investments	500,000	-	**500,000**
Total non-current assets	500,000	-	**500,000**
Total Assets	519,358	-	**519,358**
Liabilities			
Current liabilities			
Trade and other payables	300,758	-	**300,758**
Provisions	-	-	**-**
Total current liabilities	300,758	-	**300,758**
Total Liabilities	300,758	-	**300,758**
Net Assets	**218,600**	-	**218,600**
Equity			
Contributed equity	35,324,475	-	**35,324,475**
Reserves	**-**	66,300	**66,300**
Accumulated losses	(35,105,875)	(66,300)	**(35,172,175)**
Total Equity	**218,600**	-	**218,600**

b) At the end of the last reporting date under AGAAP – 30 June 2005

	AGAAP $	Adjustment $	AIFRS $
Assets			
Current assets			
Cash and cash equivalents	102,343	-	**102,343**
Trade and other receivables	6,675,865	-	**6,675,865**
Inventory	-	-	**-**
Total current assets	6,778,208	-	**6,778,208**
Non-current assets			
Property, plant & equipment	-	-	**-**
Intangible assets	-	-	**-**
Investments	1,992,238	-	**1,992,238**
Total non-current assets	1,992,238	-	**1,992,238**
Total Assets	8,770,446	-	**8,770,446**
Liabilities			
Current liabilities			
Trade and other payables	963,275	-	**963,275**
Current portion of long-term borrowings	1,000,000	-	**1,000,000**
Provisions	-	-	-
Total current liabilities	1,963,275	-	**1,963,275**
Non-current liabilities			
Provisions	**-**	-	**-**
Long-term borrowings	**-**	-	**-**
Total non-current liabilities	**-**	-	**-**
Total Liabilities	1,963,275	-	**1,963,275**
Net Assets	**6,807,171**	**-**	**6,807,171**
Equity			
Contributed equity	41,679,189	-	**41,679,189**
Reserves	**-**	118,525	**118,525**
Accumulated losses	(34,872,018)	(118,525)	**(34,990,543)**
Total Equity	**6,807,171**	**-**	**6,807,171**

c) Reconciliation of profit for the year ended 30 June 2005

	AGAAP $	Adjustment $	AIFRS $
Revenue	1,019,358	-	**1,019,358**
Cost of sales	-	-	**-**
Employee benefits expense (indirect)	(359,123)	(52,225)	**(411,348)**
Administrative expenses	(425,316)	-	**(425,316)**
Depreciation and amortisation expenses	-	-	**-**
Finance costs	(1,062)	-	**(1,062)**
Profit before income tax	**233,857**	**(52,225)**	**181,632**
Income tax expense	-	-	**-**
Net profit for the year	**233,857**	**(52,225)**	**181,632**

30. First Time Adoption of AIFRS - Reconciliation of Cash Flow Statement as Reported Under AGAAP to Cash Flows Under AIFRS

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statement.

31. First Time Adoption of AIFRS – Explanation of Changes in Accounting Policy Arising on First-Time Adoption of AIFRS

For all periods up to and including the financial year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting practice (**AGAAP**). These financial statements for the financial year ended 30 June 2006 are the first that the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (**AIFRS**).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in note 1. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 *First-time adoption of AIFRS*.

Changes in Accounting Policy Arising on First-Time Adoption of AIFRS

This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

Set out below are the areas impacted upon adoption of AIFRS:

a) Share based payments

Under AASB 2 Share based Payments, the Company is required to determine the fair value of equity settled transactions and recognise an expense in the Income Statement. Share-based payments to directors and other employees should also be expensed under AIFRS.

On first-time adoption of AIFRS retained earnings at 1 July 2004 and reported results for the financial year to 30 June 2005 have been adjusted for all share-based payments granted after 7 November 2002, which did not vest prior to 1 January 2005.

b) Goodwill

Goodwill on consolidation has been recalculated to derecognise intangible assets acquired that do not meet the identifiability criteria under AIFRS. In accordance with AASB 1, amortisation of goodwill ceased on first-time adoption of AIFRS at 1 July 2004. The carrying amount of goodwill as previously reported under AGAAP at 30 June 2004 is subject to impairment testing from that date. On adoption of AIFRS, reported results for the financial year to 30 June 2005 have been adjusted for amortisation charges from 1 July 2004. Amortisation charges prior to 30 June 2004 may not be reversed under the first-time adoption provisions.

c) Impairment of assets

Under AIFRS the recoverable amount test under the previous AGAAP is replaced by impairment testing whereby the recoverable amount is determined as the higher of fair value less costs to sell and value in use. Value in use incorporates the use of discounted cash flows.

On adoption of AIFRS, goodwill is not amortised but is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

d) Income taxes

Under AIFRS a balance sheet approach has been adopted under which temporary differences are identified for each asset and liability rather than accounting for the effect of timing and permanent differences between taxable and accounting profit.

e) Research and Development Intangible asset

Under AASB 1038 Intangible Assets the Company is not permitted to recognise applied research cost as an intangible asset.

On first time adoption of AIFRS retained earning at 1 July 2004 and reported results for the financial year to 30 June 2005 have been adjusted to reverse the recognition of the research and development intangible asset and all amortisation arising from the prior recognition of the asset.

Directors' Declaration

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 2006 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 2006.

