

Sirius Telecommunications Limited ABN 94 050 240 330 Half-year report – 31 December 2005

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This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Sirius Telecommunications Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Sirius Telecommunications Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Sirius Telecommunications Limited
Level 8, 616 St Kilda Road
Melbourne, Vic 3004

Through the use of the Internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the company. All press releases, financial statements and other information are available at our Shareholders' Centre on our website: www.sirius.com.au.

For queries in relation to our reporting please call the Company Secretary (03) 9520 7800, or e-mail "questions@sirius.com.au."

DIRECTORS REPORT

Your directors present their report on the consolidated entity consisting of Sirius Telecommunications Limited and the entities it controlled (Sirius) at the end, or during, the half-year ended 31 December 2005.

Directors

The following persons were directors of Sirius Telecommunications Limited during the whole of the half-year:-

Mr. David Abraham (Chairman – Non-executive)	Resigned 28 February 2006
Mr. Roger Mason (Executive Director)	re-elected 22 November 2005
Mrs. Tracy Currie (Executive Director)	Resigned 28 February 2006
Mr. Graeme Ward (Non-executive Director)	Resigned 28 February 2006

The following persons were directors of Sirius Telecommunications Limited at the date of this report:-

Mr. Roger Mason (Interim Chairman – Executive)	
Mr. Roger Moore (Non-executive Director)	Appointed 1 March 2006
Mr. Arthur Lagos (Non-executive Director)	Appointed 1 March 2006

Overview and review of operations

Over the past few years, the telecommunications industry has been through a severe period of rationalisation. Sirius Telecommunications Limited has responded by restructuring the business to meet the fast changing demands of the industry and the market. This has included board and management changes, exiting of some low margin contracts and a greater focus on VOIP, which is rapidly growing in importance from a low base. The restructuring is well underway, but not complete. We have previously acknowledged that our three divisions lack sufficient scale at present to achieve the level of profitability we require.

The Company was close to operational break even (i.e. earnings before interest, tax, depreciation and amortisation) for the first half of the 2005-6 financial year.

The interim 2006 results, contained in this report, are better than our budgetary expectations mainly due to some large sales that were expected in the third quarter, being successfully moved forward to the second quarter.

The Company has expanded its activities by significant investment in the hardware and software solution divisions this financial year with the intention of replacing the "lost" income from not winning the replacement tender issued by the Department of Defence for their revised Operator Services contract.

2004/05 and 2005/06 Half Yearly Results (\$'000)

	2004/2005		2005/06
	1 st Half	2 nd Half	1 st half
Revenue	10,936	12,273	9,674
EBITDA	(23)	421	(7)
Profit before tax	(1,087)	(3,586)	(481)

Outlook

Due to the bringing forward of sales as mentioned above, the third quarter sales will be below expectation in volume and profitability terms. All effort is being focused on achieving a strong fourth quarter. We are seeing an increase in our prospective sales pipeline as major corporates become more comfortable with the technical aspects and business benefits of VOIP installations.

Phoneware has previewed its VXT product at major industry expositions and has received extensive requests for demonstrations and product specifications from significant equipment and telecommunications providers. The substantial interest displayed for this product is very encouraging. Negotiations have been completed with major channel partners to develop this product on a broad sales front and a major installation is underway at one of the four major banks.

The Managed Services Division has not managed to secure any new business during the period (turnover \$1M), and accordingly a detailed review of the viability of the division is under review by the Directors.

The Directors are confident that the two major operating divisions, Sirius Converged Solutions and Phoneware are each viable businesses with a strong long-term future. Both businesses require further capital investment to achieve their full potential.

The new Board is reviewing the current business structure, results and available opportunities with a view to putting into place initiatives to improve financial performance and strength of the company.

Rounding of amounts to nearest thousand dollars

The company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission, relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that Class Order.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4.

