

BIDDER'S STATEMENT and OFFER

by
Safe Effect Technologies Limited
ABN 66 099 107 623

to purchase all of your shares in
Safe Effect Technologies
International Limited
ABN 66 087 044 228

Safe Effect Technologies Limited is offering 1 new ordinary share in itself for every 1.84 of your Safe Effect Technologies International Limited shares, with part numbers of Bidder Shares being ignored.

This document is important and requires your immediate attention. Please read it carefully. If you are in any doubt as to how to deal with this document, you should consult your financial, legal or other professional adviser immediately.

THIS OFFER IS DATED 23rd FEBRUARY 2005 AND CLOSES AT 5.00PM WST ON 31 ST DECEMBER 2005 UNLESS EXTENDED OR WITHDRAWN.

CORPORATE DIRECTORY

DIRECTORS

Roger Cowan OAM (Chairman)

Dr Dorota H Kieronska

John McClelland

Vin Morley (Managing Director)

CHIEF EXECUTIVE OFFICER

Vin Morley

COMPANY SECRETARY

Vincent Sweeney

REGISTERED OFFICE

c/- Walker Herceg

Level 22 Australia Square

264 George Street

Sydney NSW 2000

SHARE REGISTRY

Computershare Investor Services Pty Ltd

Level 2, Reserve Bank Building

45 St Georges Terrace

Perth, Western Australia, 6000

AUDITORS

Stanton Partners

Level 1, 1 Havelock Street

West Perth, WA, 6005

LAWYERS

Walker Herceg

Level 22 Australia Square

264 George Street

Sydney NSW 2000

STOCK EXCHANGE

Australian Stock Exchange Ltd

Exchange Plaza

2 The Esplanade

Perth, Western Australia, 6000

ASX CODES

Ordinary shares - SAF

Chairman's letter

Dear Shareholder,

It is my great pleasure to introduce myself as the Chairman of the Board of Directors of Safe Effect Technologies Ltd ("SETL"). I look forward to going forward with the company towards a prosperous and successful future.

I am writing to you to encourage you to sell your shares in Safe Effect Technologies International Limited ("SETI") by accepting the Offer by SETL as set out in this document.

As you may be aware, the first SETI takeover offer which was made in the bidder's statement dated 16th April 2004 ("First Offer") could not be completed due to SETL being unable to comply with a defeating condition of that offer. Specifically, condition 23.1(d) required that SETL be quoted for trading on ASX by no later than 30th June 2004. SETL was unable to comply with this timetable, however we have been and continue to work with the ASX towards re-quotation.

SETL's reasons for pursuing the takeover of SETI were set out in the previous bidder's statement for the First Offer. These remain unchanged and are set out in full in this Statement. SETL's Directors also maintain that the Joint Venture agreement has become undesirable for the following reasons:

- it is more efficient and easier to attract new capital for SETL if it owns the entire business;
- cost savings for the business can be achieved by having single ownership; and
- SETI has not yet contributed its share of costs to the business.

On terms similar to the First Offer, SETL proposes, to all Shareholders of SETI, a merger with SETL on the basis that SETL pays SETI shareholders up to 50,000,000 Bidder Shares in SETL as consideration for all the Shares currently on issue. In summary, this would mean:

- SETL would own 100% of the Business, through its ownership of SETI;
- SETI shareholders would own their stake in the Business via their shareholding in SETL;
- the cumbersome and unwieldy joint venture structure could be wound up;
- decisions affecting both SETI, SETL and the Business could be made on a more expeditious basis;
- the cost of maintaining two corporate structures for a single business would be eliminated; and
- attracting new investors and fresh capital would become markedly easier.

The Business continues to progress, moving from a technology based Joint Venture to a manufacturer and distributor of motion control products.

Bidder's Statement and Offer

Details of the Offer as well as management, operations, financial information and the risks of investing in SETL are set out in the document of which this letter forms part. I encourage you to carefully read the entire document.

Together with my fellow Directors, I commend the Offer to you and look forward to your continuing support as a shareholder of SETL.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Cowan', written in a cursive style.

Roger Cowan OAM
Executive Chairman

1. PURPOSE OF THIS DOCUMENT

This document is a bidder's statement by Safe Effect Technologies Limited (Bidder) under and in accordance with Chapter 6 of the Corporations Act. A bidder's statement dated 9 February 2005 was lodged with ASIC on 9 February 2005 ("original bidder's statement"). A supplementary bidder's statement dated 23 February 2005 was lodged with ASIC on 23 February 2005 ("supplementary bidder's statement"). In accordance with a class order issued by ASIC, this bidder's statement comprises the original bidder's statement as amended by the supplementary bidder's statement. This Statement has been lodged with ASIC. ASIC takes no responsibility for the content of this Statement.

Certain expressions used in this Statement are defined in clause 43.

The people to whom this Statement and other related information are to be sent are the holders of Shares as at the Offer Date.

This Statement does not take into account the individual investment objectives, financial situation and particular needs of each SETI shareholder. You may wish to seek independent financial, taxation and other advice before making a decision whether or not to accept this Offer and whether SETL Shares are an appropriate investment for you.

Attached to this Offer and forming part of the Offer Document is the Annual Report of SETL for the financial year ended 30 June 2004 and the unaudited balance sheet as at 31 December 2004.

2. OFFERS OUTSIDE AUSTRALIA

Those Shareholders whose address, as shown in the Target's register of members, as a place outside Australia and its external territories ("Foreign Shareholders"), may not be entitled to receive Bidder Shares if they accept the Offer.

Foreign Shareholders who accept the Offer may receive the cash proceeds of a nominee sale of their entitlement to Bidder Shares as described in Section 9.2.

The Bidder does not expect to register this Offer in any foreign jurisdiction.

3. DISCLOSURE ABOUT FORWARD LOOKING STATEMENTS

This Statement may include certain forward looking statements, which have been based on SETL's current expectations about future events. These include the stated intentions of SETL and other financial information contained in this Statement in the event of an acquisition by SETL of SETI, which are subject to numerous risks.

Where relevant, the basis for each forward looking statement is explained in conjunction with the relevant statement. Neither SETL nor any of its Directors is representing that any forward looking statement will necessarily occur. These forward looking statements, and the operations and financial performance of SETL and SETI, are subject to known and unknown

risks, uncertainties and assumptions that could cause actual events or results to differ materially from the expectations described in such forward looking statements.

These factors include, among other things, those risks identified in Section 22 and other investment considerations, as well as other matters not yet known to SETL or not currently considered material by SETL.

4. BIDDER'S OFFER

This Statement includes an Offer by the Bidder for all the issued Shares in the Target, which exist or will exist on the Offer Date. The Bidder offers to acquire all Your Shares, together with any Rights, for a consideration of 1 Bidder Share for every 1.84 Shares (and the Rights attached to that Share) with part shares being ignored, on and subject to the terms and conditions set out in this Statement. In particular, attention is drawn to the defeating conditions in clause 23.

You may only accept this Offer for all of Your Shares.

Subject to clause 8, the Offer also extends to Shares that are issued during the Offer Period due to the conversion of or exercise of rights attached to other securities (if any).

5. OFFER PERIOD

This Offer will remain open for acceptance during the period commencing on 9th February 2005 (the Offer Date) and ending at 5.00pm (WST) on the earlier of:

- (a) 31 December 2005; and
- (b) 14 days after the date on which the Company receives approval for quotation of up to 50,000,000 of the Bidder's Shares on ASX,

unless withdrawn or extended under the Corporations Act.

If, within the last 7 days of the Offer Period, either:

- (a) the Offer is varied to improve the consideration offered; or
- (b) the Bidder's voting power in the Target increases to more than 50%,

then the Offer Period will be automatically extended in accordance with the Corporations Act so that it ends 14 days after the event referred to in paragraphs (a) and (b) above. If this occurs, the Bidder will give to the Target and all Shareholders of other securities who have not yet accepted the Offer a written notice that the extension has occurred. The Bidder will give this notice within 3 business days after the relevant event.

No Bidder Shares will be issued on the basis of this Offer later than 1 June 2006.

6. WHO MAY ACCEPT

An Offer in this form is being made to:

1. each person who is able to give good title to a parcel of Shares at 9.00am (WST) on the Offer Date; and
2. each other person who is able to give good title to a parcel of Shares before the end of the Offer Period.

If at the time this Offer is made to you, or at any time during the Offer Period, another person is able to give good title to a parcel of Shares to which this Offer relates:

- (a) a corresponding new Offer will be deemed to have been made to that other person for those Shares;
- (b) a corresponding new Offer will be deemed to have been made to you for any other Shares you hold to which the Offer relates; and
- (c) this Offer is to be treated as having been withdrawn.

If you are a trustee or nominee for several persons in respect of distinct parcels of Shares, section 653B of the Corporations Act deems an Offer to have been made to you in respect of each distinct parcel. To validly accept the Offers for each parcel, you must specify (or cause to be specified), by written notice accompanying your Acceptance Form that Your Shares consist of distinct parcels and the number of Shares in each distinct parcel to which the acceptance relates. Section 653B otherwise applies to this Offer in respect of Your Shares and any acceptance of this Offer by you.

7. HOW TO ACCEPT THIS OFFER

You may accept this Offer at any time during the Offer Period, by signing and returning the completed Acceptance Form, together with your Share Certificate to the Bidder at the registered office of the Bidder, which is set out in the Corporate Directory of this document.

If your Acceptance Form (and all other documents required) is posted and the envelope in which you send them is post-marked before the end of the Offer Period, the Bidder may, in its sole discretion, determine that acceptance to be a valid acceptance even if received by the Bidder after the end of the Offer Period.

8. THE EFFECT OF ACCEPTANCE

By signing and returning a completed Acceptance Form or by otherwise accepting this Offer, you will have:

- (a) accepted this Offer for all of Your Shares, regardless of the number of Shares specified in the Acceptance Form (subject to this clause 8), and the Rights;

- (b) agreed to transfer all of Your Shares to the Bidder, subject to this Offer and the Takeover Contract becoming unconditional;
- (c) irrevocably authorised the Bidder to complete your Acceptance Form by rectifying any errors in or omissions from it as may be necessary to make it an effectual acceptance of this Offer or to enable registration of the transfer of Your Shares to the Bidder. In particular, if you sign and return the Acceptance Form, but the number of Your Shares specified is a number which is more or less than the number you actually hold, you irrevocably authorise the Bidder to complete or amend your Acceptance Form to be an acceptance for all of Your Shares;
- (d) represented and warranted to the Bidder that Your Shares will at the time of transfer to the Bidder be fully paid up and the Bidder will acquire good legal title to them and the Bidder will acquire full beneficial ownership of them, in each case free from all mortgages, charges, liens, encumbrances (whether legal or equitable) and restrictions on transfer of any kind, and that you have full power and authority to sell and transfer all of Your Shares;
- (e) irrevocably appointed the Bidder or any nominee (or nominees) of the Bidder as your attorney to exercise all your powers and rights attaching to all of Your Shares including to execute and deliver all forms, notices and instruments (including instruments appointing a director of the Bidder as a proxy in respect of all of Your Shares), to requisition, convene, attend and vote at all general and other meetings of the Target, from the time the Takeover Contract becomes unconditional, until the earlier of the withdrawal of your acceptance under section 650E of the Corporations Act or the end of the Offer Period or, if all of the conditions of the Offer have been satisfied or waived, the registration of the Bidder as the holder of Your Shares;
- (f) agreed that in exercising the powers conferred by the power of attorney in paragraph (e), the Bidder or its nominee is entitled to act in the interest of the Bidder;
- (g) agreed not to attend or vote in person at any general or other meetings of the Target or to exercise or purport to exercise any of the powers conferred on the Bidder or its nominee in paragraph (e); and
- (h) authorised the Target, after this Offer or any Takeover Contract becomes unconditional, but before registration of the transfer of Your Shares under the Takeover Bid, to transmit Your Shares to any register maintained for the Target which the Bidder in its absolute discretion considers desirable and regardless of whether the Bidder has paid the consideration due to you under this Offer at the relevant time.

