

# **REVETEC Limited** ACN 079 317 365

Annual Financial Report

30 June 2004

# REVETEC Limited ACN 079 317 365

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# REVETEC Limited ACN 079 317 365

## DIRECTORS' REPORT

The Directors present their report together with the financial report of REVETEC Limited (the "company"), for the year ended 30 June 2004 and the auditors' report thereon.

### Directors

The Directors of the company in office at any time during or since the financial year are:

Charles Chok Kwong Chan	Appointed 16 May 2000
Bradley David Howell-Smith	Appointed 1 August 1997
Heidi Anne Howell-Smith	Appointed 2 April 2004
Harold Roy Joseph Howell-Smith	Appointed 1 August 1997, resigned 30 January 2004
Ilce Sekuloski	Appointed 20 January 2004, resigned 16 March 2004

### Directors' meetings

The number of Directors' meetings and the number of meetings attended by each of the Directors of the company during the financial period are:

	Directors Meetings	
	A	B
Charles Chok Kwong Chan	3	4
Bradley David Howell-Smith	4	4
Heidi Anne Howell-Smith	2	3
Harold Roy Joseph Howell-Smith	3	4
Ilce Sekuloski	2	3

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office during the period.

### Principal activities

The principal activities of the company during the financial year was securing patents, undertaking research and development, building and successfully running the CCE-2003-01 prototype engine and developing the company's business plan.

### State of affairs

Significant changes in the state of affairs of the company are set out as follows:

- During the year the company issued 311,543 ordinary shares to raise working capital of \$287,466; and
- During the year the company issued 1,275,667 A class shares to raise working capital of \$382,700.

### Review and results of operations

For the financial year ended 30 June 2004, the company recorded a net operating loss after income tax of \$7,131,766 (2003: loss \$1,123,423). During the year, the company wrote off capitalised costs of \$5,752,079 relating to the intellectual property. The stage of development of the intellectual property does not readily assist with determining a value which can be substantiated, as no forecast profits or cashflows can be reliably estimated.

# REVETEC Limited ACN 079 317 365

## DIRECTORS' REPORT

### Likely developments

In the coming 12 months, the Directors are pursuing plans to complete a public fund raising and list the company on the Australian Stock Exchange.

Further information about likely developments in the operations of the company and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the company.

### Dividends

No dividends have been paid or declared by the Company since the start of the financial year. No recommendation for payment of dividends has been made.

### Directors' benefits

Other than set out in Note 16 to the financial statements, no director received or has become entitled to receive during or since the financial year, a benefit because of a contract made by the company or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest.

### Directors' and senior executives remuneration

Details of the nature and amount of each major element of the remuneration of each director of the company are set out below. There are no senior executives of the company, who are not directors.

<b>Directors</b>	<b>Base remuneration (salary &amp; fees)</b>	<b>Other</b>	<b>Total</b>
<i>Non-executive</i>	\$	\$	\$
Bradley David Howell-Smith	-	-	-
Heidi Anne Howell-Smith	-	-	-
Harold Roy Joseph Howell-Smith	-	-	-
Ilce Sekuloski	10,417	-	10,417
<i>Executive</i>			
Charles Chok Kwong Chan	13,650	-	13,650

### Directors' interests

The relevant interest of each director in the share capital of the company as at the date of this report is as follows:

<b>Directors</b>	<b>Ordinary shares</b>	<b>A Class shares</b>
Charles Chok Kwong Chan (a)	65,377	-
Bradley David Howell-Smith	63,237,500	-
Heidi Anne Howell-Smith	-	-
Harold Roy Joseph Howell-Smith (b)	1,573,235	-
Ilce Sekuloski	-	-

(a) Held indirectly through Panay Pty Ltd

(b) Held jointly with DS Howell-Smith

# REVETEC Limited ACN 079 317 365

## DIRECTORS' REPORT

### **Environmental regulation**

The company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

### **Events subsequent to balance date**

For reporting periods starting on or after 1 July 2005, the company must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board.

At 30 June 2004, the company had net assets of \$396,777. Subsequent to year end, the company has issued 3,138,275 A Class shares raising funds of \$941,483 for working capital and has issued 159,507 Ordinary Shares raising funds of \$194,360 for working capital.