This report is made in accordance with a resolution of the directors:



ROGER MASON
Director
Melbourne
15 March 2006



ROGER MOORE
Director
Melbourne
15 March 2006

RSM Bird Cameron Partners

Chartered Accountants

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626 Collins Street Melbourne VIC 3000
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AUDITOR'S INDEPENDENCE DECLARATION

As lead audit partner for the review of the financial statements of Sirius Telecommunications Limited for the half-year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.



P A RANSOM
Partner

15 March, 2006
Melbourne

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Perth, Sydney, Melbourne,
Adelaide and Canberra
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Consolidated Income Statement
For the half-year ended 31 December 2005

		Half-year	
	Notes	2005 \$'000	2004 \$'000
Revenue from continuing operations		9,674	10,936
Other income		4	7
Employee benefits, other labour & related expenses	5	(5,345)	(8,130)
Telecommunication carrier expenses		(819)	(991)
Cost of Goods Sold		(1,971)	(258)
Operating lease payments (exc occupancy)		(392)	(686)
Depreciation and amortisation expenses		(473)	(1,064)
Occupancy expenses		(413)	(504)
Travel, accommodation and entertainment expenses		(214)	(200)
Marketing expenses		(63)	(32)
Borrowing cost expenses		(5)	(8)
Professional fees (non Director related)		(120)	(85)
Other expenses from operating activities (net)		(344)	(72)
Profit (Loss) before income tax		(481)	(1,087)
Income tax expense		-	-
Profit (Loss) from continuing operations		(481)	(1,087)
Profit (Loss) attributable to members of Sirius Telecommunications Ltd		(481)	(1,087)

		Cents	Cents
Earnings per share for profit (loss) attributable to the ordinary equity holders of the company:			
Basic earnings per share	7	(1.0)	(2.3)
Diluted earnings per share		(i)	(i)

(i) Not materially different to basic earnings per share

The above consolidated income statement should be read in conjunction with the accompanying notes

Consolidated Balance Sheet
As at 31 December 2005

		31 December	30 June
		2005	2005
	Notes	\$'000	\$'000
Current Assets			
Cash Assets		294	738
Receivables		3,034	4,146
Inventories		274	457
Other	3	666	353
Total Current Assets		<u>4,268</u>	<u>5,694</u>
Non Current Assets			
Property Plant & Equipment		1,472	2,185
Total Non Current Assets		<u>1,472</u>	<u>2,185</u>
TOTAL ASSETS		<u>5,740</u>	<u>7,879</u>
Current Liabilities			
Payables	4	1,898	3,135
Interest Bearing Liabilities		-	850
Current Tax Liabilities		-	9
Other	5	2,063	1,565
Total Current Liabilities		<u>3,961</u>	<u>5,559</u>
Non Current Liabilities			
Provisions		251	311
Total Non Current Liabilities		<u>251</u>	<u>311</u>
TOTAL LIABILITIES		<u>4,212</u>	<u>5,870</u>
NET ASSETS		<u>1,528</u>	<u>2,009</u>
Equity			
Contributed Equity		7,779	7,779
Retained Profits (Losses)		(6,251)	(5,770)
TOTAL EQUITY		<u>1,528</u>	<u>2,009</u>

The above consolidated balance sheet should be read in conjunction with the accompanying notes

Consolidated Statement of changes in Equity
For the half-year ended 31 December 2005

	Half-year	
	2005	2004
	\$'000	\$'000
Total equity at the beginning of the half-year	<u>2,009</u>	<u>6,682</u>
Profit (Loss) for the half-year	(481)	(1,087)
Total equity at the end of the half-year	<u>1,528</u>	<u>5,595</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes

**Consolidated Cash Flow Statement
For the half-year ended 31 December 2005**

	2005 \$'000	Half-year 2004 \$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	11,728	11,035
Payments to suppliers and employees (inclusive of GST)	<u>(11,999)</u>	<u>(11,092)</u>
	(271)	(57)
Interest received	4	7
Borrowing costs	(5)	(8)
Income taxes paid	<u>(9)</u>	<u>(9)</u>
Net cash inflow (outflow) from operating activities	<u>(281)</u>	<u>(67)</u>
Cash flows from investing activities		
Payments for property plant and equipment	<u>(163)</u>	<u>(351)</u>
Net cash outflow from investing activities	<u>(163)</u>	<u>(351)</u>
Cash flows from financing activities		
Repayment of borrowings	<u>-</u>	<u>(91)</u>
Net cash inflow (outflow) from financing activities	<u>-</u>	<u>(91)</u>
Net increase (decrease) in cash and cash equivalents	(444)	(509)
Cash at the beginning of the financial year	<u>738</u>	<u>1,755</u>
Cash and cash equivalents at the end of the half-year	<u>294</u>	<u>1,246</u>

The above consolidated cash flow statement should be read in conjunction with the accompanying notes

**Notes to the consolidated financial statements
For the half-year ended 31 December 2005**

1. Basis for preparation of half-year financial reports

This general purpose financial report for the interim half-year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all of the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Sirius Telecommunications Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period unless otherwise stated.

(a) Going Concern

The directors are reviewing the current business structure and results with a view to putting in place initiatives to improve financial performance and the strength of the company. Due to some anticipated third quarter sales being closed earlier than expected in the first half, third quarter sales will be below expectation in volume and profitability terms. All effort is being focused on achieving a strong fourth quarter. The restructure that is well underway will then also be further progressed which will align the business closer to the existing market conditions. The directors are confident the company is viable however acknowledge, in light of the matters discussed above, that there is uncertainty in respect of the company being able to successfully achieve these objectives.

Should the company be unsuccessful in its endeavours to put in place new initiatives which improve the financial position of the company, there is uncertainty regarding the ability of the company to continue as a going concern. Should the company be unable to continue as a going concern, it is unlikely that it will be able to realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements. The financial statements include no adjustments relating to the recoverability or classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company not continue as a going concern.

(b) Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

The interim financial report is the first Sirius Telecommunications Limited interim financial report to be prepared in accordance with AIFRSs. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Sirius Telecommunications Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Sirius Telecommunications Ltd interim financial report for the half year ended 31 December 2005, management has reviewed certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. There was no recognised need for any restatement of, or reconciliations to, comparative figures to effect the transition from previous AGAAP to AIFRSs on the Group's equity and its net income.

(c) Early adoption of standard

The Group has elected to apply AASB 119 Employee Benefits (issued in December 2004) to the reporting periods beginning 1 July 2005. This includes applying AASB 119 to the comparatives in accordance with AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

Notes to the consolidated financial statements (continued)
For the half-year ended 31 December 2005

(d) Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

2. Segment information

The consolidated entity and all its controlled entities operate in the telecommunications industry and is considered by the Board to operate within a single segment of that industry, being the field of Managed Services. The activities of the consolidated entity are carried out primarily within the Australasian region, which is considered by the Board to represent one geographical market.

3. Current Assets – Other

	31 December	30 June
	2005	2005
	\$'000	\$'000
Accrued income	244	209
Deposits	7	8
Prepayments	337	108
Sundry debtors	78	28
	<u>666</u>	<u>353</u>

4. Current Liabilities – Payables

	31 December	30 June
	2005	2005
	\$'000	\$'000
Other Payables	660	959
Trade Creditors	1,238	2,176
	<u>1,898</u>	<u>3,135</u>

5. Current Liabilities – Other

	31 December	30 June
	2005	2005
	\$'000	\$'000
Accrued expenses	965	531
Income received in advance	1,098	1,034
	<u>2,063</u>	<u>1,565</u>

Notes to the consolidated financial statements (continued)
For the half-year ended 31 December 2005

6. Options

6,100,000 options were granted to vendors of Sirius Telecommunications Limited on 25 October 2000 and were exercisable to 19 December 2005. At that date no exercisable options were exercised and as a consequence these have lapsed.