The Bidder may, in its sole discretion, at any time determine that any Acceptance Form it receives is a valid acceptance, even though one or more of the requirements for acceptance have not been complied with. The Bidder will provide the consideration to you in accordance with section 24 for any part of an acceptance determined by the Bidder to be valid. Subject to the Bidder's rights under sections 8 and 9, where you nonetheless have satisfied the

requirements for acceptance for only some of Your Shares, the Bidder may in its sole discretion regard the Offer to have been accepted for those Shares but not the remainder.

9. PAYMENT FOR SHARES ACQUIRED

9.1 Overview

If you accept this Offer and this Offer becomes unconditional, the Bidder will pay you for Your Shares, within 21 days after the end of the Offer Period provided that you will have given to the Bidder the necessary transfer documents together with your acceptance or before the end of the Bid Period, or if given after your acceptance and after the end of the Bid Period, then, within 21 days after the Bidder is given the necessary transfer documents.

If you accept this Offer, the Bidder is entitled to all Rights in respect of Your Shares. The Bidder may require you to provide all documents necessary to vest title to those Rights in or otherwise to give it the benefit or value of those Rights. If you do not do so before the Bidder has provided the consideration to you, the Bidder will be entitled to deduct the amount (or value, as reasonably assessed by the Bidder) of such Rights from the consideration otherwise due to you.

If the Bidder varies the Offers to improve the consideration offered in a manner permitted under the Corporations Act then the increased consideration will be paid at the same time and in the same manner as payment of consideration is otherwise contemplated by this section 9.

An application for quotation for up to 50,000,000 of the Bidder Shares will be made to ASX. As stated in Section 11.10, the granting of that quotation is a condition of the Offer.

9.2 Foreign Shareholders

If you are a Foreign Shareholder, and you accept this Offer, then despite any other provisions of this Offer, you shall only be entitled to receive cash consideration in Australian dollars in accordance with this Section 9.2.

If you are a Foreign Shareholder and you accept the Offer the Bidder will, unless Section 9.3 applies:

- (a) arrange for the allotment to a nominee approved by ASIC of the number of Bidder Shares to be issued in accordance with the Offer to which you and all other Foreign Shareholders would have been entitled but for this Section 9.2;
- (b) cause those Bidder Shares so allotted to be offered for sale within 7 Business Days after the end of the Offer Period in such manner, at such price and on such other terms and conditions as are determined by the nominee; and
- (c) pay to you the amount ascertained in accordance with the formula, where:

$$\text{NPS} - \text{NIS}$$

TBS

NPS is the net proceeds of sale of Bidder Shares under Section 9.2(b), being the amount remaining after deducting from the proceeds of sale the expenses;

NIS is the number of Bidder Shares, which the Bidder would otherwise be required to issue to you; and

TBS is the total number of Bidder Shares issued to the nominee under this Section 9.2(a)

9.3 Exception

Payment will be made in Australian Dollars, or if this is unlawful, the currency of the country of residence of the Foreign Shareholder (as shown in the register of the Target's Shareholders) and subject to this Section 9.3. Section 9.2 does not apply to you if your address, as shown in the Target's register of members, is a place outside Australia and its external territories provided that (in the reasonable discretion of the Bidder) it is lawful, practical and efficient (having regard to any registration steps that need to be taken in the relevant jurisdiction and the cost of those steps) to offer to you, and for you to receive, the Bidder Shares.

10. EFFECT ON CAPITAL STRUCTURE

As at 31 December 2004, the Bidder had 154,628,871 ordinary shares on issue. The shareholding structure is summarised below:

Shareholding summary		
	No. of shares	% shareholding
Knarf Investments Pty Ltd <Terrigal A/C>	15,145,980	9.79%
Safe Effect Technologies International Ltd	12,113,930	7.93%
London Partners Australia Pty Ltd	10,200,875	6.60%
Australis Panoptic Technologies Pty Ltd	7,462,826	4.83%
Galvale Pty Ltd	7,401,441	4.79%
Balance Top 20	48,866,193	31.60%
Other minority Shareholders	53,437,626	34.46%
Total	154,628,871	100.00%%

In May 2003, the Bidder issued 33,539,728 ordinary shares at \$0.15 ("Rights Issue Shares") each together with 33,539,728 attaching Options for no further consideration ("Options"). The Options were convertible into one fully paid ordinary share in the capital of the Bidder at

Bidder's Statement and Offer

\$0.20 each on or before 31st December 2003. The Rights Issue Shares and Options were issued pursuant to a Rights Issue dated February 2003 ("Rights Issue"). The Rights Issue was fully underwritten and at the closure of the Rights Issue, all of the Rights Issue Shares and Options remaining unsubscribed, were issued to the underwriter ("Hood Group") pursuant to the terms of the underwriting agreement between Hood Group and SETL dated 26 February 2003 ("Underwriting Agreement"). Notwithstanding the Underwriting Agreement and various other commitments made by Hood Group, at the date of this report, only a portion of its funds have been received.

In December 2003, the Bidder succeeded in securing the transfer of 11 million Rights Issue Shares at \$0.10 each, recovering \$1,100,000 of the underwriters' shortfall and in January 2004 the balance of the Rights Issue Shares were sold at \$0.115 each. At the date of this Offer, in excess of \$800,000 remains outstanding and the Bidder is considering its alternatives with regard to the recovery of this amount from Hood Group.

The shareholding structure of the Target as at 31st December 2004 is summarised as follows:

Shareholders		
	No. of shares	% shareholding
Australis Panoptic Technologies Pty Ltd	13,750,000	14.95%
Galvale Pty Ltd	13,637,052	14.82%
The Phoenix Trust	10,763,418	11.70%
Mondal Investments Pty Ltd	8,560,000	9.30%
Jeanette Helen Turner atf the Harrison family account	2,938,000	3.19%
Other shareholders with over 1,000,000 shares	4,103,800	4.46%
Other minority shareholders	38,247,730	41.57%
Total	92,000,000	100%

The issue of up to 50,000,000 shares against a total of 92,000,000 shares outstanding in the Target is equivalent to each shareholder receiving 1 Bidder Share for every 1.84 Shares held. The proposed distribution is expected to be as follows:

Shareholders		
	No. of shares	Distribution
Australis Panoptic Technologies Pty Ltd	13,750,000	7,472,826
Galvale Pty Ltd	13,637,052	7,411,441
The Phoenix Trust	10,763,418	5,849,684
Mondal Investments Pty Ltd	8,560,000	4,652,174
Raymond Francis Harrison	2,938,000	1,596,739
Other shareholders with over 1,000,000 shares	4,103,800	2,230,326
Other minority shareholders	38,247,730	20,786,688
Total	92,000,000	50,000,000

Should the Offer be accepted for 100% of the Shares, the total number of issued shares in the Bidder will increase by 32.33% from 154,628,871 shares to 204,628,993 shares post-transaction.

Bidder's Statement and Offer

In November 2003, SETL issued a Convertible Note with a total face value of \$1,000,000. The interest rate payable pursuant to the Convertible Note is 11% per annum. The note may be converted into shares by SETL at a strike price at any time during the period commencing on the first business day after the lifting by ASX of the suspension and continuing for a period of 30 days thereafter ("**Conversion Period**"). If SETL has not elected to convert the note into shares, then the noteholder may convert the note into shares at the strike price at any time commencing on the first business day after expiry of the Conversion Period and continuing for a period of 30 days thereafter ("**Further Conversion Period**"). The strike price is the lesser of 10 cents per share or a discount of 25% of the price at which the shares are offered at the next capital raising undertaken by SETL. The noteholder is entitled to receive from SETL at the end of the Further Conversion Period, any amounts not already converted or repaid, including any interest outstanding.

As the Target's last capital raising was undertaken at 10 cents per share, the noteholder would be entitled to approximately 13.34 million fully paid ordinary shares in the Target at conversion if it so elected.

The Bidder has recently completed a capital raising to sophisticated investors and issued 20 million shares to raise an amount of \$2million at 10 cents per share.

The structure of the Bidder following the completion of this Offer (assuming the issue of 50,000,000 shares as consideration to Shareholders under the Offer) and following the conversion of the convertible note detailed above is set out in the following table:

Shareholders				
	No. of shares	Distribution	Total shares	% shareholding
Knarf Investments Pty Ltd <Terrigal A/C>	15,145,980	0	15,145,980	7.40%
Safe Effect Technologies International Ltd	12,113,930	0	12,113,930	5.92%
London Partners Australia Pty Ltd	10,200,875	0	10,200,875	4.99%
Australis Panoptic Technologies Pty Ltd	7,462,826	7,472,827	14,935,653	7.30%
Galvale Pty Ltd	7,401,441	7,411,441	14,812,882	7.24%
Vin Morely <The Phoenix Trust>	5,941,351	5,849,685	11,791,036	5.76%
Other SETL Shareholders	96,362,468	0	96,362,468	47.09%
Other SETI Shareholders		29,266,047	29,266,169	14.30%
Total	154,628,871	50,000,000	204,628,993	100.00%%

The table above shows that the issue of 50,000,000 shares to individual Shareholders does not result in any single shareholder exceeding the 20% limit allowed without shareholders' approval under Chapter 611 of the Corporations Act.

The two key shareholders, which are expected to receive the largest percentage increase in shareholding in the Bidder, are Australis Panoptic Technologies Pty Ltd and Galvale Pty Ltd. The shareholding interest of Australis Panoptic Technologies Pty Ltd increased from 4.81% to 7.28% and the shareholding interest of Galvale Pty Ltd increased from 4.77% to 7.22%.

11. RIGHTS AND LIABILITIES ATTACHING TO BIDDER SHARES

11.1 Rights attaching to Bidder Shares

Bidder Shares issued pursuant to this Statement will be fully paid ordinary shares in the capital of the Bidder.

The rights attaching to ownership of the Bidder Shares arise from a combination of the Corporations Act, the general law, the ASX Listing Rules, the Securities Clearing House Business Rules and the Constitution.

There is only one class of share on issue in the Bidder, being fully paid ordinary shares.

The primary rights attaching to ownership of the Bidder Shares as set out in the Constitution are set out below. This list is a summary only and does not constitute a definitive statement of the rights and liabilities of the holders of Bidder Shares. A copy of the Constitution may be inspected during normal business hours at the registered office of the Bidder on request.

11.2 Voting

Every holder of shares present in person or by proxy, attorney or representative at a meeting of shareholders has one vote on a vote taken by a show of hands and, on a poll, every holder of shares who is present in person or by proxy, attorney or representative has one vote for every fully paid share held by him or her, and a proportionate vote for every partly paid share, registered in the shareholders name on the Bidder's share register.

A poll may be demanded by the chairperson of the meeting, by any 5 shareholders present in person or by proxy, attorney or representative, or by any one or more shareholders who are together entitled to not less than 5% of the total voting rights of, or paid up value of, the shares of all those shareholders having the right to vote at that meeting.

11.3 Dividends

Dividends are payable out of the Bidder's profits and are declared by the Directors. Dividends declared will be payable on the shares at a fixed amount per share.

11.4 Transfer of Shares

A Shareholder may transfer shares by a market transfer in accordance with any computerised or electronic system established or recognised by the ASX or the Corporations Act for the purpose of facilitating transfers in shares or by an instrument in writing in a form approved by the ASX or in any other usual form or in any form approved by the Directors.

The Directors of the Bidder may refuse to register any transfer of shares other than a proper SCH Transfer (as defined in the Corporations Act), where permitted by the Listing Rules.

The Bidder must not refuse to register or give effect to or delay or in any way interfere with a proper SCH Transfer of shares or other securities.

11.5 Meetings and Notice

Each shareholder is entitled to receive notice of and to attend general meetings for the Bidder and to receive all notices, accounts and other documents required to be sent to shareholders under the Constitution of the Bidder, the Corporations Act or the Listing Rules.

11.6 Liquidation rights

The Bidder has only issued one class of shares which all rank equally in the event of liquidation. Once all the liabilities of SETL are satisfied, a liquidator may, with the authority of a special resolution of shareholders, divide the whole or any part of the remaining assets of the Bidder. The liquidator can, with the sanction of a special resolution of the Bidder, vest the whole or any part of the assets in trust for the benefit of the shareholders as the liquidator thinks fit, but no shareholder of the Bidder can be compelled to accept any shares or any other securities in respect of which there is any liability.

11.7 Shareholder liability

As the Bidder Shares are fully paid shares, they are not subject to any calls for money by the Directors and will therefore not become liable for forfeiture.