Other than the matters noted above, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction, or event of a material nature likely, in the opinion of the directors, to affect significantly the operations of the company, the results of those operations or the state of affairs of the company in future financial years.

### **Indemnification and insurance of officers and auditors**

#### *Indemnification*

Since the end of the previous financial year, the company has not indemnified or made a relevant agreement for indemnifying against a liability, any person who is or has been an officer of the company.

The company has entered into an agreement with its current auditors, KPMG, indemnifying them against claims by third parties arising from their report on the annual financial report, except where the liability arises out of conduct involving a lack of good faith.

#### *Insurance premiums*

During the financial period, the company has not paid premiums in respect of directors or executive officers for liability and legal expenses insurance contracts.

Dated at Bundall 1 November 2004.

Signed in accordance with a resolution of the directors:

*Charles Chan*  
*Director*

# REVETEC Limited ACN 079 317 365

## STATEMENT OF FINANCIAL PERFORMANCE

### FOR THE YEAR ENDED 30 JUNE 2004

	Note	2004 \$	2003 \$
<b>Total revenue</b>	2	<u>70,740</u>	<u>8,693</u>
Expenses from ordinary activities:			
Employee expenses		(461,054)	(527,575)
Depreciation and amortisation expenses	3	(109,524)	(577,004)
Research and development expense		(30,281)	(14,735)
Borrowing costs	3	(3,516)	(2,725)
Management fees		(13,650)	-
Occupancy expenses		(77,809)	(84,799)
Provision for diminution	3	(287,447)	-
Writedown of intangible assets – fundamental error	3	(5,752,079)	-
Writedown of other assets – fundamental error	3	(43,758)	-
Other expenses from ordinary expenses		<u>(423,388)</u>	<u>(209,009)</u>
<b>Profit/(loss) from ordinary activities before related income tax expense</b>		(7,131,766)	(1,407,154)
Income tax (expense)/benefit relating to ordinary activities		<u>-</u>	<u>283,731</u>
<b>Net profit/(loss) after related income tax expense</b>		<u>(7,131,766)</u>	<u>(1,123,423)</u>

*The statement of financial performance is to be read in conjunction with the notes to and forming part of the financial statements.*

# REVETEC Limited ACN 079 317 365

## STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2004

		<b>2004</b>	<b>2003</b>
		<b>\$</b>	<b>\$</b>
<b>Current assets</b>			
Cash assets		285,719	139,327
Tax assets		-	299,843
Other assets	5	<u>43,940</u>	<u>831</u>
<b>Total current assets</b>		<u>329,659</u>	<u>440,001</u>
<b>Non-current assets</b>			
Other financial assets	6	102,950	580,000
Property, plant and equipment	7	234,991	334,362
Intangible assets	8	-	5,752,079
Other assets	5	<u>-</u>	<u>43,758</u>
<b>Total non-current assets</b>		<u>337,941</u>	<u>6,710,199</u>
<b>Total assets</b>		<u><u>667,600</u></u>	<u><u>7,150,200</u></u>
<b>Current liabilities</b>			
Payables		80,677	30,228
Non-interest bearing liabilities	9	74,865	231,263
Provisions		<u>11,575</u>	<u>-</u>
<b>Total current liabilities</b>		<u>167,117</u>	<u>261,491</u>
<b>Non-current liabilities</b>			
Non-interest bearing liabilities	9	-	20,000
Interest bearing liabilities	10	100,226	-
Provisions		<u>3,480</u>	<u>10,332</u>
<b>Total non-current liabilities</b>		<u>103,706</u>	<u>30,332</u>
<b>Total liabilities</b>		<u><u>270,823</u></u>	<u><u>291,823</u></u>
<b>Net assets</b>		<u><u>396,777</u></u>	<u><u>6,858,377</u></u>
<b>Equity</b>			
Contributed equity	11	11,835,285	11,165,119
Reserves	12	-	45,000
Retained profits/(accumulated losses)	13	<u>(11,438,508)</u>	<u>(4,351,742)</u>
<b>Total Equity</b>		<u><u>396,777</u></u>	<u><u>6,858,377</u></u>

