

e-pay Asia Limited

(formerly SkyNetGlobal Limited)

ABN 99 089 227 887

General Purpose Financial Report at 31 December 2005
Together with Directors' and Independent Audit Reports

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e-pay Asia Limited Company Directory

Directors

Michael Lee
Non-Executive Chairman

Simon Loh
Managing Director

Jonathan Soon
Corporate Affairs

John Croft
Non-Executive Director

Company Secretary

Sean Hooper

Registered Office

Level 7, Suite 701
451 Pitt Street
Sydney 2000

Share Register

Level 3
60 Carrington Street
Sydney NSW 2000
Telephone 612 8234 5400

Auditors

Horwath Sydney Partnership

Stock Exchange Listings

e-pay Asia Limited shares are quoted on the Australian Stock Exchange and AIM (London Stock Exchange) in the United Kingdom.

e-pay Asia Limited Directors' Report

The Board of Directors of e-pay Asia Limited has pleasure in submitting its report in respect of the financial period ended 31 December 2005.

Following the "reverse acquisition" of the company by Orion Gateway Limited ("**Orion**") on 23 December 2005, the consolidated financial statements reported on represent a continuation of the consolidated financial statements of Orion and its controlled entities for the period from the date of incorporation of Orion (26 April 2005) to its year end balance date of 31 December 2005. e-pay Asia Limited ("**e-pay Asia**") is deemed to be a controlled entity of Orion for reporting purposes within the consolidated financial statements.

The financial statements of the parent company represent the legal parent of the consolidated entity, e-pay Asia. The company has changed its year-end balance date to 31 December 2005 in order to align with that of Orion. Accordingly, the financial statements of the parent company cover the six month period from the conclusion of its previous financial year ended 30 June 2005 to its new year end balance date of 31 December 2005.

Directors

The names and details of the directors of the parent company in office during the financial period and up until the date of this report are as follows. Directors were in office for the entire period unless otherwise stated.

<u>Names</u>	<u>Qualifications, experience and special responsibilities</u>
Michael Lee (Non-Executive Chairman)	Michael John Lee was appointed to the board on 21 June 2000 and is a member of the Company's audit committee and remuneration committee. Mr. Lee has approximately 30 years' general management experience within the information technology industry in Asia Pacific and the Middle East. Formerly managing director of Unisys Corporation - South Pacific, Mr. Lee was also a managing director of NCR, a global technology solutions company where he managed operations in the South Pacific and Asia. He is also a former governor of the American Chamber of Commerce and is a Fellow of the Australian Institute of Company Directors. Mr. Lee is born in England, an Australian citizen and resides in Sydney
Simon Wee Hian Loh (Managing Director)	Mr. Simon Loh, was appointed to the Board immediately on completion of the acquisition of e-pay (M) Sdn Bhd on 23 December 2005. Mr. Loh is the Managing Director of e-pay Malaysia, which he established 6 years ago as a start up enterprise together with Dato' Hassan. Mr. Loh was one of the founder members of Young Entrepreneurs Organisation Malaysia Chapter, a global, non-profit educational organisation for business owners. In 1989, Mr. Loh formed Telemas Corporation Sdn. Bhd., a mobile phone retailer and master distributor for Ericsson. Mr. Loh is a Malaysian citizen, carries Australian Permanent Resident status and is based in Kuala Lumpur
Jonathan Soon (Corporate Affairs)	Jonathan Soon is the founder of the Company and has served as the Company's Chief Executive Officer since 18 October 1999. In 2000, he led the Company through a successful IPO on the ASX and in 2005, a dual listing on AIM. Mr Soon is an experienced deal maker and has been instrumental to the reverse takeover of e-pay into SkyNetGlobal. He has extensive experience in public equity raisings, acquisitions, and has more than 10 years business experience in the telecommunications industry. Mr. Soon was named as one of top 8 Asian business identities in Australia by Asia Inc, Magazine in 2004. Mr. Soon is an Australian citizen, born in Malaysia and resides in Sydney.

John Croft
(Non Executive
Director)

John Croft was appointed a director on 2 February 2005 is a member of the Company's audit committee and remuneration committee. He has over 20 years of experience in technology companies. He has worked both in large corporates, where he has worked in the UK and internationally and more recently with start up companies for whom he has successfully assisted raising equity and loan funding. He was formerly chief executive of Home Media Networks Limited, a software company that the Company acquired in 2005. He is also a non-executive director of Future Route Limited a start-up company developing predictive software technologies. Previously, Mr. Croft was chairman and CEO of Streets Online Limited, a online retailer where he led a trade sale to Kingfisher plc. Prior to that, he also held various positions with Systems (UK) Limited, Racal Datacom Limited and NCR Corporation. Mr. Croft is a British citizen and resides in the United Kingdom.

Sean Hooper
(Chief Financial Officer
and Company Secretary)

Sean Hooper was appointed on 30 November 2004. Mr Hooper joined the Company in April 2000 as Financial Controller and was appointed Chief Financial Officer in September 2004. He was appointed to the Board on 19 November 2004. Sean Hooper has had over 18 years' experience in Australia and abroad working in a broad range of industries covering telecommunications, oil & gas, manufacturing and technology companies including Horizon Oil Limited (Australia), Raywood Communications Pty Limited (Australia and UK) and Credit Lyonnais Rouse Limited (UK). During his time at Horizon Oil Limited, a publicly listed company on ASX, Mr Hooper managed over eleven companies and three joint ventures across six countries. Mr Hooper has a Bachelor of Commerce from Newcastle University and is a member of the Institute of Chartered Accountants in Australia. Mr Hooper resigned as a Director and Chief Financial Officer on 24 November 2005, and remained as Company Secretary.

Directors' Meetings

The number of meetings of directors (including committees of directors) and the attendances at the meetings were:

Name	Directors		Audit Committee	
	Held	Directors Attended	Held	Audit Committee Attended
Michael Lee	10	10	1	1
Jonathon Soon	10	10	1	1
Sean Hooper	5	4	1	1
John Croft	10	8	-	-
Simon Loh	4	3	-	-

Principal Activities

The Consolidated entity is principally engaged in the sales and provision of vouchers bearing prepaid airtime personal identification numbers (PINS) and on-line top-ups for various prepaid services in Malaysia, Indonesia, Pakistan and Thailand. There have been no significant changes in the nature of these activities during the financial period.

Results

The consolidated net loss of the consolidated entity for the financial period was \$7,765,078 after income tax and outside equity interests. This loss included an impairment write-off of goodwill totalling \$8,759,457.

Dividends

No dividends have been paid, declared or proposed by the company during the financial period and up to the date of this report.

Review of Operations

As referred to above, the consolidated entity financial statements represent a continuation of the financial statements of Orion and its controlled entities. Orion was incorporated on 26 April 2005 and remained dormant until it acquired a 60% interest in e-pay (M) Sdn Bhd ("**e-pay Malaysia Group**") on 31 October 2005, and then subsequently was deemed to have acquired e-pay Asia on 23 December 2005 through a reverse acquisition.

The results of the e-pay Malaysia Group businesses have grown significantly for the 2 months post acquisition period (Nov and Dec), with year on year revenues increasing 112% from \$40.6m to \$86.1m. The revenues are mainly (more than 95%) attributable to sales of prepaid mobile top-ups. Besides the increase in market size, the increase in revenue was mainly derived from successful roll out of Point of Sales ("POS") terminals into non mobile phone shop channels, these channels providing high traffic as well as extended business hours. The number of POS increased from 6,328 to 12,979 across 4 operating countries (Malaysia, Indonesia, Pakistan and Thailand), representing a 105% increase.

As e-pay Asia's operating results are only consolidated for the post reverse acquisition period from 24 December to 31 December, these have had no impact of the reported results of the consolidated entity for the reporting period. The Directors have previously announced their intention to divest from these businesses in order to concentrate on the core principal activities described above.

Significant Changes in the State of Affairs

The state of affairs of the consolidated entity has changed significantly as a result of the reverse acquisition of e-pay Asia by Orion on 23 December 2005.

The balance sheet of the consolidated entity at 31 December 2005 reflects the consolidated assets of Orion and its controlled entities, including e-pay Asia and e-pay Malaysia group. The income statement for the period represents the continuing operating results of Orion, and the post acquisition results of e-pay Malaysia Group (from 31 October 2005) and e-pay Asia (from 24 December 2005).

Likely Developments and Future Results

The directors have excluded from this report information on the likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years, as the directors believe that it would be likely to result in unreasonable prejudice to one or more entities in the consolidated group.

Options and Shares or Other Interests Under Option

Details of options granted to directors or relevant officers as part of their remuneration are set out in the Remuneration Report below.

Significant Events after Year End

Between 13th January to 10th February 2006 the company has issued a total of 761,396 shares to Cornell Capital to retire debt. On 20th January 2006, the company issued 350,000 shares to settle legal proceedings brought against it in respect of commission payments totalling \$99,290.

On 9th January 2006, Home Media Network ("**HMN**"), a controlled entity of e-pay Asia was placed into liquidation. A Provisional Liquidator has been appointed by the Courts. The Liquidator has indicated that it is unlikely that any dividend will be paid to creditors nor any return will be provided to shareholders.

Shares under option

Unissued ordinary shares of e-pay Asia Limited under option as at the date of this report are as follows

Date options granted	Expiry date	Issue price of shares	Number under option
14 July 2000	13 July 2007	\$11.76	204,082
30 October 2000	29 October 2007	\$21.00	207,176
27 March 2001	26 March 2006	\$13.02	17,857
15 April 2002	16 April 2007	\$3.15	5,952
2 September 2002	1 September 2007	\$1.43	5,952
12 December 2002	11 December 2009	\$3.15	357,143
10 June 2003	9 June 2008	\$1.68	1,786
28 August 2004	27 August 2009	\$1.93	23,810
24 February 2005	18 March 2007	\$1.50	200,000
22 March 2005	21 March 2006	\$1.16	600,000
25 November 2005	4 February 2008	\$0.19	300,000
25 November 2005	17 August 2007	\$0.40	200,000
23 December 2005	31 December 2008	\$0.20	1,952,029
30 December 2005	31 December 2008	\$0.20	10,000,000
		Total	14,075,787

Shares issued on the exercise of options

No ordinary shares of e-pay Asia Limited were issued during the financial period ended 31 December 2005 on the exercise of options granted under the e-pay Asia Employee Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Shareholdings of key management personnel

	Balance 1/7/2005	Granted as remuneration	On exercise of options	Net change other	Balance 31/12/2005
31 December 2005	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary
Directors					
S. Loh	-	-	-	119,595,451	119,595,451
M. Lee	9,525	-	-	-	9,525
J. Soon	38,360	-	-	-	38,360
J. Croft	-	-	-	15,782	15,782
Executives					
Dato Hassan	-	-	-	14,000,000	14,000,000
YC. Wong	-	-	-	7,297,500	7,297,500
CM. Yap	-	-	-	208,335	208,335
ES. Sam	-	-	-	208,335	208,335

Loans to directors and executives

No loans were made to directors or executives.

Other transactions and balances with key management

Other than disclosed under remuneration of directors and management, there were no other transactions with key management. e-pay Asia Limited does not hold any investments in any entities which are controlled by any of the key management.

Indemnifying Officers or Auditor

During the financial year the Company has paid a premium in respect of a directors' and officers' liability insurance contract for all directors and secretaries of the Company named in this report.

