



FULL YEAR REPORT:

**ASX Appendix 4E Preliminary Final Report
Directors' Report
Auditors' Independence Declaration
Financial Report
Audit Report**

30 June 2006



ASX Code: OEQ

www.orionequities.com.au

ORION EQUITIES LIMITED

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CORPORATE DIRECTORY**BOARD**

| | |
|-----------------|------------|
| William Johnson | (Chairman) |
| Victor Ho | (Director) |
| Yaqoob Khan | (Director) |

COMPANY SECRETARY

Victor Ho

PRINCIPAL & REGISTERED OFFICE

Level 14, The Forrest Centre
221 St Georges Terrace
Perth Western Australia 6000

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SHARE REGISTRY

Advanced Share Registry Services
KMC House
110 Stirling Highway
Nedlands Western Australia 6009
Telephone: (08) 9389 8033
Facsimile: (08) 9389 7871
Email: admin@advancedshare.com.au
Website: www.asrshareholders.com

STOCK EXCHANGE

Australian Stock Exchange
Perth, Western Australia

ASX CODE

OEQ

AUDITOR

BDO, Chartered Accountants & Advisers
Level 8
256 St Georges Terrace
Perth Western Australia 6000
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APPENDIX 4E PRELIMINARY FINAL REPORT

This Preliminary Final Report is provided to the Australian Stock Exchange (**ASX**) under ASX Listing Rule 4.3A

| | |
|--------------------------------|---|
| Current Reporting Period: | Financial year ended 30 June 2006 |
| Previous Corresponding Period: | Financial year ended 30 June 2005 |
| Balance Date: | 30 June 2006 |
| Company: | Orion Equities Limited (OEQ) (formerly Central Exchange Limited; name changed on 2 December 2005) |
| Consolidated Entity: | OEQ and controlled entities: <ol style="list-style-type: none"> (1) Silver Sands Developments Pty Ltd (formerly Central Exchange Operations Pty Ltd) (a wholly owned subsidiary); (2) Hume Mining NL (a wholly owned subsidiary). |

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Orion Equities increased its net profit during the current reporting period to \$8.8 million (pre tax) (up 568% from 2005: \$1.3 million) and \$6.5 million (post tax) (up 564% from 2005: \$0.98 million).

| Consolidated Entity | 2006 Year \$ | 2005 Year \$ | % Change | Up / Down |
|---|--------------------|--------------------|-------------|--------------|
| Total revenues | 9,552,565 | 2,363,939 | 304% | Up |
| Total expenses | (761,397) | (1,047,128) | 27% | Down |
| Profit before tax | 8,791,168 | 1,316,811 | 568% | Up |
| Income tax expense | (2,253,500) | (332,347) | 578% | Up |
| Profit after tax attributable to members | 6,537,668 | 984,464 | 564% | Up |
| Basic and diluted earnings per share | \$0.367 | \$0.058 | 535% | Up |
| Pre-tax NTA backing per share | \$1.557 | \$1.139 | 37% | Up |
| Post-tax NTA backing per share | \$1.426 | \$1.119 | 28% | Up |

APPENDIX 4E PRELIMINARY FINAL REPORT

DIVIDENDS

The Directors have declared a final dividend as follows:

| Dividend Rate | Record Date | Expected Payment Date | Franking | Estimated Total Dividends Payable |
|-------------------|-----------------|-----------------------|---------------|-----------------------------------|
| 3 cents per share | 12 October 2006 | 19 October 2006 | Fully franked | \$534,432 |

The Company has paid an interim dividend as follows:

| Dividend Rate | Record Date | Payment Date | Franking | Total Dividends Paid |
|--------------------|---------------|--------------|---------------|----------------------|
| 1.5 cent per share | 31 March 2006 | 7 April 2006 | Fully franked | \$267,216 |

BRIEF EXPLANATION OF RESULTS

Total revenues of \$9,552,565 (2005: \$2,363,939) include:

- (1) \$7,546,039 net income from the Company's share trading portfolio including:
 - (a) \$5,536,239 unrealised gains on securities (2005: \$726,509 unrealised loss);
 - (b) \$1,868,639 realised gains on sale of securities (2005: \$2,119,016);
 - (c) \$141,161 dividend income (2005: \$98,766);
- (2) \$126,579 net income from the Company's options portfolio (2005: \$111,965);
- (3) \$1,146,453 share of Associate entities' net profits (2005:167,225) and \$343,080 dividend income received from Associate entities (2005: \$81,407);
- (4) \$313,493 net income from resource projects (2005: nil).

Total expenses of \$761,397 (2005: \$1,047,128) include:

- (1) \$269,693 personnel costs (including Directors' fees) (2005: \$261,180);
- (2) \$88,184 brokerage costs (2005: \$68,348);
- (3) \$105,060 legal and other professional fees (2005: \$337,347);
- (4) \$62,065 exploration and evaluation expenses (2005: \$37,988);
- (5) \$21,978 costs in relation to share investments (2005: \$150,149).

Orion Equities Limited has accounted for the following investments at Balance Date as investments in an Associate entity (on an equity accounting basis):

- (1) 27.86% interest in ASX listed Scarborough Equities Limited (**SCB**) (30 June 2005: 20.4%);
- (2) 27.928% interest in ASX listed Bentley International Limited (**BEL**) (30 June 2005: 19.0%).

APPENDIX 4E PRELIMINARY FINAL REPORT

COMMENTARY ON RESULTS AND OTHER SIGNIFICANT INFORMATION

Please refer to the attached Directors' Report and Financial Report for further information on a review of the Consolidated Entity's operations and the financial position and performance of the Consolidated Entity and Company for the year ended 30 June 2006.

STATUS OF AUDIT

This Preliminary Final Report is based on:

Accounts that have been audited.

ANNUAL GENERAL MEETING

Details of the Company's Annual General Meeting (which is required to be held by no later than 30 November 2006) is still to be determined by the Board.

For and on behalf of the Directors,



Date: 13 September 2006

Victor Ho
Company Secretary

Telephone: (08) 9214 9797
Email: vho@orionequities.com.au

DIRECTORS' REPORT

The Directors present their report on Orion Equities Limited ("**Company**" or "**Orion Equities**" or "**OEQ**") and its controlled entities (the "**Consolidated Entity**") for the year ended 30 June 2006 ("**Balance Date**").

Orion Equities is a company limited by shares that was incorporated in New South Wales and has been listed on the Australian Stock Exchange ("**ASX**") since November 1970.

On 9 December 2005, the Company changed its name from Central Exchange Limited to Orion Equities Limited.

Orion Equities has prepared a consolidated financial report incorporating the entities that it controlled during the financial year. Controlled entities are Silver Sands Developments Pty Ltd (formerly Central Exchange Operations Pty Ltd) ABN 16 094 097 122 (controlled throughout the financial year) and Hume Mining NL ABN 52 063 994 945 (controlled throughout the financial year).

Orion Equities has accounted for the following investments at Balance Date as investments in an Associate entity (on an equity accounting basis):

- (1) 27.86% interest in ASX listed Scarborough Equities Limited (**SCB**) (30 June 2005: 20.4%);
- (2) 27.928% interest in ASX listed Bentley International Limited (**BEL**) (30 June 2005: 19.0%).

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity during the financial year were the management of its investments, including investments in listed securities, real estate and resource projects.

OPERATING RESULTS

| Consolidated | 2006 | 2005 |
|--------------------------------|------------------|------------------|
| | \$ | \$ |
| Total revenues | 9,552,565 | 2,363,939 |
| Total expenses | (761,397) | (1,047,128) |
| Profit before tax | 8,791,168 | 1,316,811 |
| Income tax expense | (2,253,500) | (332,347) |
| Profit after income tax | 6,537,668 | 984,464 |

Orion Equities increased its net profit during the current reporting period to \$8.8 million (pre tax) (up 568% from 2005: \$1.3 million) and \$6.5 million (post tax) (up 564% from 2005: \$0.98 million).

Total revenues include:

- (1) \$7,546,039 net income from the Company's share trading portfolio including:
 - (a) \$5,536,239 unrealised gains on securities (2005: \$726,509 unrealised loss);
 - (b) \$1,868,639 realised gains on sale of securities (2005: \$2,119,016);
 - (c) \$141,161 dividend income (2005: \$98,766);
- (2) \$126,579 net income from the Company's options portfolio (2005: \$111,965);
- (3) \$1,146,453 share of Associate entities' net profits (2005: \$167,225) and \$343,080 dividend income received from Associate entities (2005: \$81,407);
- (4) \$313,493 net income from resource projects (2005: nil).

DIRECTORS' REPORT

Total expenses include:

- (1) \$269,693 personnel costs (including Directors' fees) (2005: \$261,180);
- (2) \$88,184 brokerage costs (2005: \$68,348);
- (3) \$105,060 legal and other professional fees (2005: \$337,347);
- (4) \$62,065 exploration and evaluation expenses (2005: \$37,988);
- (5) \$21,978 costs in relation to share investments (2005: \$150,149).

EARNINGS PER SHARE

| Consolidated Entity | 2006 | 2005 |
|--|------------|------------|
| Basic and diluted earnings per share | \$0.367 | \$0.058 |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and diluted earnings per share | 17,814,389 | 17,030,960 |

FINANCIAL POSITION

| Consolidated | 2006 | 2005 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Cash | 1,102,658 | 69,092 |
| Investments in listed securities | 12,636,778 | 8,134,740 |
| Investments in listed Associate entities | 9,726,370 | 7,085,260 |
| Inventory | 3,821,038 | 3,796,552 |
| Receivables | 589,312 | 374,817 |
| Deferred tax assets | - | 227,053 |
| Other assets | 35,450 | 43,001 |
| | <u>27,911,606</u> | <u>19,730,515</u> |
| Tax liabilities | (2,338,534) | (571,336) |
| Other payables and liabilities | (167,776) | (348,176) |
| | <u>25,405,296</u> | <u>18,811,003</u> |
| Net assets | 25,405,296 | 18,811,003 |
| Issued Capital | 19,375,598 | 28,717,469 |
| Retained earnings / (Accumulated losses) | 6,029,698 | (9,906,466) |
| Reserves | - | - |
| Total Issued Capital | 25,405,296 | 18,811,003 |

DIRECTORS' REPORT

NET TANGIBLE ASSET BACKING (NTA)

| Consolidated | 2006 \$ | 2005 \$ |
|---------------------------------------|--------------|--------------|
| Net tangible assets (before tax) | 27,743,830 | 19,155,286 |
| Pre-Tax NTA Backing per share | 1.557 | 1.139 |
| Less: net tax | (2,338,534) | (344,283) |
| Net tangible assets (after tax) | 25,405,296 | 18,811,003 |
| Post-tax NTA Backing per share | 1.426 | 1.119 |
| Based on total issued share capital | 17,814,389 | 16,812,156 |

Monthly Reporting of NTA Information

To assist shareholders to assess the value of the Company's shares, within 14 days after the end of each month the Company lodges an ASX market announcement detailing a statement of the NTA backing of its shares as at the end of the preceding month.

Such announcements are also emailed to shareholders who have registered their email addresses with the Company and posted on the Company's website.

DIVIDENDS

The Directors have declared a final dividend as follows:

| Dividend Rate | Record Date | Expected Payment Date | Franking | Estimated Total Dividends Payable |
|--------------------|-----------------|--------------------------|---------------|--------------------------------------|
| 3.0 cent per share | 12 October 2006 | 19 October 2006 | Fully franked | \$534,432 |

Recent dividends paid by the Company were:

| Dividend Rate | Record Date | Payment Date | Franking | Total Dividends Paid |
|--------------------|-------------------|-----------------|---------------|----------------------|
| 1.5 cent per share | 31 March 2006 | 7 April 2006 | Fully franked | \$267,216 |
| 1.5 cent per share | 30 September 2005 | 13 October 2005 | Fully franked | \$267,216 |
| 5 cents per share | 6 July 2004 | 9 July 2004 | 60% franked | \$861,000 |

Dividend Policy

It is the objective of the Company to provide a regular and stable dividend payment to shareholders after the announcement of its half year and full year operating results. These results are normally announced in February and August each year and the Company will endeavour to announce its dividend payments at this time.

The Company intends to distribute annually to shareholders at least 50% of the available net profits arising from the dividend, interest and other income it receives from its investments and the gains on its investments, to the extent permitted by law and subject to prudent business practices. Dividends will be franked to the extent that available franking credits permit and in accordance with the stated objective of providing 2 dividend payments a year.

DIRECTORS' REPORT

Dividend Reinvestment Plan

The Constitution of the Company authorises the Directors to establish and maintain a Dividend Reinvestment Plan ("**DRP**") (whereby any member may elect that dividends payable by the Company be reinvested by way of subscription for shares in the Company). The Company does not presently have a **DRP**.

The Directors propose to develop and implement a **DRP** in the future, subject to there being a reduction in the current discount between the Company's share price and its **NTA** backing.

SECURITIES IN THE COMPANY

At Balance Date and the date of this report, the Company had 17,814,389 shares on issue (30 June 2005: 16,812,156)

The Company does not have other securities on issue at the date of this report.

A summary of changes in the share capital structure of the Company during and since the financial year are:

| Date | Shares | Description |
|------------|-----------|--|
| 1-Jul-2005 | 1,002,233 | Issue of shares (at \$1.0343 per share, being the Company's reported NTA (post tax) backing as at 31 May 2005) as consideration for the settlement of the acquisition of 2,300,000 shares in Bentley International Limited (BEL) from Sofcom Limited (SOF) pursuant to a Second Tranche BEL Share Sale Agreement between SOF and the Company (dated 30 May 2005) – the total consideration was \$1,036,610 (based on BEL 's last published NTA backing (post tax) as at 31 May 2005 of \$0.4507 per share) satisfied by the issue of 1,002,233 fully paid ordinary shares in the Company to SOF , as approved by SOF shareholders on 30 June 2005 and BEL shareholders on 1 July 2005. |

Unmarketable Parcel Sale Facility

The Company has a large number of shareholders on its register that hold less than A\$500 worth of shares (an "**Unmarketable Parcel**"). These **Unmarketable Parcels** represent significant registry costs for the Company (in relation to share registry fees, annual report and other mail-out printing costs, and associated postage). Furthermore, for shareholders, the costs of selling their **Unmarketable Parcel** of shares may result in a proportionally high transaction cost compared to the gross proceeds of sale. In order to efficiently manage these costs and pursuant to clause 152 of its Constitution and Australian Stock Exchange Listing Rule 15.13, on 2 August 2006, the Company implemented an **Unmarketable Parcel Sale Facility** for affected shareholders.