*The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements.*

# REVETEC Limited ACN 079 317 365

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED 30 JUNE 2004

		<b>2004</b>	<b>2003</b>
		\$	\$
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		36	3,316
Cash payments in the course of operations		(757,649)	(906,647)
Research and development grant received		18,197	-
Interest received		2,507	4,725
Borrowing costs paid		(3,516)	(2,725)
Income tax refund		252,976	281,308
		<hr/>	<hr/>
<b>Net cash provided by/(used in) operating activities</b>	16(b)	<b>(487,449)</b>	<b>(620,023)</b>
		<hr/>	<hr/>
<b>Cash flows from investing activities</b>			
Proceeds from sale of investment		50,000	-
Payments for property, plant and equipment		(10,153)	(76,014)
		<hr/>	<hr/>
<b>Net cash used in investing activities</b>		<b>39,847</b>	<b>(76,014)</b>
		<hr/>	<hr/>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		670,166	826,735
Loan from directors/(repaid)		(73,699)	(21,393)
Other loan repaid		(2,473)	-
		<hr/>	<hr/>
<b>Net cash provided by financing activities</b>		<b>593,994</b>	<b>805,342</b>
		<hr/>	<hr/>
Net increase/(decrease) in cash held		146,392	109,305
Cash at beginning of the financial period		139,327	30,022
		<hr/>	<hr/>
<b>Cash at the end of the financial period</b>	16(a)	<b>285,719</b>	<b>139,327</b>
		<hr/>	<hr/>

*The statement of cash flows is to be read in conjunction with the notes to and forming part of the financial statements.*



# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

#### 1. STATEMENT OF ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

##### (a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with applicable Accounting Standards, Urgent Issues Consensus Views, other authoritative pronouncements of the Australian Accounting Standard Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs and, except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied, unless otherwise stated.

##### (b) Going Concern

The financial statements have been prepared on a going concern basis that contemplates the continuity of normal operating activities and the realisation of assets and settlement of liabilities in the normal course of business. The company entity incurred an operating loss of \$7,131,766 for the year ended 30 June 2004 and had a net cash deficit of \$487,449 from trading operations.

At 30 June 2004, the company had net assets of \$396,777. Subsequent to year end, the company has issued 3,138,275 A Class shares raising funds of \$941,483 for working capital and has issued 159,507 Ordinary Shares raising funds of \$194,360 for working capital. The company in the coming 12 months plans to complete a prospectus to raise funds of \$30 million. If the funds are not raised, the company intends to incur costs no greater than the cash funds available.

Accordingly, the directors are of the opinion that the going concern basis is appropriate for the preparation of these financial statements.

If the company is unable to continue as a going concern, it may not realise its assets and settle its liabilities in the normal course of business, and at the amounts stated in the financial report.

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

#### 1. STATEMENT OF ACCOUNTING POLICIES (cont)

##### (c) Taxation

The company adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effects of capital losses are not recorded unless realisation is virtually certain.

The tax benefit on research and development tax offsets are recorded when the amount can be reliably measured.

##### (d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

##### (e) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

##### *Interest revenue*

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

##### *Research and development grants*

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue. Where a grant is received relating to research and development costs that have been deferred, the grant is deducted from the carrying amount of the deferred research and development costs.

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

#### 1. STATEMENT OF ACCOUNTING POLICIES (cont)

##### (e) Revenue recognition (cont)

###### *Sale of non-current assets*

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

##### (f) Receivables

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

##### (g) Investments

###### *Other entities*

Investments in other entities are carried at the lower of cost and recoverable amount.

##### (h) Acquisitions of assets

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

###### *Research and development*

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is capitalised.

##### (i) Depreciation and amortisation

###### *Complex assets*

The components of major assets that have materially different useful lives, are effectively accounted for as separate assets, and are separately depreciated.

###### *Useful lives*

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the diminishing value method over their estimated useful lives.