11.8 Alteration to the Constitution

The Constitution can only be amended by a special resolution passed by at least three quarters of shareholders present and voting at the general meeting. At least 28 days written notice specifying the intention to propose the resolution as a special resolution must be given.

11.9 ASX Listing Rules

Despite anything in the Constitution of the Bidder, if the Listing Rules prohibit an act being done, the act must not be done. Nothing in the Constitution prevents an act being done that the Listing Rules requires to be done. If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be). If the Listing Rules require the Constitution to contain or not contain a provision, the Constitution is deemed to contain that provision or not contain that provision (as the case may be). If a provision of the Constitution is or becomes inconsistent with the Listing Rules, the Constitution is deemed not to contain that provision to the extent of the inconsistency.

11.10 Quotation of New Shares

Application to ASX for official quotation of up to 50,000,000 Bidder Shares will be made on or before the date being 7 days after the Offer Date namely 16th February 2005. If official quotation of those Bidder Shares is not obtained, all Acceptances will be declared null and void and of no further effect and the Offer will not proceed.

drum brake, braking shoes press against the drum. The essential difference is the presence of a fluid. During braking, the fluid particles are trapped within the imperfections on the friction surfaces and as a result these previously rough and uneven surfaces are able to glide past each other without a shearing effect.

The Bidder's intellectual property includes 20 patents granted or pending in 113 countries covering: wet disc and drum brakes, 3-in-1 brake, cooling for braking systems and brake actuation.

The Bidder has been granted a patent in the USA and the European Economic Community for a unique SIBS[®] technology combining a 3 in 1 total braking system: service, emergency and parking brake. The novelty and uniqueness of this concept lies in the combination of three, independently activated braking systems; service, emergency and parking brakes. This is the only patent known to incorporate a genuine 3-in-1 braking system all within the confines of a single, enclosed and sealed brake housing.

12.4 Benefits and competitive advantage

The performance and safety of a conventional drum brake deteriorate with use and the brake requires constant adjustment. Standard disc brakes require pad changes on a regular basis, machining of the disc rotor and eventually total replacement of the rotor. Replacement may be as much as every 6 weeks on heavy mining equipment. These traditional brake systems are characterised by significant wear and heat generation.

The SIBS[®] technology on the other hand, is virtually wear-free and may outlast the vehicle. SIBS[®] utilises wet friction, with the moving and non-moving brake parts immersed in a liquid, which both dissipates heat and reduces wear through lubrication.

The benefits of the Wet Brake Technology, with SIBS[®] being the only sealed brake available that can operate at high speed (necessary for on-road operation), may be summarised as follows:

- (a) matches the life of the vehicle;
- (b) removes the need for brake pad or rotor replacement;
- (c) prevents brake fade;
- (d) eliminates brake dust emissions;
- (e) eliminates noise/squealing;
- (f) prevents corrosion of internal components;
- (g) Performance remains unaffected by external factors such as dust, sand and mud.

12.5 Target Markets

The vision for the Bidder is to replace the traditional braking systems for many applications. There are two potential market segments for the Wet Brake Technology - Original Equipment Manufacturer (OEM) and the after-market.

The Wet Brake Technology has primary and immediate application in areas where current brakes under-perform, require excessive maintenance and even completely fail in operation. To this end the Bidder's market opportunity for its Wet Brake Technology and in particular SIBS[®], may be summarised as:

- (a) mining industry;
- (b) industrial applications (e.g. conveyor systems, wind turbines);
- (c) trucks (e.g. garbage trucks, concrete trucks, dump trucks);
- (d) military (e.g. Land Rover, Hummer, Ford); and
- (e) light commercial vehicles, including transport vehicles.

12.6 Commercialisation strategy

In the short term, the Bidder will focus primarily on the aftermarket segment, whilst in the longer term it will pursue licensing and/or distribution arrangements with OEMs for factory fitting in new vehicles and machinery. The Bidder recognises that in order to give the Wet Brake Technology its greatest chance of commercial success, it must operate in proximity to major markets and it must have access to international expertise (not readily available in Australia).

The Bidder's priorities are to establish licensing arrangements and strategic alliances for SIBS[®] throughout Asia and China, North America, Europe, and Australia.

12.7 Current activities

As disclosed in the Annual Report, at page 4, the Bidder has continued its product development and research in Perth, WA and has continued to make significant progress.

The Bidder has an ongoing development program at its WA R&D facility for a lightweight brake for commercial vehicles and a braking system for heavy trucks. The Bidder is developing SIBS[®] for heavy vehicles with support from an Australian waste management company, that owns and operates a fleet of waste management trucks. The ongoing development of brakes for heavy duty applications resulted in further technological progress and additional patents.

As disclosed in the Annual Report, at page 4, during the financial year 2002/03, considerable effort was dedicated to ensure that the Bidder's brakes could be manufactured out of Thailand where it can enjoy considerable cost benefits for volume production. To further this development, the Bidder has leased its own facility to manufacture brakes in Thailand.

The Bidder's manufacturing facility in Melbourne has recently been closed and combined with the existing Perth facility.

12.8 Suspension from trading

On 4th August 2003, the Bidder's ordinary shares and options were placed in a trading halt at its request. On 5th August 2003, the Bidder's shares were suspended from quotation on the ASX.

13. BIDDER'S FINANCIAL STATEMENTS

The Bidder's financial statements and Annual Report for the period ended 30th June 2004 and unaudited balance sheet for 31 December 2004 are attached to and form part of this Statement.

14. PROSPECTS

In the 12 months to 30 June 2004, the Bidder incurred a loss of approximately \$7.5 million. The Bidder anticipates that such losses will continue during the financial year to 30 June 2005 and possibly for sometime thereafter. The Bidder will need to raise additional capital to fund its working capital and the commercialisation strategy.

Profit may be further impacted by the write off of intangible items on the Target's balance sheet.

15. DIRECTORS AND KEY PERSONNEL

15.1 Board of Directors

Roger Cowan OAM Chairman

Roger has been the CEO of Penrith Rugby League Club Limited for the past 38 years. During that time the club has grown from one of the state's smallest to its current position of being the largest club in Australia. It is now a network of 14 different sites, assets of nearly \$300 million, total sales of around \$170 million per annum and 160,000 members.

Roger has held a range of executive and board positions including member of Executive for 12 years and President for 2 years of the Registered Clubs Associations and Chairman of the Club Industry Advisory Council.

Vin Morley Chief Executive Officer/ Managing Director

Vin Morley is a co-founder of Australis Technologies; his corporate experience spans 25 years with initial experience as a commercial pilot. His interest in technology started as a systems analyst nearly 30 years ago. Over the years he has been involved with small to medium businesses and developments in diverse industries with a focus on technology in Asia, Europe and Australia.

Vin has been involved with Safe Effect Group since February 1999 and has been SETL's Chief Executive Officer since February 2002. He has been instrumental in the corporate restructuring, planning, transfer of the Wet Brake Technology to the Joint Venture,

international relationships establishment and development and fundraising and is the joint technical architect of the current technologies held by SEPL.

Dorota H Kieronska B.Sc. (Hons), Ph.D., SMIEEE
Executive Director

Dorota is a co-founder of Australis Technologies (a Perth-based technology/engineering management company incorporated in 1995). After obtaining a Ph.D. in computer engineering, she gained substantial research experience through academic positions at the University of Western Australia and Curtin University of Technology. With a number of government funded research projects, she brings technology understanding into the commercial environment. She has worked on and managed a number of technology transfer projects in various engineering disciplines, including technology valuations, due diligence reports and market potential analysis for commercialisation purposes. She serves on technical advisory boards and international committees of the Institute of Electrical and Electronics Engineers. Since February 1999, she has been a joint architect of the current technologies now held by SETL.

Mr John McClelland
Finance Director

John has been a Chartered Accountant since 1977. In 1983 he left the profession and since then John has been involved in various positions in the customs brokerage and freight forwarding industries. In 1989 he was appointed Finance Director to that group of companies. In 1993 John was appointed CFO to a transport company which boasted state of the art container freight stations in Port Botany, Sydney and Fisherman Islands, Brisbane a position at which he remained until 2001 when the company was sold to P & O. During that time, the company's turnover went from \$1 million per annum to over \$40 million per annum.

Vincent Sweeney
Company Secretary

Vincent has a successful track record as one of the divisional managing partners of Deloitte Touche Tohmatsu in Australia and as a senior executive with one of Australia's leading venture capital funds. In these roles he has contributed to the successful growth of many companies emerging on the global stage. He has also been involved in the successful development of other private and listed technology companies.

Vincent is a member of the Australian Institute of Company Directors, the Institute of Chartered Accountants and other professional bodies. He holds degrees from the University of New South Wales and the AGSM and is presently Chairman of Sydney Capital Partners, a specialist advisory firm based in Sydney.

Mr Sweeney resigned as a Director on 12 July 2004 and was appointed Company Secretary on the same day.

15.2 Key Personnel

Stan Nowak
Chief Engineer

Stan Nowak has a formal background in mechanical engineering and mathematics. With 10 years experience as a federal patent examiner in Australia, numerous patents to his name in diverse areas and his research experience as Dean of Engineering at Curtin University of Technology, he complements his skills with substantial industrial experience as production

engineer and a product design engineer in the UK and Australia. Stan has been a key engineering consultant on many engineering projects in Australia and overseas, often trouble shooting and dealing with performance improvements.

16. MATERIAL CONTRACTS

SETL considers that the following contracts are or may be material in terms of the Offer or the continuing operation of SETL or are otherwise such that an investor might wish to have particulars of them in making an assessment of whether to participate in the Offer pursuant to this Statement.

16.1 Convertible Note

On 28 November 2003, the Bidder and Claymore Capital Pty Ltd entered into a convertible Note agreement. The details of this agreement and the impact of conversion of the note are set out fully in section 10 on page 6.

16.2 Joint Venture Agreement

SETI and SEPL entered into a joint venture agreement on 31 January 2002 ("JV Agreement").

The JV Agreement governs the "Safe Effect Joint Venture" formed between SETI (with a 49% joint venture interest) and SEPL (with a 51% joint venture interest) for the purpose of conducting the business and activities associated with the research and development of the Wet Brake Technology, the marketing of the products produced for sale using the Wet Brake Technology, and the licensing or other forms of commercialisation of the Wet Brake Technology.

SEPL is the manager of the Joint Venture. The manager is responsible (by itself or through its employees, agents or contractors) for the management and control of all Joint Venture operations on behalf of and as agent for the Joint Venture participants and for this purpose, will have possession and control of all Joint Venture property which includes all the intellectual property rights which are in or are in any way related to or connected with the Wet Brake Technology. The manager is responsible for preparing programmes and budgets. The manager will be responsible for purchasing all materials, taking out and maintaining insurance, engaging management, technical and labour personnel and paying all outgoings.

Where a participant defaults under the JV Agreement the non-defaulting participants will have the option to acquire the whole of the Joint Venture interest of a defaulting participant.

For the purpose of better securing payment under the JV Agreement, each of the participants agree to enter into a Deed of Cross Charge under which each participant charges in favour of the other participant and the Joint Venture manager its Joint Venture interest, and its proportionate interest in products produced using the Wet Brake Technology and each sales contract.

16.3 Joint Venture Sales Agency Agreements

On 31 January 2002, each of the Target and SEPL (as participants to the Joint Venture) entered into separate Sales Agency Agreements with SEPL (acting as sales agent), pursuant to which each will engage SEPL (acting as a sales agent), to be their agent to develop markets for and sales of products produced using the Wet Brake Technology ("Products") and to carry out certain of the functions of either SEPL or the Target under or in respect of any sales contracts with third parties.

SEPL (as sales agent) will receive the following as payment for its activities under the Sales Agency Agreements:

- (a) reimbursement of reasonable costs incurred by SEPL (as sales agent) due to fulfilment of its obligations under the relevant Sales Agency Agreement, which costs are set out in the marketing program; and
- (b) payment of the manpower charges for the working time of personnel SEPL (as sales agent), secretarial and general office costs based on the marketing program and any obligations to be carried out by SEPL (as sales agent) not specified in the marketing program, the cost of such activities being invoiced and paid on an arm's length cost recovery basis.

