CHALLENGE RECRUITMENT LIMITED
AND CONTROLLED ENTITIES
ABN 82 083 202 939

DIRECTORS REPORT

Your directors present their report on the company and its controlled entities for the year ended 30 June 2006.

Directors

The following persons were directors of the company during the whole of the financial year and up to the date of this report unless otherwise indicated:

- PD Tesseire Chairman
- B.Bosnich Managing Director
- K.Soon Finance Director

Details on individual directors in office as at the date of this report are as follows.

Paul Teisseire – Non Executive Chairman

Mr Teisseire is a senior commercial lawyer and is consultant to the Adelaide law firm Purcell Lancione. He is a member of the Boards of several public and private companies which operate in a variety of industries, and has brings to Challenge Recruitment Limited significant and valuable experience in corporate governance and legal matters. Mr Teisseire is Chairman of TOWER Trust Limited and a non executive director of Legend Corporation, Auspine Ltd and Austin Exploration.

He holds a Bachelor of Law (LLB), is a member of the Law Society of South Australia and is a Fellow of the Taxation Institute of Australia.

Mr Boris Bosnich – Managing Director

Mr Bosnich has been with the company for over six years and is the Managing Director.

Mr Bosnich has held a number of senior roles within major international public companies. His wealth of experience gained included senior roles in Administration, Finance, Business Improvement, Change Management and General Management.

Mr Bosnich has formal qualifications in Accountancy and a Master of Business Administration.

Ken Soon - Finance Director and Company Secretary

Ken is a Chartered Accountant with both public practice and commercial sector experience. In private practice, he specialised in external audits, due diligence and valuations and conducted internal audits under contract for the public sector. Prior to migrating to Australia, he held a senior corporate accounting role in the Automotive sub group of Inchcape Berhad in Malaysia and Singapore. In South Australia, he was Company Secretary of AE & F Tolleys Pty Ltd, a family group of companies trading in the wines and spirits industry for a few years.

He is a Fellow of the Institute of Chartered Accountants, a Certified Practising Accountant and is a Registered Company Auditor.

DIRECTORS REPORT (CONT)

Meetings of Directors

During the year, 4 meetings of directors including committees of directors were held. Attendence by each director during the year was as follows:

Director	Director meetings		Audit Committee meetings	
	Held	Attended	Held	Attended
B.Bosnich	4	4	–	–
PD Tesseire	4	4	2	2
K.Soon	4	4	2	2
B.Baldwin	1	1	–	–

Principle Activities

The company's principal continuing activities during the year from this date, was a national labour hire and recruitment business. There were no changes in the nature of these activities during the year.

Operating Results

The consolidated profit of the consolidated entity after providing for income tax and eliminating outside equity interests amounted to $ 1,850,387.

Review of Operations

The group results were in line with the expectations of the Board and senior management. As expected, the Choice HR operations were an important contributor to the group performance in the 2006 year.

The group recently won a number of tenders, both state based and national, and the Board are confident that the new business will generate additional profits in the future

Dividends

Dividends paid or declared since the start of the financial year are as follows:

- A fully franked dividend of $800,000 was paid to shareholders of ordinary shares; and
- A preference share dividend of $50,000 was paid in the year on the cumulative redeemable preference shares on issue.

Significant Changes in the state of affairs

There were no significant changes in the state of affairs of the company during the year.

DIRECTORS REPORT (CONT)

Matters subsequent to the end of the financial year

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

Likely developments

Likely developments in the operations of the company and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the company.

Environmental regulation

The company's operations are not regulaed by any significant environmental regulation under a law of the Commonwealth or of a state of terroritory.

Options

As at the date of this report, the un issued ordinary shares under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
May 2002	May 2007	$ 0.50	240,000

No additional options over unissued shares in the company were granted during or since the year end.

Insurance of officers

During the financial year, the company paid a premium of $13,409 to insure the directors and officers of the company.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

The company was not a party to any such proceedings during the year.

Adoption of Australian Equivalents to International Financial Reporting Standards (AIFRS)

As a result of the introduction of Australian equivalents International Financial Standards, the company's financial report has been prepared in accordance with those AIFRS standards as contained in Note 1 to this report. In addition the company has elected to change certain accounting policies to comply with the recognition and measurement criteria contained within AIFRS. These changes are outlined in Note 2 to the financial report.

Non-audit Services

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

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

In the year ended 30 June 2006 no non-audit services have been performed.