The policy insures persons who are directors or officers of the company and its controlled entities against certain liabilities incurred as such by an officer or director, while acting in that capacity. The premium has not been determined on an individual entity, officer or director basis. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contract; as such disclosure is prohibited under the terms of the contract.

No other agreements to indemnify directors, officers or auditors have been entered into, nor have any payments in relation to indemnification been made, during or since the end of the financial year, by the Company.

Proceedings on behalf of Company

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

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

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (Horwath Sydney Partnership) for audit and non-audit services provided during the period are set out below.

The board of directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 for the reason that none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

A copy of the auditor's independence declaration as required under section 307C of the Corporation Act 2001 is set out on page 11.

**Consolidated
December
2005
\$**

During the period the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

Horwath Sydney Partnership

Assurance services	<u>68,000</u>
Taxation Services	<u>24,600</u>
Advisory and accounting services	
- Investigating accountant report's and sundry advices for Prospectus and AIM Admission documents issued during the period	147,580
- Sundry Accounting services	<u>11,800</u>
	<u>159,380</u>

Total fees – Horwath Sydney Partnership	<u>251,980</u>
<i>Horwath Kuala Lumpur Office</i>	
Assurance services	<u>11,275</u>
Advisory and Accounting services	
- Investigating accountant report's for Prospectus and AIM Admission documents issued during the period	<u>83,125</u>
Total fees – Horwath Kuala Lumpur office	<u>94,400</u>

Horwath Sydney Partnership and Horwath Kuala Lumpur office are independent practices operating within the Horwath International Network.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of E-pay Asia Limited support and have adhered to the principles of corporate governance. The company's corporate governance statement is contained on pages 12 to 14 of the Financial Report

Remuneration report

The remuneration report is set out under the following main headings

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation

A Principles used to determine the nature and amount of remuneration

The objective of the company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders and conforms with market best practise for the delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance

- Competitiveness and reasonableness
- Acceptability to shareholders
- Transparency
- Capital management

The framework provides for fixed pay with a blend of short and long term incentives.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. The fees paid to non-executive directors are inclusive of committee fees.

Key Management Personnel

The executive management pay and reward framework has four components

- Base pay and benefits
- Bonuses
- Post-employment benefits
- Other long term benefits
- Termination benefits
- Share based payments

The combination of these comprises the executive's total remuneration.

Base pay and benefits

Structured as a total employment cost package which maybe delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion. There are no guaranteed base pay increases included in any key management employee's contract.

Key management employees receive benefits including car allowances and car parking.

Bonuses

Bonuses are paid to individual key management personnel at the discretion of the Managing Director.

Post employment benefits

Post employment benefits are delivered to the superannuation fund of the key management personnel's choice.

Share based payments

Information on the e-pay Asia employee option plan is set out under point "D" below.

B Details of remuneration and relationship to the company's performance.

Details of remuneration provided to the directors and the 5 executives who received the highest remuneration during the period were as follows. These same persons are also considered to be the key management personnel of the consolidated entity.

For the financial period ended 31 December 2005 – (consolidated entity)

Name	Short term (Primary)		Post- employment	Long term (Other)	Share based (Equity)		Total \$	% Option content of Total
	Fees \$	Bonus \$	Superannuation \$	Incentive plans \$	Shares \$	Options \$		
Executive directors								
J Soon (i) (Executive Director)	4,482	-	-	-	-	-	4,482	-
M Lee (i) (Chairman)	738	-	66	-	-	-	804	-

John Croft (i) (Non-Executive Director)	1,338	-	-	-	-	-	1,338	-
S. Loh (ii) (Managing Director)	36,220	8,048	5,312	-	-	-	49,580	-
Other key management personnel								
Dato' Md Hassan Hj Said (ii) (Director of Business Development)	18,110	4,024	2,656	-	-	68,000	92,790	73%
Yin Ching Wong (ii) (Chief Operating Officer)	13,039	3,622	1,999	-	-	68,000	86,660	78%
Chih Ming Yap (ii) (General Manager - Finance)	7,244	2,012	1,110	-	-	68,000	78,366	86%
Eng Sun Sam (ii) (IT Director)	7,244	2,012	1,110	-	-	68,000	78,366	86%
Total	88,415	19,718	12,253	-	-	272,000	392,386	

- (i) remuneration reported is in respect of the post reverse acquisition period of e-pay Asia from 24 December 2005 to 31 December 2005.
- (ii) remuneration reported is in respect of the post acquisition period of e-pay Malaysia from 1 November 2005 to 31 December 2005.
- (iii) no termination benefits were paid or payable in respect of the period.

In view of the short post-acquisition periods of both e-pay Asia and e-pay Malaysia to balance date, specific performance criteria were not used as a guide to determine performance remuneration during the period. Such remuneration was determined at the discretion of the Managing Director.

Cash bonuses and options

For each cash bonus and grant of options included in the above table, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service performance criteria is set out below.

Name	Cash bonus		Options	
	Paid %	Forfeited %	Vested %	Forfeited %
Dato Hassan	100	-	100	-
YC. Wong	100	-	100	-
CM. Yap	100	-	100	-
ES. Sam	100	-	100	-

C Service agreements

The company entered into a service agreement with Simon Loh on the 23 December 2005. The details of which are

- Annual Remuneration of RM600,000 (A\$217,320) (excluding company superannuation contribution)

- The agreement can be terminated by either party giving 6 months notice
- Subject to annual review, 2 months prior to the end of each year ending 31 December.
- There is no termination payments payable under the contract.

As at the date of this report there are no other service agreements in place.

D Share-based compensation

During the financial period options were granted as equity compensation benefits to certain key management personnel and to other non-management personnel. No share options were granted to either executive or non-executive directors during the financial period.

Details of the issued options are

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
28 December 2005	31 December 2008	\$0.20	\$0.068	100% after 30 December 2005

The Options granted carry no dividend or voting rights. When exercisable each option is convertible into one ordinary share. The exercise price of options is based on the issue price of the prospectus dated 5 December 2005. The amounts disclosed for emoluments relating to options above are the assessed fair values at grant date of options granted to executive directors and other executives. The options vested on issuance and were therefore fully expensed on issuance. There are no cash settlement alternatives. Fair values are independently determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The options were granted in recognition of past services of the respective executives.

Further details relating to options are set out below.

31 December 2005	Vested No. (000)	Granted No. (000)	Terms and conditions for each grant					
			Grant date	Fair value at grant date	Exercise price	Expiry Date	First exercise date	Last exercise date
Nil for Directors								
Executives								
Dato Hassan	1,000	1,000	30/12/05	\$0.068	\$0.20	31/12/08	30/12/2005	31/12/08
YC. Wong	1,000	1,000	30/12/05	\$0.068	\$0.20	31/12/08	30/12/2005	31/12/08
CM. Yap	1,000	1,000	30/12/05	\$0.068	\$0.20	31/12/08	30/12/2005	31/12/08
ES. Sam	1,000	1,000	30/12/05	\$0.068	\$0.20	31/12/08	30/12/2005	31/12/08

This report has been made in accordance with a resolution of the Board of Directors.



Simon Wee Hian Loh
Managing Director
 Sydney, 29 March 2006



29 March 2006

Horwath Sydney Partnership
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PRIVATE & CONFIDENTIAL

The Board of Directors
e-pay Asia Limited
Level 7, 451 Pitt Street
SYDNEY NSW 2000

AUDITOR'S INDEPENDENCE DECLARATION

This declaration is made in connection with my audit of the financial report of e-pay Asia Limited for the period ended 31 December 2005 and in accordance with the provisions of the Corporations Act 2001.

As lead auditor I declare that, 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 this review;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

**HORWATH
SYDNEY PARTNERSHIP**

A handwritten signature in black ink, appearing to read "Michael Kaplan", written over a horizontal line.

MICHAEL KAPLAN
Partner

Corporate Governance Statement

The Board strongly endorses the Principles of Good Corporate Governance and Best Practice Recommendations developed by the ASX. Having regard to the size and nature of the Company's operations, the Board have adopted the Best Practice Recommendations they consider appropriate for the Company. The Best Practice Recommendations not adopted or specific comments thereon are as follows:

Role of the Board and Management

The Board is responsible for the Corporate Governance of the Company including setting and the monitoring the objectives, goals and corporate direction of the Company. There are no formal statements as to the delegated authority of management, however the Board closely interacts with the management of the Company, and given the small size of the management team considers this process to be appropriate.

The Board's primary roles are:

- The protection and enhancement of long-term shareholder value
- The overall Corporate Governance of the consolidated entity
- Setting strategic direction, including establishing goals for management and monitoring the achievement of these goals.
- Monitoring financial performance, including approval of the annual and half year financial reports and liaison with the company's auditors.
- The identification of areas of significant risk and ensuring adequate arrangements are in place to manage these risks
- The establishment of appropriate ethical standards
- The appointment of the Managing Director, evaluating performance and determining remuneration of senior executives

Structure of the Board

Directors' qualifications and experience are outlined in the Directors' Report.

Due to its small size, the company has not yet achieved a structure where there is a majority of independent directors. At present the Board consists of two non-executive directors and two executive directors. The chairperson is an independent non-executive director. As the company grows, the structure of the board will change and majority levels of independence reached.

Due to the size of the company, it is not considered necessary to maintain a Nomination Committee. When a vacancy exists, through whatever cause or, where it is considered that the Board would benefit from the services of a new director with particular skills, the Board considers candidates with the appropriate expertise and experience. The Board then appoints the most suitable person who shall hold office, until the conclusion of the following annual general meeting of the company and shall be eligible for election at such annual general meeting.

Each Director has the right to seek independent professional advice regarding material matters concerning the Company, at the Company's expense, after notifying the Chairman.

Ethical and Responsible Decision-making

The Company has established a formal Code of Conduct that expresses certain basic principles that e-pay Asia, its employees and external consultants should follow in all dealings related to e-pay Asia. The code also sets out the standards to which each director will adhere whilst conducting their duties. Full details are available at the company's web site.

The company has a formal policy concerning trading in its securities by Directors, officers or employees.

Directors, Senior Management, Other Employees and Consultants of e-pay Asia, whose positions expose or are likely to expose them to information regarding the e-pay Asia Group, being:

the Board;

the Managing Director of e-pay Asia;

the Executive Assistant to the Managing Director, the General Manager or the Chief Financial Officer;

anyone else who is an Employee of, or Consultant to, e-pay Asia and / or any of its subsidiaries,

(collectively called "Restricted Personnel" for the purposes of this policy) are to be subject to restrictions on trading in E-pay Asia securities other than at certain times of the year. This includes any employee or consultant who may be exposed to Inside Information in the course of their duties.

Full details are available at the company's web site.

Safeguard Integrity in Financial Reporting

The Company has a formally constituted Audit Committee consisting of one non-executive Director and the Managing Director. The Board consider the size and membership of the committee to be appropriate given its size and the nature of its operations. Details of the names and qualification of those appointed to the committee and the number of meetings held and attended by the members are outlined in the Directors' Report.