16.4 Deed of Termination

By a deed of termination dated 31 January 2002 between Galvale Pty Ltd, Francis Edward Parsons, Shirley Maxine Parsons, SETI, BTPL and Safe Effect Technologies Research Pty Ltd ("Deed of Termination"), the parties agreed to terminate a consultancy agreement previously entered into in consideration for SETI:

- (a) paying the sum of \$625,000 over 5 years in instalments of \$125,000 per annum, commencing in January 2002;
- (b) making lease payments due under lease agreements for 2 of the vehicles used by Galvale Pty Ltd.

16.5 Consultancy Agreement – Australis Technologies

On 18 February 2002, SETL entered into a Consultancy Agreement with Australis Panoptic Technologies Pty Ltd, trading as Australis Technologies ("Consultant"), Dorota Kieronska and a senior engineer ("Consultancy Agreement") for 3 years.

Under the Consultancy Agreement, the Consultant is engaged by SETL to provide various consultancy services, including managing the research and development activities of SETL for a fee of \$15,417 per month. The Consultant must procure the services of Dr Dorota Kieronska and an appropriately qualified senior engineer to provide these consultancy services. The Board intends to extend this agreement on similar terms

16.6 Consultancy Agreement – Vincent Morley (CEO)

On 18 February 2002, SETL entered into a Consultancy Agreement with Vincent Morley ("CEO") ("CEO Agreement"). Under the CEO Agreement, the CEO is engaged by SETL to provide services to SETL and SEPL in the capacity of chief executive officer. The CEO is to

be paid consultancy fees totalling \$250,000 per annum. The CEO Agreement is effective from 21 May 2002 and continues for a period of 3 years, unless otherwise extended or terminated in accordance with the terms of the agreement.

17. PROFILE OF TARGET

The Target is an unlisted public company, incorporated on 8 April 1999. It is a party, together with Safe Effect Pty Ltd in the Joint Venture dated 31 January 2002 and described in section 16.1 and the Joint Venture Sales Agency Agreements between Safe Effect Pty Ltd and the Target dated 31 January 2002 and described in section 16.3 above.

As at 30th June 2004, the Bidder has provided all of the contributions to the Joint Venture Agreement in the amount of approximately \$2,510,000 and the Joint Venture Sales Agency Agreement in the amount of approximately \$64,000.

The Target has been dormant since asset and share sales in February 2002 and has no other significant assets and, due to its nature as an unlisted public company, it has restricted opportunities for capital raising in its own right.

18. BENEFITS TO THE TARGET

18.1 The need to raise capital

In order to meet contributions to further activities under the Joint Venture, the Target will need to seek further funding. The Target has not indicated how it will seek this further funding. The Target's main asset is its interest in the Intellectual Property and under the Joint Venture. As far as the Directors of the Bidder are aware, the Target holds no other significant assets.

In order to raise further funding, the Target will either need to raise equity capital or debt capital. With no revenue until revenue streams begin to flow from the Joint Venture, the Target may find it difficult to obtain debt funding or to service any such funding.

The Target's other main method of raising capital is to seek further equity investment, either from existing shareholders of the Target or to seek new shareholders. The Target has given no indication that it intends to undertake either of these activities.

By accepting the Offer, Shareholders will enable the Bidder to undertake sole responsibility and control over capital raising making it more efficient and simpler to fund further development and raise capital.

18.2 Liquidity

As an unlisted company, shares in the Target are not tradeable on a stock exchange. Shareholders of the Target, therefore have limited opportunities to trade their holdings in the Target. Application will be made to ASX for the quotation of up to 50,000,000 Bidder Shares. If ASX grants quotation, these Bidder Shares will be freely tradeable, if the ASX trading suspension is lifted.

While the Target is currently suspended from the Official List of the ASX, it intends to seek lifting of that suspension as soon as possible. Shareholders will then be able to trade all Bidder Shares on ASX.

19. BENEFITS TO A MERGED STRUCTURE

19.1 Simplifying ownership structure

The Bidder's current ownership of 100% legal interest and 51% beneficial interest in all the rights to the Intellectual Property associated with the wet brake technology is a complicated structure, which the Directors of the Bidder believe will impede the optimal development of the Intellectual Property;

The Bidder's acquisition will simplify the ownership structure of the rights to the Intellectual Property associated with the wet brake technology, allowing the Bidder to have 100% of both legal and beneficial ownership. This will also enhance the efficiency and effectiveness of management and decision making.

19.2 Prospect of raising new capital

SETL's Directors, management and capital advisers have been in discussions with new investors who have indicated that the joint venture structure is a disincentive to their investment. Eliminating the Joint Venture may facilitate future capital raising necessary for the maintenance of the Intellectual Property, commercialisation of the technology and to exploit market opportunities in global markets.

To date, the Bidder has borne all of the joint venture expenses on behalf of the Target. The Bidder has indicated that it has spent approximately \$2,570,000 on the development of the technology since its admission to quotation on the ASX on 21 May 2002.

The Bidder is proposing to raise further capital of approximately \$5 – 7.5 million to fund its working capital requirements necessary to realise the commercialisation strategy. This may be achieved by debt or similar instrument and is likely to take place before the end of June 2005.

19.3 Retention of existing funds

The Offer, should it prove successful will enable the Bidder to effectively acquire the remaining 49% interest of the Target in the Joint Venture, offering share consideration rather than a cash payment.

20. BIDDER'S INTENTIONS

20.1 Background

This section 20.1 sets out the Bidder's intentions on the basis of the facts and information concerning the Target, which are known to the Bidder at the time of preparation of this Statement in relation to:

- (a) the continuation of the business of the Target;

- (b) any major changes to be made to the business of the Target, including any redeployment of the fixed assets of the Target; and
- (c) to the extent necessary, as the Target has no employees, the future employment of the present employees of the Target.

This section 20.1 describes the current intentions of the Bidder as at the date of this Statement.

The Bidder will only make a final decision on which (if any) of its intentions should be implemented following receipt of legal and financial advice. The Bidder's intentions must be read as subject to the legal obligation of the Target board of directors to have regard to the interests of all the Target shareholders.

20.2 Full Ownership

If the Offer is successful, the Bidder intends to:

- (a) proceed to compulsorily acquire those Shares;
- (b) seek the appointment of sufficient of their nominees as directors of the Target so that the Bidder's nominees will constitute all of the Target's board of directors;
- (c) transfer to the Bidder for due consideration, full ownership of the business presently being conducted by the Bidder on behalf of the Joint Venture;
- (d) as the Target has no employees, the Bidder does not intend to appoint any employees; and
- (e) conduct its business in the same manner as before.

21. SHOULD THE BIDDER NOT BE SUCCESSFUL IN ITS OFFER

21.1 The need for the Target to raise capital

As discussed in sections 16.1 and 16.3, the Target is a party to both the Joint Venture Agreement and the Joint Venture Sales Agency Agreement (Collectively, "the Joint Venture"). Under the terms of the Joint Venture, the Target is obliged to contribute to funding the Business.

The Target has insufficient capital to make contributions under the Joint Venture. Under the terms of the Joint Venture, SEPL is able to charge revenue derived from the Business and which would normally be attributable to the Target, to secure payment of the Target's contributions.

The limitation of funding the Business under the Joint Venture will cause two significant problems to operations:

- (a) non contribution by the Target limits the available funding for successfully running the Business, thereby delaying or jeopardising the Target's ability to realise a return from its asset; and
- (b) the Target must pay its contributions by cash or by set-off against revenues generated from the Business, thereby delaying the Target's revenue generated from the Business.

As the Target is unlisted, there is no active market available for it to raise funds other than to go to existing shareholders or to seek debt finance.

The Target would find it difficult to raise debt finance to meet its obligations under the Joint Venture.

22. RISK FACTORS

The following summary, which is not exhaustive, represents some of the material factors which the Directors believe may affect the performance of the Bidder and the value of its Shares.

22.1 General and Stock Market Investment

The Bidder's business activities are subject to risk factors of both a general nature and specific to the nature of its operations. These risks may affect the Bidder's future operating performance and the value of the Bidder Shares. Although some of these factors can be mitigated by appropriate commercial management and action there are many outside of the Bidder's control that cannot be mitigated. As a result, there can be no guarantees that the Bidder will achieve its stated commercial objectives.

Furthermore, investors should be aware of the normal risks associated with stock market investments. These risks include share price volatility, caused by such factors as the announcement of new products or technologies, success in winning new collaborative agreements or other related contracts, plus any changes in general market or economic conditions or market conditions specific to the Bidder's particular industry. In some cases, the fluctuations have no direct relationship to the Bidder's business activities but may adversely affect the Bidder's market price.

You should also note that in addition to the general stock market risks described above, the Bidder operates in the technology sector, where share price volatility is often more pronounced than in other sectors.

22.2 Reliance on Key Personnel

Implementation of the Bidder's research and commercialisation strategy requires the retention of the existing key executives and employees and also the employment of additional executives and staff to manage this process. However, any loss of these senior executives and delays or difficulties in recruiting new employees may impact adversely on the Bidder's future development.

In particular, the Joint Venture's use of technology means that it is difficult to obtain employees with suitable development experience in the Joint Venture's particular technology environment. Whilst SEPL will attempt to overcome this, the lead time of training staff without the experience in the requisite technology into fully productive members of the team is long.

Because of the specialised nature of the Business, the Joint Venture's ability to effectively maintain its research and development programme will depend to a significant extent upon its ability to attract and retain within SEPL qualified research and development people.

Where appropriate the Bidder has in place employment contracts (including restrictive covenants on competition) with selected key executives and employees. These are described in section 16 of this Statement dealing with Material Contracts.

When the Board consider it appropriate, the Bidder intends to put in place incentive programs to retain key personnel.

22.3 Economic Conditions Asia, North America and Western Europe

The Bidder's potential major customer base, being the large automotive and industrial companies, is primarily located in Asia, North America and Western Europe. As such, the future performance of the Bidder will be dependent to some extent on the economic circumstances in these regions which are subject to both cyclical and macro economic changes.

22.4 Delays in Setting Up Overseas Presence

Establishment of the The Bidder's overseas operations is a significant undertaking which requires both financial and human resources. The Bidder may encounter circumstances and events outside its control, which may delay progress as planned.

22.5 Increased Competition

Competition exists in the braking industry. Specifically there is existing competition in relation to:

- (a) manufacturing and distribution of products for all markets; and
- (b) monitoring proprietary rights to technology.

The risk exists that some competitive product(s) now or in the future, may prove preferable to the market over the Business' products. Potential competition and new technologies can have the following impact:

- (a) render R&D obsolete;
- (b) reduce profit margins; or
- (c) decrease the commercial value (possibly to nil) of the products employing the Wet Brake Technology.

22.6 International Markets

As the Bidder's major customer base is located overseas, unexpected and uncontrolled changes in regulatory requirements including taxation, tariffs, customs and other trade barriers, political risks as well as war, any changes in regulatory authorities requirements relating to the approval of braking systems and any unfavourable changes to overseas economies may place certain risks on the Bidder's Business.

22.7 Local and International Regulatory Approvals

Regulations in local and overseas markets are subject to ongoing change, adding to the uncertainty of obtaining the necessary approvals to market the Bidder's braking systems. Delays experienced by either the Bidder or its customers in obtaining the necessary approvals may add to the Bidder's cost and delay in these products entering the domestic and overseas market place. This may adversely affect the Bidder achieving its commercial strategy objectives, and may erode its competitive position.

22.8 Intellectual Property Rights

The Directors regard both the Bidder's and SEPL's interest in various copyrights, trademarks, trade secrets and similar intellectual property as critical to its success. The Bidder, through SEPL, relies on past devolution of title, trademark and copyright law, trade secret protection and duties of confidence and licence agreements with third parties to protect its intellectual property rights. While the Bidder will use and will cause SEPL to use all reasonable endeavours to protect these rights, the steps that are taken to protect intellectual property rights may be inadequate. If any competing claim from a third party arises challenging either the Bidder's or SEPL's intellectual property rights, it will be defended. The unauthorised use or disclosure of its proprietary technology and systems may have adverse effects on the operation and financial performance of the Bidder, SEPL and the Joint Venture.

