SafeEffect
TECHNOLOGIES

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Dear Shareholder

In May last year, your company reached a critical landmark in its development by becoming a publicly listed company. At the time of our first AGM in November 2002, Safe Effect Technologies Ltd was newly established, having acquired the wet braking business earlier that year, and plans were being made to grow into a global corporation to realise on the long term investment of many shareholders accumulated over some years.

At the time of the IPO, Safe Effect planned initially to raise $4-5 million, with the final amount raised being $3 million. In addition, with the 49% beneficial interest of the technology being held by Safe Effect Technologies International Ltd, the new company was faced with the difficult battle to overcome considerable budgetary constraints, whilst dealing with a third party beneficiary which, intended to be, but in the end, was not a financial contributor to the new efforts.

In order to realise on the potential of the technology The Company set out to fulfil three key requirements for its business model to succeed, namely: (i) adequate funding for globalisation (ii) technology development and protection and (iii) ability to manufacture sufficient volume of its product at an economical price.

Funding for Globalisation

In March 2003, the Company entered into an agreement with a Sydney firm to underwrite a rights issue with a view to raising $5 million to launch the Company into the global arena. This fund raising was intended to provide adequate capital to commercialise the Company's technology and for Safe Effect's launch into global markets.

Two of the key components of the Company's globalisation strategy, namely (i) the acquisition of a manufacturing facility in Thailand and (ii) the launch into USA and development of the USA entity, relied on the Company having adequate working capital in Australia and being able to dedicate the necessary resources towards achieving its goals. A properly capitalised company is the key to the future success.

The rights issue conducted in March 2003 was fully underwritten and at the time of the closure of the rights issue, all of the remaining shares were issued to the underwriter on the basis of a firm written commitment to deliver all of the outstanding funds as agreed. Not withstanding various commitments made by the underwriter, only a portion of monies was forthcoming.

A revised agreement was negotiated. Within the terms of this agreement the underwriter undertook to pay the shortfall by 31 August 2003. The underwriter has defaulted on this undertaking as well. As the full amount of funds has not been delivered, the Company carries a receivable from the underwriter of approximately $3.6 million, and the Company has control of the remaining shares issued to the underwriter and the underwriter's assets.

As a result, the Company has lacked the adequate capital to properly carry out its commercialisation plans. The Thai acquisition has been delayed, and the establishment of the USA division put on hold until the fundamental issues in the parent company are properly addressed and adequate resources are available to support the globalisation efforts.

In order to capitalise on the opportunities available to Safe Effect at this juncture, the outstanding debt from the underwriter needs to be realised in an orderly manner to assist with funding of the Company's growth.

To this end, the Company has appointed Claymore Capital (of Sydney) as its primary funding and corporate advisers. Claymore has been mandated to realise the outstanding debt of $3.6 million and to provide the Company with sufficient working capital to fund its various initiatives with further funds to be raised over time for off-shore acquisitions. Claymore believes that this exercise will take some 8 – 12 weeks, as these funds will be raised via an on-sale of the shares initially issued to the underwriter of the rights issue and sold in an orderly manner over time to ensure minimal impact on the Company's share price.

Manufacturing

The Company's small manufacturing facility in Melbourne, Victoria, has been utilized to make short runs of brakes through a combination of outsourced and in-house production. This production is far from economical and is only suitable for prototyping and pre-production stage of product delivery.

In order to secure a production capability to manufacture SIBS® brakes in large volumes with all the benefits of scale and thus at competitive prices, the Company has entered into an agreement to acquire a controlling interest in a Thai manufacturing plant.

Considerable effort has been dedicated during the recent months to ensure that Safe Effect's brakes can be manufactured out of Thailand whether or not the acquisition of a controlling interest in Siam Adler is completed in a timely manner.

At this point, the acquisition is still pending and Safe Effect has already made adequate preparations to commence manufacturing, with help from Siam Adler, in October 2003 for expected delivery of the first batches of Safe Effect SIBS® brakes to Australia in January 2004.