On behalf of the board

Samuel Kavourakis
Chairman

Melbourne
29 September 2006

ASX Additional Information

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	2,035	336,615
1,001 - 5,000	290	901,916
5,001 - 10,000	193	1,689,126
10,001 - 100,000	782	27,939,841
100,001 and over	104	45,543,004
	3,404	76,410,502
Holdings less than a marketable parcel	2,035	336,615

d) Twenty Largest Holders

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

	Name	Ordinary Shares Number	Percentage
1.	National Nominees Limited	6,567,836	8.60
2.	Contelite Pty Ltd*	3,963,945	5.19
3.	Astra Glen Pty Ltd*	3,863,945	5.06
4.	Mr. Michael Nicolls	1,500,000	1.96
5.	Dabville Pty Ltd	1,400,000	1.83
6.	Equity Trustees Limited <SGH Micro Cap Trust A/C>	1,040,047	1.36
7.	Mr. Samuel Kavourakis + Mrs Toula Kavourakis <Super Fund A/C>*	820,500	1.07
8.	Annlew Investments Pty Ltd <Superannuation Fund A/C>	800,000	1.05
9.	Hedderwick Pty Ltd	800,000	1.05
10.	Mr. Garry Newman	800,000	1.05
11.	Mr. Alan Brown + Mrs. Paula Brown <A & P Brown Family S/F A/C>*	797,000	1.04
12.	ANZ Nominees Limited <Cash Income A/C>	712,920	0.93
13.	Bunkers Pty Ltd	703,000	0.92
14.	J P Morgan Nominees Australia Limited	689,655	0.90
15.	Warp Pty Ltd	680,000	0.89
16.	Campbell Kitchener Hume & Associates Pty Limited	580,000	0.76
17.	Mr. Michael John De La Haye	565,000	0.74
18.	Mr. John Caldon	553,239	0.72
19.	Austock Brokers Pty Ltd <The Premier Club A/C>	500,000	0.65
20.	Mr. Roger Nairn	482,889	0.63
	Total	27,819,976	36.40

* Associated with Directors.

e) 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	3,963,945	5.19%
Astra Glen Pty Ltd	3,863,945	5.06%
Equity Partners Two Pty Ltd	5,837,890	7.64%

f) Voting Rights

All ordinary shares carry one vote per share without restriction.

g) Options

At the date of this report there are 15,000,000 unissued ordinary shares in respect of which options are outstanding.

There are 11,900,000 options held by directors on the following terms.

1,700,000 options issued to Directors on 30 January 2004, exercisable at $0.20 (20 cents) per share on or before 30 January 2009.

6,000,000 options issued to executive directors on 12 December 2005 the terms of which are as follows:

- 2,000,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 2,000,000 at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 2,000,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

4,200,000 options issued to non-executive directors on 21 February 2006 the terms of which are as follows:

- 1,400,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 1,400,000 at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 1,400,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

There are 2,300,000 options held by executives of the Company exercisable on the following terms:

500,000 options issued to executives on 22 April 2005 exercisable at $0.20 (20 cents) per share on or before 30 January 2009.

1,800,000 options issued to executives on 29 June 2006 the terms of which are as follows:

- 600,000 options exercisable at $0.30 (30 cents) per share vesting on 1 July 2006, expiring on 31 December 2008;
- 600,000 at $0.40 (40 cents) per share vesting on 1 July 2007, expiring on 31 December 2009; and
- 600,000 options exercisable at $0.50 (50 cents) per share vesting on 1 July 2008, expiring on 31 December 2010.

TRAFFIC TECHNOLOGIES LIMITED

ABN 21 080 415 407

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 2006 comprising the Directors' Declaration, Income Statement, Balance Sheet, Statement of Changes in Equity, 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 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 2006 and of there performance for the financial year ended on that date; and

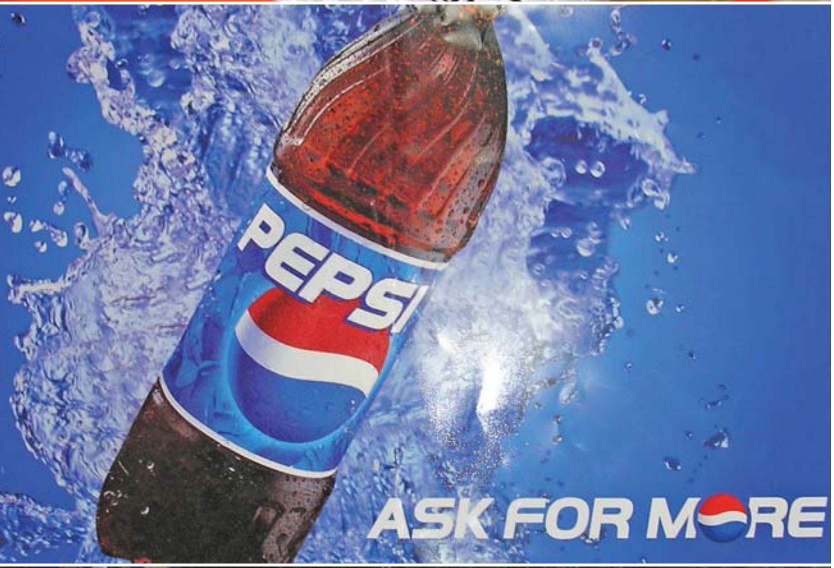
(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

PITCHER PARTNERS

S P CATLIN
Partner

Dated at Melbourne on 29 September 2006


traffic
technologies

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