Under this facility, the Company provided 6 weeks notice for affected shareholders to advise the Company of their wish to retain their **Unmarketable Parcel** shareholding. Shareholders who fail to return a Share Retention form by the deadline of 15 September 2006 will have their **Unmarketable Parcel** shareholding aggregated and sold on-market (subject to a minimum sale price¹).

¹ Minimum Sale Price means the weighted average sale price of **OEQ** shares sold on **ASX** during a period of 5 consecutive trading days immediately preceding 2 August 2006 (the date of the **Unmarketable Parcel Sale Facility** notice to affected shareholders), rounded off to the nearest half cent or, if there are no sales of **OEQ** shares on **ASX** during that period the sale price which in the opinion of the directors is a fair and reasonable sale price for **OEQ** shares immediately prior to 2 August 2006.

DIRECTORS' REPORT

The Board will sell such Unmarketable Parcels by way of an on-market sale through nominated broker(s) as soon as practicable after 15 September 2006 having regard to liquidity in OEQ shares and as market conditions dictate. Affected shareholders who have had their Unmarketable Parcel shares sold will receive a pro-rata share of the total proceeds of sale without any deduction for brokerage or other costs of sale (which will be borne by the Company).

On-Market Share Buy-Back

The Company has obtained shareholder approval at the 2005 Annual General Meeting for the implementation of an on-market buy back scheme for up to 20% of the Company's issued share capital between any 2 consecutive AGMs, in accordance with section 257C(1) of the Corporations Act. The Company has not implemented such buy-back scheme during the financial and as at the date of this report.

However, as foreshadowed in the Unmarketable Parcel Sale Facility notice to affected shareholders, the Company may concurrently undertake an on market buy-back through a different broker(s) nominated by the Board.

REVIEW OF OPERATIONS

1. Portfolio Details As At 30 June 2006

Asset Weighting

| | % of Net Assets |
|--------------------------------------|-----------------|
| Australian equities | 71% |
| Property | 15% |
| International equities * | * 16% |
| Net cash/other assets and provisions | -2% |
| TOTAL | 100% |

* BEL is an ASX listed investment company with investments in securities listed on overseas markets. The Company's investment in BEL represents an indirect interest in international equities

DIRECTORS' REPORT

Top 20 Holdings in Trading Portfolio

| Equities | Fair Value \$'million | % of Net Assets | ASX Code | Industry Sector Exposures |
|------------------------------------|--------------------------|--------------------|-----------------------|--|
| 1. Scarborough Equities Limited * | 5.32 | 20.8 | SCB | Diversified Financials |
| 2. Bentley International Limited * | 4.19 | 16.4 | BEL | Diversified Financials |
| 3. Strike Resources Limited + | 3.29 | 12.9 | SRK | Energy |
| 4. Oilex NL | 3.19 | 12.5 | OEX | Energy |
| 5. Katana Capital Limited | 1.12 | 4.4 | KAT | Diversified Financials |
| 6. Telstra Corporation Limited | 0.55 | 2.2 | TLS | Diversified Telecommunication Services |
| 7. Rio Tinto Limited | 0.54 | 2.1 | RIO | Diversified Metals & Mining |
| 8. BHP Billiton Limited | 0.52 | 2.0 | BHP | Materials |
| 9. Zinifex Limited | 0.48 | 1.9 | ZFX | Materials |
| 10. Anzon Australia Limited | 0.26 | 1.0 | AZA | Energy |
| 11. Medusa Mining Limited | 0.25 | 1.0 | MML | Materials |
| 12. Arc Energy Limited | 0.23 | 0.9 | ARQ | Energy |
| 13. Macquarie Bank Limited | 0.21 | 0.8 | MBL | Diversified Financials |
| 14. Mount Gibson Iron Limited | 0.18 | 0.7 | MGX | Materials |
| 15. Gloucester Coal Limited | 0.17 | 0.7 | GCL | Energy |
| 16. Integrated Group Limited | 0.15 | 0.6% | IWF | Commercial Services & Supplies |
| 17. Monarch Resources Ltd | 0.14 | 0.6% | MRS (to be listed) | Materials |
| 18. MMC Contrarian Limited | 0.14 | 0.5% | MMA | Diversified Financials |
| 19. Woodside Petroleum Ltd. | 0.13 | 0.5% | WPL | Energy |
| 20. Magma Metals Limited | 0.13 | 0.5% | MMB | Materials |
| TOTAL | 21.19 | 80.327 | | |

* BEL and SCB have been accounted for as Associate entities

+ The investment in Strike Resources Limited comprise:

| | Fair Value \$'million | % of Net Assets | ASX Code | |
|--|--------------------------|--------------------|---|---|
| (a) Listed shares | 1.26 | 4.9% | SRK | |
| (b) Listed 20c (30 Jun 2008) Options | 0.40 | 1.6% | SRKO | |
| (c) Unlisted 20 cent (9 Feb 2011) Options | 0.90 | 3.5% | Unlisted and escrowed to 9 Feb 2007 | Fair value is based on a Black-Scholes options pricing valuation model applying the following assumptions: |
| (d) Unlisted 20 cent (9 Feb 2011) Options | 0.73 | 2.9% | | (i) SRK's share price being 62 cents (the last bid price as at 30 June 2006). This compares with a last bid price of 88.5 cents as at 8 September 2006. |
| | | | | (ii) A risk free rate of return of 5.78% (based on the Commonwealth 10 year bond rate as at 30 June 2006). |
| | | | | (iii) An estimated future volatility of SRK's share price of 60%. |
| | 3.29 | 12.9% | | |

DIRECTORS' REPORT

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Consolidated Entity that occurred during the financial year not otherwise disclosed in this Directors' Report or the financial statements.

FUTURE DEVELOPMENTS

In the opinion of the Directors, it may prejudice the interests of the Consolidated Entity to provide additional information (beyond that reported in this Directors' Report) in relation to future developments and the business strategies and operations of the Consolidated Entity and the expected results of those operations in subsequent financial years.

ENVIRONMENTAL REGULATION AND PERFORMANCE

To the extent that any aspect of the activities of the Consolidated Entity are subject to any environmental regulation under either Commonwealth or State legislation, the Directors are not aware of any breach by the Consolidated Entity of such regulations during or since the financial year.

DIRECTORS AND COMPANY SECRETARY

Information concerning Directors in office during or since the financial year are:

William M. Johnson — **Executive Chairman**

Appointed — Executive Chairman since 3 July 2003; Director since 28 February 2003.

Qualifications — MA (Oxon), MBA

Experience — Mr Johnson commenced his career in resource exploration and has most recently held senior management and executive roles in a number of public companies in Australia, New Zealand and Asia. As Regional Director Asia Pacific for Telecom New Zealand Ltd, Mr Johnson was responsible for identifying, evaluating and implementing investment strategies that included start-up technology ventures, a technology focussed venture capital fund and strategic investments and acquisitions in Asia and Australia. As Executive Chairman of Orion Equities Limited, Mr Johnson is part of the Investment Committee of the Company and has been actively involved in the strategic analysis of a diverse range of business and investment opportunities and the execution of a number of corporate transactions. Mr Johnson brings a considerable depth of experience in business strategy and investment analysis and execution

Relevant interest in shares — None

Special Responsibilities — Chairman of the Board and Chairman of the Investment Committee

Other current directorships — Current Director of:

- in listed entities*
- (1) Strike Resources Limited (since 14 July 2006)
 - (2) Scarborough Equities Limited (since 29 November 2004)
 - (3) Sofcom Limited (since 18 October 2005)

Former directorships in other listed entities in past 3 years — Altera Capital Limited (18 October 2005 to 8 August 2006)

DIRECTORS' REPORT

Victor P. H. Ho — Executive Director and Company Secretary

Appointed — Executive Director since 4 July 2003; Company Secretary since 2 August 2000

Qualifications — BCom, LLB (*Western Australia*)

Experience — Mr Ho has been in company secretarial/executive roles with a number of public listed companies since early 2000. Previously, Mr Ho had 9 years experience in the taxation profession with the Australian Tax Office and in a specialist tax law firm. Mr Ho has been actively involved in the structuring and execution of a number of corporate transactions, capital raisings and capital management matters and has extensive experience in public company administration, corporations law and stock exchange compliance and shareholder relations

Relevant interest in shares — None

Special Responsibilities — Member of Investment Committee

Other positions held in listed entities — Current Executive Director and Company Secretary of:

- (1) Strike Resources Limited (Secretary since 9 March 2000 and Director since 12 October 2000)
- (2) Sofcom Limited (Director since 3 July 2002 and Company Secretary since 23 July 2003)

Current Company Secretary of:

- (3) Queste Communications Limited (since 30 August 2000)
- (4) Bentley International Limited (since 5 February 2004)
- (5) Scarborough Equities Limited (since 29 November 2004)

Former directorships in other listed entities in past 3 years — Altera Capital Limited (Director between 9 November 2001 and 8 August 2006 and Secretary between 26 November 2001 and 8 August 2006)

Yaqoob Khan — Non-Executive Director

Appointed — 5 November 1999

Qualifications — BCom (*Western Australia*), Master of Science in Industrial Administration (*Carnegie Mellon*)

Experience — After working for several years in the Australian Taxation Office, Mr Khan completed his postgraduate Masters degree and commenced work as a senior executive responsible for product marketing, costing systems and production management. Mr Khan has been founding Executive Director of 2 ASX floats – Queste Communications Limited in 1998 and Fast Scout Limited in 2000. He was an integral member of the team responsible for the pre-IPO structuring and IPO promotion and has been actively involved in the executive management of such companies since their floats. Mr Khan brings considerable international experience in key aspects of corporate finance and the strategic analysis of listed investments

Relevant interest in shares — None

Special Responsibilities — None

Other current directorships in listed entities — Queste Communications Limited (since 10 March 1998)

Former directorships in other listed entities in past 3 years — Strike Resources Limited (9 September 1999 to 26 September 2005)

DIRECTORS' REPORT

DIRECTORS' MEETINGS

The following table sets out the numbers of meetings of the Company's Directors held during the financial year (including Directors' circulatory resolutions), and the numbers of meetings attended by each Director of the Company, including meetings of the Investment Committee:

| Name of Director | Meetings Attended | Maximum Possible Meetings |
|------------------|-------------------|---------------------------|
| William Johnson | 13 | 13 |
| Victor Ho | 12 | 12 |
| Yaqoob Khan | 12 | 13 |

Board Committees

During the financial year and as at the date of this Directors' Report, the Company did not have separate designated Audit or Remuneration Committees. In the opinion of the Directors, in view of the size of the Board and nature and scale of the Consolidated Entity's activities, matters typically dealt with by an Audit or Remuneration Committee are dealt with by the full Board.

Investment Committee

The Board has established an Investment Committee comprising Executive Chairman, William Johnson and Executive Director and Company Secretary, Victor Ho and Farooq Khan (a nominee of the Company's controlling shareholder, Queste Communications Limited). Farooq Khan was Chairman and Managing Director of the Company from 4 October 1999 until his resignation on 1 July 2003. Mr Khan is Chairman and Managing Director of Queste Communications Limited.

REMUNERATION REPORT

This report details the nature and amount of remuneration for each Director of the Company and Executive Officer of the Consolidated Entity.

(1) Remuneration Policy

The Board determines the remuneration structure of all Directors and Executive Officers having regard to the Consolidated Entity's nature, scale and scope of operations and other relevant factors, including the frequency of Board meetings, length of service, particular experience and qualifications.

The Executive and Non-Executive Directors of the Company are paid a fixed base salary/fee per annum plus employer superannuation contributions (for Australian resident directors only).

Pursuant to the Company's Constitution, each Director is also entitled to receive:

- (1) Payment for the performance of extra services or the undertaking of any executive or other work for the Company beyond his or her general duties.
- (2) Payment for travelling and other expenses properly incurred by a Director in attending meetings of the Company or the Board or in connection with the Company's business.

The Company does not presently have any equity (shares or options) based remuneration arrangements pursuant to any executive or employee share or option plan or otherwise.

DIRECTORS' REPORT

However, the Board is investigating adding an appropriate equity based component to the Directors' remuneration to provide an equity holding opportunity for each Director which is linked to the future growth and share price performance of the Company.

The Company does not presently provide retirement benefits or incentive/performance based benefits to Directors or the sole Executive Officer.

The Company does not presently have formal service agreements or employment contracts with the Directors or the current sole Executive Officer.

The Company has not had during the financial year and does not currently have a directors' and officers' liability insurance policy which covers all Directors and officers of the Company and its wholly-owned subsidiaries. The Company is investigating obtaining such directors' and officers' liability insurance policy as at the date of this report.

There is no link between the remuneration of the directors and Company earnings and shareholder wealth.

(2) Details of Remuneration of Directors

Details of the nature and amount of each element of remuneration of each Director of the Company paid or payable by the Consolidated Entity during the financial year are as follows:

| Name of Director | Office Held | Salary / Fees \$ | Employer Superannuation \$ | Other Benefits \$ | Total \$ |
|------------------|--|---------------------|-------------------------------|----------------------|-------------|
| William Johnson | Executive Chairman | 149,215 | 13,429 | - | 162,644 |
| Victor Ho | Executive Director and Company Secretary | 60,000 | 5,400 | - | 65,400 |
| Yaqoob Khan | Non-Executive Director | 25,000 | - | - | 25,000 |

(3) No Executive Officers

The Company did not have any Executive Officers (other than Executive Directors) during the financial year.