The responsibilities of the audit committee include:

- Reviewing the financial report and other financial information distributed externally
- Reviewing any accounting policies to ensure compliance with Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements
- Reviewing external audit reports to ensure that where major deficiencies or breakdown in controls or procedures have been identified, appropriate and prompt remedial action is taken by management
- Liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner
- Monitoring the establishment of an appropriate internal control framework and considering enhancements
- Monitoring the establishment of appropriate ethical standards
- Monitoring the procedures in place to ensure compliance with the Corporations Act 2001 and Stock Exchange Listing Rules and all other regulatory requirements
- Addressing any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions
- Reviewing reports on any major defalcations, frauds and thefts from the Company
- Improving the quality of the accounting function.

Make Timely and Balanced Disclosure

The Board, through its continuous disclosure, the maintenance of a web site, distribution of the half-year and annual report to all shareholders and the holding of an annual shareholders meeting where shareholders are encouraged to participate, strives to keep shareholders fully informed of developments within the Company, in a cost effective manner.

Shareholders' Rights

The Company has established a formal shareholder communications strategy. Full details are available at the company's web site.

Recognise and Manage Risk

The company has adopted formal risk management profiles, policies and procedures. This policy has been established to ensure that e-pay Asia implements a comprehensive system of risk identification, assessment and management. The risk management system forms an integral part of the Company's structure and is designed to: identify, assess, monitor and manage risk; and inform investors of major risks faced by e-pay Asia and any significant changes to those risks.

Encourage Enhanced Performance

The Board has not adopted formal Performance Enhancement procedures, as the Board undertakes ongoing performance reviews as part of its regular review of Company activities.

Remuneration

Directors' Emoluments are outlined in the Directors' Report.

Remuneration levels, including participation in the Company's Share Option Scheme, are set to provide reasonable compensation in line with the Company's financial resources. In accordance with Corporations Act requirements, the Company discloses the remuneration paid to all Directors, plus Executive Officers. The Company has an Employee Share Option Plan that was introduced at the time the Company listed on ASX.

The only retirement benefits payable to Non-executive Directors are statutory superannuation payments.

Interest of Stakeholders

The Company has established a formal Code of Conduct covering obligations to legitimate stakeholders. The Code sets out the standards to which E-pay Asia will adhere whilst conducting its business and includes:

- the approval of the Code by the Board and senior management;
- the commitment to shareholders;
- compliance with relevant laws;
- environment protection;
- occupational health & safety;
- equal employment;
- confidentiality;
- conflicts of interest;
- general conduct;

All employees are responsible for e-pay Asia achieving the highest levels of business conduct.

e-pay Asia Limited

Income Statement

Financial period ended 31 December 2005

	Note	Consolidated 26 April 2005 to 31 December 2005 \$	Company 1 July 2005 to 31 December 2005 \$	Company 1 July 2004 to 30 June 2005 \$
Revenue	3	85,356,769	6,819	103,429
Other Income	3	1,444,260	404,000	114,811
Purchases		(81,970,805)	(21,048)	(10,221)
Changes in inventories		(1,067,922)	(7,212)	4,313
Employee benefits		(675,730)	(435,685)	(1,191,709)
Employee benefit - option expense		(680,000)	(839,942)	(175,275)
Other operating expenses		(939,875)	(772,884)	(1,557,783)
Fund raising AIM admission and corporate advisory expenses		-	(2,522,045)	(3,638,627)
Finance facility fees		-	(114,485)	(1,077,400)
Impairment of intangible rights		-	-	(279,365)
Impairment of Investments		-	(1,325,004)	(4,033,029)
Impairment of intercompany receivables		-	(1,625,890)	(5,565,382)
Profit (loss) before finance costs, depreciation & amortisation, impairment losses and income tax		1,466,697	(7,253,376)	(17,306,238)
Finance expense (borrowing costs)		(152,716)	(46,358)	(34,356)
Impairment of goodwill		(8,759,457)	-	-
Depreciation & Amortisation		(175,278)	(366,174)	(1,133,228)
Profit(loss) before income tax		(7,620,754)	(7,665,908)	(18,473,822)
Income tax (expense) income	4	12,371	-	-
Net profit (loss) after income tax		(7,608,383)	(7,665,908)	(18,473,822)
Net loss (profit) attributable to outside equity interests		(156,695)	-	-
Net profit (loss) attributable to members of the parent entity		(7,765,078)	(7,665,908)	(18,473,822)
Basic earnings per share (cents)	27	(28.9)		
Diluted earnings per share (cents)	27	(28.9)		

The accompanying notes form an integral part of this Income Statement.

e-pay Asia Limited
Balance Sheet as at 31 December 2005

	Note	Consolidated 31 December 2005 \$	Company 31 December 2005 \$	Company 30 June 2005 \$
Current Assets				
Cash	5	4,294,791	1,655,988	23,524
Receivables	6	2,768,501	508,037	36,252
Inventories	7	10,305,276	5,461	12,673
Other	8	1,329,571	63,666	74,392
Total Current Assets		18,698,139	2,233,152	146,841
Non-Current Assets				
Property, plant and equipment	9	3,496,730	116,513	374,133
Intangible assets	10	90,550	-	71,163
Investments – equity accounted	11	-	-	-
Other financial assets	13	1,902,120	35,655,762	1,388,887
Deferred tax assets	16	16,258	-	-
Total Non-Current Assets		5,505,658	35,772,275	1,834,183
Total Assets		24,203,797	38,005,427	1,981,024
Current Liabilities				
Payables	15	10,372,515	2,953,105	2,183,629
Interest bearing liabilities	18	7,986,173	661,656	510,144
Current tax liabilities	16	51,545	-	50,000
Provisions	17	180,000	180,000	-
Total Current Liabilities		18,590,233	3,794,761	2,743,773
Non-Current Liabilities				
Payables	15	2,390,520	338,212	338,212
Interest bearing liabilities	18	1,348,485	-	839,201
Deferred tax liability	16	77,873	-	-
Provisions	17	220,000	220,000	-
Total Non-Current Liabilities		4,036,878	558,212	1,177,413
Total Liabilities		22,627,111	4,352,973	3,921,186
Net Assets (Liabilities)		1,576,686	33,652,454	(1,940,162)
Equity				
Contributed equity	19	7,310,834	73,965,275	31,546,693
Reserves	20	693,608	1,063,842	223,900
Accumulated losses	20	(7,765,078)	(41,376,663)	(33,710,755)
Parent entity Interest (Deficit)		239,364	33,652,454	(1,940,162)
Minority Interest		1,337,322	-	-
Total Equity (Deficit)		1,576,686	33,652,454	(1,940,162)

The accompanying notes form an integral part of this Balance Sheet.

e-pay Asia Limited

Statement of Changes in Equity for the financial period ended 31 December 2005

	Note	Consolidated 26 April 2005 to 31 December 2005 \$	Company 1 July 2005 to 31 December 2005 \$	Company 1 July 2004 to 30 June 2005 \$
Balance at the beginning of the period		-	(1,940,162)	7,269,814
Adjustment on adoption of AIFRS net of tax to:				
- accumulated losses	2A	-	-	(48,900)
Net income (loss) recognised directly in equity		-	-	(48,900)
Profit (loss) for the period		(7,608,383)	(7,665,908)	(18,473,822)
Total recognised loss for the period attributable to members of e-pay Asia Limited		(7,608,383)	(7,665,908)	(18,522,722)
Options expense credited to Share Based Payments Reserve		680,000	839,942	223,900
"Cost of combination" in respect of reverse acquisition of e-pay Asia		7,310,832	-	-
Investment acquisitions settled by issue of equity		-	28,022,568	3,648,081
Liabilities/expenses settled by the issue of equity		-	1,698,564	717,776
Contributions of equity, net of transaction costs	2	-	5,447,450	4,722,989
Equity to be issued to settle investment acquisition		-	7,250,000	-
Foreign currency transaction reserve arising during the period		13,608	-	-
Outside equity interest in controlled entities arising on reverse acquisition		1,180,627	-	-
Total equity at period end		1,576,686	33,652,454	(1,940,162)

The accompanying notes form an integral part of this Statement of Changes in Equity.

e-pay Asia Limited
Cash Flow Statement for the financial period ended
31 December 2005

	Note	Consolidated 26 April 2005 to 31 December 2005 \$	Company 1 July 2005 to 31 December 2005 \$	Company 1 July 2004 to 30 June 2005 \$
Cash flows from operating activities				
Receipts from customers		85,429,078	2,657	154,482
Payments to suppliers and employees		(84,880,014)	(3,787,913)	(5,364,390)
Interest received		14,898	3,088	15,892
Interest paid		(126,576)	(4,190)	(29,288)
Tax paid		(92,165)	(50,000)	-
Net operating cash flows	22 (b)	345,221	(3,836,358)	(5,223,304)
Cash flows from investing activities				
Proceeds from disposal of plant and equipment		10,974	-	-
Payments for plant and equipment		(838,437)	(340,725)	(252,524)
Payment for acquisition of businesses			(37,391)	(100,000)
Payments for intangibles		(90,550)	-	(56,757)
Payments for investments		-	-	(63,884)
Proceeds on disposal of investments		-	-	3,500,000
Less associated cost of sale		-	-	(2,130,000)
Loans to controlled entities		-	-	(2,897,515)
Net cash acquired on acquisition of controlled entities		3,818,466	-	-
Advances to other parties		-	-	(15,797)
Repayment of advance from related party		198,784	-	-
Other		(23,016)	-	-
Net investing cash flows		3,076,221	(378,116)	(2,016,477)
Cash flows from financing activities				
Proceeds from issues of shares and options		-	6,393,460	4,887,745
Proceeds from borrowing		29,535	581,328	1,450,000
Loan repayments		(1,297,764)	(106,086)	(412,174)
Capital raising expenses		(491,732)	(1,021,764)	(164,756)
Net financing cash flows		(1,759,961)	5,846,938	5,760,815
Net increase (decrease) in cash held		1,661,481	1,632,464	(1,478,966)
Cash at the beginning of the financial period		-	23,524	1,502,490
Currency translation difference		(3,258)	-	-
Cash at the end of the financial period	5	1,658,223	1,655,988	23,524

The accompanying notes form an integral part of this Cash Flow Statement.

e-pay Asia Limited

Notes to the Financial Statements for the financial period ended 31 December 2005

Note 1. Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis.

Statement of compliance

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

This is the first financial report prepared based on AIFRS and comparatives have been restated accordingly except for the adoption of AASB 132 *Financial Instruments : Disclosure and Presentation* and AASB 139 *Financial Instruments : Recognition and Measurement*. The company has adopted the exemption under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* from having to apply AASB 132 and AASB 139 to the comparative period. Reconciliations of AIFRS equity and profit for 30 June 2005 (being the comparative financial year end for the parent company) to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in note 2.

Australian Accounting Standard which have been recently issued or amended but are not yet effective have not been adopted for the reporting period ended 31 December 2005. The new standards or amendments are not expected to materially affect the parent company or consolidated entity ("**Group**").

Unless otherwise stated, accounting policies have been adopted on a consistent basis.

Basis of Consolidation

Reverse acquisition accounting

e-pay Asia Limited ("e-pay Asia") completed the acquisition of a 100% interest in Orion Gateway Limited ("Orion") on 23 December 2005.

In accordance with Accounting Standard AASB 3: Business Combinations, the combination of e-pay Asia and Orion is required to be accounted for as a reverse acquisition, with the legal subsidiary, Orion, deemed to be the acquirer and the legal parent, e-pay Asia, deemed to be the acquiree.