Assets are depreciated or amortised from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

#### 1. STATEMENT OF ACCOUNTING POLICIES (cont)

##### (i) Depreciation and amortisation (cont)

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only.

Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.

The depreciation/amortisation rates used for each class of asset are as follows:

	Note	2004	2003
<i>Property, plant and equipment</i>	7		
Leasehold improvements		8%	8%
Fixtures and fittings		25%	25%
Plant and equipment		25%	25%
Motor vehicles		21.25%	21.25%

##### (j) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value, except where specifically stated.

##### (k) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within trading terms.

##### (l) Interest bearing liabilities

Loans are carried on the statement of financial position at their principal amount, subject to set-off arrangements. Interest expense is accrued at the contracted rate and included in "Payables".

##### (m) Employee entitlements

###### *Wages, salaries and annual leave*

Liabilities for employee benefits to wages and salaries (including non-monetary benefits) and annual leave to be settled within 12 months of the reporting date representing present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on remuneration rates that the company expects to pay including related on-costs.

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

#### 1. STATEMENT OF ACCOUNTING POLICIES (cont)

##### (m) Employee entitlements (cont)

###### *Long service leave*

The provision for employee benefits to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to reporting date.

The provision is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities.

###### *Superannuation plan*

The company contributes to several defined benefit and defined contribution superannuation plans. Contributions are charged against income as they are made.

##### (n) Borrowing costs

Borrowing costs are expensed as incurred unless they relate to qualifying assets. The company does not have any qualifying assets.

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	\$	\$
<b>2. REVENUE FROM ORDINARY ACTIVITIES</b>		
<i>Other revenue from ordinary activities:</i>		
Interest – other parties	2,507	4,725
Research and development grants	18,197	-
Proceeds on sale of shares	50,000	-
Other income	36	3,968
	<hr/>	<hr/>
<b>Total revenue from ordinary activities</b>	<u>70,740</u>	<u>8,693</u>
<b>3. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		
<b>(a) Individually significant expense/(revenues) included in profit/(loss) from ordinary activities before income tax expense:</b>		
Provision for diminution of investment	287,447	-
Writedown of intangible assets	5,752,079	-
Writedown of other assets	43,758	-
<b>(b) Profit/(loss) from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:</b>		
Borrowing costs – other parties	3,516	2,725
Depreciation of property, plant and equipment	109,524	106,127
Amortisation of intangible assets	-	470,877
Provision for employee entitlements	4,723	-
Loss on sale of shares	139,603	-
<b>(c) Fundamental errors</b>		

At 30 June 2003, the company had capitalised costs of \$5,795,837 in relation to intellectual property assets. The stage of development of intellectual property at 30 June 2003 and 2004 did not enable forecast profits of cashflows to be estimated, to enable the book value of the assets to be substantiated.

Accordingly, the directors consider there was a fundamental error in the preparation of the 30 June 2003 financial statements.

As a result of errors in assessing the recoverability of intangible assets and other assets, intangible assets were overstated by \$5,752,079 and other assets are overstated by \$43,758 as at 30 June 2003. This error also had the effect of overstating the net loss from operating activities before income tax for the year ended 30 June 2003 by \$417,010 and understating accumulated losses by \$5,795,837 as at 30 June 2003.

The restated financial information for the financial years ended 30 June 2004 and 30 June 2003 are presented below as if the error had not been made:

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

#### 3. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE (cont)

	2004 \$ Restated	2003 \$ Restated
<b>(c) Fundamental error (cont)</b>		
<b>Pro forma statement of financial performance</b>		
Revenue from ordinary activities	70,740	8,693
Employee expenses	(461,054)	(527,575)
Depreciation and amortisation expenses	(109,524)	(110,266)
Research and development expense	(30,281)	(14,735)
Management fees	(13,650)	-
Provision for diminution	(287,447)	-
Borrowing costs	(3,516)	(2,725)
Occupancy expenses	(77,809)	(84,799)
Other expenses from ordinary activities	(423,388)	(258,737)
<b>Profit from ordinary activities before income tax expense</b>	<b>(1,335,929)</b>	<b>(990,144)</b>
Income tax (expense)/benefit	-	283,731
<b>Profit from ordinary activities after income tax expense</b>	<b>(1,335,929)</b>	<b>(706,413)</b>
<b>Restatement of retained profits/(accumulated losses)</b>		
Retained profits at beginning of year as previously reported	(4,351,742)	(3,228,319)
Correction of fundamental error (net of tax)	(5,795,837)	(6,212,848)
Restated retained profits at beginning of year	(10,147,579)	(9,441,167)
Restated profit from ordinary activities after income tax expense	(1,335,929)	(706,413)
Transfer from share premium reserve	45,000	-
<b>Restated retained profits at end of year</b>	<b>13 (11,438,508)</b>	<b>(10,147,580)</b>
<b>Restatement of items on the statement of financial position</b>		
<b>Intangible assets</b>		
Balance at end of year as previously reported	-	5,752,079
Correction of fundamental error	-	(5,752,079)
<b>Restated balance at end of year</b>	<b>-</b>	<b>-</b>
<b>Other assets</b>		
Balance at end of year as previously reported	-	43,758
Correction of fundamental error	-	(43,758)
<b>Restated balance at end of year</b>	<b>-</b>	<b>-</b>

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

4. AUDITORS' REMUNERATION	2004	2003
	\$	\$
<i>Audit services</i>		
Auditors of the Company – KPMG		
Audit of the financial report	15,000	-
Other auditors		
Audit of the financial report	-	7,250
Other services	5,000	-
	<u>20,000</u>	<u>7,250</u>
<b>5. OTHER ASSETS</b>		
<b>Current</b>		
Other debtors	<u>43,940</u>	<u>831</u>
<b>Non-current</b>		
Preliminary expenses	-	2,192
Less: accumulated amortisation	-	(672)
	-	<u>1,520</u>
Research and development expenditure	-	<u>42,238</u>
	<u>-</u>	<u>43,758</u>
<b>6. OTHER FINANCIAL ASSETS</b>		
Investment in unlisted companies – at cost	390,397	580,000
Less: provision for diminution	<u>(287,447)</u>	<u>-</u>
	<u>102,950</u>	<u>580,000</u>
<b>7. PROPERTY, PLANT AND EQUIPMENT</b>		
Leasehold improvements at cost	6,867	6,867
Less: accumulated depreciation	<u>(929)</u>	<u>(497)</u>
	5,938	6,370
Fixtures and fittings at cost	102,338	102,338
Less: accumulated depreciation	<u>(64,110)</u>	<u>(51,275)</u>
	38,228	51,063
Plant and equipment at cost	506,467	504,460
Less: accumulated depreciation	<u>(349,493)</u>	<u>(269,204)</u>
	156,974	235,256



# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

7. PROPERTY, PLANT AND EQUIPMENT (cont)	2004 \$	2003 \$
Motor vehicles at cost	44,200	44,200
Less: accumulated depreciation	(10,349)	(2,527)
	<u>33,851</u>	<u>41,673</u>
<b>Total property, plant and equipment</b>	<u>234,991</u>	<u>334,362</u>
<b>Reconciliations</b>		
Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:		
<b>Leasehold improvements</b>		
Carrying amount at beginning of year	6,370	4,235
Additions	-	2,562
Disposals	-	-
Depreciation	(432)	(427)
Carrying amount at end of year	<u>5,938</u>	<u>6,370</u>
<b>Fixtures and fittings</b>		
Carrying amount at beginning of year	51,063	48,004
Additions	-	16,824
Disposals	-	-
Depreciation	(12,835)	(13,765)
Carrying amount at end of year	<u>38,228</u>	<u>51,063</u>
<b>Plant and equipment</b>		
Carrying amount at beginning of year	235,256	298,418
Additions	10,153	25,642
Disposals	-	-
Depreciation	(88,435)	(88,804)
Carrying amount at end of year	<u>156,974</u>	<u>235,256</u>
<b>Motor vehicles</b>		
Carrying amount at beginning of year	41,673	7,746
Additions	-	37,058
Disposals	-	-
Depreciation	(7,822)	(3,131)
Carrying amount at end of year	<u>33,851</u>	<u>41,673</u>