(4) Directors' Deeds

In addition to the rights of indemnity provided under the Company's Constitution (to the extent permitted by the Corporations Act), the Company has also entered into a deed with each of the Directors to regulate certain matters between the Company and each Director, both during the time the Director holds office and after the Director ceases to be an officer of the Company, including the following matters:

- (i) The Company's obligation to indemnify a Director for liabilities or legal costs incurred as an officer of the Company (to the extent permitted by the Corporations Act);
- (ii) Subject to the terms of the deed and the Corporations Act, the Company may advance monies to the Director to meet any costs or expenses of the Director incurred in circumstances relating to the indemnities provided under the deed and prior to the outcome of any legal proceedings brought against the Director; and

Such deeds (in respect of Messrs Johnson, Ho and Khan) were approved by shareholders at the 2005 AGM.

DIRECTORS' REPORT

(5) Other Directors' Benefits

No Director of the Company has, since the end of the previous financial year, received or become entitled to receive a benefit, other than a remuneration benefit as disclosed above, by reason of a contract made by the Company or a related entity with the Director or with a firm of which he is a member, or with a Company in which he has a substantial interest.

LEGAL PROCEEDINGS ON BEHALF OF CONSOLIDATED ENTITY

No person has applied for leave of a court to bring proceedings on behalf of the Consolidated Entity or intervene in any proceedings to which the Consolidated Entity is a party for the purpose of taking responsibility on behalf of the Consolidated Entity for all or any part of such proceedings. The Consolidated Entity was not a party to any such proceedings during and since the financial year.

ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORT STANDARDS (AIFRS)

The Consolidated Entity's financial statements have been prepared in accordance with AIFRS. Where necessary, comparative information (i.e. in relation to the previous financial year ended and previous balance date as at 30 June 2005) has been adjusted for reporting under the applicable AIFRS. A reconciliation of adjustments arising on the transition to AIFRS is included in note 2 to the financial statements.

AUDITOR

Details of the amounts paid or payable to the auditor for audit and non-audit services provided during the financial year are set out below:

| Audit & Review Fees \$ | Fees for Other Services \$ | Total \$ |
|---------------------------|-------------------------------|-------------|
| 17,741 | 165 | 17,906 |

The Board is satisfied that the provision of non audit services by the auditor during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Board is satisfied that the nature of the non-audit services disclosed above did 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, including reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as advocate for the Company or jointly sharing economic risk and rewards.

AUDITORS' INDEPENDENCE DECLARATION

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 forms part of this Directors Report and is set out on page 17. This relates to the Audit Report, where the Auditors state that they have issued an independence declaration.

DIRECTORS' REPORT

EVENTS SUBSEQUENT TO BALANCE DATE

The Directors are not aware of any matters or circumstances at the date of this Directors' Report, other than those referred to in this Directors' Report (in particular, in Review of Operations) or the financial statements or notes thereto (in particular Subsequent Events Note 26), that have significantly affected or may significantly affect the operations, the results of operations or the state of affairs of the Company in subsequent financial years.


Signed for and on behalf of the Directors in accordance with a resolution of the Board.



William Johnson
Chairman

Perth, Western Australia

13 September 2006



Victor Ho
Director



Chartered Accountants
& Advisers

Level 8, 256 St George's Terrace Perth WA 6000
PO Box 7426 Cloisters Square Perth WA 6850
Tel: (61-8) 9360 4200
Fax: (61-8) 9481 2524
Email: bdo@bdowa.com.au
www.bdo.com.au

13 September 2006

The Directors
Orion Equities Ltd
Level 14, The Forrest Centre
221 St Georges Terrace
PERTH WA 6000

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF ORION EQUITIES LIMITED

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

BDO
Chartered Accountants

M Shafizadeh
Partner



INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

| | Note | Consolidated Entity | | Company | |
|--|------------|---------------------|------------------|--------------------|------------------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |
| Revenue from continuing operations | | 9,475,644 | 1,851,870 | 6,519,650 | 1,851,870 |
| Other income | | 76,921 | 512,069 | 76,921 | 512,069 |
| | 3 a | 9,552,565 | 2,363,939 | 6,596,571 | 2,363,939 |
| Expenses | 3 b | | | | |
| Personnel | | (269,693) | (261,180) | (269,693) | (261,180) |
| Communications | | (20,125) | (22,627) | (20,125) | (22,627) |
| Occupancy | | (21,780) | (18,826) | (20,813) | (18,826) |
| Corporate | | (34,286) | (56,544) | (34,074) | (56,544) |
| Financing | | (4,199) | (4,652) | (3,831) | (4,470) |
| Borrowing cost | | (1,426) | (1,791) | (1,426) | (1,791) |
| Costs in relation to investments | | (21,978) | (150,149) | (21,978) | (150,149) |
| Administration expenses | | | | | |
| – legal and other professional fees | | (105,060) | (337,347) | (105,060) | (337,347) |
| – exploration and evaluation expenditure | | (62,065) | (37,988) | (39,485) | (18,813) |
| – provision for impairment | | - | - | (46,229) | (36,928) |
| – other | | (220,785) | (156,024) | (220,785) | (156,025) |
| Profit before income tax expense | | 8,791,168 | 1,316,811 | 5,813,072 | 1,299,239 |
| Income tax expense | 4 | (2,253,500) | (332,347) | (1,280,587) | (342,840) |
| Profit after income tax expense | | 6,537,668 | 984,464 | 4,532,485 | 956,399 |
| Dividends per share (cents) per share | 7 | 3.0 | - | 3.0 | - |
| Basic earnings per share (cents) | 8 | 36.7 | 5.8 | 25.4 | 5.6 |

The accompanying notes form part of these financial statements

BALANCE SHEET AS AT 30 JUNE 2006

| | Note | Consolidated Entity | | Company | |
|---|------|---------------------|-------------------|-------------------|-------------------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 9 | 1,102,658 | 69,092 | 1,094,633 | 68,037 |
| Trade and other receivables | 10 | 556,489 | 341,994 | 4,382,622 | 4,137,567 |
| Financial assets at fair value | 11 | 12,636,778 | 8,134,740 | 9,642,611 | 8,134,740 |
| Other | 12 | 1,083 | 843 | 1,083 | 843 |
| TOTAL CURRENT ASSETS | | 14,297,008 | 8,546,669 | 15,120,949 | 12,341,187 |
| NON CURRENT ASSETS | | | | | |
| Trade and other receivables | 10 | 32,823 | 32,823 | 32,823 | 32,823 |
| Investments in controlled entities | 13 | - | - | - | - |
| Investments in Associate entities - equity accounted | 14 | 9,726,370 | 7,085,260 | 9,726,370 | 7,085,260 |
| Inventory | 15 | 3,821,038 | 3,796,552 | - | - |
| Plant and equipment | 16 | 34,367 | 26,536 | 34,367 | 26,536 |
| Deferred tax assets | 19 | - | 227,053 | - | 227,053 |
| Other | 17 | - | 15,622 | - | - |
| TOTAL NON CURRENT ASSETS | | 13,614,598 | 11,183,846 | 9,793,560 | 7,371,672 |
| TOTAL ASSETS | | 27,911,606 | 19,730,515 | 24,914,509 | 19,712,859 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 18 | 167,776 | 348,176 | 166,431 | 348,176 |
| Current tax liabilities | 19 | 538,860 | 564,127 | 452,190 | 574,620 |
| TOTAL CURRENT LIABILITIES | | 706,636 | 912,303 | 618,621 | 922,796 |
| NON CURRENT LIABILITIES | | | | | |
| Deferred tax liability | 19 | 1,799,674 | 7,209 | 923,924 | 7,209 |
| TOTAL NON CURRENT LIABILITIES | | 1,799,674 | 7,209 | 923,924 | 7,209 |
| TOTAL LIABILITIES | | 2,506,310 | 919,512 | 1,542,545 | 930,005 |
| NET ASSETS | | 25,405,296 | 18,811,003 | 23,371,964 | 18,782,854 |
| EQUITY | | | | | |
| Issued capital | 20 | 19,375,598 | 28,717,469 | 19,375,598 | 28,717,469 |
| Retained earnings / (Accumulated losses) | - | 6,029,698 | (9,906,466) | 3,996,366 | (9,934,615) |
| TOTAL EQUITY | | 25,405,296 | 18,811,003 | 23,371,964 | 18,782,854 |

The accompanying notes form part of these financial statements

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

| | Note | Issued Capital | Retained Earnings / (Accumulated Losses) | Reserves | Total Equity |
|---|------|-------------------|---|-------------|-------------------|
| Consolidated Entity | | | | | |
| At 1 July 2004 | | 28,973,124 | (13,014,930) | 2,124,000 | 18,082,194 |
| Profit for the year | | - | 984,464 | - | 984,464 |
| Total recognised income and expense for the year | | - | 984,464 | - | 984,464 |
| Share buy back | | (746,554) | - | - | (746,554) |
| Issue of shares | | 490,899 | - | - | 490,899 |
| Transfer of Option Application and Asset Realisation reserves to Accumulated Losses | | - | 2,124,000 | (2,124,000) | - |
| At 30 June 2005 | | 28,717,469 | (9,906,466) | - | 18,811,003 |
| At 30 June 2005 | | 28,717,469 | (9,906,466) | - | 18,811,003 |
| Profit for the year | | - | 6,537,668 | - | 6,537,668 |
| Total recognised income and expense for the year | | - | 6,537,668 | - | 6,537,668 |
| Dividend paid | | - | (534,693) | - | (534,693) |
| Issue of shares | | 591,318 | - | - | 591,318 |
| Reduction of share capital to the extent not represented by assets | 20 | (9,933,189) | 9,933,189 | - | - |
| At 30 June 2006 | | 19,375,598 | 6,029,698 | - | 25,405,296 |
| Company | | | | | |
| At 1 July 2004 | | 28,973,124 | (13,015,014) | 2,124,000 | 18,082,110 |
| Profit for the year | | - | 956,399 | - | 956,399 |
| Total recognised income and expense for the year | | - | 956,399 | - | 956,399 |
| Share buy back | | (746,554) | - | - | (746,554) |
| Issue of shares | | 490,899 | - | - | 490,899 |
| Reduction of share capital to the extent not represented by assets | 20 | - | 2,124,000 | (2,124,000) | - |
| At 30 June 2005 | | 28,717,469 | (9,934,615) | - | 18,782,854 |
| At 30 June 2005 | | 28,717,469 | (9,934,615) | - | 18,782,854 |
| Profit for the year | | - | 4,532,485 | - | 4,532,485 |
| Total recognised income and expense for the year | | - | 4,532,485 | - | 4,532,485 |
| Dividend paid | | - | (534,693) | - | (534,693) |
| Issue of shares | | 591,318 | - | - | 591,318 |
| Reduced share capital to the extent not represented by assets | 20 | (9,933,189) | 9,933,189 | - | - |
| At 30 June 2006 | | 19,375,598 | 3,996,366 | - | 23,371,964 |

The accompanying notes form part of these financial statements

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2006

| | Note | Consolidated Entity | | Company | |
|---|-------|---------------------|---------------------|------------------|---------------------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers | | 22,060 | - | 22,060 | - |
| Sale proceeds from trading portfolio | | 18,187,240 | 11,910,799 | 18,187,240 | 11,910,799 |
| Payments for trading portfolio | | (15,337,708) | (16,464,611) | (15,337,708) | (16,258,717) |
| Proceeds from options portfolio | | 137,579 | 240,140 | 137,579 | 240,140 |
| Payments for options portfolio | | (29,333) | (81,794) | (11,000) | (81,794) |
| Payments to suppliers and employees | | (748,078) | (1,032,258) | (764,963) | (1,245,807) |
| Payments for exploration and evaluation | | 3,904 | (10,404) | - | (3,074) |
| Interest received | | 54,861 | 512,069 | 54,861 | 512,069 |
| Interest paid | | (1,426) | (1,792) | (1,426) | (1,791) |
| Income tax paid | | (259,250) | (991,500) | (259,250) | (991,500) |
| Dividends received | | 257,682 | 180,173 | 257,682 | 180,173 |
| NET CASH (OUTFLOW)/ INFLOW FROM OPERATING ACTIVITIES | 9 (a) | 2,287,531 | (5,739,178) | 2,285,075 | (5,739,502) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Payments for: | | | | | |
| equity investments | | (680,531) | (6,918,035) | (680,531) | (6,918,035) |
| property, plant and equipment | | (10,749) | - | (10,749) | - |
| inventory - land | | (24,486) | (3,797,109) | - | (557) |
| Loans to subsidiaries | | - | - | (29,000) | (3,797,283) |
| NET CASH OUTFLOW FROM INVESTING ACTIVITIES | | (715,766) | (10,715,144) | (720,280) | (10,715,875) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Payments to unmarketable parcel shareholders | | - | (1,548) | - | (1,548) |
| Payments for share buy back | | (2,531) | (746,554) | (2,531) | (746,554) |
| Payments for dividends | | (535,668) | (835,723) | (535,668) | (835,723) |
| NET CASH OUTFLOW FROM FINANCING ACTIVITIES | | (538,199) | (1,583,825) | (538,199) | (1,583,825) |
| NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS ASSETS HELD | | 1,033,566 | (18,038,147) | 1,026,596 | (18,039,202) |
| Cash at beginning of the financial year | | 69,092 | 18,107,239 | 68,037 | 18,107,239 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE FINANCIAL YEAR | 9 | 1,102,658 | 69,092 | 1,094,633 | 68,037 |

The accompanying notes form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

1. SUMMARY OF ACCOUNTING POLICIES

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

The financial report includes separate financial statements for Orion Equities Limited as an individual parent entity (the "Company") and the consolidated entity consisting of Orion Equities Limited and its subsidiaries. Orion Equities Limited is a company limited by shares, incorporated in Western Australia, Australia.