22.9 Market Acceptance

As the commercial application of the Bidder's brake technology is still seen as an emerging technology, market acceptance of the Bidder's technology is uncertain. This uncertainty is related to the following factors:

- (a) cost competitiveness and ease of technology transfer of the Bidder's technology compared to traditional brake systems;
- (b) problems with end users and international regulatory authorities accepting the benefits of the Bidder's technology;
- (c) advancement of competitor or potential competitor technologies.

22.10 Additional Capital Requirements

The Bidder's Directors expect that it will need to raise further funds to achieve its commercialisation strategy.

Unless and until the Bidder achieves significant revenues it will be dependent on its existing cash and its ability to obtain future additional funding. The Bidder's ability to raise future funding will vary according to a number of factors, including the success (or otherwise) of its

commercialisation strategy. There can be no assurance additional funding, if and when required, would be available to the Bidder in the future or able to be obtained on acceptable terms. If adequate funds are not available under these circumstances, the Bidder's Business could be materially and adversely affected.

22.11 Managing Future Growth

The Bidder's accelerated commercial strategy may place increased pressure on its existing and future management, operational and financial capacities. To effectively manage this process, the Bidder will need to implement and improve on an ongoing basis, its operating and financial systems and to expand, train and manage its staff. Any inability to effectively manage future growth could have an adverse effect on the Bidder's Business and financial position.

22.12 Research and Development

It is difficult to determine the number, if any, of competitors that the Business has in respect to the Wet Brake Technology (apart from multi-plate brake technology) and the competitive position of the Business in various markets and industries.

The Directors have undertaken to determine if any of the major brake component manufacturers are, or have been, in the process of developing a similar wet brake product to the the Bidder Wet Brakes. They have been unable to determine any such progress to date. However business competitors may have, unknown to SEPL, as manager of the Joint Venture, a product or products under development which may be technologically superior to those of the Business or which may be more acceptable to the market. Competition may include concepts not yet known to SEPL.

No assurance can be given that the the Bidder's Wet Brakes development efforts will be successful, that the products will be capable of being sold in commercial quantities or at acceptable prices or that any products, if introduced, will achieve market acceptance.

Furthermore, any products that are developed through the Joint Venture's research and development programme will undergo extensive testing before they will be commercially available.

Delays may be experienced in completing the development of the Joint Venture's products and these may add to the Joint Venture's cost and delay the products from entering the market place. This may adversely affect the Joint Venture's competitive position and financial value.

22.13 Future Profitability

The business has developed test runs of various wet brake products for mining companies and other related end users in order to effectively gauge market penetration. To date contacts have been established within various niche markets for the future purchase of the Joint Venture's products. These contacts do not guarantee long-term contracts or the Joint Venture's viability.

22.14 Product Related Liability

The Business exposes SEPL as manager and as a Joint Venture participant to potential liability risks, which are inherent in the manufacturing, sale and distribution of products. SEPL as manager intends to obtain limited liability insurance on behalf of the Joint Venture. However, the product liability insurance intended to be obtained will exclude liabilities arising in the United States of America and Canada as SEPL, on behalf of the Joint Venture, is unlikely to be able to secure such insurance at a reasonable price. Any problems arising could result in loss of or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources, injury to the Business' reputation or increased insurance costs. There can be no assurance that appropriate insurance coverage will continue to be available or that any claim would not materially and adversely affect the Business or the financial condition of SEPL.

22.15 General Economic Outlook

Financial markets may be affected by change in general economic conditions within or outside of Australia as well as movements in currency exchange rates in the countries that SEPL, as manager of the Joint Venture, expects to trade with. Each of SEPL and the Joint Venture may also be affected by changes in taxation law, change of government policy both in Australia and overseas, interest rate movements other unforeseen events as experienced in recent times.

The brake automotive "after" market is defined as any brake service, brake maintenance, brake parts, and braking equipment purchased for the vehicle after it leaves the point of retail sale. In the United States, the brake system parts "after" market makes up the largest shares of revenues of all under car after market segments. Original equipment manufacturers (OEM's) may begin vying for a share of the lucrative replacement parts market, which in turn may be a barrier to entry for the Bidder products.

SEPL, as manager of the Joint Venture, may take some time to penetrate this market and may suffer at the hands of competitor retaliation as the after market is of particular interest to the Business as it offers an entry point more viable than via OEMs.

22.16 General

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Bidder or by investors in the Bidder. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Bidder and the value of the Bidder Shares offered under this Statement.

Therefore, the securities to be issued pursuant to this Statement carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those securities.

Acceptance of this Offer is regarded as speculative and neither the Bidder nor any of its Directors or any other party associated with the preparation of this Statement guarantees that any specific objectives of the Bidder, SEPL or the Joint Venture will be achieved or that any particular performance of the Bidder or its securities, including those offered by this Statement, will be achieved.

23. DEFEATING CONDITIONS

23.1 Conditions of the Offer

Subject to Clause 23.2, the Offer and any acceptance arising from the acceptance of the Offer is subject to the fulfilment, in the case of sub-paragraphs (a), (b) and (c), or waiver, in the case of sub-paragraphs (a) and (b) only, by the Bidder of each of the following conditions:

- (a) application to ASX for official quotation of up to 50,000,000 Bidder Shares will be made on or before the date being 7 days after the Date of the Statement. The Offer is conditional on ASX agreeing to official quotation of up to 50,000,000 Bidder Shares no later than 7 days after the end of the Offer Period;
- (b) the Bidder obtaining a minimum acceptance of 90% of the shares on issue and voting rights in the Target; and
- (c) the Target not issuing or resolving to issue any new Shares during the Offer Period.

23.2 Condition may be amended or waived

Subject to Section 650F of the Corporations Act, the Bidder may, at its sole discretion, declare the Offer free from all conditions referred to in this section 23 by giving notice in writing to the Target and the ASIC not later than 7 days before the End of the Offer Period.

24. HOW CONSIDERATION TO BE PROVIDED

The consideration for the acquisition (whether under the Offers or by compulsory acquisition under the Corporations Act) of the Shares to which the Offers relate will be satisfied by the payment of Bidder Shares.

25. OTHER MATERIAL INFORMATION

25.1 Introduction

There is no other information material to the making of a decision by an offeree whether or not to accept an Offer (being information that is known to the Bidder and that has not previously been disclosed to Shareholders) other than set out elsewhere in this Statement or in this clause.

25.2 Continuous Disclosure Obligations

The Bidder is a "disclosing entity" for the purposes of part 1.2A of the Corporations Act. As a disclosing entity, it is subject to regular reporting and disclosure obligations.

The Bidder must disclose to ASX any information concerning the Bidder of which it becomes aware and which a reasonable person would expect would have a material effect on the price or the value of the Bidder's securities.

Bidder's Statement and Offer

Copies of documents lodged with ASIC in relation to the Bidder may be obtained from or inspected at the offices of the ASIC.

The Bidder will provide a copy of each of the following documents, free of charge, to any person on request between the date of issue of this Statement and the Closing Date of the Offer:

- (a) the Bidder's annual financial report for the year ended 30 June 2004 being the annual report most recently lodged with the ASIC by the Bidder before the issue of this Statement and unaudited 31 December 2004 balance sheet; and
- (b) any continuous disclosure notices given by the Bidder after the lodgement of the annual financial report referred to in paragraph (a).

25.3 Suspension of Bidder Shares

Shares of the Bidder have been suspended since 5 August 2003 pending the release of various announcements. Lifting of the suspended share trading is also subject to the release of the Bidder's annual report for the year ended 30 June 2004. The closing price of the Bidder's shares just prior to the suspension was \$0.13 per share.

25.4 List of ASX announcements

Notices have been given by the Bidder to ASX between 1 February 2005 and 9th February 2005. These notices are listed in the table below. To obtain a copy of the Annual Report free of charge during the Offer Period, please contact the Bidder's secretary or corporate manager on (08) 9240 2713 or email info.perth@safeffect.com

Please note that, in accordance with legal requirements, calls to this number will be recorded.

Alternatively, please refer to the SETL website at www.safeffect.com.

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25.5 Information provided by the Target

For the purpose of confirming its assessment whether or not to make the Takeover Bid, the Bidder was given access by the Target to certain information concerning the Target, which has not been disclosed generally to all Shareholders. In the Bidder's opinion, none of the information to which the Bidder was given access is price sensitive or confidential market sensitive information concerning the Target nor is it of such a nature and quality which, if the information were generally available, a reasonable person would expect to have a material effect on the price or value of Shares or otherwise be material to a decision by a Shareholder whether or not to accept an Offer.

26. TAXATION

The Directors recommend that Shareholders obtain their own independent taxation advice from their accountant, solicitor or financial adviser on any taxation issue relating to this Offer.

27. ASIC RELIEF

The Bidder reserves the right, at any time to:

- (a) make an application to ASIC for it to exercise any power or discretion conferred on it under the Corporations Act, including the power to give relief, including to allow the Bidder to withdraw the Offer; or
- (b) extend the Offer Period for the Offer or otherwise vary the Offer in accordance with Chapter 6 of the Corporations Act.

28. MISCELLANEOUS

Further information that may be material to the making of a decision by a holder of Shares whether to accept this Offer is:

- (a) as far as the Bidder is aware, the Constitution contains no restrictions on the right to transfer Shares that would have the effect of requiring holders of Shares to offer them for purchase to other Shareholders or to any other person before transferring them; and
- (b) the Bidder believes Shareholders should accept this Offer for the following reasons:
 - (i) SETL would own up to 100% of the Business;
 - (ii) SETI Shareholders would own their stake in the Business directly via their SETL shareholding;
 - (iii) the cumbersome and unwieldy joint venture structure could be wound up;
 - (iv) decisions affecting the Business could be made on a more expeditious basis;
 - (v) the cost of maintaining two corporate structures for a single business would be eliminated; and
 - (vi) attracting new investors and fresh capital would become markedly easier.

29. PURCHASE OF SHARES IN LAST 4 MONTHS

Neither the Bidder (nor any of its associates) have purchased in the period of four months immediately before the date of the Takeover Bid any Shares.

30. PRE-BID COLLATERAL BENEFITS

Except as otherwise disclosed in this Statement neither the Bidder nor any of its associates, during the period of four months before the date of the Takeover Bid, gave or offered to give or agreed to give a benefit to a person where the benefit was likely to induce that person, or an associate to:

- (a) accept an offer under the Takeover Bid; or
- (b) dispose of Shares,

where the benefit was not also offered to all holders of securities in the bid class under the Takeover Bid.

Neither the Bidder nor any of its associates has entered into or an escalation agreement that is prohibited by section 622 of the Corporations Act.

31. SHARES IN THE TARGET

31.1 Shares on Issue

As at the date of this Statement, there were 92 million issued ordinary Shares in the Target.

31.2 Relevant Interest of the Bidder in Shares in the Target

At the date of this Statement, the Bidder did not have a relevant interest in any Shares. The Bidder did not have any other relevant interests to any Shares or other marketable securities of the Target as at the date of this Statement.

At the date immediately before the First Offer was sent to a Shareholder, the Bidder did not have a relevant interest in any Shares. The Bidder did not have any other relevant interests to any Shares or other marketable securities of the Target as at the date immediately before the First Offer was sent.

32. VOTING POWER

The Bidder has no voting power in the Target as at the date of this Offer.

33. LEGAL PROCEEDINGS

Other than as set out in this paragraph, neither the Bidder nor SEPL are involved in any material litigation or arbitration proceedings, nor so far as the Directors are aware, are any such proceedings pending or threatened against the Bidder or SEPL.

As disclosed in the Annual Report, the Target entered into an IPO management agreement with Genetic and Medical Capital Ltd (“GMC”) prior to the Bidder's incorporation. GMC is making a claim under the terms of the original agreement against both the Target and the Bidder. The case is progressing and at the date of this Offer it is not possible to quantify potential costs and damages claimed to be made against either the Target or the Bidder. However, the Directors believe the Bidder has a good defence against the claim made and substantial counter claims for damages due to non performance are being prepared.

Based on the advice of its lawyers, the Bidder does not consider this litigation to be material to the prospects of the Bidder.

34. INCENTIVE PLAN

SETL intends to implement an appropriate incentive plan to enable SETL to retain and attract skilled and experienced Directors, employees and consultants and provide an incentive for their future involvement and commitment.