Auditor's Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

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

B. P. Bosnich

Adelaide

November 2006

Grant Thornton

Chartered Accountants and Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF CHALLENGE RECRUITMENT LIMITED

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Challenge Recruitment Limited and Controlled Entities for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON
South Australian Practice
Chartered Accountants

S J GRAY
Partner

Signed at Adelaide this 13 day of November 2006

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CHALLENGE RECRUITMENT LIMITED
AND CONTROLLED ENTITIES
ABN 82 083 202 939

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

	Note	ECONOMIC ENTITY 2006 $	ECONOMIC ENTITY 2005 $	PARENT ENTITY 2006 $	PARENT ENTITY 2005 $
Sales Revenue	3	147,803,599	105,929,271	104,257,716	97,140,079
Other Income – intercompany dividends		--	--	500,000	-
Employee benefits expense		131,798,253	92,555,283	92,291,051	86,257,505
Depreciation and amortisation		325,943	229,304	293,843	181,161
Finance costs		889,146	700,198	783,729	699,610
Other expenses from ordinary activities		12,075,949	11,703,182	8,846,846	9,386,068
Profit before tax	4	2,714,798	741,304	2,542,247	615,735
Income tax expense	5	864,411	305,698	617,006	224,268
Profit attributable to minority equity interest		--	--		
Profit attributable to members of the entity		1,850,387	435,606	1,925,241	391,467
Dividends per share (cents)	6	5.6 cts	--	5.9 cts	--

he accompanying notes form part of the financial statements

Challenge

CHALLENGE RECRUITMENT LIMITED
AND CONTROLLED ENTITIES
ABN 82 083 202 939

BALANCE SHEET AS AT 30 JUNE 2006

	Note	ECONOMIC ENTITY 2006	ECONOMIC ENTITY 2005	PARENT ENTITY 2006	PARENT ENTITY 2005
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	7	2,061,187	1,231,368	1,965,495	1,125,674
Trade and other receivables	8	14,494,117	13,200,645	10,242,905	9,252,253
TOTAL CURRENT ASSETS		16,555,304	14,432,013	12,208,400	10,377,927
NON-CURRENT ASSETS					
Property, plant and equipment	9	908,489	684,313	820,650	573,390
Deferred tax assets	10	482,980	436,596	386,643	343,157
Financial assets	11	--	--	3,178,451	3,045,619
Intangible assets	12	6,553,463	6,507,514	4,326,767	4,302,543
TOTAL NON-CURRENT ASSETS		7,944,932	7,628,423	8,712,511	8,264,709
TOTAL ASSETS		24,500,236	22,060,436	20, 920,911	18,642,636
CURRENT LIABILITIES					
Trade and other payables	13	7,115,449	6,811,252	5,217,055	3,889,026
Short-term borrowings	14	3,359,182	6,806,706	1,990,954	6,424,920
Current tax liabilities	15	630,353	-3,798	451,390	89,920
Short-term provisions	16(a)	479,556	430,355	365,610	303,388
TOTAL CURRENT LIABILITIES		11,584,540	14,044,515	8,025,009	10,707,254
NON-CURRENT LIABILITIES					
Long-term borrowings	14	8,661,237	4,433,666	8,661,237	4,433,666
Deferred tax liabilities		36,399	36,399		-
Long-term provisions	16(b)	214,188	122,371	200,079	122,371
TOTAL NON-CURRENT LIABILITIES		8,911,824	4,592,436	8,861,316	4,556,037
TOTAL LIABILITIES		20,496,362	18,636,951	16,886,325	15,263,291
NET ASSETS		4,003,872	3,423,485	4,034,586	3,379,345
Issued capital	17	4,103,000	4,573,000	4,103,000	4,573,000
Retained earnings		-99,129	-1,149,516	-68,414	-1,193,655
Parent Entity Interest		4,003,871	3,423,484	4,034,586	3,379,345
Minority Equity Interest		1	1	--	--
		4,003,872	3,423,485	4,034,586	3,379,345