Compliance with IFRS

The financial report complies with all Australian equivalents to International Financial Reporting Standards (AIFRS) in their entirety. Compliance with AIFRS ensures that the consolidated financial statements of Orion Equities Limited comply with International Financial Reporting Standards (IFRS) save that the parent and consolidated entities have elected to apply the relief provided in respect of certain disclosure requirements pursuant to *AASB 132 Financial Instruments: Disclosure and Presentation*.

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

Basis of Preparation

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

The consolidated entity and the Company have prepared financial statement in accordance with 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 Company and the consolidated entity's accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied.

The parent and consolidated entities have however elected to adopt the exemptions available under AASB 1 relating to *AASB 132: Financial Instruments: Disclosure and Presentation*, and *AASB 139: Financial Instruments: Recognition and Measurement* and have not restated comparative information for the 30 June 2005 financial year.

Reconciliations of the transition from previous Australian GAAP to IFRS 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.

1.1. Principles of Consolidation

A controlled entity is any entity the Company has the power to control the financial and operating policies of so as to obtain benefits from its activities. A list of controlled entities is contained in note 13 to the financial statements. All controlled entities have a June financial year-end. All inter-company balances and transactions between entities in the consolidated 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 Company.

1.2. Investments in Associates

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post-acquisition profits or losses of associates is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in consolidated reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control. A list of associates is contained in note 14 to the financial statements. All associated entities have a June financial year-end.

1.3. Mineral Exploration and Evaluation Expenditure

Exploration, evaluation and development expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area or where activities in the area have not yet reached a stage that permits reasonable assessment of the existence or otherwise of economically recoverable reserves. Accumulated costs in relation to an abandoned area are written off in full against profit in the year in which the decision to abandon the area is made. Under AASB 6 "Exploration for and Evaluation of Mineral Resources", if facts and circumstances suggest that the carrying amount of any recognised exploration and evaluation assets may be impaired, the Company must perform impairment tests on those assets and measure any impairment in accordance with AASB 136 "Impairment of Assets". Any impairment loss is to be recognised as

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

an expense. A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest. The directors have expensed all exploration, evaluation and development expenditure incurred during the financial year.

1.4. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments. The consolidated entity's segment reporting is contained in note 22 of the notes to the financial statements.

1.5. Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the consolidated entity and the revenue can be reliably measured. All revenue is stated net of the amount of goods and services tax ("GST"). The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods and Disposal of Assets - Revenue from the sale of goods and disposal of other assets is recognised when the consolidated entity has passed control of the goods or other assets to the buyer.

Contributions of Assets - Revenue arising from the contribution of assets is recognised when the consolidated entity gains control of the asset or the right to receive the contribution.

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

Dividend Revenue - Dividend revenue is recognised when the right to receive a dividend has been established. The consolidated entity brings dividend revenue to account on the applicable ex-dividend entitlement date.

Other Revenues - Other revenues are recognised on a receipts basis.

1.6. Income Tax

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Tax consolidation legislation

The consolidated entity has implemented the tax consolidation legislation as of 29 June 2004.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

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

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

Assets or liabilities arising under tax funding agreements within the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the group.

Any differences between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

1.7. 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.

1.8. Employee Benefits

Provision is made for the consolidated entity'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. Employer superannuation contributions are made by the consolidated entity in accordance with statutory obligations and are charged as an expense when incurred.

1.9. 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 (if any) are shown within short-term borrowings in current liabilities on the balance sheet.

1.10. Receivables

Trade and other receivables are recorded at amounts due less any provision for doubtful debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when considered non-recoverable.

1.11. Investments and Other Financial Assets

From 1 July 2005 to 30 June 2006

Financial instruments 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.

Financial assets at fair value through profit and loss - A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management and within the requirements of AASB 139: *Recognition and Measurement of Financial Instruments*. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

Held-to-maturity investments - These investments have fixed maturities, and it is the consolidated entity's intention to hold these investments to maturity. Any held-to-maturity investments held by the consolidated entity are stated at amortised cost using the effective interest rate method.

Available-for-sale financial assets - Available-for-sale financial assets include any financial assets not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

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.

At each reporting date, the consolidated entity assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

From 1 July 2004 to 30 June 2005

The consolidated entity has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The consolidated entity has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. The accounting policy applying to such 2005 comparatives are:

The Company has three portfolios of investments in securities, the investments portfolio, the options portfolio and the trading portfolio. The investment portfolio relates to holdings of securities which the Directors intend to retain on a long-term basis, which is classified as a "non-current asset". The options portfolio contains exchange traded options contracts that are entered into in relation to underlying listed securities. The trading portfolio comprises securities held for trading purposes, which is classified as a "current asset".

Valuation of Options Portfolio - Options written against underlying listed securities are initially brought to account at the amount received upfront for entering into the options contract (the option premium), which are included in Net Profit.

Valuation of Trading Portfolio - Securities, including listed and unlisted shares, units and notes, are initially brought to account at cost and are revalued to market values at each balance date. Any unrealised gains or losses at balance date are included in the Net Profit of the Company. Where disposals are made from the trading portfolio the gain or loss arising from the difference between the proceeds and the carrying value is included in the Net Profit of the Company.

Determination of Market Value - Market value for the purpose of valuing securities is determined by reference to market prices prevailing at balance date, where the securities are traded on an organised market. Where a security is unlisted or suspended, its fair value is determined by its net tangible asset value.

Income from Holdings of Securities - Distributions relating to listed securities are recognised as income when those securities are quoted in the market on an ex-distribution basis. Distributions relating to unlisted securities are recognised as income when received. The premium received on options written against underlying listed securities (the options portfolio) is offset against these underlying listed securities until the option expires, is exercised or is repurchased from the holder. When one of these events occurs, the net gain or loss arising on the option contract is included in Net Profit.

1.12. Fair value Estimation

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

The fair value of financial instruments that are not traded in an active market (for example over-the-counter derivatives) is determined using valuation techniques, including but not limited to recent arm's length transactions, reference to similar instruments and option pricing models. The consolidated entity may use a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for other financial instruments.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the consolidated entity for similar financial instruments.

1.13. Property held for Resale

Property held for development and sale is valued at lower of cost and net realisable value. Cost includes the cost of acquisition, development, borrowing costs and holding costs until completion of development. Finance costs and holding charges incurred after development are expensed. Profits are brought to account on the signing of an unconditional contract of sale.

1.14. Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

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 assets employment and subsequent disposal. The expected net cash flows have been discounted to their present value in determining recoverable amount.

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

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

| Class of Fixed Asset | Depreciation Rate | Depreciation Method |
|-------------------------|-------------------|---------------------|
| Plant and Equipment | 15-33.3% | Diminishing Value |
| Furniture and Equipment | 15-20% | Diminishing Value |
| Leasehold Improvements | 15% | Diminishing Value |

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 carrying amount. These 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.

1.15. Impairment of Assets

At each reporting date, the consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement. Impairment testing is performed annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

1.16. Payables

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

1.17. Issued Equity

Ordinary shares are classified as 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. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

1.18. Earnings Per Share

Basic Earnings per share is determined by dividing the operating result after income tax by the weighted average number of ordinary shares on issue during the financial period.

Diluted Earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account amounts unpaid on ordinary shares and any reduction in earnings per share that will probably arise from the exercise of options outstanding during the financial period.

1.19. Research and Development Costs

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably. Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

1.20. Changes in Accounting Policy

The consolidated entity has adopted the following accounting standards for application on or after 1 January 2005:

- (i) AASB 132: Financial Instruments: Disclosure and Presentation; and
- (ii) AASB 139: Financial Instruments: Recognition and Measurement.

The changes resulting from the adoption of AASB 132 relate primarily to increased disclosures required under the standard and do not affect the value of amounts reported in the financial statements.

The adoption of AASB 139 has not resulted in material differences in the recognition and measurement of the consolidated entity's financial instruments.

The following Australian Accounting Standards have been issued or amended and are applicable to the Company and Consolidated Entity but are not yet effective. They have not been adopted in preparation of the preparation of the financial statements at reporting date.

| AASB Amendment | Affected Standard(s) | Nature of change to accounting policy | Application date of standard | Application date for Consolidated entity |
|----------------|--|--|------------------------------|--|
| 2005-1 | AASB 139: <i>Financial Instruments: Recognition and Measurement</i> | No change to accounting policy required. Therefore no impact | 1 Jan 06 | 1 Jul 06 |
| 2005-4 | AASB 139: <i>Financial Instruments: Recognition and Measurement</i> , AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , | No change to accounting policy required. Therefore no impact | 1 Jan 06 | 1 Jul 06 |
| 2005-5 | AASB 1: <i>First-time adoption of AIFRS</i> AASB 139: <i>Financial Instruments: Recognition and Measurement</i> | No change to accounting policy required. Therefore no impact | 1 Jan 06 | 1 Jul 06 |
| 2005-10 | AASB 132: <i>Financial Instruments: Disclosure and Presentation</i> , AASB 101: <i>Presentation of Financial Statements</i> , AASB 114: <i>Segment Reporting</i> AASB 133: <i>Earnings per Share</i> AASB 139: <i>Financial Instruments: Recognition and Measurement</i> AASB 1: <i>First-time adoption of AIFRS</i> AASB 4: <i>Insurance Contracts</i> | No change to accounting policy required. Therefore no impact | 1 Jan 07 | 1 Jul 07 |
| New standard | AASB 7 <i>Financial Instruments: Disclosures</i> | No change to accounting policy required. Therefore no impact | 1 Jan 07 | 1 Jul 07 |
| New standard | AASB 119: <i>Employee Benefits</i> | No change to accounting policy required. Therefore no impact | 1 Jan 06 | 1 Jul 06 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

2. FIRST TIME ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**(i) Reconciliation of Income for 30 June 2005**

| | Consolidated Entity | | | Company | | |
|---|---------------------|-----------------------|------------------|------------------|-----------------------|------------------|
| | AGAAP \$ | AIFRS Impact \$ | AIFRS \$ | AGAAP \$ | AIFRS Impact \$ | AIFRS \$ |
| Revenue from continuing operations | 1,851,870 | | 1,851,870 | 1,851,870 | | 1,851,870 |
| Other income | 512,069 | | 512,069 | 512,069 | | 512,069 |
| | <u>2,363,939</u> | - | <u>2,363,939</u> | <u>2,363,939</u> | - | <u>2,363,939</u> |
| Expenses | | | | | | |
| Personnel | (261,180) | | (261,180) | (261,180) | | (261,180) |
| Communications | (22,627) | | (22,627) | (22,627) | | (22,627) |
| Occupancy | (18,826) | | (18,826) | (18,826) | | (18,826) |
| Corporate | (56,544) | | (56,544) | (56,544) | | (56,544) |
| Financing | (4,652) | | (4,652) | (4,470) | | (4,470) |
| Borrowing cost | (1,791) | | (1,791) | (1,791) | | (1,791) |
| Costs in relation to investments | (218,497) | | (218,497) | (218,497) | | (218,497) |
| Administration expenses | | | - | | | - |
| – legal and other professional fees | (337,347) | | (337,347) | (337,347) | | (337,347) |
| – exploration and evaluation expenditure | (37,988) | | (37,988) | (18,813) | | (18,813) |
| – provision for impairment | | | - | (36,928) | | (36,928) |
| – other | (87,676) | | (87,676) | (87,677) | | (87,677) |
| Profit before income tax expense | <u>1,316,811</u> | - | <u>1,316,811</u> | <u>1,299,239</u> | - | <u>1,299,239</u> |
| Income tax expense | (330,922) | (1,425) | (332,347) | (341,415) | (1,425) | (342,840) |
| Profit after income tax expense | <u>985,889</u> | <u>(1,425)</u> | <u>984,464</u> | <u>957,824</u> | <u>(1,425)</u> | <u>956,399</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

(ii) Reconciliation of Equity at 1 July 2004

| | Consolidated Entity | | | Company | | |
|----------------------------------|---------------------|-----------------------|-------------------|-------------------|-----------------------|-------------------|
| | AGAAP \$ | AIFRS Impact \$ | AIFRS \$ | AGAAP \$ | AIFRS Impact \$ | AIFRS \$ |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | 18,107,239 | | 18,107,239 | 18,107,239 | | 18,107,239 |
| Trade and other receivables | 5,675 | | 5,675 | 5,591 | | 5,591 |
| Investments in trading portfolio | 1,985,295 | | 1,985,295 | 1,985,295 | | 1,985,295 |
| Other | - | | - | - | | - |
| TOTAL CURRENT ASSETS | 20,098,209 | - | 20,098,209 | 20,098,125 | - | 20,098,125 |
| NON CURRENT ASSETS | | | | | | |
| Trade and other receivables | 14,106 | | 14,106 | 14,106 | | 14,106 |
| Plant and equipment | 31,599 | | 31,599 | 31,599 | | 31,599 |
| Other | 24,031 | | 24,031 | 24,031 | | 24,031 |
| TOTAL NON CURRENT ASSETS | 69,736 | - | 69,736 | 69,736 | - | 69,736 |
| TOTAL ASSETS | 20,167,945 | - | 20,167,945 | 20,167,861 | - | 20,167,861 |
| CURRENT LIABILITIES | | | | | | |
| Trade and other payables | 221,315 | | 221,315 | 221,315 | | 221,315 |
| Short term provisions | 861,000 | | 861,000 | 861,000 | | 861,000 |
| Current tax liabilities | 1,003,436 | | 1,003,436 | 1,003,436 | | 1,003,436 |
| TOTAL CURRENT LIABILITIES | 2,085,751 | - | 2,085,751 | 2,085,751 | - | 2,085,751 |
| TOTAL LIABILITIES | 2,085,751 | - | 2,085,751 | 2,085,751 | - | 2,085,751 |
| NET ASSETS | 18,082,194 | - | 18,082,194 | 18,082,110 | - | 18,082,110 |
| EQUITY | | | | | | |
| Issued capital | 28,973,124 | | 28,973,124 | 28,973,124 | | 28,973,124 |
| Reserves | 2,124,000 | | 2,124,000 | 2,124,000 | | 2,124,000 |
| Accumulated losses | (13,014,930) | | (13,014,930) | (13,015,014) | | (13,015,014) |
| TOTAL EQUITY | 18,082,194 | - | 18,082,194 | 18,082,110 | - | 18,082,110 |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