Under the reverse acquisition method of accounting, the consolidated financial statements represent a continuation of the financial statements of Orion and its controlled entities ("**consolidated entity**" or "**Group**").

Preceding the reverse acquisition referred to above, Orion acquired on 31 October 2005 a 60% controlling interest in e-pay (M) Sdn Bhd and its controlled entities ("e-pay Malaysia Group"). Both e-pay Asia and e-pay Malaysia Group are therefore included in the consolidated financial statements of Orion as controlled entities at 31 December 2005.

The 31 December 2005 consolidated financial statements therefore reflect the following:

- the balance sheet reflects the consolidated assets and liabilities of Orion and its controlled entities as at 31 December 2005;

- the retained earnings and other equity balances recognised are the continuing retained earnings and other equity balances of Orion and the post acquisition movements in retained earnings and other equity balances of e-pay Malaysia Group and e-pay Asia;
- the amount recognised as contributed equity represents the issued equity of Orion immediately before the business combination plus the “cost of the business combination”. However the equity structure disclosed (ie the number and type of equity instruments issued) reflects the equity structure of e-pay Asia, including the equity instruments issued by that company to effect the combination.
- the amount recognised in the Income Statement represents the continuing operating results of Orion and the post acquisition operating results of e-pay Malaysia Group (from 31 October 2005) and e-pay Asia (from 24 December 2005).
- no comparative previous corresponding period financial information is shown as Orion (whose financial statements are being reported) did not exist during the corresponding previous period. Orion was incorporated on 26 April 2005 and the consolidated financial report is for the period from that date to 31 December 2005.

General principles of consolidation

Subsidiaries

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer below under “Business Combinations”).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interest in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet, respectively.

Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. Impairment losses are charged to the income statement and any reversals are credited to the income statement.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised in the parent Company's income statement, while in the consolidated financial statements they reduce the carrying amount of the investment.

When the Group's share of losses (or impairment write-downs) in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Reporting Period and Comparatives

As discussed above under the heading of "Reverse acquisition accounting", the reporting period for the consolidated entity is from the date of incorporation of Orion Gateway Limited (the deemed controlling entity) – 26 April 2005 to the financial year end date of 31 December 2005. Accordingly there are no comparative figures for the consolidated entity

The financial statements of the parent company represent the legal parent, e-pay Asia Limited. The company changed its year end balance date to 31 December 2005 in order to align with that of Orion. Accordingly, the financial statements of the parent company cover the six month period from the conclusion of its previous financial year end 30 June 2005 to its new year end balance date of 31 December 2005.

Revenue Recognition

Revenue is recognised upon sale and provision of vouchers and on-line top-ups bearing prepaid airtime PINS.

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the assets.

Taxes

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 applied in each jurisdiction in which the group operates, 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.

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 current tax rates. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

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

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

Tax consolidation legislation

e-pay Asia and its wholly-owned Australian subsidiaries implemented the tax consolidation legislation as of 1 July 2004. The Australian Taxation Office has been notified of this decision. As a consequence, e-pay Asia, as the head

entity in the Australian tax consolidation group, recognises current tax amounts and deferred tax originating from available tax losses of subsidiaries, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under a tax sharing and a tax funding agreement with the tax consolidated entities are recognised as intercompany balances.

Goods and services tax ("GST")

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

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

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

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from or payable to the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and the finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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

Business Combinations

The purchase method of accounting is used for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets acquired, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present values as at the date of acquisition. The discount rate used is the incremental borrowing rate, being

the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) and these cash flows are discounted using the weighted average cost of capital.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the balance sheet.

Receivables

Trade receivables

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

Collectability is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collectability exists. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

Inventories

Inventories consist primarily of prepaid airtime. They are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis. Net realisable value is the estimate selling price in the ordinary course of business, less selling expenses.

Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

Property plant and equipment

All plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. The cost of equipment comprises their purchase cost and any incidental costs of acquisition.

Depreciation of equipment is calculated to write off the cost of each asset on a straight line basis over the estimated useful lives of the assets concerned. The principal annual rates of depreciation are as follows:

EDC terminals	20%
Office equipment	20%
Computers	33 ¹ / ₃ %
Furniture and fittings	20%

At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the asset is fully recoverable. A write-down is made if the carrying amount exceeds the recoverable amount. See accounting policy note on impairment of assets.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are included in the Income Statement.

Repairs and maintenance are charged to the income statement during the period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets which it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the asset.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, associate or business at the date of acquisition. Goodwill on acquisition of subsidiaries and businesses is included in intangible assets. Goodwill on acquisition of associates is included in investment in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. They are recognised initially at the fair value of what is expected to be paid, and subsequently at amortised cost.

Borrowings

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

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

Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include:

- interest on bank overdrafts, short and long-term borrowings
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings

Employee benefits

Wages, salaries, annual leave and sick leave

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

Long service leave

The liability for long service leave expected to be settled within 12 months from the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service

leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee entitlements and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined Contribution Plans

The Group's contributions to defined contribution plans are charged to the income statement in the period to which they relate. Once the contributions have been paid, the Group has no further obligations in respect of these plans.

Share based payments

The Group provides benefits to selected employees in the form of an Option Plan. The relevant employees are deemed to provide services to the Group in exchange for Options. The cost of these equity-settled transactions is measured by reference to the fair value of the equity instruments at the date that they are granted. The fair value at grant date is independently determined using a Black-Scholes pricing model that takes into account the term of the performance rights, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the performing rights, the share price at the grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the performance rights. The fair value of the share based payment is recognised over the relevant vesting period as an expense, with a corresponding increase in equity.

Dividends

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

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

Critical Accounting estimates and judgements

In the process of applying the Group's accounting policies management has made the following judgements and estimates, which have had a significant impact on the financial statements:

Goodwill and Impairment testing

Goodwill on consolidation totalling \$8,759,457 arose in connection with the reverse acquisition of e-pay Asia by Orion.

The goodwill which arose is attributable to the business operations of e-pay Asia as the deemed acquiree in the business combination. Since the directors have indicated their intention to divest from the business operations of e-pay Asia, they have assessed the recoverable value of the goodwill on the basis of the sale value less costs to sell of the underlying operations.

The directors have assessed that the goodwill balance arising is fully impaired on the basis that they believe that the sale value less cost to sell of these operations will not exceed the fair value of the related identifiable assets and

liabilities recognised at acquisition date. Goodwill has therefore been written off in full as an impairment write-down in the current period.

Accrual for settlement of litigation claims

The directors have accrued an amount of \$550,000 in respect of two legal claims which exist at period end. The accrual has been made on the basis of the directors resolve to settle these claims. The amount accrued is the directors' estimate of the amount at which the claims will be settled.

Reversal of preference share liability

The parent company previously recognised preference shares issued with a face value of \$404,000 as a non-current liability. During the period, the directors became aware that the holder of the preference shares (a US corporation) had been dissolved in September 2004. On this basis, the directors have assessed that it is improbable that the shares would be redeemed and consequently have cancelled the shares and reversed the recognised book value to revenues. As the reversal occurred pre-acquisition, it did not impact the consolidated entity's results.

Acquisition of interest in e-pay (M) Sdn Bhd

The purchase of e-pay (M) Sdn Bhd involves a deferred settlement which is dependant on the operating results of the Group for the financial year ending 31 December 2006. The directors have recorded a deferred consideration of \$7,250,000 based on the Group achieving its forecast profit of \$5,000,000 for the 2006 financial year. The maximum deferred consideration that would be payable if the Group were to report a profit in 2006 of \$6,000,000 would be \$14,500,000. The deferred consideration will be settled by the issue of shares in the company.

2. IMPACT ON ADOPTION OF AIFRS

Under the reverse acquisition method of accounting (refer Note 1) the current period consolidated financial statements are the first reporting period for the consolidated entity, being Orion Gateway Limited and its controlled entities. Accordingly there are no impacts for the consolidated entity on the adoption of AIFRS.

The impacts for the parent company of adopting AIFRS on the total equity and profit after tax as reported under previous Australian Generally Accepted Accounting Principles (“AGAAP”) are illustrated below.

- (i) *Reconciliation of total equity as presented under previous AGAAP to that under AIFRS at the date of transition to AIFRS (1 July 2004) and at the end of the last reporting period under previous AGAAP (30 June 2005).*

	PARENT COMPANY	
	30 June 2005	1 July 2004
	\$	\$
Total equity under previous AGAAP	(1,940,162)	7,269,814
Adjustments to accumulated losses (net of tax)		
- share-based payment expense (A)	(224,175)	(48,900)
Adjustments to reserves (net of tax)		
- Option reserve (A)	<u>224,175</u>	<u>48,900</u>
Total equity under AIFRS	<u>(1,940,162)</u>	<u>7,269,814</u>

- (ii) *Reconciliation of loss under previous AGAAP to that under AIFRS for the year ended 30 June 2005.*

	PARENT COMPANY	
	30 June 2005	
Prior year loss after as previously reported under AGAAP		(18,298,547)
Adjustments to profit after tax:		
- Share-based payment expense (A)		<u>(175,275)</u>
Prior year loss after tax under AIFRS		<u>(18,473,822)</u>

- (iii) *Reconciliation of cash flow statement under previous AGAAP to that under AIFRS.*

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

(A) Share based payments

Under AIFRS equity-settled share-based payments in respect of equity instruments issued after 7 November 2002 are measured at fair value at grant date. The fair value determined at grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the estimated number of equity instruments that will vest. As a consequence, an employee benefit expense totalling \$175,275 (NIL tax effect) has been recognised in the 2005 comparative accounts with an equivalent credit to the Share-Based Payments Reserve.

In addition, an adjustment of \$48,900 (NIL tax impact) has been processed to Accumulated losses at transition date (1 July 2004) with an equivalent credit to the Share-Based Payments Reserve.