he accompanying notes form part of the financial statements

Challenge

CHALLENGE RECRUITMENT LIMITED
AND CONTROLLED ENTITIES
ABN 82 083 202 939

	Note	Share Capital $	Retained Earnings $
ECONOMIC ENTITY			
Balance at 1 July 2004	2	4,573,000	-1,585,122
Profit attributable to members of parent entity		--	435,606
Balance at 30 June 2005		**4,573,000**	**-1,149,516**
Shares bought back during the year	2	-470,000	--
Profit attributable to members of parent entity		--	1,850,387
Sub-total		4,103,000	700,871
Dividends paid or provided for		--	-800,000
Balance at 30 June 2006		**4,103,000**	**-99,129**
	8		
PARENT ENTITY			
Balance at 1 July 2004		4,573,000	-1,585,122
Profit attributable to members of parent entity		--	391,467
Balance at 30 June 2005		**4,573,000**	**-1,193,655**
Share bought back during the year		-470,000	
Profit attributable to members of parent entity		--	1,925,241
Sub-total		4,103,000	731,586
Dividends paid or provided for		--	-800,000
Balance at 30 June 2006		**4,103,000**	**-68,414**

he accompanying notes form part of the financial statements

CHALLENGE RECRUITMENT LIMITED
AND CONTROLLED ENTITIES
ABN 82 083 202 939

CASH FLOW STATEMENT FOR YEAR ENDED 30 JUNE 2006

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers		158,577,809	116,212,245	112,489,353	106,826,318
Payments to suppliers and employees		-154,900,975	-115,868,672	-108,583,592	-104,265,608
Dividends received		--	--	--	--
Interest received		--	--	--	--
Finance costs		-889,146	-719,176	-783,729	-699,610
Income tax paid		-269,947	33,094	-299,022	33,094
Net cash provided by (used in) operating activities	20	2,517,741	-342,509	2,823,007	1,894,194
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		10,135	--	--	--
Purchase of investments		-45,949	-1,638,081	-40,744	-1,638,081
Purchase of property, plant and equipment		-229,291	-459,352	-181,327	-344,023
Payments for software development		-276,664	-170,486	-276,664	-170,486
Loans to related parties					
— payments made		-373,065	--	-449,136	--
Net cash provided by (used in) investing activities		-914,834	-2,267,919	-947,871	-2,152,590
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issue of shares		--	--	--	--
Proceeds from borrowings		5,239,135	3,610,058	5,239,135	1,530,000
Repayment of vendor loans		-1,278,301	--	-550,000	--
Repayment of borrowings		-62,340	-14,112	-62,308	-14,112
Payments for share buyback		-470,000	--	-470,000	--
Dividends paid		-680,000	--	-680,000	--
Net cash provided by (used in) financing activities		2,748,494	3,595,946	3,476,827	1,515,888
Net increase in cash held		4,351,401	985,518	5,351,963	1,257,492
Cash at beginning of year		-5,557,107	-6,542,625	-5,285,133	-6,542,625
Cash at end of year	7	-1,205,706	-5,557,107	66,830	-5,285,133

he accompanying notes form part of the financial statements

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a special purpose financial report prepared to satisfy the financial report preparation requirements of the *Corporations Act 2001*. The directors have determined that the company is not a reporting entity.

Challenge Recruitment Ltd is an unlisted company limited by shares, incorporated and domiciled in Australia.

Basis of Preparation

The report has been prepared in accordance with the requirements of the *Corporations Act 2001*, and the following applicable Australian Accounting Standards and Urgent Issues Group Interpretations:

AASB 101: Presentation of Financial Statements;

AASB 107: Cash Flow Statements;

AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors;

AASB 110: Events after the Balance Sheet Date;

AASB 117: Leases;

AASB 1031: Materiality;

AASB 1048: Interpretation and Application of Standards.

No other Accounting Standards, Urgent Issues Group Interpretations or other authoritative pronouncements of the Australian Accounting Standards Board have been applied.

Challenge Recruitment Ltd and the controlled entities, and Challenge Recruitment Ltd as an individual parent entity have prepared financial statements in accordance with the Australian equivalents to International Financial Reporting Standards (AIFRS) from 1 July 2005.

In accordance with the requirements of AASB 1: First-time Adoption of Australian Equivalents to International Financial Reporting Standards, adjustments to the parent entity and economic entity accounts resulting from the introduction of IFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Challenge Recruitment Ltd to be prepared in accordance with AIFRS.

Reconciliations of the transition from previous Australian GAAP to AIFRS have been included in Note 2 to this report.

Reporting Basis and Conventions

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

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

Accounting Policies

a. **Principles of Consolidation**

A controlled entity is any entity Challenge Recruitment Ltd has the power to control the financial and operating policies of an entity so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 11 to the financial statements. All controlled entities have a June financial year end. All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included/excluded from the date control was obtained or until the date control ceased.