| (iii) Reconciliation of Equity at 30 June 2005 | Consolidated Entity | | | Company | | |
|--|---------------------|-----------------|-------------------|-------------------|-----------------|-------------------|
| | AGAAP | AIFRS Impact | AIFRS | AGAAP | AIFRS Impact | AIFRS |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | 69,092 | | 69,092 | 68,037 | | 68,037 |
| Trade and other receivables | 341,994 | | 341,994 | 4,137,567 | | 4,137,567 |
| Financial assets at fair value | 8,134,740 | | 8,134,740 | 8,134,740 | | 8,134,740 |
| Other | 843 | | 843 | 843 | | 843 |
| TOTAL CURRENT ASSETS | 8,546,669 | - | 8,546,669 | 12,341,187 | - | 12,341,187 |
| NON CURRENT ASSETS | | | | | | |
| Trade and other receivables | 32,823 | | 32,823 | 32,823 | | 32,823 |
| Investments | - | | - | - | | - |
| Investments in Associate entities | 7,085,260 | | 7,085,260 | 7,085,260 | | 7,085,260 |
| Inventory | 3,796,552 | | 3,796,552 | - | | - |
| Plant and equipment | 26,536 | | 26,536 | 26,536 | | 26,536 |
| Deferred tax assets | 227,053 | | 227,053 | 227,053 | | 227,053 |
| Other | 15,622 | | 15,622 | - | | - |
| TOTAL NON CURRENT ASSETS | 11,183,846 | - | 11,183,846 | 7,371,672 | - | 7,371,672 |
| TOTAL ASSETS | 19,730,515 | - | 19,730,515 | 19,712,859 | - | 19,712,859 |
| CURRENT LIABILITIES | | | | | | |
| Trade and other payables | 348,176 | | 348,176 | 348,176 | | 348,176 |
| Current tax liabilities | 562,702 | 1,425 | 564,127 | 573,195 | 1,425 | 574,620 |
| TOTAL CURRENT LIABILITIES | 910,878 | 1,425 | 912,303 | 921,371 | 1,425 | 922,796 |
| NON CURRENT LIABILITIES | | | | | | |
| Deferred tax liability | 7,209 | | 7,209 | 7,209 | | 7,209 |
| TOTAL NON CURRENT LIABILITIES | 7,209 | - | 7,209 | 7,209 | - | 7,209 |
| TOTAL LIABILITIES | 918,087 | 1,425 | 919,512 | 928,580 | 1,425 | 930,005 |
| NET ASSETS | 18,812,428 | (1,425) | 18,811,003 | 18,784,279 | (1,425) | 18,782,854 |
| EQUITY | | | | | | |
| Issued capital | 28,717,469 | | 28,717,469 | 28,717,469 | | 28,717,469 |
| Accumulated losses | (9,905,041) | (1,425) | (9,906,466) | (9,933,190) | (1,425) | (9,934,615) |
| TOTAL EQUITY | 18,812,428 | (1,425) | 18,811,003 | 18,784,279 | (1,425) | 18,782,854 |

(iv) Notes to the reconciliation of equity at 1 July 2004, 30 June 2005 and income for the year 30 June 2005

| | 30 Jun 05 | 1 Jul 04 |
|-------------------------------------|-----------|----------|
| | \$ | \$ |
| Deferred tax and income tax expense | (1,425) | - |

Under AGAAP, the Consolidated Entity adopted the liability method of tax-effect accounting whereby the income tax expense was based on the accounting profit adjusted for any permanent differences. Timing differences were brought to account as either a provision for deferred income tax or future income tax benefit.

Under AIFRS (*AASB112: Income Taxes*), the Consolidated Entity is required to adopt a "balance sheet approach" under which temporary differences are identified for each asset and liability rather than the effects of timing and permanent differences between taxable income and accounting profit. A deferred tax liability is provided on the upward revaluation of investments less a provision for tax expense

(v) Cash Flow Statement

There are no material impacts on the Cash Flow Statement as a consequence of the adoption of AIFRS.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

3. PROFIT FOR THE YEAR

Profit for the half year includes the following items that are unusual because of their nature, size or incidence:

| (a) Revenue | Consolidated Entity | | Company | |
|---|---------------------|------------------|------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Trading portfolio | \$ | \$ | \$ | \$ |
| Proceeds from sale of securities | 18,420,880 | 12,152,191 | 18,420,880 | 12,152,191 |
| Cost of securities sold | (16,552,241) | (10,033,175) | (16,552,241) | (10,033,175) |
| Unrealised gains/(losses) on securities | 5,536,239 | (726,509) | 2,893,738 | (726,509) |
| Dividends received from securities | 141,161 | 98,766 | 141,161 | 98,766 |
| | <u>7,546,039</u> | <u>1,491,273</u> | <u>4,903,538</u> | <u>1,491,273</u> |
| Options portfolio | | | | |
| Proceeds from sale of options | 137,579 | 240,140 | 137,579 | 240,140 |
| Cost of options sold | (11,000) | (87,155) | (11,000) | (87,155) |
| Cost of lapsed options | - | (41,020) | - | (41,020) |
| | <u>126,579</u> | <u>111,965</u> | <u>126,579</u> | <u>111,965</u> |
| Associate entities | | | | |
| Share of Associate entities net gain | 1,146,453 | 167,225 | 1,146,453 | 167,225 |
| Dividends received from Associate | 343,080 | 81,407 | 343,080 | 81,407 |
| | <u>1,489,533</u> | <u>248,632</u> | <u>1,489,533</u> | <u>248,632</u> |
| Resource Projects | | | | |
| Proceeds from sale of resource projects | 333,333 | - | - | - |
| Cost of resource projects sold | (19,840) | - | - | - |
| | <u>313,493</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Other income | | | | |
| Interest received - other | 54,861 | 512,069 | 54,861 | 512,069 |
| Other income | 22,060 | - | 22,060 | - |
| | <u>76,921</u> | <u>512,069</u> | <u>76,921</u> | <u>512,069</u> |
| Total revenue | <u>9,552,565</u> | <u>2,363,939</u> | <u>6,596,571</u> | <u>2,363,939</u> |
| (b) Expenses | | | | |
| Occupancy expenses | 21,780 | 18,826 | 20,813 | 18,826 |
| Finance expenses | 4,199 | 4,652 | 3,831 | 4,470 |
| Borrowing cost | 1,426 | 1,791 | 1,426 | 1,791 |
| Corporate expenses | 34,286 | 56,544 | 34,074 | 56,544 |
| Administration expenses | | | | |
| - Communications | 20,125 | 22,627 | 20,125 | 22,627 |
| - Personnel - employee entitlements | 7,413 | 7,274 | 7,413 | 7,274 |
| - other | 262,280 | 253,906 | 262,280 | 253,906 |
| - Legal and other professional fees | 105,060 | 337,347 | 105,060 | 337,347 |
| - Costs in relation to investments | 21,978 | 150,149 | 21,978 | 150,149 |
| - Brokerage fees | 88,184 | 68,348 | 88,184 | 68,348 |
| - Write off fixed assets disposed | 493 | - | 493 | - |
| - Exploration and evaluation expenses | 62,065 | 37,988 | 39,485 | 18,813 |
| - Depreciation expenses | 7,116 | 5,619 | 7,116 | 5,619 |
| - Doubtful debts provision | - | - | 46,229 | 36,928 |
| - Other expenses | 124,992 | 82,057 | 124,992 | 82,058 |
| | <u>761,397</u> | <u>1,047,128</u> | <u>783,499</u> | <u>1,064,700</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

4. INCOME TAX EXPENSE

| (a) The major component of income tax expenses are: | Consolidated Entity | | Company | |
|--|---------------------|------------------|------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Current income tax | | | | |
| Current income tax charge | 538,860 | 562,702 | 452,190 | 573,195 |
| (Over)/under provision in prior years | (312,087) | 8,734 | (322,580) | 8,734 |
| Deferred income tax | <u>2,026,727</u> | <u>(239,089)</u> | <u>1,150,977</u> | <u>(239,089)</u> |
| | <u>2,253,500</u> | <u>332,347</u> | <u>1,280,587</u> | <u>342,840</u> |
| (b) The prima facie income tax on profit from ordinary activities is reconciled to the income tax provided in the accounts as follows: | | | | |
| Profit from ordinary activities | <u>8,791,168</u> | <u>1,316,811</u> | <u>5,813,072</u> | <u>1,299,239</u> |
| Prima facie tax payable on profit from ordinary activities before income tax at 30% (2005: 30%) | 2,637,350 | 395,044 | 1,756,330 | 389,772 |
| Permanent differences | | | | |
| Other assessable income | 44,553 | - | 44,553 | - |
| Other non-deductible items | 12,897 | 26,850 | 12,897 | 26,850 |
| Other deductible items | (5,131) | - | (5,131) | - |
| Share of Associates' profits | (343,936) | (50,168) | (343,936) | (50,168) |
| Temporary differences | | | | |
| Other non-deductible items | 17,304 | 892 | 42,783 | 11,970 |
| Other deductible items | (30,719) | (4,687) | (39,070) | - |
| Unrealised gains on securities | (1,660,872) | 217,953 | (868,121) | 217,953 |
| Income tax expense attributable to operating profit | 671,446 | 585,884 | 600,305 | 596,377 |
| Provision for deferred income tax | 1,792,465 | (228,498) | 916,715 | (228,498) |
| Overprovision of income tax payable | (61,900) | (1,957) | (87,922) | (1,957) |
| Franking credits | (148,511) | (23,082) | (148,511) | (23,082) |
| Net income tax | <u>2,253,500</u> | <u>332,347</u> | <u>1,280,587</u> | <u>342,840</u> |
| The applicable weighted average effective tax rates are as follows: | 26% | 25% | 22% | 26% |

(c) The Company and controlled entities of the Company have elected to consolidate for taxation purposes and have entered into a tax sharing and funding agreement in respect of such arrangements.

5. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Details of key management personnel - directors (consolidated and parent entity)

| | |
|-------------------|--|
| William M Johnson | Executive Chairman |
| Victor P H Ho | Executive Director and Company Secretary |
| Yaqoob Khan | Non-Executive Director |

| | Consolidated Entity | | Company | |
|--|---------------------|----------|----------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| Number of employees (including key management personnel) | <u>3</u> | <u>3</u> | <u>3</u> | <u>3</u> |

(b) Compensation of key management personnel - directors (consolidated and parent entity)

| 2006 Directors | Performance Related | Short term Benefits | | Post Employment | Total |
|-------------------|---------------------|---------------------|----------------|-----------------|----------------|
| | | Salaries & Fees | Other Benefits | Superannuation | |
| | % | \$ | \$ | \$ | \$ |
| William M Johnson | - | 149,215 | - | 13,429 | 162,644 |
| Victor P H Ho | - | 60,000 | - | 5,400 | 65,400 |
| Yaqoob Khan | - | 25,000 | - | - | 25,000 |
| | | <u>234,215</u> | <u>-</u> | <u>18,829</u> | <u>253,044</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

| 2005 | Performance Related | Short term Benefits | | Post Employment | Total |
|-------------------|---------------------|---------------------|----------------|-----------------|----------------|
| | | Salaries & Fees | Other Benefits | Superannuation | |
| Directors | % | \$ | \$ | \$ | \$ |
| William M Johnson | - | 138,461 | - | 12,462 | 150,923 |
| Victor P H Ho | - | 57,692 | - | 5,192 | 62,884 |
| Yaqoob Khan | - | 25,398 | - | - | 25,398 |
| | | <u>221,551</u> | <u>-</u> | <u>17,654</u> | <u>239,205</u> |

(c) Compensation of other key management personnel (consolidated and parent entity)

The Consolidated Entity and Company does not have any key executives (other than executive directors).

(d) Shareholdings of key management personnel - directors (consolidated and parent entity)

| Directors | Balance at 1 | Net Change | Balance at 30 |
|-------------------|--------------|------------|---------------|
| | July 2005 | Other | June 2006 |
| William M Johnson | - | - | - |
| Victor P H Ho | - | - | - |
| Yaqoob Khan | 8,391,779 | 259,577 | 8,651,356 |
| | Balance at 1 | Net Change | Balance at 30 |
| | July 2004 | Other | June 2005 |
| William M Johnson | - | - | - |
| Victor P H Ho | - | - | - |
| Yaqoob Khan | 8,407,334 | (15,555) | 8,391,779 |

The disclosures of equity holdings above are in accordance with the accounting standards which requires a disclosure of direct and indirect holdings of spouses, relatives, spouses of relatives and entities under the control or significant influence of each of the same.

(e) Compensation policy

The Company's policy for determining the nature and amount of emoluments to directors of the Company is as follows: The Board determines the remuneration structure of all Directors and Executive Officers having regard to the Consolidated Entity's nature, scale and scope of operations and other relevant factors, including the frequency of Board meetings, length of service, particular experience and qualifications.

6. AUDITORS REMUNERATION

| | Consolidated Entity | | Company | |
|---|---------------------|---------------|---------------|---------------|
| | 2006 | 2005 | 2006 | 2005 |
| Amounts received or due and receivable by: | \$ | \$ | \$ | \$ |
| (a) Auditor of the Consolidated Entity | | | | |
| Auditing of the financial report | 15,791 | 11,833 | 15,791 | 11,833 |
| Underprovision for prior year | 1,950 | - | 1,950 | - |
| (b) Related practice of the Consolidated Entity Auditor | | | | |
| Other services | 165 | 6,520 | 165 | 6,520 |
| | <u>17,906</u> | <u>18,353</u> | <u>17,906</u> | <u>18,353</u> |

7. DIVIDENDS

| Declared and paid during the year | Date paid | | | | |
|-------------------------------------|-----------|----------------|----------|----------------|----------|
| <u>Dividends on ordinary shares</u> | | | | | |
| 1.5 cent per share fully franked | 07-Apr-06 | 267,218 | - | 267,218 | - |
| 1.5 cent per share fully franked | 13-Oct-05 | 267,218 | - | 267,218 | - |
| | | <u>534,436</u> | <u>-</u> | <u>534,436</u> | <u>-</u> |

On 8 September 2006, the Directors resolved to declare payment of a final dividend of 3.0 cents per share fully franked dividend. The record date will be 12 October 2006 with payment to be effected on 19 October 2006.