35. DIVIDEND POLICY

In the short-term, SETL anticipates rapid development and growth and therefore the Directors believe that there will be an ongoing requirement to reinvest any profits in order to enhance its longer-term potential to attain consistent earnings.

The Directors will develop a suitable dividend policy at the appropriate stage. The Directors can give no assurance as to the extent, timing or actual payment of future dividends or the availability or level of franking credits. The level of dividends payable will depend upon a number of factors including future earnings, capital requirements and the overall financial condition of SETL.

SETL has not declared, or paid any dividends before the issue of the Statement.

36. INTERESTS OF DIRECTORS

Other than as set out below or elsewhere in this Statement, no Director has, or has had within 2 years before lodgement of this Statement with ASIC, any interest in:

- (a) the formation or promotion of SETL;
- (b) any property acquired or proposed to be acquired by SETL in connection with its promotion or formation or in connection with the offer; or
- (c) the Offer,

Bidder's Statement and Offer

and no amounts have been paid or agreed to be paid and no benefits have been given or agreed to be given to any Director;

- (a) to induce him or her to become, or to qualify him or her as, a Director of SETL; or
- (b) for services rendered by him or her in connection with the formation or promotion of SETL or the Offer;

The Directors are entitled to payment of fees, remuneration and expenses as set out in the Constitution. The Constitution provides, inter alia, that the non-executive Directors shall be paid such fees as may from time to time be determined by SETL in a general meeting. At present, that aggregate maximum sum is \$200,000.

Each director is entitled to be paid additional remuneration for any extra services undertaken by him or her at the request of the board.

37. SHAREHOLDINGS OF DIRECTORS

The Directors are not required under the Constitution of SETL to hold any shares in SETL. However, Directors and their associates have interests in the following securities in SETL at the date of this Statement.

Director	Number of Shares Held Beneficially	Number of Options
Mr R Cowan	3,155,895	
Mr John McLelland	7,000,000	
Dr Dorota Kieronska	7,462,826	0
Mr Vin Morley	5,941,351	0

Furthermore Dorota Kieronska and Vin Morley have a beneficial interest in approximately 15% of the shares in Safe Effect Technologies International Ltd.

38. INTERESTS OF EXPERTS AND ADVISORS

Other than as set out below or elsewhere in this Statement, all other persons named in this Statement as having performed services in a professional, advisory or other capacity in connection with the preparation or distribution of this Statement do not have and have not had within 2 years before lodgement of this Statement with ASIC, any interest in:

- (a) the formation or promotion of the Bidder;
- (b) any property acquired or proposed to be acquired by the Bidder in connection with its promotion or formation or in connection with the Offer; or
- (c) the Offer.

PKF Corporate Finance Pty Ltd has provided accounting services to the Target in relation to the Offer. The Bidder has agreed to meet these costs on behalf of the Target. PKF Corporate's fees for this work up to the date of lodgement of this Statement will be approximately \$1,000. PKF Corporate will receive further fees for additional work done determined on the basis of hours spent at its ordinary hourly rates.

Walker Hecceg Lawyers has provided legal services to the Bidder in relation to the Offer. Walker Hecceg's fees for this work up to the date of lodgement of this Statement will be approximately \$8,000. Walker Hecceg will receive further fees for additional work done determined on the basis of hours spent at its ordinary hourly rates.

39. EXPENSES OF THE ISSUE

The total estimated cash expenses of the independent accountants, solicitors, printing, advertising and other miscellaneous expenses are approximately \$18,000 exclusive of GST. These expenses will be paid by the Bidder out of working capital.

40. CONSENTS

Any person other than the Bidder who has been attributed with making a statement in this document has consented in writing to the statement being attributed to them in the form and context in which it is included and that person has not withdrawn their consent prior to this Statement being lodged with ASIC. The Bidder has kept all such consents.

40.1 Consents to being named in this Statement

Computershare Investor Services Pty Limited has given, and at the time of lodging this Statement, has not withdrawn its consent to be named as Share Registry for SETL in this Statement in the form and context in which it is named. Computershare Investor Services Pty Limited has not caused or authorised the issue of this Statement and takes no responsibility for any other part of this Statement, other than the references to its name.

Walker Hecceg has given, and at the time of lodging this Statement, has not withdrawn its consent to be named as the lawyers for SETL in this Statement in the form and context in which it is named. Walker Hecceg has not caused or authorised the issue of this Statement and takes no responsibility for any other part of this Statement, other than the references to its name.

41. WITHDRAWAL AND VARIATION

41.1 Withdrawal

This Offer may only be withdrawn with the consent in writing of ASIC. Subject to that consent, withdrawal may be affected by giving written notice to ASX.

41.2 Variation

The Bidder may vary this Offer in accordance with Part 6.6 of the Corporations Act.

42. NO STAMP DUTY OR BROKERAGE

The Bidder will pay all stamp duty (if any) and brokerage payable on the transfer of Your Shares.

43. DEFINITIONS AND INTERPRETATIONS

43.1 Definitions

In this Statement and the Acceptance Form, the following terms have the following meanings unless the context otherwise requires.

Acceptance Form means the acceptance and transfer form accompanying this Statement.

Annual Report means the Annual Report of SETL, dated 30 June 2004 and attached and forming part of this Offer Document.

ASIC means the Australian Securities and Investments Commission.

ASX means Australian Stock Exchange Limited ACN 008 624 691.

ASX Listing Rules means the official listing rules of ASX as amended, varied or waived from time to time.

Bidder means Safe Effect Technologies Limited ABN 66 099 107 623.

Bidder Share means one fully paid ordinary Share in the Bidder.

Bid Period means the period starting at 9.00am on the day this Statement is served on the Target and ending at the end of the Offer Period.

Closing Date means 31 December 2005.

Constitution means the Target's constitution (as amended).

Directors means the board of directors of SETL or, where the context requires any of them.

Intellectual Property means the rights attaching to the Wet Brake Technology, and the Sealed Integrated Braking System (SIBSTM), including patents, licences, know how and all other rights pertaining thereto.

Joint Venture Agreement means the Joint Venture Agreement dated 31 January 2002 between Safe Effect Pty Ltd and SETI and described more fully in section 16.1.

Joint Venture Sales Agency Agreement means the Joint Venture Sales Agency Agreement dated 31 January 2002 between Safe Effect Pty Ltd and SETI and described more fully in section 16.3.

Offer means the offer contained in this document (or, if the context so requires, this document itself) and **Offers** mean the offers dispatched or to be dispatched to Shareholders (or persons entitled to receive Offers under the Takeover Bid).

Bidder's Statement and Offer

Offer Date means 23rd February 2005.

Offer Document means this document and the annexures attached and forming part of the Offer.

Offer Period means the period referred to in clause 5 of this document during which the Offers will remain open for acceptance.

Rights means all accretions, rights or benefits of whatever kind attaching to or arising from the Shares directly or indirectly on or after the commencement of the Bid Period (including, but without limiting the generality of the foregoing, all rights to receive distributions and to receive or subscribe for shares, notes, options or other securities declared, paid, or issued in relation to the Target).

SEPL means Safe Effect Pty Ltd ACN 088 129 917.

SETI means the Target.

SETL means the Bidder.

Shares means fully paid ordinary shares in the capital of the Target:

- (a) on issue at the Offer Date;
- (b) issued during the Offer Period due to the conversion of or exercise of rights attached to other securities (if any); and
- (c) issued during the Offer Period in circumstances other than those referred to in paragraph (ii) above if the Bidder seeks, and ASIC grants, the necessary relief under section 655A,

and all Rights attaching to such shares.

Shareholder means a registered holder of a Share.

Statement means this bidder's statement.

Takeover Bid means the off-market takeover bid constituted by the Offers.

Takeover Contract means a contract that results from the acceptance of an Offer made under this Takeover Bid.

Takeovers Panel means the Corporations and Securities (Takeovers) Panel.

Target means Safe Effect Technologies International Ltd ABN 66 087 044 228.

WST means western standard time.

Your Shares means the Shares in respect of which you are able to give good title at 9.00 am (Australian Eastern Standard Time) on the date provided for in section 6 or subsequently during the Offer Period.

43.2 Interpretation

In this Statement and the Acceptance Form, the following principles of interpretation apply unless the context otherwise requires.

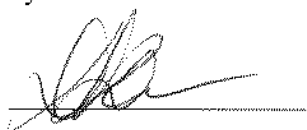
- (a) words and phrases not specifically defined in this Statement have the same meaning that is given to them in the Corporations Act (if any) and a reference to a statutory provision is to the Corporations Act unless otherwise specified;
- (b) a reference to any legislation or legislative provision includes any statutory modification or re-enactment of, or any legislative provision substituted for, and any subordinate legislation issued under, that legislation or legislative provision;
- (c) schedules and annexures to this document each form part of it, as does the Acceptance Form;
- (d) the singular includes the plural and vice versa;
- (e) a reference to an individual or person includes a corporation, partnership, joint venture, association, authority, trust, state or government, and vice versa;
- (f) a reference to a clause, annexure or paragraph is to a clause, annexure or paragraph of or to this Statement, unless the context otherwise requires;
- (g) where an expression is defined, another part of speech or grammatical form of that expression has a corresponding meaning;
- (h) a reference to "dollars" or "\$" is to Australian currency;
- (i) a reference to a time is a reference to WST;
- (j) a reference to a period of time (including without limitation a year, a quarter, a month or a day) is to a calendar period.
- (k) a statement made in this Statement is made as at the date of the Statement, unless the context otherwise requires;
- (l) in this document, headings are for ease of reference only and do not affect its interpretation;
- (m) a reference to writing includes facsimile transmissions; and
- (n) a reference to a condition of this Offer being fulfilled is to it being fulfilled as a matter of fact or the Offer becoming free of the condition under the Corporations Act as it applies to this Offer;

44. GOVERNING LAW

This document is governed by the law of Western Australia.

Bidder's Statement and Offer

This Statement is dated 23rd February 2005, the date it was lodged with ASIC, and is signed by:

A handwritten signature in black ink, appearing to be 'Dorota Kieronska', written over a horizontal line.

Dorota Kieronska
Director

Being the Director of the Bidder authorised to sign this Statement under a unanimous resolution passed at a meeting of its Directors held on 23rd February 2005.

APPENDIX 1

Annual Report



SafeEffect™
T E C H N O L O G I E S

Safe Effect Technologies Ltd | ABN: 66 099 107 623

Annual Report 2004

Email: info@safeeffect.com

www.safeeffect.com

Braking into the Future™

SAFE EFFECT TECHNOLOGIES LTD
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ABN 66 099 107 623

CORPORATE DIRECTORY

ABN 66 099 107 623
ACN 099 107 623

DIRECTORS

Roger Cowan OAM
Dr Dorota Kieronska
John McClelland
Vin Morley

COMPANY SECRETARY

Vincent Sweeney

REGISTERED OFFICE

C/-Walker Herceg,
Level 22 Australia Square
264 George Street Sydney, NSW 2000

MANUFACTURING

Safe Effect (Thailand) Ltd
Laem Chabang Industrial Estate
No. 242 Moo 3
Tambol Thungsukla, Amphur Sriracha
Chonburi 20230
Thailand

SHARE REGISTRY

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth, Western Australia, 6000
Telephone: 61 8 9323 2000
Facsimile: 61 8 9323 2033

AUDITORS

Stanton Partners
Level 1,
1 Havelock Street
West Perth, Western Australia, 6005

BANKERS

ANZ Bank Ltd
Warwick Grove
Erindale Road
Warwick, WA, 6024

SOLICITORS

Walker Herceg
Level 22 Australia Square
264 George Street
Sydney, NSW 2000

STOCK EXCHANGE

Australian Stock Exchange Ltd
Exchange Plaza
2 The Esplanade
Perth, Western Australia, 6000

ASX CODES

Ordinary shares SAF

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ABN 66 099 107 623

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CHAIRMAN'S LETTER

Dear Shareholder

I am pleased to enclose a copy of the 2004 annual report.

As revealed in the report, I was not a director during the year under review, having been appointed in November, 2004. I decided to accept appointment as Chairman because of the confidence I have in the product. There is no doubt that many shareholders, including me, would be feeling frustrated about the suspension of share trading and the slowness to reach profitable sales volumes. The difficulty of providing adequate working capital for the company since it floated in 2002 is probably the most significant contributor to those frustrations.