Note 3. Profit and Loss Items

	Consolidated 26 April 2005 to 31 December 2005 \$	Company 1 July 2005 to 31 December 2005 \$	Company 1 July 2004 to 30 June 2005 \$
Revenues:			
Sales of electronic PINS	49,561,800	-	-
Sales of physical reload cards	35,661,087	-	-
Interest received from unrelated parties	14,478	4,243	16,590
Other operating revenue	58,913	-	-
Sundry income	60,491	-	949
Services	-	2,576	83,612
Hardware sales	-	-	2,278
	<u>85,356,769</u>	<u>6,819</u>	<u>103,429</u>
Other income:			
Cancellation of convertible redeemable preference shares	-	404,000	-
Discount on acquisition of subsidiaries	1,440,807	-	-
Gain on sale of plant equipment	3,453	-	-
Foreign exchange gain	-	-	114,811
	<u>1,444,260</u>	<u>404,000</u>	<u>114,811</u>
Profit (Loss) before Income Tax includes the following Net Gains and Expenses:			
(a) Net Gains			
Gain on disposal of plant and equipment	3,453	-	-
(b) Expenses			
Depreciation and amortisation:			
Depreciation of:			
- Leasehold improvements	-	2,333	2,313
- Plant and equipment	175,278	220,500	1,059,089
	<u>175,278</u>	<u>222,833</u>	<u>1,061,402</u>
Amortisation of:			
- Trademarks	-	74,336	35,175
- Other intangible assets	-	33,077	36,651
- Research expenses	-	35,928	-
Total amortisation	-	143,341	71,826
Total depreciation and amortisation	<u>175,278</u>	<u>366,174</u>	<u>1,133,228</u>
Cost of sales	83,038,727	28,260	5,908
Doubtful debts – trade receivables	(42,303)	-	-
Impairment write down of investments to recoverable amount	-	1,325,004	4,033,029
Impairment write down of inter-company receivables to recoverable amount	-	1,625,890	5,565,382
Impairment write down of intangible rights to recoverable value	-	-	279,365

Impairment write down of goodwill to recoverable amount	8,759,457	-	-
Unrealised foreign exchange loss	64,652		
Operating lease rentals–minimum lease payments	19,488	145,560	119,802
Employee options expensed	680,000	839,942	175,275
Fund raising, AIM admission and corporate advisory fees	-	2,522,046	3,638,627
Finance facility fees	-	114,484	1,077,400

Note 4. Income Tax

Current tax:			
Malaysian tax	(8,692)	-	-
Indonesian tax (over provision prior period)	36,605	-	-
	<u>27,913</u>	<u>-</u>	<u>-</u>
Less:			
Transfer from deferred tax	(15,541)	-	-
Income tax benefit	<u>(12,371)</u>	<u>-</u>	<u>-</u>

The difference between income tax expense provided in the Income Statement and the prima facie income tax expense is reconciled as follows:

	Consolidated 26 April 2005 to 31 December 2005 \$	Company 1 July 2005 to 31 December 2005 \$	Company 1 July 2004 to 30 June 2005 \$
Profit (loss) before income tax	(7,620,754)	(7,665,908)	(18,473,822)
Prima facie tax benefit at 30% (Comparative : 30%)	(2,286,226)	(2,299,772)	(5,542,146)
Tax effect of permanent and other differences:			
- Impairment write off of intangibles, goodwill and receivables	2,627,837	418,203	2,963,332
- Non deductible expenses	12,603	-	6,100
- Trademark amortisation	-	22,301	10,552
- Over provision in previous year	(36,605)	-	-
- Employee options expensed	204,000	251,700	52,552
-Discount on acquisition	(432,242)	-	-
- Tax-exempt pioneer income (a)	(101,738)	-	-
- Tax effect of timing differences and tax losses not brought to account	-	1,607,568	2,509,610
Total income tax expense (benefit) attributable to operating profit (loss)	<u>(12,371)</u>	<u>-</u>	<u>-</u>

(a) e-pay (M) Sdn. Bhd, a controlled entity has been granted a five year pioneer status under section 4A of the Promotion of Investments (Amendment) Act 1997 with effect from 15 August 2001 with a option for extension for a further 5 years. Under the pioneer status, all value-added income of the company is tax exempted.

	Consolidated December 2005 \$	Company December 2005 \$	Company June 2005 \$
Note 5. Cash Assets			
Cash at bank and in hand	4,294,791	1,655,988	23,524

Average rate of interest earned on cash and cash equivalents during the period was 0%.

Reconciliation of cash

Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the balance sheet as follows:

Cash at bank and in hand	4,294,791	1,655,988	23,524
Bank overdrafts (note 18)	(2,636,568)	-	-
Total cash in statement of cash flows	1,658,223	1,655,988	23,524

Note 6. Receivables (Current)

Trade receivables	2,178,618	45	-
Provision for doubtful debts	(458,431)	-	-
	<u>1,720,187</u>	<u>45</u>	<u>-</u>
Non-trade amounts owing by:			
- Other unrelated persons	1,048,314	507,992	36,252
Total current receivables	<u>2,768,501</u>	<u>508,037</u>	<u>36,252</u>

The Group's normal trade credit terms range from 3 to 30 days. The foreign currency exposure profile of receivables is as follows:

Indonesian Rupia	<u>183,827</u>	<u>-</u>	<u>-</u>
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Note 7. Inventories (Current)

Finished goods - at cost	10,200,003	-	-
Finished goods - at net realisable value	105,273	5,461	12,673
Total Inventories (current)	<u>10,305,276</u>	<u>5,461</u>	<u>12,673</u>

Nil write down of inventories during the financial period.

Note 8. Other Assets (Current)

Advance payments for inventories	968,610	-	-
Deposits	91,512	13,376	22,721
Prepayments	269,449	50,290	51,671
Total other assets (Current)	<u>1,329,571</u>	<u>63,666</u>	<u>74,392</u>

	Consolidated December 2005 \$	Company December 2005 \$	Company June 2005 \$
Note 9. Plant and Equipment (Non-current)			
Plant and equipment at cost			
Leasehold Improvements			
Cost			
Opening balance	-	54,556	46,796
Acquisitions through business combinations	6,838	-	-
Additions	-	-	7,760
Disposals/scrappings	-	(47,717)	-
Closing balance	6,838	6,839	54,556
Accumulated depreciation			
Opening balance	-	48,794	46,480
Depreciation for the period	3,410	2,333	2,313
Depreciation written back on disposals/scrappings	-	(47,717)	-
Closing balance	3,410	3,410	48,793
Net book value	3,428	3,429	5,763
Plant and equipment			
Cost			
Opening balance	-	2,969,424	2,709,031
Acquisitions through business combinations	2,784,466	-	-
Additions	884,113	-	260,393
Disposals/scrappings	-	(2,393,056)	-
Closing balance	3,668,579	576,368	2,969,424
Accumulated depreciation			
Opening balance	-	2,601,054	1,541,965
Depreciation for the period	175,277	255,286	1,059,089
Depreciation write back on disposals/scrappings	-	(2,393,056)	-
Closing balance	175,277	463,284	2,601,054
Net book value	3,493,302	113,084	368,370
Total plant and equipment, net	3,496,730	116,513	374,133

Note 10. Intangibles (Non-current)

	Consolidated December 2005 \$	Company December 2005 \$	Company June 2005 \$
Goodwill:			
At cost	8,759,457	-	-
Accumulated impairment write down	(8,759,457)	-	-
	<hr/>	<hr/>	<hr/>
	-	-	-
Trademarks:			
At cost	-	184,929	184,929
Accumulated amortisation	-	(184,929)	(113,766)
	<hr/>	<hr/>	<hr/>
	-	-	71,163
Assigned rights, titles and interest:			
At cost	90,550	-	-
Total intangibles	<hr/> 90,550	<hr/> -	<hr/> 71,163

Movements

Goodwill			
Balance at the beginning of period	-	-	-
Goodwill arising on business combination	8,759,457	-	-
Impairment write-down charged to Income Statement	(8,759,457)	-	-
Balance at end of period	<hr/> -	<hr/> -	<hr/> -
Trademarks			
Balance at the beginning of period	-	71,163	58,246
Additions during the period	-	-	45,472
Amortisation charged to Income Statement	-	(71,163)	(32,555)
Balance at end of period	<hr/> -	<hr/> -	<hr/> 71,163
Assigned rights title and interest			
Balance at the beginning of period	-	-	-
Additions during the period	90,550	-	-
Balance at end of period	<hr/> 90,550	<hr/> -	<hr/> -

Goodwill Impairment Write-down

Under the reverse acquisition method of accounting, goodwill on consolidation is determined as the excess of the "cost of the business combination" over the net fair value of e-pay Asia's identifiable assets and liabilities at combination date. The cost of the business combination represents the fair value of the number of equity instruments that Orion would have been required to issue to the shareholders of e-pay Asia to provide the same percentage ownership interest of the combined entity to the owners of e-pay Asia as they have in the combined entity as a result of the reverse acquisition. This cost of combination amounted to \$7,310,000, and gave rise to an amount of goodwill on consolidation of \$8,759,457.

The assessed goodwill which arises under the reverse acquisition accounting method represents goodwill which is attributable to the business operations of e-pay Asia as the deemed acquiree in the business combination.

The directors intend to divest from all of the business operations of e-pay Asia. The directors have assessed that the sale value less cost to sell of these operations will not exceed the fair value of the assets and liabilities recognised at

acquisition date. On this basis, the directors have assessed that the goodwill arising on consolidation is fully impaired and have written off the balance as a post-acquisition impairment write-down in the Income Statement for the period.

Note 11. Investments accounted for using the equity method

Associates (note 12)

Cost of investment - - -

Note 12 Associates

(a) *Carrying amounts*

Name	Principal Activities	Country of Incorporation	31 December 2005	Ownership Interest
				31 December 2005 %
e-pay Pakistan (Private) Limited	Sales and provision of vouchers bearing prepaid airtime personal identification numbers(PINS) and on-line top-ups for various prepaid services in Pakistan.	Pakistan	-	30%
Electronic Payment Network (Thailand) Co. Ltd.	Sales and provision of vouchers bearing prepaid airtime personal identification numbers(PINS) and on-line top-ups for various prepaid services in Thailand.	Thailand	-	18%

(b) *Share post acquisition of associates' losses – not recognised*

	31 December 2005
	\$
Loss before income tax	(109,432)
Income Tax	-
Loss after income tax	<u>(109,432)</u>

(c) *Summarised financial information of associates*

Assets	Liabilities	Group's share of:	
		Post acquisition Revenues	Post acquisition Profit(loss)
\$	\$	\$	\$
2,293,484	2,009,856	943,107	(109,432)

(d) Group's share of associates expenditure commitments – NIL.

(e) Group's share of contingent liabilities of associates – NIL.

Note 13. Other financial assets (Non-current)

	Consolidated 31 December 2005	Company 31 December 2005	Company 30 June 2005
Investments carried at recoverable amount:			
Shares in controlled entities (note 30)	-	35,590,726	1,325,004

Term deposits (a)	1,902,120	65,036	63,883
	<u>1,902,120</u>	<u>35,655,762</u>	<u>1,388,887</u>

(a) - weighted average interest rate of term deposits - 2.78%

- term deposits have maturity period ranging from 30 to 365 days.

- terms deposits amounting to \$1,811,000 are pledged to the group's bankers as security for credit facilities granted to the Group.

Note 15. Payables (Current)

	Consolidated 31 December 2005 \$	Company 31 December 2005 \$	Company 30 June 2005 \$
Amounts owing to related parties (i)	1,593,680	-	-
Security and terminal deposits from customers	3,022,183	-	-
Trade payables	991,353	285,621	1,664,406
Payables to related parties	302,451	-	-
Other payables and accruals	3,366,522	1,571,158	519,223
Loan from unrelated parties (ii)	1,096,326	1,096,326	-
Total current Payables	<u>10,372,515</u>	<u>2,953,105</u>	<u>2,183,629</u>

Payables (Non - current)

Amounts owing to controlled entities	-	338,212	338,212
Amounts owing to related parties (i)	2,390,520	-	-
Total non-current payables	<u>2,390,520</u>	<u>338,212</u>	<u>338,212</u>

(i) Amounts owing to related parties relates to pre-acquisition dividends declared by e-pay (M) Sdn Bhd to the previous shareholders payable as follows:

Due not later than one year	1,593,680
Due after one year	<u>2,390,520</u>
	<u>3,984,200</u>

(ii) Loan from unrelated parties includes an amount of \$581,326 which is secured by a fixed and floating charge over the assets of a subsidiary, W Home Communications Pty Limited. The subsidiary company's assets totalled \$223,882 at 31 December 2005. The loan was repaid on 3 January 2006.