2,035,000 options were granted to eligible executives (directors and executive employees) of Sirius Telecommunications Limited under the Sirius Telecommunications Limited Executive Option Plan on 25 October 2000 and were exercisable to 19 December 2005. At that date 850,000 options had been cancelled prior and 1,185,000 options were still exercisable. At that date no exercisable options were exercised and as a consequence these have lapsed.

1,600,000 options were granted to eligible executives (directors and executive employees) of Sirius Telecommunications Limited under the Sirius Telecommunications Limited Executive Option Plan on 1 July 2005. These options are not exercisable until 1 July 2007 under certain exercise conditions. As at the date of this report 300,000 options will be cancelled and 1,300,000 will remain exercisable.

7. Earnings per share

	2005	2004
	Cents	Cents
Basic earnings per share	(1.0)	(2.3)
Diluted earnings per share	(i)	(i)

Number of shares used as the denominator

Number or weighted average number of shares used as the denominator in calculating:

	Shares	Shares
Basic earnings per share	45,907,500	45,752,158
Diluted earnings per share	(i)	(i)

(i) Not materially different to basic earnings per share

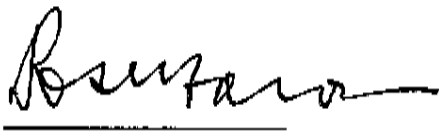
DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 5 to 11.

- (a) comply with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date.

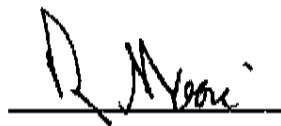
In the directors' opinion, subject to the successful restructure of the company and achievement of restructure initiatives as referred to in note 1(a) of the financial statements, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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



ROGER MASON
Director

Melbourne
15 March 2006



ROGER MOORE
Director

Melbourne
15 March 2006

RSM Bird Cameron Partners

Chartered Accountants

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525 Collins Street Melbourne VIC 3000
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INDEPENDENT REVIEW REPORT

To the Members of Sirius Telecommunications Limited

Scope

We have reviewed the financial report of Sirius Telecommunications Limited, comprising the directors' declaration, income statement, balance sheet, statement of changes in equity, cash flow statement and notes to the financial statements for the half year ended 31 December 2005. The company's directors are responsible for the half year financial report. It includes the financial statements for Sirius Telecommunications Limited and the entities it controlled during the half year.

We have performed an independent review of the financial report in order for the company to lodge the financial report with the Australian Securities and Investments Commission. This review was performed in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate the financial report is not presented fairly in accordance with Accounting Standard AASB 134: Interim Financial Reporting, other mandatory professional reporting requirements in Australia and the Corporations Act 2001 in Australia, so as to present a view which is consistent with our understanding of the financial position, and financial performance as represented by the income statement, statement of changes in equity and cash flow statement.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of Sirius Telecommunications Limited's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

Based on our review, we have not become aware of any matter that makes us believe that the financial report of Sirius Telecommunications Limited is not in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the balance sheet as at 31 December 2005 and of its financial performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (b) other mandatory professional reporting requirements in Australia.

INDEPENDENT REVIEW REPORT (Cont.)

To the Members of Sirius Telecommunications Limited (Cont.)

Uncertainty Regarding Going Concern

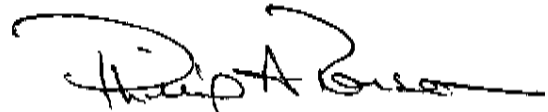
Without qualification to the opinion expressed above, attention is drawn to the following matter.

As stated in note 1, the directors of the company are reviewing the current business structure and results with a view to putting in place initiatives to improve the financial performance of the company. The directors are confident the company is viable however acknowledge, in light of the matters discussed, that there is uncertainty in respect of the company being able to successfully achieve these objectives. Should the company be unsuccessful in its endeavours to put in place new initiatives which improve the financial position of the company, there is uncertainty regarding the ability of the company to continue as a going concern. The financial statements include no adjustments to the recoverability or classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company be unable to continue as a going concern.



RSM BIRD CAMERON PARTNERS
Chartered Accountants

15 March, 2006
Melbourne



P A RANSOM
Partner