Dividends declared post balance date

| | | | | | |
|-------------------------------------|--|---------|---|---------|---|
| <u>Dividends on ordinary shares</u> | | | | | |
| 3 cent per share fully franked | | | | | |
| to be paid on 19 October 2006 | | 534,432 | - | 534,432 | - |

Franking credit balance

| | | | | |
|---|--|--|------------------|------------------|
| Balance of franking account at year end adjusted for franking credits arising from: | | | 1,026,714 | 847,995 |
| Payment of provision for income tax | | | 452,190 | 573,195 |
| Franking debits arising from payment of proposed dividends | | | (229,042) | |
| | | | <u>1,249,862</u> | <u>1,421,190</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

| 8. EARNINGS PER SHARE | Consolidated Entity | | Company | |
|--|---------------------|------------|------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| Basic earnings per share (cents) | 36.7 | 5.8 | 25.4 | 5.6 |
| Net profit for the year | 6,537,668 | 984,464 | 4,532,485 | 956,399 |
| Weighted average number of ordinary shares outstanding during the year used in calculation of basic earnings per share | 17,814,389 | 17,030,960 | 17,814,389 | 17,030,960 |

Diluted earnings per share is not materially different from basic earnings per share and therefore is not disclosed in the Financial Statements.

| 9. CASH AND CASH EQUIVALENTS | Consolidated Entity | | Company | |
|------------------------------|---------------------|--------|-----------|--------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Cash at bank | 1,102,658 | 69,092 | 1,094,633 | 68,037 |
| | 1,102,658 | 69,092 | 1,094,633 | 68,037 |

The effective interest rate on cash at bank was 5.17%.

(a) Reconciliation of Net Profit after Tax to Net Cash Flows from Operations

| | Consolidated Entity | | Company | |
|---|---------------------|-------------|-------------|-------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Operating income after income tax expense | 6,537,668 | 984,464 | 4,532,485 | 956,399 |
| Depreciation - plant & equipment | 7,116 | 5,619 | 7,116 | 5,619 |
| Write off fixed assets disposed | 493 | - | 493 | - |
| Unrealised gains/(losses) on securities | (5,536,239) | 726,509 | (2,893,738) | 726,509 |
| Share of Associate entities' profits | (1,146,453) | (167,225) | (1,146,453) | (167,225) |
| Increase in income tax payable | (32,476) | (432,100) | (129,639) | (421,607) |
| Increase in deferred income tax | 2,026,727 | (227,053) | 1,150,977 | (227,053) |
| (Increase)/decrease in assets: | | | | |
| Receivables | (219,426) | (113,643) | (220,984) | (112,018) |
| Trading portfolio | 1,385,868 | (6,631,808) | 1,385,868 | (6,425,914) |
| Strategic portfolio | (574,476) | | (222,809) | |
| Options portfolio | - | 5,361 | - | 5,361 |
| Current assets | - | (843) | - | (843) |
| Exploration expenditure | 15,622 | 8,409 | - | 24,031 |
| Increase/(decrease) in liabilities: | | | | |
| Payables | (184,306) | 95,858 | (185,654) | (110,035) |
| Provisions | 7,413 | 7,274 | 7,413 | 7,274 |
| Net cash flows from operating activities | 2,287,531 | (5,739,178) | 2,285,075 | (5,739,502) |

(b) Disclosure of non-cash financing and investing activities

On 1 July 2005, the Company issued 1,002,233 shares (at \$1.0343 per share, being the Company's reported NTA (post tax) backing as at 31 May 2005) as consideration for the settlement of the acquisition of 2,300,000 shares in Bentley International Limited (BEL) from Sofcom Limited (SOF) pursuant to a Second Tranche BEL Share Sale Agreement between SOF and the Company (dated 30 May 2005) – the total consideration was \$1,036,610 (based on BEL's last published NTA backing (post tax) as at 31 May 2005 of \$0.4507 per share) satisfied by the issue of 1,002,233 fully paid ordinary shares in the Company to SOF, as approved by SOF shareholders on 30 June 2005 and BEL shareholders on 1 July 2005.

On 9 February 2006, subsidiary Hume Mining NL received 1,666,667 shares at an deemed issue price of 20 cents per share (valuing the shares issued at \$333,333) from Strike Resources Limited (SRK) as consideration pursuant to settlement of an agreement with SRK dated 15 September 2005 (as amended) for the sale by Hume of a 75% interest in a suite of resource projects in the Northern Territory and Western Australia.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

| 10. TRADE AND OTHER RECEIVABLES | Consolidated Entity | | Company | |
|--|---------------------|---------|-----------|-----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Current | | | | |
| Amount receivable from controlled entities | - | - | 3,911,213 | 3,835,983 |
| Less provision for non recovery | - | - | (84,928) | (38,700) |
| | - | - | 3,826,285 | 3,797,283 |
| Receivables on sale of investments | 440,473 | 241,392 | 440,473 | 241,392 |
| Amounts receivable from related parties | 97,602 | 75,355 | 97,602 | 75,355 |
| Other receivables | 18,414 | 17,877 | 18,262 | 17,877 |
| GST receivable | - | 7,370 | - | 5,660 |
| | 556,489 | 341,994 | 4,382,622 | 4,137,567 |
| Non Current | | | | |
| Bonds and guarantees | 32,823 | 32,823 | 32,823 | 32,823 |

11. FINANCIAL ASSETS

Financial assets at fair value comprise:

| | | | | |
|--|------------|-----------|-----------|-----------|
| Listed investments, at fair value | 11,005,112 | 8,134,740 | 9,642,611 | 8,134,740 |
| Unlisted options in listed corporations- at cost | 10,000 | - | - | - |
| Add: net change in fair value | 1,621,666 | - | - | - |
| | 1,631,666 | - | - | - |
| Total financial assets at fair value | 12,636,778 | 8,134,740 | 9,642,611 | 8,134,740 |

12. OTHER CURRENT ASSET

| | | | | |
|-------------|-------|-----|-------|-----|
| Prepayments | 1,083 | 843 | 1,083 | 843 |
|-------------|-------|-----|-------|-----|

13. NON-CURRENT INVESTMENTS

| | | | | |
|---------------------------------------|---|---|-----------|-----------|
| Shares in controlled entities at cost | - | - | 225,100 | 225,100 |
| Less: Provision for impairment | - | - | (225,100) | (225,100) |
| | - | - | - | - |

| Investment in Controlled Entities: | Ownership interest | |
|---|--------------------|------|
| | 2006 | 2005 |
| Hume Mining NL (ACN 064 994 945) | | |
| Incorporated in Australia on 29 March 1994 | 100% | 100% |
| This company is currently engaged in resource related activities. | | |
| Silver Sands Developments Pty Limited (ACN 094 097 122) | | |
| Incorporated in Australia on 10 August 2000 | 100% | 100% |
| This company is currently engaged in property development activities and holds the Inventory. | | |

14. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| Name of Associate | Principal Activity | Ownership Interest | | Carrying Amount | |
|-------------------------------|--------------------|--------------------|--------|-----------------|-----------|
| | | 2006 | 2005 | 2006 | 2005 |
| | | | | \$ | \$ |
| Bentley International Limited | Investments | 27.93% | 25.49% | 4,357,549 | 2,799,771 |
| Scarborough Equities Limited | Investments | 27.86% | 19.03% | 5,368,821 | 4,285,489 |
| | | | | 9,726,370 | 7,085,260 |

On 1 July 2005, the Company settled on the acquisition of 2,300,000 shares in BEL, increasing its shareholding in BEL to 24.9%. The Company has accounted for its investment in BEL on an equity accounting basis as an Associate entity from 30 June 2005.

Between January 2006 to June 2006, the Company purchased 1,267,996 shares in BEL for \$1,119,912 and 305,718 shares in SCB for \$374,745 (including participation under dividend reinvestment plans), increasing its shareholding in BEL and SCB to 27.93% and 27.86% respectively.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

| | 2006 | 2005 |
|---|------------------|------------------|
| | \$ | \$ |
| Movement in Investments in Associates | | |
| Shares in listed Associate entities - at cost | | 6,918,035 |
| Shares in listed Associate entities brought forward | 7,085,260 | - |
| Share of profit before income tax expense | 1,869,980 | 80,411 |
| Share of income tax expense | (380,427) | 86,814 |
| Dividends received | (343,100) | - |
| Acquisition of shares | 1,494,657 | - |
| Carrying amount at the end of the financial year | <u>9,726,370</u> | <u>7,085,260</u> |

| | | |
|---|------------------|------------------|
| Fair value of listed investments in associates | | |
| Bentley International Limited | 4,226,113 | 2,444,944 |
| Scarborough Equities Limited | 5,316,972 | 2,399,865 |
| | <u>9,543,085</u> | <u>4,844,809</u> |

| | | |
|---|-------------------|------------------|
| Net tangible asset backing value of listed investments in associates | | |
| Bentley International Limited | 5,414,913 | 3,339,941 |
| Scarborough Equities Limited | 5,272,310 | 4,079,770 |
| | <u>10,687,223</u> | <u>7,419,711</u> |

| | | |
|-------------------------------------|------------------|----------------|
| Share of Associates' profits | | |
| Profit before income tax | 1,869,980 | - |
| Income tax expense | (380,427) | 167,225 |
| Profit after income tax | <u>1,489,553</u> | <u>167,225</u> |

Summarised Financial Position of Associates

| | Group share of: | | | |
|---------------------------------------|-------------------------------|------------------|------------------------------|------------------|
| | Bentley International Limited | | Scarborough Equities Limited | |
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Current assets | 5,461,429 | 4,502,990 | 1,025,519 | 559,261 |
| Non current assets | 2,527 | 3,546 | 4,716,645 | 2,559,369 |
| Total assets | <u>5,463,955</u> | <u>4,506,536</u> | <u>5,742,164</u> | <u>3,118,630</u> |
| Current liabilities | (50,030) | (33,088) | (22,170) | (68,753) |
| Non current liabilities | - | (1,567) | (446,688) | - |
| Total liabilities | <u>(50,030)</u> | <u>(34,655)</u> | <u>(468,858)</u> | <u>(68,753)</u> |
| Net assets | <u>5,413,926</u> | <u>4,471,881</u> | <u>5,273,306</u> | <u>3,049,877</u> |
| Revenues | 791,176 | - | 1,920,920 | 707,519 |
| Profit after income tax of associates | <u>538,998</u> | <u>-</u> | <u>950,555</u> | <u>167,225</u> |

Contingent Liabilities

Scarborough Equities Limited - Indemnity

SCB has provided indemnities to IWL Ltd ("IWL") and IWL Broking Solutions Ltd ("IWLBS") with respect to the acquisition by IWLBS of SCB's shareholding in Avcol Stockbroking Pty Ltd ("Avcol") on 29 April 2005. This indemnity covers contingent claims in relation to the operations of Avcol. The directors of SCB have stated that they believe that these contingent claims are not material (not exceeding \$100,000 in aggregate) in terms of its potential negative effect on its net asset position.

Scarborough Equities Limited and Bentley International Limited - Lease Commitments

SCB and BEL has the same lease commitments disclosed in note 24(a)

| 15. INVENTORY | Consolidated Entity | | Company | |
|--|---------------------|-----------|---------|------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Property held for development and resale | 3,821,038 | 3,796,552 | - | - |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

16. PLANT AND EQUIPMENT

Consolidated Entity & Company

| | Plant & Equipment | Leasehold Improve- ments | Total |
|---|----------------------|--------------------------------|---------------|
| | \$ | \$ | \$ |
| At 1 July 2005, net of accumulated depreciation and impairment | 17,340 | 9,196 | 26,536 |
| Additions | 15,441 | - | 15,441 |
| Depreciation expense | (5,737) | (1,379) | (7,116) |
| Disposal | (494) | - | (494) |
| At 30 June 2006, net of accumulated depreciation and impairment | <u>26,550</u> | <u>7,817</u> | <u>34,367</u> |
| At 1 July 2005 | | | |
| Cost | 56,364 | 21,788 | 78,152 |
| Accumulated depreciation and impairment | (39,024) | (12,592) | (51,616) |
| Net carrying amount | <u>17,340</u> | <u>9,196</u> | <u>26,536</u> |
| At 30 June 2006 | | | |
| Cost | 70,177 | 21,788 | 91,965 |
| Accumulated depreciation and impairment | (43,627) | (13,971) | (57,598) |
| Net carrying amount | <u>26,550</u> | <u>7,817</u> | <u>34,367</u> |
| At 1 July 2004, net of accumulated depreciation and impairment | | | |
| Additions | 557 | - | 557 |
| Depreciation expense | (3,997) | (1,623) | (5,620) |
| At 30 June 2005, net of accumulated depreciation and impairment | <u>17,340</u> | <u>9,196</u> | <u>26,536</u> |
| At 1 July 2004 | | | |
| Cost | 55,808 | 21,788 | 77,596 |
| Accumulated depreciation and impairment | (35,028) | (10,969) | (45,997) |
| Net carrying amount | <u>20,780</u> | <u>10,819</u> | <u>31,599</u> |
| At 30 June 2005 | | | |
| Cost | 56,364 | 21,788 | 78,152 |
| Accumulated depreciation and impairment | (39,024) | (12,592) | (51,616) |
| Net carrying amount | <u>17,340</u> | <u>9,196</u> | <u>26,536</u> |

17. OTHER NON-CURRENT ASSETS

| | Consolidated Entity | | Company | |
|---|---------------------|---------------|----------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Deferred Exploration Expenditure | | | | |
| Balance at beginning of the year | 15,622 | 24,031 | - | 24,031 |
| Direct expenditure | 4,217 | 10,404 | - | 3,074 |
| Direct expenditure written off | - | (18,813) | - | (18,813) |
| Sale of tenements | (19,839) | - | - | - |
| Transfer asset to subsidiary | - | - | - | (8,292) |
| Balance at end of the year | <u>-</u> | <u>15,622</u> | <u>-</u> | <u>-</u> |

The directors have expensed all exploration, evaluation and development expenditure incurred during the financial year. Please refer to note 1.3.