Initially, the SIBS® light truck brakes will be the first volume-produced brakes for immediate sales into Canada and Australia. Safe Effect expects to deliver and sell 1,000 sets of these brakes by June 2004. This is a conservative estimate; the current orders will require approximately 20% of that production run and the Company has not commenced the marketing campaign yet.

By January 2004 Safe Effect will be adding industrial brakes to the production line and the manufacturing of truck brakes (please refer below) will commence by March 2004.

Technology Development

Initial product sales, dating even prior to the IPO, were focused on short runs of light weight truck brakes into the mining environment, largely to establish a track record for Safe Effect's technology. The mining application remains one of the Company's core markets.

Given the initial success of SIBS® technology in extreme mining environments, a substantial, and potentially very lucrative, market for heavy truck brakes was identified, and in late 2002 the Company launched a truck brake development project with the support of a garbage collection company that owns and manages a fleet of garbage trucks. Garbage trucks subject brakes to extreme use and thus offer an ideal application for SIBS® technology. As part of this development program our proprietary technology has been successfully expanded to include both primary and secondary cooling integrated with our braking system that strengthens the position of our technology as the leading and only real solution to extreme braking problems.

In addition, ongoing Research & Development effort was planned to ensure protection of our Intellectual Property. Development of truck brakes and brakes for heavy duty applications inevitably had to lead to further technological progress and additional patents.

The project is progressing on schedule. Technology for cooling of brakes has been developed and additional patents have been put in place. Cooled SIBS® brakes will be launched at the Technical & Maintenance Conference in Melbourne, 16-18 November 2003. On-road testing (required for on-road certification) is expected to commence in December 2003. The truck brake is planned to be fully certified, patent protected and ready for production by March 2004.

A number of domestic and off-shore companies have expressed interest in this technology to be applied in their heavy trucks, either as joint development projects or through distribution of our product into their markets.

This represents a real opportunity for our company as demand is likely to be high and margins are expected to be good.

Joint Venture in China

The Company has identified a suitable partner to introduce our technology into the rapidly growing Chinese market. The Company has signed a Memorandum of Understanding with a Hong Kong based Chinese company to immediately incorporate a Hong Kong company, of which Safe Effect will own 75%, with the balance to be owned by the Chinese. This company is to use our technology to manufacture, market and distribute brakes in China.

Under the terms of the MoU, an initial run of 50 sets of SIBS® brakes will be produced by a suitable Chinese manufacturer to prove the manufacturing standard is up to ISO 9002 requirements. Once the standard has been approved, the Chinese subsidiary intends, in the first instance, to manufacture and sell SIBS® light personnel carrier brakes to the People's Republic of China military.

Going forward

Ongoing funding requirements are integral to the Company's timely progress and long-term success. Fund raising since, and including, the IPO has been clearly impeded, and a fundamental reason is the complicated corporate structure whereby the 49% beneficial rights to the wet brake technology are held by Safe Effect Technologies International Ltd ("SETI"). To date, SETI has not made any contribution to the funding of the joint venture between the two companies. It is the Company's view that in the best interest of the shareholders (keeping in mind that SETI shareholders are also shareholders in the Company) the Company should acquire SETI. A scrip for scrip offer will be extended to all SETI shareholders in October/November 2003.

Once Safe Effect recommences trading of its stock, it is planned to make an offer to the shareholders through a Share Purchase Plan in order to raise further working capital to pursue numerous opportunities for the SIBS® technology, leading towards long-term contracts and thus the Company's long-term success.

Whilst the Company remains suspended, it will continue to keep all of the Shareholders regularly informed as to ongoing developments within and relating to the Company. At this point in time the Company intends for its shares to be re-quoted as soon as practicable.

If, in the interim, any shareholder wishes to make any inquiries as to such progress they are invited to call Claymore on (02) 9233 2063 or email them at ivan@claymorecapital.com.au.

Yours sincerely

Thomas J R O'Brien AM
Chairman

PS

If you would like to receive future updates by email, please forward your email address to info.perth @safeeffect.com with subject line "shareholder". This will expedite the delivery and minimise our mailout costs.