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

	<b>2004</b>	<b>2003</b>
	<b>\$</b>	<b>\$</b>
<b>8. INTANGIBLE ASSETS</b>		
Patents and trademarks at cost	-	134,969
Less: accumulated amortisation	-	(85,159)
	<u>-</u>	<u>49,810</u>
Other intangibles at cost	-	7,881,584
Less: accumulated amortisation	-	(2,179,315)
	<u>-</u>	<u>5,702,269</u>
	<u>-</u>	<u>5,752,079</u>
<b>9. NON-INTEREST BEARING LIABILITIES</b>		
<b>Current</b>		
Director loans	56,757	230,682
Other loans	18,108	581
	<u>74,865</u>	<u>231,263</u>
<b>Non-current</b>		
Other loans	<u>-</u>	<u>20,000</u>
Loans are unsecured, interest free and repayable upon demand.		
<b>10. INTEREST BEARING LIABILITIES</b>		
<b>Non-current</b>		
Director loans	<u>100,226</u>	<u>-</u>

Director loans are unsecured, repayable over 5 years and interest is charged at 1.86% per annum.

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

11. CONTRIBUTED EQUITY	2004	2003
	\$	\$
<b>Share capital</b>		
185,102,524 (2003: 184,790,981) Ordinary shares, fully paid	11,452,585	11,165,119
1,275,667 (2003: nil) A class shares, partly paid	<u>382,700</u>	<u>-</u>
	<u>11,835,285</u>	<u>11,165,119</u>
<b>Ordinary shares</b>		
Balance at the beginning of the year		
Shares issued	11,165,119	10,338,384
- 311,543 ordinary shares raising cash funds of \$287,466	287,466	-
- 877,370 ordinary shares raising cash funds of \$826,735	<u>-</u>	<u>826,735</u>
Balance at the end of the year	<u>11,452,585</u>	<u>11,165,119</u>
<p> Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the company ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.</p>		
<b>A class shares</b>		
Balance at the beginning of the year	-	-
Shares issued		
- 1,275,667 shares raising cash funds of \$382,700	<u>382,700</u>	<u>-</u>
Balance at the end of the year	<u>382,700</u>	<u>-</u>
<p> Holders of A class shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the company A class shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.</p>		
<b>12. RESERVES</b>		
<b>Share premium reserve</b>		
Opening balance	45,000	45,000
Transfer to retained profits/(accumulated losses)	<u>(45,000)</u>	<u>-</u>
<b>Closing balance</b>	<u>-</u>	<u>45,000</u>
<b>13. RETAINED PROFITS/(ACCUMULATED LOSSES)</b>		
Retained profits/(accumulated losses) at the beginning of the year	(4,351,742)	(3,228,319)
Net profit/(loss) attributable to members of the parent entity	(7,131,766)	(1,123,423)
Transfer from share premium reserve	<u>45,000</u>	<u>-</u>
Retained profits/(accumulated losses) at the end of the year	<u>(11,438,508)</u>	<u>(4,351,742)</u>

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

#### 14. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

##### Interest rate risk

The company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below.

2004	Weighted average interest rate	Floating interest rate	Fixed interest rate	Non Interest bearing	Total
<b>Financial assets</b>					
Cash assets	3.55%	285,119	-	600	285,719
Other assets – current	-	-	-	43,940	43,940
		<u>285,119</u>	<u>-</u>	<u>44,540</u>	<u>329,659</u>
<b>Financial liabilities</b>					
Payables	-	-	-	80,677	80,677
Non interest bearing liabilities	-	-	-	74,865	74,865
Interest bearing liabilities	1.86%	-	100,226	-	100,226
		<u>-</u>	<u>100,226</u>	<u>155,542</u>	<u>255,768</u>
<b>2003</b>					
2003	Weighted average interest rate	Floating interest rate	Fixed interest rate	Non Interest bearing	Total
<b>Financial assets</b>					
Cash assets	3.55%	122,127	-	17,200	139,327
Other assets – current	-	-	-	831	831
Other assets – non-current	-	-	-	43,758	43,758
		<u>122,127</u>	<u>-</u>	<u>61,789</u>	<u>183,916</u>
<b>Financial liabilities</b>					
Payables	-	-	-	30,228	30,228
Non interest bearing liabilities	-	-	-	231,263	231,263
Interest bearing liabilities	1.86%	-	20,000	-	20,000
		<u>-</u>	<u>20,000</u>	<u>261,491</u>	<u>281,491</u>

##### Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The credit risk on financial assets which have been recognised on the statement of financial position, is the carrying value, net of any provision for doubtful debts.