18. TRADE AND OTHER CREDITORS

| | Consolidated Entity | | Company | |
|---|---------------------|----------------|----------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Trade creditors | 34,580 | 16,836 | 33,235 | 16,836 |
| Pending settlements on share investment purchases | - | 205,894 | - | 205,894 |
| Other creditors - related parties | 16,304 | - | 16,304 | - |
| Other creditors and accruals | 88,391 | 100,169 | 88,391 | 100,169 |
| Dividend payable | 28,501 | 25,277 | 28,501 | 25,277 |
| | <u>167,776</u> | <u>348,176</u> | <u>166,431</u> | <u>348,176</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

19. TAX

| | Consolidated Entity | | Company | |
|---|---------------------|----------------|------------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Current tax asset | | | | |
| Deferred tax on fair value gain adjustments | - | 227,053 | - | 227,053 |
| Current tax liabilities | | | | |
| Income tax | 538,860 | 564,127 | 452,190 | 574,620 |
| Non current tax liabilities | | | | |
| Deferred tax on fair value gain adjustments | 1,799,674 | 7,209 | 923,924 | 7,209 |
| | <u>2,338,534</u> | <u>571,336</u> | <u>1,376,114</u> | <u>581,829</u> |

Reconciliations**Gross movements**

The overall movement in the deferred tax account is as follows:

| | | | | |
|--|------------------|----------------|----------------|----------------|
| Opening balance | 234,262 | 12,036 | 234,262 | 12,036 |
| (Credited)/charged to income statement | 1,565,412 | 222,226 | 689,662 | 222,226 |
| Closing balance | <u>1,799,674</u> | <u>234,262</u> | <u>923,924</u> | <u>234,262</u> |

Deferred tax asset - fair value adjustments

The movement in deferred tax asset for each temporary difference during the year are as follows:

| | | | | |
|--|-----------|----------------|-----------|----------------|
| Opening balance | 227,053 | - | 227,053 | - |
| (Credited)/charged to income statement | (227,053) | 227,053 | (227,053) | 227,053 |
| Closing balance | <u>-</u> | <u>227,053</u> | <u>-</u> | <u>227,053</u> |

Deferred tax liability - fair value adjustments

The movement in deferred tax liability for each temporary difference during the year are as follows:

| | | | | |
|---|------------------|--------------|----------------|--------------|
| Opening balance | 7,209 | 12,036 | 7,209 | 12,036 |
| Charged/ (credited) to income statement | 1,792,465 | (4,827) | 916,715 | (4,827) |
| Closing balance | <u>1,799,674</u> | <u>7,209</u> | <u>923,924</u> | <u>7,209</u> |

20. ISSUED CAPITAL

| | Consolidated Entity | | Company | |
|----------------------------|---------------------|-------------------|-------------------|-------------------|
| | 2006 | 2005 | 2006 | 2005 |
| | \$ | \$ | \$ | \$ |
| Fully paid ordinary shares | <u>19,375,598</u> | <u>28,717,469</u> | <u>19,375,598</u> | <u>28,717,469</u> |

| | Date of movement | Number of shares | | |
|--|------------------|-------------------|-------------------|-------------------|
| Movements in Ordinary Share Capital | | | | |
| At 1 July 2004 | | 17,219,996 | 28,973,124 | 28,973,124 |
| Issue of shares | 30-Jun-05 | 812,810 | 490,899 | 490,899 |
| Share buy back | Apr - Jun 05 | (1,220,650) | (746,554) | (746,554) |
| At 1 July 2005 | | 16,812,156 | 28,717,469 | <u>28,717,469</u> |
| Issue of shares | 01-Jul-05 | 1,002,233 | 591,318 | |
| Reduction of share capital to the extent not represented by assets | 29-Nov-05 | | (9,933,189) | |
| At 30 June 2006 | | <u>17,814,389</u> | <u>19,375,598</u> | |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

At the Annual General Meeting held on 29 November 2005, shareholders approved a reduction in the value of the Company's share capital against accumulated losses by \$9,933,190, being an amount not represented by available assets, pursuant to section 258F of the Corporations Act. This was essentially an accounting entry that allowed the Company to remove from retained earnings historical carried forward losses that effects the ability of the Company to retain earnings from which future dividends may be paid. The reduction has no effect on the carried forward tax losses of the Company nor did it change the number of shares on issue or the net asset position of the Company.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

21. RELATED PARTY DISCLOSURES

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year.

| Consolidated Entity | Note | Amount owed by related parties | Amount owed to related parties |
|--|-------------|---------------------------------------|---------------------------------------|
| <i>Entity deemed to control the parent entity (Orion Equities Limited)</i> | | | |
| Queste Communications Ltd (QUE) | 18 | | (16,304) |
| <i>Associates of Orion Equities Limited</i> | | | |
| Bentley International Limited (BEL) | 10 | 60,425 | |
| Scarborough Equities Limited (SCB) | 10 | 37,177 | |

At balance date, QUE holds **48%** of the ordinary shares in the Company. During the financial year, there were transactions between the Company, QUE, BEL and SCB, pursuant to shared office and administration expense arrangements on a cost recovery basis. Interest is not charged on such outstanding amounts.

Company

Subsidiaries of Orion Equities Limited

| | | | |
|-----------------------------------|----|-----------|--|
| Hume Mining NL | 10 | 84,929 | |
| Silver Sands Developments Pty Ltd | 10 | 3,826,283 | |

Details of the percentage of ordinary shares held in controlled entities are disclosed in Note 13 to the financial statements. The following amounts remain outstanding at balance date. Interest is not charged on such outstanding amounts. For the year ended 30 June 2006 the Company has made provision for non recovery relating to the amounts owed by Hume Mining NL of \$84,929. However the Company has not made any provision for doubtful debts for amounts owed by Silver Sands Development Pty Ltd as it has assets to the total of \$3.8 million as at 30 June 2006.

22. SEGMENT REPORTING

The Consolidated Entity operates primarily in one geographical segment (Australia) in the investment and resource sectors.

| | 2006 | | | 2005 | | |
|-----------------------------|-------------------|----------------|-------------------|-------------------|-----------------|-------------------|
| | Investments | Resources | Consolidated | Investments | Resources | Consolidated |
| Revenue | \$ | \$ | \$ | \$ | \$ | \$ |
| Total segment revenue | 8,037,758 | 313,493 | 8,351,251 | 1,684,645 | - | 1,684,645 |
| Share of associates' profit | 1,146,453 | - | 1,146,453 | 167,225 | - | 167,225 |
| Unallocated revenue | - | - | 54,861 | - | - | 512,069 |
| | <u>9,184,211</u> | <u>313,493</u> | <u>9,552,565</u> | <u>1,851,870</u> | <u>-</u> | <u>2,363,939</u> |
| Result | | | | | | |
| Segment result | 9,074,049 | 251,428 | 9,325,477 | 1,366,731 | (39,638) | 1,327,093 |
| Unallocated result | - | - | (534,309) | - | - | (10,282) |
| Profit before tax | <u>9,074,049</u> | <u>251,428</u> | <u>8,791,168</u> | <u>1,366,731</u> | <u>(39,638)</u> | <u>1,316,811</u> |
| Assets | | | | | | |
| Segment assets | 26,624,659 | - | 26,624,659 | 19,257,944 | 15,622 | 19,273,566 |
| Unallocated assets | - | - | 1,286,947 | - | - | 456,949 |
| Total assets | <u>26,624,659</u> | <u>-</u> | <u>27,911,606</u> | <u>19,257,944</u> | <u>15,622</u> | <u>19,730,515</u> |
| Liabilities | | | | | | |
| Segment liabilities | 1,799,674 | - | 1,799,674 | 205,894 | 2,838 | 208,732 |
| Unallocated liabilities | - | - | 706,636 | - | - | 710,780 |
| Total liabilities | <u>1,799,674</u> | <u>-</u> | <u>2,506,310</u> | <u>205,894</u> | <u>2,838</u> | <u>919,512</u> |

| Other | 2006 | | 2005 | |
|---|-------------|-----------|-------------|-----------|
| | Investments | Resources | Investments | Resources |
| | \$ | \$ | \$ | \$ |
| Acquisition of segment assets | 11,624,134 | - | 23,873,546 | 10,404 |
| Other non-cash expenses | | | | |
| Unrealised gains/(losses) on securities | 5,536,239 | - | (726,509) | - |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

23. FINANCIAL INSTRUMENTS

The consolidated entity's financial instruments mainly consist of listed and unlisted securities, deposits with banks, accounts receivable and payable and loans to related parties. The consolidated entity's investments are subject to price (which includes interest rate and market risk), credit and liquidity risks.

(a) Interest Rate Risk Exposure

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The consolidated entity's exposure to market risk for changes in interest rates relate primarily to investments held in interest bearing instruments. The consolidated entity has no borrowings.

| | Average Interest Rate | Variable Interest Rate | Fixed Interest Rate (less than 1 year) | Non-Interest Bearing | Total |
|---|--------------------------|---------------------------|--|-------------------------|-------------------|
| 2006 | | | | | |
| Financial assets | | \$ | \$ | \$ | \$ |
| Cash | 5.17% | 1,102,658 | - | - | 1,102,658 |
| Receivables | | - | - | 589,312 | 589,312 |
| Investments | | - | - | 12,636,778 | 12,636,778 |
| | | <u>1,102,658</u> | <u>-</u> | <u>13,226,090</u> | <u>14,328,748</u> |
| Financial liabilities | | | | | |
| Payables | | - | - | (167,776) | (167,776) |
| Net financial assets | | <u>1,102,658</u> | <u>-</u> | <u>13,058,314</u> | <u>14,160,972</u> |
| 2005 | | | | | |
| Financial assets | | | | | |
| Cash | 5.63% | 69,092 | - | - | 69,092 |
| Receivables | | - | - | 374,817 | 374,817 |
| Investments | | - | - | 8,134,740 | 8,134,740 |
| | | <u>69,092</u> | <u>-</u> | <u>8,509,557</u> | <u>8,578,649</u> |
| Financial liabilities | | | | | |
| Payables | | - | - | (328,751) | (328,751) |
| Net financial assets | | <u>69,092</u> | <u>-</u> | <u>8,180,806</u> | <u>8,249,898</u> |
| Reconciliation of net financial assets to net assets | | | | 2006 | 2005 |
| Net financial assets as above | | | | 14,160,972 | 8,249,898 |
| Non-financial assets and liabilities | | | | | |
| Inventory | | | | 3,821,038 | 3,796,552 |
| Investments in Associate companies | | | | 9,726,370 | 7,085,260 |
| Property, plant and equipment | | | | 34,367 | 26,536 |
| Other current assets | | | | 1,083 | 843 |
| Other non-current assets | | | | - | 15,622 |
| Net tax liabilities | | | | (2,338,534) | (344,283) |
| Provisions | | | | - | (19,425) |
| Net Assets per Balance Sheet | | | | <u>25,405,296</u> | <u>18,811,003</u> |

(b) Credit Risk Exposure

Credit risk refers to the risk that a counterparty under a financial instrument will default (in whole or in part) on its contractual obligations resulting in financial loss to the consolidated entity. Concentrations of credit risk are minimised primarily by undertaking appropriate due diligence on potential investments, carrying out all market transactions through approved brokers, settling non-market transactions with the involvement of suitably qualified legal and accounting personnel (both internal and external), and obtaining sufficient collateral or other security (where appropriate) as a means of mitigating the risk of financial loss from defaults.

Market prices of listed financial instruments generally incorporate credit assessments into valuations and risk of loss is implicitly provided or in the carrying value of such assets in the financial statements as they are marked to market at balance date. The consolidated entity measures credit risk on a fair value basis. The carrying amount of financial assets recorded in the financial statements, net of any provision for losses, represents the consolidated entity's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained (if any).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

23. FINANCIAL INSTRUMENTS (continued)

(c) Market Price Risk Exposure

Market price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market. Market risk is minimised through ensuring that investment activities are undertaken in accordance with Board established mandate limits and investment strategies.

At the investment portfolio level, the Consolidated Entity is not overly exposed to one company or one particularly industry sector of the market.

(d) Liquidity Risk Exposure

Liquidity risk is the risk that the consolidated entity will encounter difficulty in meeting obligations associated with financial liabilities. The consolidated entity has no borrowings. The consolidated entity's non-cash investments can be realised to meet accounts payable arising in the normal course of business.

Net Fair Value of Financial Assets and Liabilities

The carrying amount of financial instruments recorded in the financial statements represent their fair value determined in accordance with the accounting policies disclosed in note 1. The aggregate fair value and carrying amount of financial assets and financial liabilities at balance date are set out in Note 11.

24. COMMITMENTS

(a) Lease Commitments

Non-cancellable operating lease commitments:
Not longer than one year
Between 12 months and 5 years
Greater than 5 years

| | Consolidated Entity | |
|--|---------------------|----------------|
| | 2006 | 2005 |
| | \$ | \$ |
| | 24,960 | 124,033 |
| | 99,840 | - |
| | 49,920 | - |
| | <u>174,720</u> | <u>124,033</u> |

The lease commitment is the Company's share of the office premises at Level 14, The Forrest Centre, 221 St Georges Terrace, Perth, Western Australia, and includes all outgoings (exclusive of GST). The lease is for a 7 year term expiring 30 June 2013 and contains a rent review increase each year alternating between 5% and the greater of market rate or CPI + 1%.