Since joining the Board I have been involved in the formation of a strategy to raise sufficient capital to take the company through to its short term objective of producing a positive cash flow. That has been an interesting experience and a very good introduction into the opportunities available to the company. The raising of sufficient capital is vital to the future of the company and, at the time of writing this report, I am optimistic that we will be successful.

In January, all directors and an experienced consultant inspected the manufacturing processes in Thailand. We came away with no doubts about our ability to produce quality brakes of sufficient quantity to make the company profitable. The important focus will now be on sales into the niche markets that will be most likely to appreciate the safety and economical advantages of this technology.

Every indication is that we will achieve our goal of having the first line of truck brakes ready for the market by May 2005. The potential of the truck brake market is enormous.

Although I have been involved for a very short period, I must say I am impressed with the expertise within the company, especially relating to technology. I feel certain that we can overcome the setbacks of the past by being aware of our weaknesses and building on our strengths, giving us the best chance of realising the tremendous opportunities on offer.

The Board has a significant responsibility to ensure the company is maximizing its potential through policy, strategy and controls. I am confident we will deliver on that responsibility.

Thank you for your support.

Best wishes



Roger Cowan OAM
Executive Chairman

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Corporate Governance Statement

The Board of Directors of Safe Effect Technologies Limited is responsible for guiding and monitoring the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.

In accordance with the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations", the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with the reasons for the departure. Safe Effect Technologies Limited's Corporate Governance Statement is now structured with reference to the Corporate Governance Council's principles and recommendations.

1. Lay solid foundations for management and oversight

The Board are experienced company officers and are well aware of their responsibilities to the Company, to the Members and to all other stakeholders. The Board is responsible for ensuring

- ethical and responsible decision making
- compliance with internal controls
- compliance with legislation and regulations
- setting and reviewing corporate and commercial strategies
- capital expenditure approval process compliance
- setting group budgets and KPI's
- monitoring financial performance
- monitoring operation performance of the group and management
- risk management initiatives and reviews
- compliance with disclosure requirements

During the financial year, the Board of the Company comprised a Non-Executive Director as Chairman, one or more other Non-Executive Directors and one Executive Director. The Directors' Report provides the details of the Directors in office during the year together with their experience, expertise and qualifications. The Chairman is responsible for leading the Board, ensuring Directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions, managing the Board's relationship with shareholders and managing the Board's relationship with the Company's senior executives and supervising the CEO.

Appointment and retirement of Directors is formally governed by the Constitution with the minimum number of Directors at any one time set at three and not more than ten.

The Board of Directors of the Company are responsible for all aspects of the management of the economic entity. The Board guides and monitors the businesses and affairs of the Company on behalf of the Security Holders and is committed to achieving and demonstrating suitable standards of corporate governance commensurate with the small size of the Company and the nature of the businesses.

As the Board acts on behalf of Security Holders and is accountable to the Security Holders, the Board seeks to satisfy the financial and management expectations of the Security Holders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The Board appoints Executive Directors (ED's) and the responsibility for the operation and administration of the Company is delegated to those people and the Executive team. The Board has in place proper procedures to assess the performance of the ED's and the Executive team and to ensure that the Executive team is appropriately qualified and experienced to discharge its responsibilities. The ED's are responsible for implementing the Company strategies and policies, achieving the Company objectives and managing the business of the Company.

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The Board is responsible for ensuring that management's objectives, activities and outcomes are aligned to the expectations, vision and business risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved including detailed reports to, and by, the Board.

The Board is also responsible for the establishment of specific Board Committees. Committees operational as at the date of this report were:

- Remuneration Committee and Audit Committee

It is the Board's policy that any committees established by the Board should be entitled to obtain independent professional or other advice at the cost of the Company, unless the Board determines otherwise and be entitled to obtain such resources and information from the Company including direct access to employees of and advisers to the Company as they might require.

2. Structure the board to add value

The composition of the Board is determined in accordance with the following principles and guidelines:

- The Board shall comprise not less than three Directors not more than such number as the Directors may determine at any time.
- The Chairman should preferably be an Independent or Non-Executive Director.
- The Board shall comprise Directors with a diverse and appropriate range of qualifications and expertise and in the event of retirement of Director with particular expertise, the Board will appoint a Director with skills and experience to balance the needs of the Board in the operations of the Company.
- The Board shall meet at least quarterly and follow meeting guidelines established to ensure that all Directors are made aware of, and have available all necessary information in a timely manner, to participate in an informed discussion of all agenda items.

Details of the members of the Board, their experience, expertise and qualifications are set out in the Directors' Report.

3. Promote ethical and responsible decision making

The Board promotes ethical and responsible decision making at all levels, a philosophy applied from induction of all executive and non-executive staff.

Specific areas addressed include:

- legal and regulatory compliance
- disclosures and public statements
- confidentiality and commercial sensitivity
- trading of company securities
- conflict of interest
- related party disclosure

In addition to the above, the Board has ensured the implementation of lines of authority and reporting in addition to internal controls specifically designed to facilitate ethical and responsible decision making.

4. Safeguard integrity in financial reporting

In addition to installing a formal monthly financial and operational reporting regime the Board has a Board Compliance and Audit Committee.

The composition of the Committee includes members who are independent and financially literate.

The responsibilities of the Committee include:

- to review the adequacy of systems and standards of internal control with emphasis on risk management, financial reporting procedure and compliance;
- to review proposed announcements of financial results, financial statements, management questionnaires and external audit reports in advance of the Board;

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- to receive any information it requires from management;
- to report its findings and recommendations directly to the Board;
- to provide a direct link from the Board to the external auditor; the nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year audit review;
- the nomination of the external auditor and reviewing the adequacy of the scope and quality of the annual statutory audit and half year audit review.

The Audit Committee meets separately with the auditors as required from time to time to discuss the audit reviews and reports, to ensure that there are no outstanding issues and to assess the auditors continuing independence. The Company Auditor is invited to attend the Annual General Meeting and be available to answer any questions the Shareholders may care to ask in respect to the financial statements of the Company.

5. Make timely and balanced disclosure

The Board has always been very conscious of its disclosure obligations and has, during the year, adopted a detailed continuous and periodic disclosure policy. All Directors are responsible to ensure that disclosure policy is adhered to.

6. Respect the rights of shareholders

The Board is committed to ensuring that the Security Holders are at all times provided with information sufficient to allow effective monitoring of the Company's performance by means of:

- the Annual Report which is distributed to all Security Holders;
- the Half Yearly Report distributed to all Security Holders; and
- periodic reports and special reports when matters of material interest arise
- the Annual General Meeting and other meetings called to obtain approval of any Board action as required; and
- Continuous disclosure.

7. Recognise and manage risk

Risk management forms part of the formal monthly review of operations and is one of the primary objectives of the Board Compliance and Audit Committee.

Authority and reporting lines have also been applied to the management structure to complement internal controls in risk recognition and management.

8. Encourage enhanced performance

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the performance of all Directors is reviewed annually by the Chairman. The Board reviews the performance of the Chairman.

The Chairman reviews the performance of the ED's on an annual basis.

Staff are performance appraised by the ED's on an annual basis and their remuneration is structured to reward enhanced performance.

The communication of information to investors to facilitate monitoring of the performance of the Company is set out under Principle 6.

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9. Remunerate fairly and responsibly

The duties and responsibilities of a Remuneration Committee ensure that the remuneration practices of the Company are fair and reasonable and structured to encourage enhanced performance.

If an Executive Director is appointed, suitable remuneration will be approved by the Board.

10. Recognise the legitimate interests of stakeholders

The Board recognises obligations and duties with respect to the legitimate interests of both shareholder and non-shareholder stakeholders.

Risk Management

The Economic Entity has established a sound platform from which to offset or mitigate potential significant risks which may impact adversely on its operations and activities.

The key risks relate to timely product development, production and securing appropriate funding for this. Such risk management includes the Economic Entity's commitment to provide a safe and healthy working environment for all staff, and internal control framework designed to comprehensively monitor all significant operational functions, and the establishment of appropriate insurances to protect the Economic Entity's financial assets.

Ethics

Whilst the Economic Entity does not have a formal code of ethics or conduct, it does encourage all staff and officers to preserve high standards of conduct in every area of the Economic Entity's activities, in order to enhance the reputation and performance of the organisation.

Shareholders

It is the intention of the Board that all shareholders be kept informed of major developments affecting their shareholding and the Economic Entity's state of affairs.

Information is communicated to shareholders through the Economic Entity's annual and half yearly reports (unless a shareholder has specifically requested not to receive the documents), which includes relevant information about the Economic Entity's activities during the year and half year, its financial position and other disclosures as required by the Corporations Act 2001. All shareholders are encouraged to attend the Annual General Meeting and other meetings held.

In addition, the Economic Entity complies with the continuous disclosure requirements of the Australian Stock Exchange, ensuring that the market is kept informed at all times.

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DIRECTORS' REPORT

Your directors present their report on the Economic Entity and its controlled entity for the year ended 30 June 2004.

1. Result

The results of the Economic Entity for the year ended 30 June 2004 was a loss after income tax of \$14,305,000. The results include accelerated amortisation of intangibles totalling \$6.18 million for a total intangibles amortisation of \$8.52 million. Results were also impacted by a provision for \$1.6 million against receivables from Safe Effect Technologies International Ltd, the technology joint venture partner.

2. Principal Activity

The Economic Entity is a holding entity and it oversees the business activities undertaken by the subsidiaries, Safe Effect Pty Ltd (SEPL) and Safe Effect (Thailand) Ltd.

The principal activity of the Economic Entity during the course of the year was the research, development, manufacture and commercialisation of the Wet Brake Technology.

3. Dividends

There have been no dividends paid or declared by the Company since the end of the previous financial year.

4. Review of Activities

During the year the company maintained its focus on commercialising its products and the company established manufacturing capabilities in Thailand.

5. State of Affairs

During the year the Company issued the following ordinary shares:

During the year the Company issued 6,516,000 ordinary shares at prices ranging from \$0.15 to \$0.10 each totalling \$906,600 to suppliers in satisfaction of corporate, investment and legal services rendered.

On 31 December 2003, 127,440,103 options lapsed and 81,209 options were converted into ordinary fully paid shares. At the date of this report no options over ordinary shares are on issue.

On 4th August 2003, the Company's ordinary shares and options were placed in a trading halt at its request and the Company's shares were suspended from quotation on the ASX.

In November 2003, the Company issued a Convertible Note with a Total Face Value of \$1,000,000. The interest rate payable pursuant to the Convertible Note is 11% per annum, compounded monthly. The note may be converted into shares by the Company at the Strike Price at any time during the period commencing on the first business day after the lifting by ASX of the suspension and continuing for a period of 30 days thereafter (Conversion Period). If the Company has not elected to convert the note into shares, then the noteholder may convert the note into shares at the Strike Price at any time commencing on the first business day after expiry of the Conversion Period and continuing for a period of 30 days thereafter (Further Conversion Period). The Strike Price is the lesser of 10 cents per share or a discount of 25% of the price at which the shares are offered at the next capital raising undertaken by the Company. The noteholder is entitled to receive from the Company at the end of the Further Conversion Period, any amounts not already converted or repaid, including any interest outstanding.

With regard to the Rights Issue dated February 2003, during the year the Company received:

- \$57,150 in cash from the sale of 381,000 shares at \$0.15 each;
- \$1,370,000 in cash from the sale of 13,700,000 shares at \$0.10 each;
- \$1,230,996 in cash from the sale of 10,704,313 shares at \$0.115 each; and
- transferred 200,000 shares at \$0.15 each to suppliers in satisfaction of corporate and legal services rendered.

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In order to secure a production capability to manufacture SIBS brakes in large volumes with all the benefits of economies of scale and at competitive prices, the Economic Entity has shifted its production arm from Melbourne, Victoria to Thailand. A newly established subsidiary, namely Safe Effect (Thailand) Ltd has been set-up to oversee the manufacturing process which is outsourced. The final assembly of the product is performed within the company's premises and completed sets of Light Commercial Vehicle Brakes have already been produced.