##### Net fair values of financial assets and liabilities

The net fair values of financial assets and liabilities of the company are represented by the carrying amount of these items.

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

#### 15. DIRECTOR AND EXECUTIVE DISCLOSURES

##### Directors

The names of each person holding the position of director of REVETEC Limited during the financial year were CCK Chan, BD Howell-Smith, HA Howell-Smith, HRJ Howell-Smith and I Sekuloski.

The remuneration structures are designed to attract suitably qualified candidates, and to effect the broader outcome of increasing the company's net profit.

Details of the nature and amount of each major element of the remuneration of each director of the company are set out below. There are no senior executives of the company who are not directors.

Specified directors		Base	Other	Total
		remuneration (salary & fees)		
<i>Non-executive</i>		\$	\$	\$
BD Howell-Smith	2004	-	-	-
	2003	-	-	-
HA Howell-Smith	2004	-	-	-
HRJ Howell-Smith	2004	-	-	-
	2003	-	-	-
I Sekuloski	2004	10,417	-	10,417
<i>Executive</i>				
CCK Chan	2004	13,650	-	13,650
	2003	-	-	-
Total all specified directors	2004	24,067	-	24,067
	2003	-	-	-

Apart from the details disclosed in this note, no director has entered into a material contract with the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

##### Equity instruments

The interests of directors' of the company and their director-related entities in shares of the company at year end are set out below.

	Numbers held	
	2004	2003
Ordinary shares	64,876,112	74,476,709

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

#### 15. DIRECTOR AND EXECUTIVE DISCLOSURES (cont)

##### Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares and options of the company held directly, indirectly or beneficially by each specified director, including their personally related entities is as follows:

Ordinary shares Specified directors	Held at 1 July 2003	Purchases	Sales	Held at 30 June 2004
BD Howell-Smith	67,317,500	-	(4,080,000)	63,237,500
HA Howell-Smith	-	-	-	-
HRJ Howell-Smith (b)	6,825,000	-	(5,251,765)	1,573,235
CCK Chan (a)	334,209	-	(268,832)	65,377
I Sekuloski	-	-	-	-

(a) Held indirectly through Panay Pty Ltd.

(b) Held jointly with DS Howell-Smith

No directors had any interest in A class shares during the 2003 and 2004 financial years.

##### Loans and other transactions with specified directors – loans to company

<i>Specified directors</i>	2004 \$	2003 \$
BD Howell-Smith (a)	41,268	94,596
HRJ Howell-Smith (b)	105,715	136,086
CCK Chan (a)	10,000	-
	<u>156,983</u>	<u>230,682</u>

(a) These loans are interest free, unsecured and have no fixed term of repayment.

(b) This loan is unsecured, repayable over 5 years and interest is charged at 1.86% per annum.

##### Other transactions with director related entities

CCK Chan is a director of Panay Pty Ltd. Management fees totalling \$13,650 were paid to Panay Pty Ltd during the year (2003: nil).

CCK Chan is a director of DataFX Online Pty Ltd. The company has an investment in DataFX Online Pty Ltd at a cost of \$390,397 as at 30 June 2004 (2003: \$580,000).