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

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

b. **Income Tax**

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

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

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

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

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

b. **Property, Plant and Equipment**

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

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation

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

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

Class of Fixed Asset	Depreciation Rate
Plant and equipment	*15%- 33%*
Leased plant and equipment	*25%*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains or losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

c.. **Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the economic entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

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

d. **Financial Assets**

Recognition

Financial assets are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

Available-for-sale financial assets

All investments are classified as available-for-sale financial assets. Available-for-sale financial assets are reflected at fair value unless the fair value cannot be reliably measured. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

e.. **Intangibles**

Database, Brandnames and Logos,

These assets are recorded at cost and are noncurrent assets with an infinite life. Where there is any indication of impairment, the carrying value of these assets is compared against the recoverable value.

Goodwill

Goodwill is initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

f.. **Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

g.. **Provisions**

Provisions are recognised when the entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

h. **Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

i.. **Revenue**

Temporary labour hire revenue is brought to account when the services have been provided to customers. Permanent placement revenue is brought to account when candidates have been placed with clients. Other revenue from the rendering of services is recognised on delivery of the service to the customer.

Interest revenue is recognised on an accruals basis.

All revenue is stated net of the amount of goods and services tax (GST).

j. **Borrowing Costs**

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

k.. **Goods and Services Tax (GST)**

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

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

l. **Comparative Figures**

Comparative figures have been adjusted to conform to changes in presentation for the current financial year where required by accounting standards or as a result of changes in accounting policy.

k New Accounting and UIG Interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Groups assessment of the impact of these new standards and interpretations is that there would be no material impact on the reported results of the company for the year ended 30 June 2006.

Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key estimates — Valuation of Database, Brandnames and Logos and other Intangibles

No impairment loss has been recognised in respect of the Database, Brandnames and Logos or goodwill on consolidation for the year ended 30 June 2006 as the company believes that these intangible assets are supported by forecasts indicating profitability. However in the event that an adverse event or transaction does eventuate and will affect materially the future operations and cashflows of a Cash Generating Unit, an impairment loss will be brought to account in the financial accounts as soon as practicable.

Note 2: First Time Adoption of Australian Equivalents to International Financial Reporting Standards

RECONCILIATION OF EQUITY

ECONOMIC ENTITY

	Note	Issued Capital	Outside Equity Interest	Reserves	Retained Earnings
1 July 2004		$		$	$
Balance under existing Australian GAAP		4,573,000	–		647,339
- HRMS software write off	A	–		–	-2,263,133
- reversal of amortisation expense	B	–		–	30,672
Balance under Australian equivalents to IFRS		4,573,000	–		-1,585,122
30 June 2005					
Balance under existing Australian GAAP		4,573,000	1	–	1,179,720
- HRMS software write off	A	–		–	-2263,133
- reversal of amortisation expense	B	–		–	30,672
- Reversal of capitalised intangible costs	C				-127,447
- Reversal of amortisation of intangibles with an infinite life	D				30,672
Balance under Australian equivalents to IFRS		4,573,000	1	–	-1,149,516

PARENT ENTITY

	Note	Issued Capital	Outside Equity Interest	Reserves	Retained Earnings
1 July 2004		$	$	$	$
Balance under existing Australian GAAP		4,573,000	–		647,339
- HRMS software write off	A			–	-2,263,133
- reversal of amortisation expense	B			–	30,672
Balance under Australian equivalents to IFRS		4,573,000	–	–	-1,585,122
30 June 2005					
Balance under existing Australian GAAP		4,573,000	1	–	1,135,581
- HRMS software write off	A	–	–	–	-2263,133
- reversal of amortisation expense	B	–	–	–	30,672
- Reversal of capitalised intangible costs	C				-127,447
- Reversal of amortisation of intangibles with an infinite life	D				30,672
Balance under Australian equivalents to IFRS		4,573,000	1	–	-1,193,655

Reconciliation of Profit		**Economic Entity 2005 $**	**Parent Entity 2005 $**
Profit under existing Australian GAAP		532,381	488,242
- reversal of amortisation	D	30,672	30,672
- Reversal of capitalised intangible costs	C	-127,447	-127,447
		435,606	391,467

	Economic Entity		**Parent Entity**	
	1 July 2004	**2005**	**1 July 2004**	**2005**
(A) Write off of HRMS software purchased in 2001. The directors have determined that the software had a finite useful life.	-2,263,133	-	-2,263,133	-
(B) Reversal of amortisation of intangible assets previously amortised before 1 July 2004	30,672	-	30,672	-
(C) Expense of capitalised costs associated with HRMS purchased during 2005	-	-127,447	-	-127,447
(D) Reversal of amortisation expense in the 2005 financial year		30,672		30,672
	-2,232,461	-96,775	-2,232,461	-96,775