The foreign currency exposure profile of payables is as follows:

Indonesia Rupiah	3,599,912
Thai Baht	<u>2,679</u>

Note 16. Tax

Liabilities (current)

Income Tax	51,545	-	50,000
Total current tax liabilities	<u>51,545</u>	<u>-</u>	<u>50,000</u>

Liabilities (non current)

Deferred tax liability comprises:

Tax allowances relating to property, plant and equipment	179,290	-	-
Provision for doubtful debts	(101,417)	-	-
Total non current tax liabilities	77,873	-	-

Assets (non current)

Deferred tax assets comprise:

Provision for doubtful debts	21,645	-	-
Tax allowances relating to property, plant and equipment	(5,387)	-	-
Total non current tax asset	16,258	-	-

Note 17. Provisions Excluding Tax Liabilities (Current)

Onerous lease provision (a)	180,000	180,000	-
Total current provisions	180,000	180,000	-

Provisions Excluding Tax Liabilities (Non current)

Onerous lease provision (a)	220,000	220,000	-
Total non current provisions	220,000	220,000	-

- (a) The onerous lease provision relates to the operating lease of the Australian head-offices premises and a associated fit-out lease. Given the directors intention to divest from its Australian businesses and the resultant significant reduction in employee numbers at year end, the head-office premises are not fully occupied and are considered to be far in excess of the ongoing business needs. On this basis, a provision has been raised in respect of the excessive portion of the future obligations under the leases. The directors are actively seeking to sub-lease the premises and to then move to smaller premises.

Movement

	Consolidated 31 December 2005 \$	Company 31 December 2005 \$	Company 30 June 2005 \$
Opening balance beginning of the period	-	-	-
Provision acquired in business combination	400,000	-	-
Additional provisions recognised	-	400,000	-
Closing balance end of the period	400,000	400,000	-

Note 18. Interest Bearing Liabilities (Current)

Secured

Bank overdraft	(a)	2,636,568	-	-
Bank loans	(b)	2,885,968	-	-
Finance leases	21 (b)	337,023	18,258	10,144

		Consolidated 31 December 2005 \$	Company 31 December 2005 \$	Company 30 June 2005 \$
Loans from unrelated parties	(c)	643,398	643,398	300,000
		<u>6,502,957</u>	<u>661,656</u>	<u>310,144</u>

Unsecured

Loan from unrelated parties		1,109,755	-	200,000
Loans from related parties		373,461	-	-
		<u>1,483,216</u>	<u>-</u>	<u>200,000</u>

Total current interest bearing liabilities		<u>7,986,173</u>	<u>661,656</u>	<u>510,144</u>
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Interest Bearing Liabilities (Non-Current)		Consolidated 31 December 2005 \$	Company 31 December 2005 \$	Company 30 June 2005 \$
Secured				
Bank loans	(b)	159,938	-	-
Loans from unrelated parties	(c)	-	-	425,000
Finance leases	21 (b)	101,947	-	14,201
Loans from related parties		1,086,600	-	-
		<u>1,348,485</u>	-	<u>439,201</u>
Unsecured				
Redeemable convertible preference Shares	(d)	-	-	400,000
		-	-	<u>400,000</u>
Total non current interest bearing liabilities		<u>1,348,485</u>	-	<u>839,201</u>

- (a) The effective interest rate of the bank overdraft at balance sheet date was 8.73% per annum. The bank overdraft is secured in the same manner as the Bank Loans disclosed in (b) below.

The bank overdraft facility may be drawn at any time and may be terminated by the bank without notice. The unused amount of the overdraft at balance date is as follows:

Approved limited	2,897,600
Draw down at balance date	<u>2,636,568</u>
Unused at balance date	<u>261,032</u>

- (b) The Bank loans at 31 December 2005 are made up as follows:

Current

Bank acceptances	1,629,900
Term loan	169,468
Time loan	1,086,600
	<u>2,885,968</u>

No current

Term loan	<u>159,938</u>
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The weighted average annual interest rate at balance sheet date in respect of the above borrowings are as follows:

	%
Bankers acceptances	4.80
Term loan	6.14
Time loan	7.00

The Bank Loans are secured by way of:

- i) first and second legal charges for \$3,622,000 over properties belonging to a related party;

- ii) term deposits of the group amounting to \$1,811,000;
- iii) term deposits of \$1,811,000 belonging to a director;
- iv) a corporate guarantee and indemnity for \$3,622,000 by a related party; and
- v) a joint and several guarantee and indemnity for \$7,062,900 by certain directors.

Pursuant to the Share Purchase Agreement relating to the e-pay (M) Sdn Bhd acquisition, e-pay Asia Limited is obligated within 12 months following completion (23 December 2005) to procure the release of the securities noted in (i), (iii) and (v) above.

The term loan of a subsidiary is secured by way of a legal charge over the motor vehicle of a subsidiary with a net book value of \$62,997.

Other Bank Loans

At year end, a controlled entity has a loan with Bank of Scotland totalling \$499,000. The loan bears interest at 3% above the base rate which is currently 4.5% per annum. The loan is secured by a Bond and Floating Charge over the controlled entity – Home Media Networks (“HMN”). On 9 January 2006, HMN was placed into liquidation by the directors of the company. The Provisional Liquidator has indicated that it is unlikely any dividend will be paid to creditors and any return will be provided to shareholders. From the perspective of the deemed acquirer at acquisition date of 23 December 2005, the liability owing to the bank was assessed at that date as being unlikely of having to be paid by the consolidated entity given the impending liquidation of the company. On that basis, the fair value of the liability recorded by the consolidated entity was its likely payable amount of NIL. At 31 December 2005, HMN had assets of approximately \$30,000 and 3rd party liabilities, including the bank loan totalling approximately \$700,000. These assets and liabilities have not been recorded by the consolidated entity at acquisition date for the reasons set out above.

At period end, there are no unused Bank Loan facilities available.

- (c) The secured loans from unrelated parties represents a loan from Cornell Capital Partners Offshore LP to the company. The loan bears interest at 12% per annum. In the absence of any default event under the Loan Deed, the loan is repayable in equal monthly instalments of \$25,000, with each instalment being settled by the issue of shares in e-pay Asia Limited to the lender at a discount of 6% to the average closing price during the five consecutive days prior to each advance repayment date. The loan is secured over 704,908 shares in the company pledged by two shareholders. The Company has undertaken to issue the shareholders equivalent new shares in the company in the event the shareholders incur any loss pursuant to the Share Mortgage Agreement.
- (d) Issued by the parent company on 29 August, 2000 at \$1.00 per share. Each preference share earned a cumulative preferential entitlement, payable semi-annually to the extent of available profits, of the greater of either:
 - a. the rate payable in respect of ordinary shares during the period; or
 - b. \$0.042.

Each preference share entitled the holder to convert to two ordinary shares at the option of the holder.

During the period, the parent company became aware that the holder of the preference shares (a US corporation) had been dissolved in September 2004. On this basis, the directors assessed that it was improbable that the shares would be redeemed and on this basis cancelled the shares and reversed the recognised fair value to revenues. As this occurred pre-acquisition, it did not impact the consolidated entity's results.

Note 19. Contributed Equity	Consolidated 31 December 2005 \$	Company 31 December 2005 \$	Company 30 June 2005 \$
Ordinary shares (a)	7,310,834	66,715,275	31,546,693
Equity to be issued (b)	-	7,250,000	-
Total Contributed Equity	7,310,834	73,965,275	31,546,693

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

- (a) As described in Note 1, upon the reverse acquisition of e-pay Asia by Orion on 23 December 2005, the amount recognised as contributed equity represents the issued equity of Orion immediately before the business combination (\$2) plus the "Cost of combination" (\$7,310,832). However the equity structure disclosed (ie the number and type of equity structure disclosed) reflects the equity structure of the legal parent, e-pay Asia, including the equity instruments issued by that company to effect the combination.
- (b) The "equity to be issued" relates to the estimate of deferred consideration payable in connection with the reverse acquisition of e-pay Asia, based on the forecast earnings of the consolidated entity for the 2006 financial year. The deferred consideration is to be settled by the issue of equity in e-pay Asia.

Movements in issued ordinary shares for the financial period

	31 December 2005			30 June 2005	
	No. of Shares	Consolidated \$	Company \$	No. of shares	Company \$
Opening balance	12,104,844	-	31,546,693	231,236,530	22,458,122
Issued during the period	178,301,052	2	36,490,292	48,064,712	9,253,327
Recognise "cost of combination" on acquisition	-	7,310,832	-	-	-
Consolidation	-	-	-	(267,196,398)	-
Capital raising costs	-	-	(1,321,710)	-	(164,756)
Closing balance	190,405,896	7,310,834	66,715,275	12,104,844	31,546,693

Movements in Ordinary Share Capital

		No. of shares	Company Issue price \$	\$
1/07/2005	Opening balance	12,104,844		31,546,693
13/07/2005	Repayment of Cornell loan note	40,670	0.615	25,000
21/07/2005	Raising working capital	1,578,571	0.58	915,571
21/07/2005	Repayment of Cornell loan note	7,874	0.635	5,000
28/07/2005	Repayment of Cornell loan note	50,380	0.595	30,000
28/07/2005	Share placement	931,633	0.56	521,714
4/08/2005	Gala Power - consulting services	424,317	0.60	254,590
18/08/2005	Repayment of Cornell loan note	62,595	0.559	35,000
18/08/2005	Share placement	783,266	0.455	356,017
26/08/2005	Repayment of Cornell loan note	51,146	0.489	25,000

26/08/2005	Acquisition of Home Media Networks Ltd - residual	15,782	1.43	22,568
1/09/2005	Semillion investings consulting services for OGL	500,000	0.20	100,000
30/09/2005	Repayment of Cornell loan note	170,601	0.41	70,000
13/10/2005	Clear Data Voice Consulting Services	622,400	0.452	281,103
10/11/2005	Repayment of Cornell loan note	67,874	0.295	20,000
17/11/2005	Share placement and payment of expenses	7,379,177	0.122	903,696
18/11/2005	Loan settlement - Hordern Properties	714,286	0.25	178,572
21/11/2005	Consulting fee - Z Square Pty Limited	200,000	0.25	50,000
24/11/2005	Share placement and payment of expenses	4,659,725	0.148	688,310
22/12/2005	Public offering	15,040,755	0.20	3,008,151
22/12/2005	Issue to HB Corporate	5,000,000	0.20	1,000,000
23/12/2005	Acquisition of Orion Gateway Limited	140,000,000	0.20	28,000,000
23/07/2005	Transaction costs relating to share issues	-		(1,321,710)
31/12/2005	Balance 31 December	190,405,896		66,715,275

Standby equity distribution agreement

A standby equity distribution agreement was entered into between the Company and Cornell Capital Partners Offshore LP dated 11 November 2004 under which Cornell Capital Partners Offshore LP may be required at any time during a period of twenty four months commencing on admission onto the AIM in the United Kingdom, and subject to the satisfaction of various conditions, at the election of the Company by serving an advance notice, to subscribe for Ordinary Shares at a price of ninety four per cent of the lowest closing bid price of the Ordinary Shares on AIM during the five consecutive trading day period following the election of the Company. The commitment limit of Cornell Capital Partners Offshore LP under this facility agreement is a total aggregate subscription amount of £6,000,000, with a maximum advance in any nine day trading period of £350,000 or the remaining unsubscribed amount under the facility (whichever is lower) and a maximum holding at any time of 2.99% of the entire issued ordinary share capital of the Company.