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

#### 16. NOTES TO THE STATEMENT OF CASH FLOWS

##### (a) Reconciliation of cash

For the purpose of the statements of cash flow, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled in the statements of financial position as follows:

	<b>2004</b>	<b>2003</b>
	\$	\$
Cash assets	<u>285,719</u>	<u>139,327</u>

##### (b) Reconciliation of cash flow from operations with operating profit after income tax:

Operating profit/(loss) after income tax	(7,131,766)	(1,123,423)
Add/(less) non-cash items:		
Depreciation and amortisation	109,524	577,005
Amounts set aside to provisions	4,723	-
Provision for diminution	287,447	-
Writedown of intangible assets	5,752,079	-
Writedown of other assets	43,758	-
Loss on sale of shares	139,603	-
Change in assets and liabilities during the financial year:		
(Increase)/decrease in other assets	256,735	(63,016)
Increase/(decrease) in payables	<u>50,448</u>	<u>(10,589)</u>
Net cash provided by/(used in) operating activities	<u>(487,449)</u>	<u>(620,023)</u>

#### 17. STATEMENT OF OPERATIONS BY SEGMENT

The company operates solely in the research and development industry in Australia

# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

### 18. SUBSEQUENT EVENTS

#### International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the company must comply with International Financial Reporting Standards ("IFRS") as issued by the Australian Accounting Standards Board. This financial report has been prepared in accordance with Australian Accounting Standards and other financial reporting requirements (Australian GAAP).

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS and the impact of these differences relative to the company's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years.

The board has undertaken preliminary planning into the implications of IFRS, but has not yet determined the impact on the Company or implemented any formal plans to manage the transition to IFRS. This is expected to occur in the 30 June 2005 financial year.

Potential implications of the conversion to IFRS on the company are as follows:

- income tax will be calculated based on the "balance sheet" approach, which will result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity
- financial instruments must be recognised in the statement of financial position and most financial assets must be carried at fair value
- equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services
- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

#### Share issues

Subsequent to year end, the company has issued 3,138,275 A Class shares raising funds of \$941,483 for working capital and has issued 159,507 Ordinary Shares raising funds of \$194,360 for working capital. The financial effect of the share issues have not been included in the financial statements at 30 June 2004.



# REVETEC Limited ACN 079 317 365

## NOTES TO THE FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
	\$	\$
<b>19. TAXATION</b>		
<b>(a) Income tax expense</b>		
Prima facie income tax expense calculated at 30% on the profit from ordinary activities	(2,139,530)	(422,146)
<b><i>Increase/(decrease) in income tax expense due to:</i></b>		
Non-allowable items	-	139,805
Research and development concessions	-	(343,538)
Writedown of intangible assets	1,725,624	-
Provision for impairment of investment	86,234	-
	<u>(327,672)</u>	<u>(625,879)</u>
Future income tax benefit not brought to account/(not previously brought to account)	<u>327,672</u>	<u>342,148</u>
Income tax benefit	<u>-</u>	<u>(283,731)</u>
<b>(b) Future income tax benefit not taken to account</b>		
The potential future income tax benefit, arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt:		
Tax losses	<u>778,182</u>	<u>498,853</u>
The potential future income tax benefit will only be obtained if:		
(i) the company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;		
(ii) the company continues to comply with the conditions for deductibility imposed by the law; and		
(iii) no changes in tax legislation adversely affect the company in realising the benefit.		

# REVETEC Limited ACN 079 317 365

## DIRECTORS' DECLARATION

1. In the opinion of the directors of REVETEC Limited
  - (a) the financial statements and notes, set out on pages 4 to 23, are in accordance with the Corporations Act 2001, including;
    - (i) giving a true and fair view of the financial position of the company as at 30 June 2004 and of its performance, as represented by the results of its operations and its cash flows, for the year ended 30 June 2004; and
    - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Dated at Bundall 1 November 2004.

Signed in accordance with a resolution of the directors:

*Charles Chan*  
*Director*

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF

# REVETEC Limited ACN 079 317 365

## Scope

### *The financial report and director's responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes 1 to 19 to the financial statements, and the directors' declaration for REVETEC Limited (the "Company"), for the year ended 30 June 2004.

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

### *Audit approach*

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

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

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

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

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

## Independence

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

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF  
**REVETEC Limited** ACN 079 317 365

**Audit opinion**

In our opinion, the financial report of REVETEC Limited is in accordance with:

- a) the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the Company's financial position as at 30 June 2004 and of its performance for the financial year ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

KPMG



P G Steer  
*Partner*

Gold Coast  
1 November 2004