NOTE 3: REVENUE

	Note	**Economic Entity**		**Parent Entity**	
		2006	**2005**	**2006**	**2005**
		$	**$**	**$**	**$**
Operating activities					
— Labour hire revenue		145,502,582	104,428,792	102,473,919	95,597,740
— Permanent placement revenue		542,966	864,887	350,656	736,764
— Other related revenue		1,758,051	635,592	1,433,141	805,575
— interest received		–	–	–	–
Total Revenue		147,803,599	105,929,271	104,257,716	97,140,079
Other Income					
a. Dividend revenue from:					
— wholly-owned subsidiaries		–	–	500,000	–

NOTE 4: PROFIT FROM ORDINARY ACTIVITIES

	Note	**Economic Entity**		**Parent Entity**	
		2006	**2005**	**2006**	**2005**
		$	**$**	**$**	**$**
a. **Expenses**					
Cost of sales – labour costs		131,798,253	92,555,283	92,291,051	86,257,505
Finance costs:					
— external		794,146	605,198	688,729	604,610
— other related parties		45,000	–	45,000	–
— Preference share dividend - other related parties		50,000	95,000	50,000	95,000
Total finance costs		889,146	700,198	783,729	699,610
Bad and doubtful debts:					

NOTE 4: PROFIT FROM ORDINARY ACTIVITIES

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
— trade receivables		232,445	95,169	202,445	95,169
Rental expense on operating leases					
— minimum lease payments		940,106	840,748	656,573	930,578
Depreciation and amortisation expense		325,943	229,304	293,843	181,161
Remuneration of auditor					
— audit services		42,000	41,500	24,000	24,500
— other services		1,950	1,250	1,950	1,250

b. **Significant Revenue and Expenses**

The following significant revenue and expense items are relevant in explaining the financial performance:

- Due diligence reviews- accounting & legal costs	–	111,175	–	111,175
- Surplus staff costs – NSW	155,688	–	–	–
- Redundant property rentals	133,476	147,017	120,226	147,017

NOTE 5: INCOME TAX EXPENSE

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
a. The components of tax expense comprise:					
Current tax		859,342	245,504	617,006	212,639
Deferred tax		5,069	-25,223	–	-44,619
Recoupment of prior year tax losses		–	–	–	
Under/(over) provision in respect of prior years		–	85,417	–	56,248
		864,411	305,698	617,006	224,268
b The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:					
Prima facie tax payable on profit from ordinary activities before income tax at 30% (2005: 30%)					
— economic entity		814,439	284,773		
— parent entity				732,674	242,253
Add:					
Tax effect of:					
— non-allowable items		29,527	52,970	34,332	19,685
— losses not capitalised		15,376			
Less:					
Tax effect of:				–	
— fully franked dividends		—	—	-150,000	—

NOTE 5: INCOME TAX EXPENSE

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
— depreciation			-49,189		-20,799
---others			-43,050		-28,500
Income tax attributable to entity		859,342	245,504	617,006	212,639

NOTE 6 : DIVIDENDS

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Distributions paid					
Declared fully franked ordinary dividend at the rate of 2.4 cts per share (2005: nil) franked at the tax rate of 100% (2005: nil %)		800,000	--	800,000	--
Balance of franking account at year end		1,574,737	1,810,042	284,966	114,516

NOTE 7: CASH AND CASH EQUIVALENTS

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT					
Cash at bank and in hand		158,180	231,368	62,488	125,674
Short-term bank deposits		1,903,007	1,000,000	1,903,007	1,000,000
		2,061,187	1,231,368	1,965,495	1,125,674
Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:					
Cash and cash equivalents		2,061,187	1,231,368	1,965,495	1,125,674
Bank overdrafts	14	-3,266,893	-6,788,475	-1898,665	-6,410,807
		-1,205,706	-5,557,107	66,830	-5,285,133

NOTE 8: TRADE AND OTHER RECEIVABLES

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT					
Trade receivables		13,405,827	12,453,140	9,369,616	8,474,324
Provision for impairment of receivables		-278,658	-247,131	-191,348	-189,821
		13,127,169	12,206,009	9,178,268	8,284,503
Other receivables		1,366,948	994,636	1,064,637	967,750
		14,494,117	13,200,645	10,242,905	9,252,253