(b) Exploration Tenement Leases - Commitments for Expenditure

- (i) In order to maintain current rights of tenure to its Australian exploration tenements, the consolidated entity is required to outlay lease rentals and meet minimum expenditure commitments. Based on tenements which have been granted as at the date of this report, the consolidated entity has a 12 month commitment of \$45,154.
- (ii) The consolidated entity has also committed to spend A\$250,000 on exploration and evaluation over a 12 month period (from date of grant on 21 March 2006) in respect of a reconnaissance licence over a 5,000 square kilometre area in the Chitral Region, North-West Frontier Province, Pakistan, prospective for gold and copper.

Financial commitments for subsequent periods are contingent upon future exploration and evaluation results and cannot be estimated. These obligations are subject to renegotiation upon expiry of the tenement lease or when application for a mining lease is made and have not been provided for in the accounts.

25. CONTINGENT LIABILITIES AND ASSETS

- (a) **Hume Mining NL (Hume) and Strike Resources Limited (SRK) Agreement** - By an agreement dated 15 September 2005 (as amended), Hume disposed of an interest in various tenements located in the Northern Territory and in Western Australia to SRK. Under the agreement, Hume is entitled to receive a royalty of 2% of gross revenues (exclusive of GST) arising from any commercial exploitation of any minerals from the tenements.
- (b) **Native Title** - the consolidated entity's mining tenements in Australia may be subject to native title applications in the future. At this stage it is not possible to quantify the impact (if any) that native title may have on the operations of the consolidated entity.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 30 June 2006

26. EVENTS AFTER BALANCE SHEET DATE

- (a) On 8 September 2006, the Directors of the Company declared a final dividend of 3.0 cents per share fully franked dividend. The record date will be 12 October 2006 with payment to be effected on 19 October 2006.
- (b) On 7 July 2006, OEQO Pty Ltd (a wholly owned subsidiary incorporated on 7 July 2006), acquired a 143 hectare property in Gingin, Western Australia (approximately 100 km north of Perth) comprising the Koorian Olive Grove (which has approximately 64,500, 7 year old olive tree plantings) and certain grove related equipment/infrastructure, for a consideration of \$1.2 million. OEQO also entered into an option deed (with a 9 month term) to acquire 200 hectares of nearby land, the transfer of a water licence, water bore/equipment, shed, harvester and other equipment which services the grove, from an adjacent property owner. The grove acquisition is subject to obtaining relevant Waters and Rivers Commission (WR&C) of Western Australia approvals and subject to receipt of such consent(s), is expected to settle by 3 October 2006 (subject to extension by agreement of the parties pending WR&C consent).
- (c) On 2 August 2006, the Company implemented an Unmarketable Parcel Sale Facility for affected shareholders holding less than A\$500 worth of shares (an Unmarketable Parcel). Under this facility, the Company provided 6 weeks notice for affected shareholders to advise the Company of their wish to retain their Unmarketable Parcel shareholding. Shareholders who fail to return a Share Retention form by the deadline of 15 September 2006 will have their Unmarketable Parcel shareholding aggregated and sold on-market by the Company on their behalf.

The Board will sell such Unmarketable Parcels by way of an on-market sale through nominated broker(s) as soon as practicable after 15 September 2006 having regard to liquidity in OEQ shares and as market conditions dictate. Affected shareholders who have had their Unmarketable Parcel shares sold will receive a pro-rata share of the total proceeds of sale without any deduction for brokerage or other costs of sale (which will be borne by the Company).


The Company may concurrently undertake an on market buy-back through a different broker(s) nominated by the Board.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements, comprising the Income Statement, Balance Sheet, Statement of Changes in Equity and Cash Flow Statement and accompanying notes as set out on pages 18 to 42, are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2006 and of their performance for the year ended on that date;
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.
3. The Directors have been given the declarations required by section 295A of the *Corporations Act 2001* by the Executive Chairman, the person who performs the chief executive function, and by the Company Secretary, the person who performs the chief financial officer function, for the purposes of section 295A, who have each declared that:
 - (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
 - (b) the financial statements are in accordance with the *Corporations Act 2001*, comply with Accounting Standards and the Corporations Regulations 2001 and give a true and fair view of the Company's financial position as at 30 June 2006 and of its performance for the year ended on that date; and
 - (c) the financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board. The Company's risk management and internal compliance and control systems are operating efficiently and effectively in all material respects.

This declaration is made in accordance with a resolution of the Directors made pursuant to section 295(5) of the *Corporations Act 2001*.



William Johnson
Chairman



Victor Ho
Director

Perth, Western Australia

13 September 2006



Chartered Accountants
& Advisers

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INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ORION EQUITIES LIMITED

Scope

The Financial Report and Directors' Responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both Orion Equities Limited (the company) and the consolidated entity, for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit Approach

We have conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.



Independence

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

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

Audit Opinion

In our opinion, the financial report of Orion Equities 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 its performance for the year ended on that date; and
- (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

BDO

Chartered Accountants

A handwritten signature in blue ink, appearing to read 'M Shafizadeh', with a stylized flourish at the end.

M Shafizadeh

Partner

Perth, Western Australia

Dated this 13th day of September 2006

ABOUT THE COMPANY

The Company has been listed on the Australian Stock Exchange (**ASX**) since November 1970.

Since 8 July 2004, the Company has been admitted to ASX as an investment entity (as defined under the ASX Listing Rules).

On 2 December 2005, the Company changed its name from Central Exchange Limited to Orion Equities Limited.

The Company's ASX code is "OEO" (formerly "CXL").

1. INVESTMENT OBJECTIVES

The Investment Objectives of the Company are to:

- Achieve a consistent high real rate of return, comprising both income and capital growth, whilst operating within acceptable risk parameters set by the Board;
- Deliver a regular income stream for shareholders in the form of franked dividends;
- Preserve and protect the capital of the Company.

2. INVESTMENT STRATEGY

The Company will implement an actively managed investment strategy undertaking investments typically into one of two broad investment categories:

- Strategic Investments; and
- Non-strategic Investments.

The Company does not allocate a fixed proportion of funds into each or any of the above investment categories, since it believes that complete flexibility to invest across these categories is key to maximising long-term value growth for shareholders.

(a) Strategic Investments

The Company will seek to undertake investments in which it can reasonably expect to exert a degree of influence, including board representation or through playing an active role alongside management in order to enhance or realise shareholder value.

Investments will include those that have the potential for turnaround in profitability or capital appreciation through the introduction of new management, capital, improved business practices, industry rationalisation, and/or improved investor relations.

Strategic investments by their nature will rely heavily on the Company's ability to identify, attract and exploit unique opportunities.

(b) Non-Strategic Investments

The Company will seek to make non-strategic investments in entities where attractive investment opportunities develop due to market sentiment or mispricing or where the Company sees other potential for generating positive returns. In contrast to strategic investments, with non-strategic investments the Company does not envisage that it will take an active role in the management of the investment.

For each strategic and non-strategic investment, the Company will expect to receive a level of return that is commensurate with the level of risk associated with such investment. In each investment and for the investment Portfolio in aggregate, the Company will at least aim to achieve a return that is consistently in excess of an appropriate benchmark share index and or a return which could be earned from investments in cash, bills of exchange or negotiable instruments drawn or endorsed by a bank, non-bank financial institution or a government.

ABOUT THE COMPANY

3. PORTFOLIO ALLOCATION

In executing its Investment Strategy, the Company may, from time to time, hold a high proportion of net assets in cash, preferring to be patient and selective rather than filling its Investment Portfolio with mediocre or underperforming investments for the sake of becoming “fully-invested”.

The Company will not be limited to the principles of broad diversification; in other words, the Company may invest a significant proportion of funds in any single investment that represents an exceptional opportunity.

Every investment made by the Company will be continuously monitored and formally reviewed on a periodic basis. The Company will be willing to move quickly to realise investments when a view is formed that an investment is overvalued or there has been a material adverse change in an investment’s circumstances or prospects – the Company recognises the importance of being nimble and responsive to material changes affecting its investments.

The Company recognises that in some cases, investments take significant periods of time to provide acceptable returns. As such investments may be relatively illiquid, the Company will seek to minimise potential loss in the investment’s value where a rapid or unplanned exit from that investment is sought.

The Company may also decide to dispose of shares in an entity if in the Company’s view, maintaining the investment is not in the best long-term interests of the Company or an alternative, superior investment opportunity arises.

The Company’s investment decisions in this regard will be carried out by the Board of Directors and the Investment Committee (in conjunction with external consultants and advisers where appropriate) and not an external investment manager. Further information about the management of the Company’s investment activities are disclosed below.

4. INVESTMENT SECTORS

Investments may be made by the Company in Australia or an overseas market and into any underlying industry, business or sector, in accordance with the Company’s stated Investment Objectives and Strategies.

In this regard, the Company has a history of activity in the resource sector. Investments undertaken in this sector will continue to provide the Company with a window into the highly prospective resources sector domestically and globally. This sector will provide the initial focus for the Company, in part due to current market conditions and opportunities. Such opportunities can provide the possibility for exceptional growth and returns for relatively small levels of investment.

Resource investments may span large mining companies that produce base metals and precious metals, industrial minerals and bulk commodities to junior explorers with exposure to highly prospective projects or tenements. From time to time the Portfolio may have exposure to oil and gas opportunities.

Investments in the resources sector component of the Portfolio may be undertaken:

- Directly – through pegging of tenements, entering into joint ventures, taking options over and acquiring tenements, projects and joint venture interests;
- Indirectly – through placements and initial public offerings in existing companies (private, listed, or those seeking admission to ASX); or
- Actively – the Company recognises funding of exploration and resources development can be a problem for small and medium-sized resource companies (in Australia and overseas) and will seek to assist carefully selected companies in this sector to optimise their opportunities through the provision of funds and a range of financial and management expertise or services as required.

ABOUT THE COMPANY

The Company will also seek to engage geological consultants and other relevant advisers from time to time to assist the Directors and Executives in their assessment of investment opportunities in this sector.

5. INVESTMENT CLASSES

In pursuit of the Investment Objectives and Strategies outlined above, the Company will have absolute discretion in applying its equity and any debt funds to a universe or range of potential investments in assets, businesses, securities, hybrid securities, cash, bills of exchange, other negotiable investments, debentures and other investments and structures including but not limited to those identified below:

- (a) Listed securities (being any security quoted on ASX or another domestic or international financial market) or unlisted securities (whether expected to be quoted on a recognised stock exchange or not) including, without limitation, shares, units or notes which are redeemable, preference or deferred, fully or partly paid, with or without any right, title or interest thereto or therein (including a right to subscribe for or convert to any such security whether listed on or not), and any security of whatsoever nature;
- (b) Warrants and options to sell or purchase any investment;
- (c) Discount or purchase of bills of exchange, promissory notes or other negotiable instruments accepted, drawn or endorsed by any bank or by the Commonwealth of Australia, any State or Territory of Australia, or by any corporation of at least an investment grade credit rating granted by a recognised credit rating agency;
- (d) Deposits with any bank or corporation declared to be an authorised dealer in the short-term money market;
- (e) Debentures, bonds and unsecured notes of a corporation of at least an investment grade credit rating granted by a recognised credit rating agency;
- (f) Units or other interests in cash management trusts;
- (g) Units or other interests in property trusts;
- (h) Managed investment schemes or other similar financial products;
- (i) Derivatives - both exchange-traded and over-the-counter (OTC) (including options, futures, contracts for commodity futures and commodity options) for hedging and other purposes;
- (j) Participation in underwriting and sub-underwriting of securities and units in which the Company is otherwise able to invest;
- (k) Debt, hybrid debt or quasi-equity/debt, mezzanine debt, or debt funding of whatsoever nature;
- (l) Investments in assets of any type, whether they be generally known as "real", "financial" "operating" or "non-operating" including without limitation, interests in tenements, projects, real estate, business enterprises, and the carrying on of business or operations or any means of commercial exploitation of the same;
- (m) Investments into (and the carrying on of business or operations or any means of commercial exploitation within) any underlying industry, business or resource sector;
- (n) Investments through trusts, partnerships, joint ventures;
- (o) Any other investments consistent with the Company's investment objectives.

ABOUT THE COMPANY

6. MANAGEMENT OF INVESTMENTS

The Company's implementation of its Investment Strategies in accordance with its Investment Objectives will be carried out by the Board of Directors and the Investment Committee (in conjunction with external consultants and advisers where appropriate).

The Investment Committee comprises Executive Chairman, William Johnson and Executive Director and Company Secretary, Victor Ho and Farooq Khan (a nominee of the Company's controlling shareholder, Queste Communications Limited). Farooq Khan was Chairman and Managing Director of the Company from 4 October 1999 until his resignation on 1 July 2003 and is Chairman and Managing Director of Queste Communications Limited.

Where necessary, the Investment Committee will engage additional specialist resource(s) to assist with the identification, evaluation and management of particular investment opportunities. This includes specialist consultants and advisers, analysts and brokers.

The Investment Committee's collective recent experiences in public listed companies has involved:

- identification and assessment of strategic opportunities;
- strategic review of business operations and prospects of potential investee companies;
- accumulation of strategic stakes within investee companies;
- campaigning for change to unlock strategic value and seeking Board representation to implement the same;
- strategic review of business models and operations and their subsequent rationalisation to preserve capital or endeavour to unlock value within investee companies;
- corporate restructuring, including buy-backs and capital raisings, including rights issues and public offerings by prospectus;
- the identification, assessment, construction and management of share investment portfolios;
- tenement acquisitions and joint venture arrangements;
- assessment of resource projects and transaction structuring;
- pre-IPO corporate restructuring and capital raising;
- strategic business and financial modelling;
- strategic technical development and project management;
- strategic sales and marketing;
- evaluation of investment opportunities in a diverse range of sectors, including biotechnology, agribusiness, technology, telecommunications, property and resources;
- Strategic review of corporate and business restructuring of proposed acquisitions;
- Complex transactional structuring associated with acquisitions or pursuant to deeds of company arrangements.

At some time in the future, if it believes that it is in the best interests of the Company, the Board may chose to delegate part or all of the responsibility for making investment decisions to an investment manager, subject to the investment manager having appropriate capabilities, experience and the necessary Australian Financial Services licences(s).