No subscriptions under this agreement can be made until the secured loans form Cornell Capital Partners Offshore LP referred to in note 18 (c) are repaid in full.

Note 20. Accumulated Losses and Reserves

(a) Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiaries

(b) Share-Based Payment Reserve

The share-based payment reserve records items recognised as expenses on valuation of employee share options.

	Consolidated 31 December 2005 \$	Company 31 December 2005 \$	Company 30 June 2005 \$
Movements			
<i>Foreign currency translation reserve</i>			
Balance at the beginning of the period	-	-	-
Currency translation differences arising during the period	13,608	-	-
Balance at end of the period	<u>13,608</u>	<u>-</u>	<u>-</u>
<i>Share-Based Payment Reserve</i>			
Balance at the beginning of the period	-	223,900	-
Option expense	680,000	839,942	223,900
Balance at end of the period	<u>680,000</u>	<u>1,063,842</u>	<u>223,900</u>
Total reserves	<u>693,608</u>	<u>1,063,842</u>	<u>233,900</u>
<i>Accumulated losses</i>			
Balance at beginning of the period	-	(33,710,755)	(15,188,033)
Adjustment on adoption of AIFRS	-	-	(48,900)
Loss for the period	(7,765,078)	(7,665,908)	(18,473,822)
Balance at end of the period	<u>(7,765,078)</u>	<u>(41,376,663)</u>	<u>(33,710,755)</u>

Note 21. Commitments

(a) Operating lease expenditure contracted for is payable as follows:

Not later than one year	377,693	267,733	137,659
Later than one year but not later than five years	844,631	729,761	464,078
	<u>1,222,324</u>	<u>997,494</u>	<u>601,737</u>

Operating leases are entered into as a means of acquiring access to office facilities. Rental payments are fixed. No operating leases contain restrictions on financing or other leasing activities.

(b) Hire purchase and finance lease commitments

	Consolidated 31 December 2005 \$	Company 31 December 2005 \$	Company 30 June 2005 \$
Minimum hire purchase and lease payments			
- not later than one year	353,556	19,558	12,273
- later than one year and not later than five years	105,597	-	14,076
	<u>459,153</u>	<u>19,558</u>	<u>26,349</u>

Future finance charges	(20,183)	(1,300)	(2,004)
Present value of hire purchase and lease payables	438,970	18,258	24,345
Current:			
- not later than one year	337,023	18,258	10,144
Non-current			
- later than one year and not later than five years	101,947	-	14,201
	438,970	18,258	24,345

The hire purchase and lease payables were subject to an effective interest rate at the balance sheet date of 6.19% per annum.

The finance lease payables are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Net book value of plant and equipment acquired under hire purchase and lease terms are \$667,089.

Note 22. Notes to the Statement of Cash Flows

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and deposits at call. Cash at the end of the financial period as shown in the statement of cash flows is reconciled to the related items in the balance sheet in note 5

(b) Reconciliation of net cash provided by operating activities to operating profit after income tax

	Consolidated December 2005 \$	Company December 2005 \$	Company June 2005 \$
Profit (loss) after income tax	(7,608,383)	(7,665,908)	(18,473,822)
Adjustments for non cash items:			
- Depreciation	175,278	222,833	1,061,402
- Expensing of employee options	680,000	839,942	175,275
- Expenses paid for by issuance of shares	-	627,624	1,192,501
- Cancellation of cumulative redeemable preference shares	-	(404,000)	-
- Discount on acquisition of subsidiaries	(1,440,807)	-	-
- Amortisation of intangibles	-	143,341	71,826
- Impairment write down of intangibles	-	-	279,365
- Impairment write down of goodwill	8,759,457	-	-
- Impairment write down of investments	-	1,325,004	4,033,029
- Unrealised foreign exchange loss	64,652	-	-
- Other reconciling items	115,280	-	39,706
Increase (decrease) in liabilities:			

- Payables	(1,489,544)	699,594	1,019,504
- Tax liabilities	(92,165)	(50,000)	(10,786)
- Provisions	-	371,468	15,676
(Increase) decrease in assets:			
- Receivables	113,531	35,806	5,447,014
- Inventories	1,067,922	7,212	(4,313)
- Other assets	-	10,726	(69,681)
Net operating cash outflows	345,221	(3,836,358)	(5,223,304)

(c) **Acquisition of Controlled entities**

(i) Summary of acquisitions

During the financial period the consolidated entity gained control of the following entities:

<i>Business acquired</i>	e-pay Asia Limited (reverse acquisition)	e-pay (M) Sdn Bhd
<i>Date of Acquisition</i>	23/12/2005	31/10/2005
<i>Contribution of acquired entities to Group revenues</i>	\$ -	\$85,356,730
<i>Contribution of acquired entities to Group net loss</i>	(\$680,000)	\$386,755

If the acquisitions had occurred at the beginning of the period (26 April 2005), consolidated revenues would have been \$199,613,039 and the consolidated loss for the period ended 31 December 2005 would have been (\$18,036,996).

(ii) Assets and liabilities acquired and purchase consideration paid

Cash assets	1,658,523	5,820,241
Receivables	557,326	3,849,335
Inventories	105,273	11,267,825
Property, plant & equipment	333,106	2,454,791
Other assets	157,952	31,074
Payables	(3,131,387)	(13,176,926)
Provisions	(400,000)	-
Interest bearing liabilities	(661,656)	(7,692,666)
Net assets (liabilities)	(1,380,863)	2,553,674
Minority interests	(67,762)	(1,112,865)
Net identifiable assets acquired	(1,448,625)	1,440,809
Purchase consideration paid	-	(2)
Cost of business combination (Goodwill) discount arising on acquisition	(7,310,832)	-
	(8,759,457)	1,440,807

The purchase of e-pay (M) Sdn Bhd involves a deferred settlement which is dependant on the operating results of the Group for the financial year ending 31 December 2006. The directors have recorded a deferred consideration of \$7,250,000 based on the Group achieving its forecast profit of \$5,000,000 for the 2006 financial year. The maximum deferred consideration that would be payable if the Group were to report a profit in 2006 of \$6,000,000 would be \$14,500,000. The deferred consideration will be settled by the issue of shares in the company.

(d) Disposal of controlled entities

During the financial period no controlled entities were disposed of.

(e) Non cash financing & investing activities

During the financial period the consolidated entity acquired the following assets via the issue of ordinary share capital:

Details of businesses acquired during the financial period via the issue of ordinary share capital are disclosed in Note 22 (c) to the financial report.

Note 23. Key Management Personnel Disclosures

(i) The following persons were directors of e-pay Asia Limited during the financial period:

Chairman - non -executive

Michael Lee

Executive directors

Jonathan Soon

Simon Loh (Appointed 2 December 2005)

Sean Hooper (Resigned 24 November 2005)

Non-executive directors

John Croft

(ii) Other Key Executives

Dato' Md Hassan Hj Said, Director of Business Development

Yin Ching Wong, Chief Operating Officer

Mr. Chih Ming Yap, General Manager - Finance

Mr. Eng Sun Sam, IT Director

Compensation of key management remuneration by category

	Consolidated	Company	
	December 2005	December 2005	June 2005
	\$	\$	\$
Short term	108,133	300,443	1,062,473
Post employment	12,253	4,248	27,127
Other long term	-	-	-
Termination benefits	-	-	112,501
Share based payment	272,000	46,715	108,267
Total	392,386	351,406	1,310,368

Options holdings

The number of options held during the financial period by each key management person of the consolidated entity, including their personally related entities are set out below:

Name	Balance at start period	Granted during the period	Lapsed during the period	Balance at period end
Jonathan Soon	616,020	-	-	616,020
Michael Lee	35,714	-	-	35,714
John Croft	-	-	-	-
Simon Loh	-	-	-	-
Dato' Md Hassan Hj Said	-	1,000,000	-	1,000,000
Yin Ching Wong	-	1,000,000	-	1,000,000
Chih Ming Yap	-	1,000,000	-	1,000,000
Eng Sun Sam	-	1,000,000	-	1,000,000

All of the above options had vested and were exercisable at period end.

Shareholdings

The number of shares held during the financial period by each key management person of the consolidated entity, including their personally related entities are set out below:

Name	Balance at start of period	Other changes during the period	Balance at period end
Jonathan Soon	38,360	-	38,360
Michael Lee	9,525	-	9,525
John Croft	-	15,782	15,782
Simon Loh	-	119,595,451	119,595,451
Dato' Md Hassan Hj Said	-	14,000,000	14,000,000
Yin Ching Wong	-	7,297,500	7,297,500
Chih Ming Yap	-	208,335	208,335
Eng Sun Sam	-	208,335	208,335

b) Transactions with key management personnel

The following transactions occurred between the Company and related entities of key management personnel:

i) Amount owing to related parties of key management personnel:

	31 December 2005 \$
Current:	
- Orion Gateway Sdn Bhd	180,548
- e-pay Gateway Sdn Bhd	130,073
Non-current:	
- Orion Gateway Sdn Bhd	1,086,600
	<hr/>
	1,397,221
	<hr/>

The amounts owing are non-trade in nature and unsecured. The current amount owing is interest free except for an amount of \$163,504 which is subject to interest at a rate of 15% per annum.

The non-current amount owing bears interest at a rate of 7.90% per annum.

Name	Balance at the beginning of the period \$	Interest charged \$	Repayment During the period \$	Balance at the end of the period \$
Orion Gateway Sdn Bhd	1,915,699	17,044	(665,595)	1,267,148
e-pay Gateway Sdn Bhd	133,098	-	(3,025)	130,073

Related Party of key management personnel

Relationship

Orion Gateway Sdn Bhd (formerly known as e-pay Group Berhad) ("OGSB")

Company in which Loh Wee Hian, Dato' Md. Hassan bin Hj. Said and Wong Yin Ching have substantial financial interests

Telemas Corporation Sdn Bhd ("TCSB")

Company in which Loh Wee Hian has substantial financial interests

e-pay Gateway Sdn Bhd ("EPG")

Company in which Loh Wee Hian and Dato' Md. Hassan bin Hj. Said have substantial financial interests

Other transactions with related parties of key management personnel. These transactions have been entered into in the normal course of business and have been established under terms that were mutually agreed between the parties.

	31 December 2005 \$
Expenses charged to the income statement:	
- loan interest paid to OGSB	17,044
- rental paid to TCSB	15,212
	<hr/>

II) AMOUNT OWING TO DIRECTORS

The amount owing to directors are unsecured, interest-free and not subject to fixed terms of repayment.

Name	Balance at the beginning of the period \$	Interest charged \$	Repayment During the period \$	Balance at the end of the period \$
<i>Managing Director</i> Loh Wee Hian	404,671	12,107	(362,000)	54,778

c) Consolidated entity transactions

Transactions between e-pay Asia Limited and other entities in the consolidated entity include the advance of loan funds to and from group entities. All loans / advances were made on an unsecured, interest free basis with no fixed term of repayment.

No other agreements to indemnify directors, offices or auditors have been entered into, nor have any payments in relation to indemnification been made, during or since the end of the financial year, by the Company.