NOTE 9 : PROPERTY, PLANT AND EQUIPMENT

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
PLANT AND EQUIPMENT					
At cost		1,889,910	1,306,002	1,723,808	1,182,705
Accumulated depreciation		981,421	621,689	903,158	609,315
Total plant and equipment		908,489	684,313	820,650	573,390

a. **Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Plant and Equipment	Total
	$	$
Economic Entity:		
Balance at the beginning of year	684,313	684,313
Additions	560,254	560,254
Disposals	-10,135	-10,135
Depreciation expense	-325,943	-325,943
Balance at the end of the year	908,489	908,489

NOTE 10 : DEFERRED TAX ASSETS

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
Deferred tax assets comprise:					
Provisions		316,379	--	220,042	--
Other		166,601		166,601	
		482,980	436,596	386,643	343,157
Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(b) occur:					
— temporary differences		482,980	436,596	386,643	343,157
— tax losses: operating losses					
		482,980	436,596	386,643	343,157

Challenge

NOTE 11: FINANCIAL ASSETS

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
Unlisted Investments, at cost					
- shares in controlled entities		--	--	3,178,451	3,045,619

Controlled Entities Consolidated

Parent Entity			
Challenge Recruitment Ltd	Aust		
Subsidiaries			
Choice HR Pty Ltd	Aust	100	100
Choice HR (Newcastle) Pty Ltd	Aust	100	100
Choice HR (Maitland) Pty Ltd	Aust	100	100
Choice HR (Parramatta) Pty Ltd	Aust	100	100
Choice HR (Liverpool) Pty Ltd	Aust	100	100
Choice HR (Penrith) Pty Ltd	Aust	100	100
Choice HR Logistics Pty Ltd	Aust	100	100
Challenge Logistics Pty Ltd (formerly Choice Training and Consulting Services Pty Ltd)	Aust	100	100
Australian Personnel Consortium Pty Ltd	Aust	66.7	66.7

NOTE 12: INTANGIBLE ASSETS

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
GOODWILL ON CONSOLIDATION					
Cost		721,492	704,972	--	--
Accumulated impairment losses		--	--	--	--
Net carrying value		721,492	704,972	--	--
Reconciliation of Goodwill					
Balance at the beginning of year		704,972	--	--	--
Additions		16,520	704,972	--	--
Disposals		--	--	--	--
Impairment losses		--	--	--	--
Closing carrying value at 30 June 2006		721,492	704,972	--	--
DATABASE BRANDNAMES AND LOGOS					
Cost		5,587,769	5,558,341	4,082,565	4,058,341
Accumulated impairment losses		--	--	--	--
Net carrying value		5,587,769	5,558,341	4,082,565	4,058,341
Reconciliation of Database Brandnames and Logos					
Balance at the beginning of year		5,558,341	3,805,477	4,058,341	3,805,477

NOTE 12: INTANGIBLE ASSETS

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Additions		29,428	1,752,863	24,224	252,864
Disposals		–	–	–	–
Impairment losses		–	–	–	–
Closing carrying value at 30 June 2006		5,587,769	5,558,340	4,082,565	4,058,341
OTHER INTANGIBLE ASSETS					
Cost		244,202	244,202	244,202	244,202
Accumulated impairment losses		–	–	–	–
Net carrying value		244,202	244,202	244,202	244,202
Reconciliation of other intangible assets					
Balance at the beginning of year		244,202	244,202	244,202	244,202
Additions		–	–	–	–
Disposals		–	–	–	–
Impairment losses		–	–	–	–
Closing carrying value at 30 June 2006		244,202	244,202	244,202	244,202
TOTAL INTANGIBLE ASSETS AT 30 JUNE 2006		**6,553,463**	**6,507,514**	**4,326,767**	**4,302,543**

Impairment Disclosures

The Intangible assets are allocated to cash-generating units which are based on the group's operating divisions

Challenge Recruitment national operations	4,331,971	4,302,543	4,326,767	4,302,543
Choice Group	2,221,492	2,204,971	–	–
Total	6,553,463	6,507,514	4,326,767	4,302,543

The recoverable amount of each cash-generating unit above is determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 10-year period with the period extending beyond five years extrapolated using an estimated growth rate. The cash flows are discounted using the yield of 10-year government bonds at the beginning of the budget period.