Note 24. Remuneration of Auditors

During the period, the following fees were paid or payable for services provided by the auditor of the parent entity and its related parties:

	Consolidated December 2005 \$	Company December 2005 \$	Company June 2005 \$
Horwath Sydney Partnership			
Assurance services	68,000	68,000	84,843
Taxation services	24,600	24,600	15,674
Advisory and accounting services			
- Investigating accountant's report and sundry advices for prospectus and AIM admission document	147,580	147,580	-
- Sundry Accounting services	11,800	11,800	33,412
	159,380	159,380	33,412
Total fees - Horwath Sydney Partnership	251,980	251,980	133,929
Horwath Kuala Lumpur Office			
Assurance services	11,275	-	-
Advisory and Accounting services			
- Investigating accountant's report for prospectus and AIM Admission documents	83,125	-	-
Total fees - Horwath Kuala Lumpur office	94,400	-	-

Horwath Sydney Partnership and Horwath Kuala Lumpur office are independent practices operating within the Horwath International Network.

Note 25. Financial Instruments

The Board of Directors recognises the importance of financial risk management in the overall management of the Group's business. A sound risk management system will not only mitigate financial risks but will be able to create opportunities if risk elements are properly managed.

The Group's overall financial risk management objectives are to ensure that the Group creates value for its shareholders while minimising potential adverse effects on the performance of the Group. Financial risk management is carried out through risk reviews, internal control systems and adherence to the Group's financial risk management policies set out as follows:-

(a) Foreign Currency Exchange Risk

The Group is exposed to foreign exchange risk as a result of the foreign currency denominated transactions entered into by the Group during the course of business. The currencies involved are primarily the United States Dollar ("US Dollar") and Indonesian Rupiah. The Group carries out reviews periodically to ensure that the net exposure is kept at an acceptable level. The Group does not use derivative financial instruments to hedge this risk.

(b) Interest Rate Risk

The Group's exposure to interest rate risk for changes in interest rates is related primarily to the Group's cash deposits placed with licensed banks and bank borrowings. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Interest rate exposure arising from the Group's borrowings is managed through a mix of fixed and floating rates debts. The Group does not use derivative financial instruments to hedge this risk.

(c) Market Risk

The Group's exposure to market risk is minimal and arises mainly from fluctuations in the cost of PINs. The Group manages this risk by entering into purchase contracts at a pre-determined fixed price.

(d) Credit Risk

Credit risk, which is the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures. Credit evaluations are performed on customers requiring credit exceeding a certain amount and by limiting the Group's business associations to parties with high credit worthiness. Trade receivables are monitored on an ongoing basis to ensure that the Group is exposed to minimal credit risk.

(e) Liquidity and Cash Flow Risks

The Group actively manages its operating cash flows and debt maturity profile so as to ensure that all commitments and funding needs are met. As part of the overall liquidity management, it is the Group's policy to ensure continuity in servicing its future cash obligations by forecasting its cash commitments and maintaining a sufficient level of cash and cash equivalents to meet its working requirements. In addition, the Group maintains sufficient banking facilities to meet its operational needs.

December 2005	Floating interest rate \$	Fixed interest rate \$	Non interest bearing \$	Total \$	Average interest rate
Financial assets					
Cash	2,411,576	1,883,215	-	4,294,791	Note 5
Receivables	-	-	2,768,501	2,768,501	-
Term deposits	-	1,902,120	-	1,902,120	Note 3 (a)
	2,411,576	3,785,335	2,768,500	8,965,412	
Financial liabilities					
Bank overdraft	2,636,568	-	-	2,636,568	Note 8 (a)
Accounts payable	-	-	11,666,709	11,666,709	-
Loans	-	6,698,090	1,096,326	7,794,416	Note 18 (b), (c)
	2,636,568	6,698,090	12,763,035	22,097,693	

The carrying amounts of financial assets and financial liabilities approximate the estimated fair value of those financial assets and financial liabilities. The net fair value of a financial asset or financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs.

Note 26. Segment Information

Business Segments

The consolidated entity is organised on a global basis into the following divisions by product and service type.

Prepaid mobile top-up

The pre-paid mobile top-up business provides customers with mobile phone electronic recharges.

Telecommunications

The telecommunication business provides customers with dial up and wireless broadband internet services.

Lifestyle

The W Home business sells home surveillance and automation products to customers, whilst the Home Media Networks business sells Showshifter software to customers.

Geographical Segments

Although the consolidated entity's divisions are managed on a global basis they operate in three main geographical areas:

- *Australia*
The home country of the parent entity. The consolidated entity operates both its telecommunications and W Home businesses in Australia.
- *Asia*
Comprises telecommunications operations carried on in Singapore and Malaysia; and Mobile phone top-ups in Malaysia, Indonesia, Thailand and Pakistan
- *United Kingdom*
Comprises software operations carried on in Scotland.

Business Segment Information

	Pre-paid mobile top-up 31 December 2005 \$	Telecommunication 31 December 2005 \$	Lifestyle 31 December 2005 \$	Total 31 December 2005 \$
Sales to external customers	85,281,800	-	-	85,281,800
Other revenue	78,422	-	-	78,422
Total revenue	85,360,222	-	-	85,360,222
Segment result	386,755	-	-	386,755
Unallocated revenues less expenses				(8,007,509)
Profit from ordinary activities before related income tax expense				(7,620,754)
Income tax expense				12,371
Net profit				(7,608,383)
Segment Assets	21,391,618	2,714,793	97,386	24,203,797
Segment liabilities	18,434,070	4,193,041	-	22,627,111
Acquisition of property, plant & equipment and intangibles	3,426,024	9,009,400	-	12,525,424
Depreciation and amortisation expenses	175,278	-	-	175,278
Other non cash expenses	101,485	-	-	101,485
Impairment of Goodwill	-	8,759,457	-	8,759,457

Geographical Segment Information

	Revenue from External Customers December 2005	Segment Assets December 2005	Acquisition of Segment Assets December 2005
Australia	-	2,812,179	9,099,400
Asia	85,281,800	21,391,618	3,426,024
United Kingdom	-	-	-
Total	85,281,800	24,203,797	12,525,424

Note 27. Earnings Per Share:

	Consolidated 31 December 2005
Basic earnings per share (cents per share)	(28.9)
Diluted earnings per ordinary share (cents per share)	(28.9)

(a) Number of ordinary shares

Weighted average number of ordinary shares used in the calculation of basic earnings per share	<u>26,884,377</u>
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Weighted average numbers of ordinary shares used in the calculation of diluted earnings per share	<u>27,122,717</u>
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(b) Earnings

Earnings used in the calculation of basic earnings per share	<u>(7,765,078)</u>
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Earnings used in the calculation of diluted earnings per share	<u>(7,765,078)</u>
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Note 28. Subsequent Year-end Events

Between 13th January to 10th February 2006 the company issued a total of 761,396 shares to Cornell Capital to retire debt. On 20th January 2006, the company issued 350,000 shares to settle legal proceedings brought against it in respect of commission payments totalling \$99,290.

On 9th January 2006, the Directors of Home Media Network ("HMN"), a controlled entity of e-pay Asia was placed into liquidation. A Provisional Liquidator has been appointed by the Courts. The Liquidator has indicated their initial assessment is that it is unlikely any dividend will be paid to creditors and any return will be provided to shareholders.

Note 29. Controlled Entities

The consolidated financial statements at 31 December 2005 include the following controlled entities of legal parent entity e-pay Asia Limited. The financial year end of all the controlled entities is the same as that of the legal parent entity.

Name of controlled Entity	Place of Incorporation	% of shares held	
		December 2005	June 2005
Orion Gateway Limited		100	-
e-pay (M) Sdn Bhd	Malaysia	60	-
PT e-pay Indonesia (i)	Indonesia	30.9	-
e-pay Thailand Co. Limited (i)	Thailand	29.7	-
SkyNetGlobal (South-East Asia) Pte Limited	Singapore	79	79
SkyNetGlobal Communications Pty Ltd	Australia	100	100
SkyNetGlobal Wireless Pty Ltd	Australia	100	100
W Home Communications Pty Ltd	Australia	100	100
SkyNetGlobal Wireless Pte Ltd	Singapore	100	100
W Home Communication Sdn Bhd	Malaysia	100	100
W Home Automation Pty Ltd	Australia	100	100
Smart Apartments Pty Ltd	Australia	100	100
Home Media Networks Ltd	United Kingdom	100	100

(i) These entities are consolidated since they are controlled by e-pay (M) Sdn Bhd.

Note 30. Employee Entitlements

(a) Employee option ownership schemes

At its discretion e-pay Asia Limited offers options over ordinary shares to employees. The exercise price of an option is the lesser of the price which is equal to the market value of shares calculated by reference to the weighted average of the prices at which shares were traded on the Australian Stock Exchange during the week before the date of the offer of options to the employee and a price determined by the Board at its discretion.

Details of the employee option ownership scheme for both the parent entity and the consolidated entity is as follows:

	Options
	December 2005 '000
Balance at the beginning of the year ('000)	1,913
Total number issued to employees during the year ('000)	10,000
Forfeited ('000)	589
Consolidation	-
Balance at the end of the year ('000)	11,324
Total number of eligible employees to participate in this scheme	112
Proceeds received and receivable from issues during the year ('000)	-

e-pay Asia Limited

Directors' Declaration

The Directors of e-pay Asia Limited declare that:

- (a) in the directors' opinion, the financial statements and notes for the financial period ended 31 December 2005 are in accordance with the Corporations Act 2001, including:
 - (i) section 296 (compliance with accounting standards); and
 - (ii) section 297 (true and fair view); and
- (b) 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; and
- (c) the directors have been given the declarations by the chief executive officer and company secretary required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



Simon Wee Hian Loh
Managing Director
Sydney, 29 March 2006

e-pay Asia Limited

29 March 2006

Independent audit report on the financial report to members of e-pay Asia Limited

We have audited the accompanying financial report of e-pay Asia Limited (the company) and its controlled entities for the period ended 31 December 2005. The financial report comprises the balance sheet at 31 December 2005, and the income statement, statement of changes in equity, cash flow statement, summary of significant accounting policies and other explanatory notes, for both the company and consolidated entity, and the directors' declaration for the period then ended. The consolidated entity comprises both the company and the entities it controlled at the period's end or during the financial period.

We have also audited the information about the remuneration of directors and executives ("remuneration disclosures"), the company has disclosed in accordance with Accounting Standard AASB124 Related Party Disclosures, under the heading "remuneration report" in pages 7 to 10 of the directors' report, as permitted by the Corporations Regulations 2001.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Accounting Standards in Australia and the *Corporations Act 2001*. This responsibility includes; designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and the remuneration disclosures based on our audit. We conducted our audit in accordance with Auditing Standards in Australia. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

We are independent of the company and group, and have complied with the independence requirements of the *Corporations Act 2001*. In addition to our audit of the financial report, we were engaged to undertake the services

disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. The financial report of e-pay Asia Limited is in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the company's and the consolidated entity's financial position as at 31 December 2005 and of their performance for the period ended on that date; and
 - (b) complying with Accounting Standards in Australia and the Corporations Regulations 2001.
2. The remuneration disclosures that are contained in pages 7 to 10 of the directors' report comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

Dated the 29th day of March 2006.

**HORWATH
SYDNEY PARTNERSHIP**



MICHAEL KAPLAN
Partner

*Horwath Sydney Partnership is an independent practice. Other Horwath offices operate in each of the nation's financial centres.
Liability is limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW).*