NOTE 13 TRADE AND OTHER PAYABLES

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT					
Unsecured liabilities					
Trade payables		5,186,528	4,470,867	3,746,641	3,024,618
Sundry payables and accrued expenses		726,921	669,994	588,353	322,318
Inter-company Loans		–	–	82,029	–
Vendor Loans		1,200,000	1,670,391	800,000	542,090

NOTE 13 TRADE AND OTHER PAYABLES

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
		7,115,449	6,811,252	5,217,055	3,889,026

NOTE 14: BORROWINGS

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
CURRENT					
Debtor Finance - secured	7	3,266,893	6,788,475	1,898,665	6,410,807
Bank loan secured		56,438	--	56,438	--
HP Liabilities secured		35,851	18,233	35,851	14,113
		3,359,182	6,806,708	1,990,104	6,424,920
NON-CURRENT					
WBC loan secured		5,143,296	--	5,143,296	--
Bank bills secured		2,000,000	2,000,000	2,000,000	2,000,000
HP Liabilities secured		122,101	83,666	122,101	83,666
Redeemable Preference shares	14 c	500,000	950,000	500,000	950,000
Shareholder Loans		395,840	50,000	395,840	50,000
Vendor loans		500,000	1,350,000	500,000	1,350,000
		8,661,237	4,433,666	8,661,237	4,433,666
a. Total current and non-current secured bnliabilities:					
Debtor finance and bank loans		8,624,579	6,890,374	7,256,351	6,508,586
Bank bills		2,000,000	2,000,000	2,000,000	2,000,000

b. The Debtor Finance facility and WBC Loan is secured by a first ranking charge over the company's receivables and by a personal guarantee provided by the majority shareholder. Other loans are secured by a shareholder guarantee and a charge over the specific asset being financed

c. 500,000 Redeemable preference shares (2005: 950,000).

The Preference shares are entitled to a fixed cumulative dividend of 10% per annum and are redeemable at $1 each at the option of the shareholder at any time within 10 years of the date of issue. The redemption proceeds are required to be loaned to the company in accordance with the terms of the Share Swap Agreement. When the shareholder wishes to exercise its option to redeem the preference shares, it shall formally notify the company of the impending redemption. When the company receives any such notice of redemption, it shall reclassify the preference shares to shareholder loans.

During the year the company received a notice for the redemption of 450,000 preference shares.

NOTE 15 : TAX

	Note	Economic Entity 2006 $	Economic Entity 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
a. **Liabilities**					
CURRENT					

NOTE 15 : TAX

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
Income tax		630,353	-3,798	451,390	89,920

NOTE 16 : PROVISIONS

	Long-term Employee Benefits	RDO	Warranty	Total
	$	$	$	$
Economic Entity				
Opening balance at 1 July 2005	507,563	30,000	15,163	552,726
Additional provisions raised during the year	98,018	43,000	--	141,018
Amounts used				
Balance at 30 June 2006	605,581	73,000	15,163	693,744
Parent Entity				
Opening balance at 1 July 2005	395,759	30,000	--	425,759
Additional provisions raised during the year	96,928	43,000	--	139,928
Amounts used				
Balance at 30 June 2006	492,687	73,000	--	565,687

	Economic Entity		Parent Entity	
	2006	2005	2006	2005
Analysis of Total Provisions				
Current	479,556	430,355	365,610	303,388
Non-current	214,188	122,371	200,079	122,371
	693,744	552,726	565,687	425,759

Provision for Long-term Employee Benefits

A provision has been recognised for employee benefits relating to long service leave for employees. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based upon historical data. The measurement and recognition criteria for employee benefits have been included in Note 1.

NOTE 17: ISSUED CAPITAL

	Note	Economic Entity 2006	Economic Entity 2005	Parent Entity 2006	Parent Entity 2005
		$	$	$	$
32,733,500 (2005:35,790,000) fully paid ordinary shares		4,103,000	4,573,000	4,103,000	4,573,000

	Economic Entity 2006	Economic Entity 2005	Parent Entity 2006	Parent Entity 2005
a. **Ordinary Shares**	No.	No.	No.	No.
At the beginning of reporting period	35,790,000	35,790,000	35,900,000	35,790,000
Shares cancelled pursuant to a share buyback				
— 9 September 2005	3,056,500	--	3,056,500	--
At reporting date	32,733,500	35,790,000	32,733,500	35,790,000

Ordinary shares participate in Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands

b. Under the terms of the Employee Share Option Scheme eligible employees were issued share options free of charge. Each option entitles the holder to take up ordinary shares in the company on a 1-to-1 basis on payment of an exercise fee of $0.50 per share and is exercisable at any time until the expiration of 5 years from the date of issue. These options were issued in May 2002.

At balance date, a total of 240,000 (2005: 240,000) share options had been granted, which if exercised would result in the issue of 240,000 fully paid ordinary shares.

NOTE 18 OPERATING LEASES

	Note	Economic Entity		Parent Entity	
		2006	2005	2006	2005
		$	$	$	$
b. Operating Lease Commitments					
Non-cancellable operating leases contracted for but not capitalised in the financial statements					
Payable — minimum lease payments					
— not later than 12 months		1,188,933	1,010,549	732,002	571,245
— between 12 months and five years		1,494,367	1,590,158	922,087	504,158
— greater than five years		–	–	–	–
		2,683,300	2,600,707	1,654,089	1,075,403

The company has a number of property leases nationally.
The leases vary in duration from 2 to 4 year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require that the minimum lease payments shall be increased generally by 2 -4 % per annum. An option exists to renew the lease at the end of the term period for an additional 2-3 years.

NOTE 19 : CONTINGENT LIABILITIES AND CONTINGENT ASSETS

1) Some agreements with clients include 'hold harmless' clauses, which indemnify the client (i.e. the host employer) against any claims, damages or action arising from injuries sustained by the company's temporary staff while working at the host employer's premises. Challenge Recruitment Ltd has taken out appropriate insurance policies with 3rd parties to mitigate the risks associated with hold harmless contracts. In the event of a successful claim, the company's maximum liability is limited to the excess stipulated in the relevant insurance policy. Based on advice from its insurance broker, the company believes it has a maximum potential liability of $100,000 at balance date.

2) The company has provided guarantees to third parties totalling $ 252,600 in respect of property lease rentals

3) The Company is currently undergoing an ATO Tax Audit. External advisors have advised the Directors that the audit has focussed on transactions associated with vendors of a business acquired by the company. In the opinion of the advisors, the company should not have an additional tax liability as a result of the tax audit.

NOTE 20: CASH FLOW INFORMATION

Note	Economic Entity		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$

NOTE 19 : CONTINGENT LIABILITIES AND CONTINGENT ASSETS

a. **Reconciliation of Cash Flow from Operations with Profit after Income Tax**

Profit after income tax	1,850,387	544,010	1,925,241	594,871
Non-cash flows in profit				
Depreciation	325,943	216,239	293,843	211,833
Provision for bad debts	-31,527	78,465	1,527	21,155
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries				
Increase/(decrease) in trade and term debtors	-952,687	-3,443,334	-895,292	621,848
Decrease in other assets	-181,363	40,909	154,480	134,348
(Increase)/decrease in payables	731,819	2,016,115	850,593	339,168
Increase/(decrease) in provisions	775,169	205,087	492,615	65,971
Cash flows from operations	2,517,741	-342,509	2,823,007	1,989,194

b. **Non-cash Financing and Investing Activities**

Property, plant and equipment:

During the financial year, the economic entity acquired plant and equipment with an aggregate fair value of $ 77, 416 (2005: $ Nil) by means of hire purchase agreements. These acquisitions are not reflected in the cash flow statement

Credit Standby Arrangement and Loan Facilities

The group has a bank funding facilities amounting to $17 million (2005: $17 million). At 30 June 2006, $ 10,466,628 of this facility was used (2005: $ 6,756,456). Interest rates are variable

c. Acquisition of controlled entities

On 2 May 2005, 100% of the issued share capital of 8 companies and 66.7% of one company were acquired on an earn out basis

Details of the acquisitions

Purchase consideration	3,045,619	3,045,619
Total cash consideration	3,045,619	3,045,619
Less: deferred consideration	(1,850,000)	(1,850,000)
Cash outflow	1,195,619	1,195,619

NOTE 21: COMPANY DETAILS

The Registered Office of the company is at the company's head office at:

Level 8, 60 Waymouth Street

Adelaide SA 5000

Challenge

CHALLENGE RECRUITMENT LIMITED
AND CONTROLLED ENTITIES
ABN 82 083 202 939

DIRECTORS' DECLARATION

The directors have determined that the company and its controlled entities are not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies described in Note 1 to the financial statements.

The directors of the company and its controlled entities declare that:

1. The financial statements and notes, as set out on pages 6 to 24, are in accordance with the Corporations Act 2001 and:
   a. comply with Accounting Standards as described in Note 1 to the financial statements and the Corporations Regulations 2001; and
   b. give a true and fair view of the company's financial position as at 30 June 2006 and of the performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

Signed:

Managing Director: Boris Bosnjcich

Dated this 13th day of November 2006