To avoid complicated intellectual property ownership with Safe Effect Technologies Ltd (SETL) owning 51% and Safe Effect Technologies International Ltd (SETI) owning 49%, a Bidder's Statement had been lodged with both ASIC and ASX to acquire up to 100% of SETI. However the off market takeover was unable to be completed before the 30 June 2004 deadline, due to a condition of the takeover not being met.

6. Events Subsequent to Balance Date

As at 30 June 2004, the Company had received \$1,115,000 for application of shares in the Company and were not allotted on that date. Since year end, the Company has issued 20,850,000 ordinary shares, all at \$0.10 each to raise further capital. The shares were issued in three separate tranches as follows: 12,550,000, 8,000,000, 300,000. This resulted in the Company raising \$2,085,000 in capital, exclusive of capital raising fees. The Company also obtained loans, to provide working capital, to the total value of \$545,000 out of which \$245,000 is intended to be converted into 10 cent shares subject to shareholder approval.

On the 12th of October 2004, Mr Vic Smith and David Field resigned from the Board. Mr Roger Cowan OAM has been appointed as a Chairman with effect from the 8th November 2004.

Other than the matters set out above, there has not arisen in the interval between the end of the 2004 financial year and the date of this Report any item, transaction or event of a material and unusual nature which, in the opinion of the Directors has significantly or may significantly affect the operations of the Company or its state of affairs.

7. Likely Developments

The Economic Entity will continue to research, develop, manufacture and commercialise the Wet Brake Technology business in Australia and expand into overseas markets.

Safe Effect Pty Ltd (a wholly owned subsidiary of Safe Effect Technologies Ltd) and Safe Effect Technologies International Ltd, which beneficially owns 49% of the Wet Brake Technology, entered into a Joint Venture Agreement dated February 2002 for the purposes of conducting the business and activities associated with development and commercialisation of the Wet Brake Technology. During the 2005 financial year, Safe Effect Technologies Ltd will continue working with ASX towards re-quotation and intends to issue a new takeover document to acquire all of the issued shares of Safe Effect Technologies International Ltd. In the event that it acquires a controlling interest in Safe Effect Technologies International Ltd, the Economic Entity intends to terminate the Joint Venture Agreement.

8. Directors and Senior Executives

The Directors and senior executive of the Economic Entity at any time during or since the end of the year were:

Roger Cowan OAM (Appointed 8th November 2004)

Executive Chairman

Roger has been the CEO of Penrith Rugby League Club Limited for the past 38 years. During that time the club has grown from one of the state's smallest to its current position of being the largest club in Australia. It is now a network of 14 different sites, assets of nearly \$300 million, total sales of around \$170 million per annum and 160,000 members.

Roger has held a range of executive and board positions including member of Executive for 12 years and President for 2 years of the Registered Clubs Associations and Chairman of the Club Industry Advisory Council.

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Vic Smith (Appointed 12th July 2004, resigned 12th October 2004)

Non Executive Interim Chairman

Mr Smith is currently a consultant dealing in government relations, a practice which he has been operating since 2000. Mr Smith was the Mayor of South Sydney Council from 1989 to 2002.

Mr Smith is the Chairperson of then NSW Community Housing Advisory Committee, a Director of the Sydney Ports Corporation, a Director of Cricket NSW and was a former director of Southern Sydney Waste Board and NRMA.

Vin Morley (Appointed 12th July 2004)

Executive Director & Chief Executive Officer

Vin Morley's corporate experience spans 25 years in Australia and Asia, with his initial experience as a commercial pilot. His interest in technology started as a systems analyst nearly 30 years ago. Over the years he has been involved with small to medium businesses and developments in diverse industries with a bias on technology in Asia, Europe and Australia.

Vin has been involved with the Business since February 1999 and has been Chief Executive Officer since May 2002.

Dr Dorota H Kieronska B.Sc (Hons), PhD, SMIEEE

Executive Director

After obtaining a PhD in computer engineering, Dorota gained substantial research experience through academic positions at the University of Western Australia and the Curtin University of Technology. With a number of government funded research projects, she brings the technology understanding into the commercial environment. She has worked on and managed a number of technology transfer projects in various engineering disciplines, including technology valuations, due diligence reports and market potential analysis for commercialisation purposes. She serves on technical advisory boards and international committees of the IEEE (Institute of Electrical and Electronics Engineers). Since February 1999, she has been a joint architect of the current technologies.

David Field (Appointed 12th July 2004, resigned 12th October 2004)

Non Executive Director

Mr Field has extensive experience at both a board and management level gained from a 30 year career in the international trade and shipping industries. Amongst various positions, Mr Field is the Chairman of the Board of Sydney Ports Corporation and is also a member of its Audit & Risk Management and Remuneration Committees.

Mr Field was with the UK owned Swire Group for 20 years and following this appointment, in 1996 was appointed Managing Director/CEO of Blue Star Line (Aust) Pty Ltd. After the international sale of Blue Star Line (Aust) Pty Ltd, Mr Field accepted an interim appointment as Managing Director/CEO of the Tourism and Leisure division of the publicly listed Amalgamated Holdings Limited (AHL).

He is currently Executive Director of Carmichael Fisher, an executive search and recruitment company. He is also a Fellow of the Australian Institute of Company Directors.

John McClelland (Appointed 12th July 2004)

Non Executive Director

John has been a Chartered Accountant since 1977. In 1983 he left the profession and since then John has been involved in various positions in the customs brokerage and freight forwarding industries. In 1989 he was appointed Finance Director to that group of companies. In 1993 John was appointed CFO to a transport company which boasted state of the art container freight stations in Port Botany, Sydney and Fisherman Islands, Brisbane a position at which he remained until 2001 when the company was sold to P & O. During that time, the company's turnover went from \$1 million per annum to over \$40 million per annum.

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Thomas J R O'Brien AM (Resigned 12th July 2004)
Non Executive Chairman

Tom was the Chief Executive Officer of Ernst & Young in Melbourne for a period of 12 years, and was the National Chairman of Ernst & Young Australia in 1995 and 1996. Since retiring from the partnership he has pursued a career as a company director and currently serves on a number of boards including Australian Hearing, Defence Housing Authority, Fiduciary Trust International Australia Ltd, Virtual Communities Ltd. He is Chairman of Church Resources Ltd, CCI Investment Management Ltd and Healthpoint Technologies Limited. As the Non-Executive Chairman, Mr O'Brien had been involved with strategic management, financial reporting, global expansion and corporate planning.

Thomas J R O'Brien resigned as a Non-Executive Chairman on 12th January 2004.

Patrick Lyons (Resigned 6th January 2004)
Non Executive Director

Patrick is a Chartered Accountant in public practice with extensive experience in business management and development. He has also been a director on several public companies over the past 15 years.

Prior to commencing his own accounting practice in 1980 he was employed at the Taxation Office, Price Waterhouse and Touche Ross. Patrick brings many years of experience in the public arena, including serving as a director, chairman and company secretary on many publicly listed Western Australian companies. As a non-executive director, Mr Lyons had been involved with issues such as strategic reviews, financial reporting procedures and globalisation of the Economic Entity.

Patrick Lyons resigned as a Director on 6th January 2004.

Vincent Sweeney (Appointed 12th January 2004, resigned 12th July 2004)
Company Secretary/Non Executive Director

Vincent was appointed a Director of Safe Effect Technologies Ltd on the 12th January 2004 as part of its ongoing restructure and global expansion.

Vincent has a successful track record as one of the divisional managing partners of Deloitte Touche Tohmatsu in Australia and as a senior executive with one of Australia's leading venture capital funds. In these roles he has contributed to the successful growth of many companies emerging on the global stage. He has also been involved in the successful development of other private and listed technology companies.

Vincent is a member of the Australian Institute of Company Directors, the Institute of Chartered Accountants and other professional bodies. He holds degrees from the University of New South Wales and the AGSM and is presently Chairman of Sydney Capital Partners, a specialist advisory firm based in Sydney.

Vincent, was appointed a director on 12th January 2004, but resigned and has been appointed the Company Secretary.

9. Proceedings on Behalf of Economic Entity

Safe Effect Technologies International Ltd, a company associated with the Economic Entity, entered into an IPO management agreement with Genetic and Medical Capital Ltd prior to the Safe Effect Technologies Ltd's incorporation. Genetic and Medical Capital Ltd is making a claim under the terms of the agreement against both Safe Effect Technologies International Ltd (SETI) and Safe Effect Technologies Ltd (SETL). There has been little activity on this matter over the past year. A counterclaim for damages is being prepared.

The directors consider the likely exposure to the company is in the order of \$50,000 to \$100,000, most of which is legal fees, but at the same time may succeed in receiving a similar amount.

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10. Remuneration of Directors and Executive Officer

Details of the nature and amount of emoluments of each Director and Executive Officer of the Company are:

	Consultancy Fees	Director's Fees	Other Benefits	Total
Directors				
Roger Cowan (Executive Chairman, appointed 8 th November 2004)	-	-	-	-
Vic Smith (Former Interim Chairman, appointed 12 th July 2004, resigned 12 th October 2004)	-	-	-	-
Thomas J R O'Brien (Former Chairman, resigned 12 th July 2004)	-	\$189,516	\$6,750	\$196,266
Vin Morley (Executive Director and CEO, appointed as a director 12 th July 2004)	\$293,594	-	-	\$293,594
Dorota H Kieronska	-	\$35,000	\$3,150	\$38,150
David Field (Former Non Executive Director, appointed 12 th July 2004, resigned 12 th October 2004)	-	-	-	-
John McClelland (Non Executive Director, appointed 12 th July 2004)	-	-	-	-
Vincent Sweeney (Resigned 12 th July 2004)	-	\$45,000	-	\$45,000
Patrick J Lyons (Resigned 12 th January 2004)	-	\$32,083	\$2,887	\$34,970

In addition to the above, the Company has a consultancy contract with Australis Panoptic Technologies Pty Ltd to provide research and development services. This contract remunerates Dorota H Kieronska (in addition to one other senior engineer), a director of the Economic Entity, who is also a director of and, has an interest in, Australis Panoptic Technologies Pty Ltd. The amounts payable by way of contract for the years ended 30 June 2004 and 30 June 2003 were \$185,000. The Company has also incurred an amount of \$81,482 (2003: \$100,760) to Australis Panoptic Technologies Pty Ltd for promotional and information technology services.

Further details of Directors' remuneration are contained in Notes 5 and 24 to the Financial Statements.

11. Directors' Meetings

The number of Directors' meetings held in the year to 30 June 2004 and the number of meetings attended by each Director are:

Director	Board Meetings	
	Held	Attended
Thomas J R O'Brien	9	9
Dorota H Kieronska	9	9
Patrick J Lyons	9	1
Vincent Sweeney	9	2

12. Directors' Interests

The relevant interest of each Director in the share capital of the Company, as notified by the Directors to the Australian Stock Exchange in accordance with s205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	No. of Shares
Vic Smith	-
Thomas J R O'Brien	27,877
Roger Cowan	3,155,895
Vin Morley	7,462,826 *
Dorota H Kieronska	7,462,826 *
David Field	-
John McClelland	4,954,200
Vincent Sweeney	-
Patrick J Lyons	-

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Thomas O'Brien (resigned 12th July 2004) and Patrick Lyons (resigned 6th January 2004) are each entitled to approximately 1% interest in Safe Effect Technologies International Ltd. Australis Panoptic Technologies Pty Ltd, a company in which Dorota Kieronska has an interest, is also entitled to approximately 14.9% of Safe Effect Technologies International Ltd.

* Australis Panoptic Technologies Pty Ltd, a company in which Dorota Kieronska and Vin Morley have an interest, owns 7,462,826 ordinary shares in the Company.

13. Environmental regulation

The consolidated Entity is not subject to any particular and significant environmental regulation under a law of the Commonwealth or of a State or Territory.

14. Indemnification and Insurance of Officers

The Company has not, during or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the Economic Entity:

- Indemnified or made any relevant agreement for the indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings; or
- Paid or agreed a premium in respect of a contract insuring against a liability incurred as a Director or an officer.

Signed in accordance with a resolution of the Board of Directors in Perth and dated this 27th day of January 2005.



Director: V Morley

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Statements of Financial Performance

For the year ended 30 June 2004

		Economic Entity		Parent Entity	
	Note	2004	2003	2004	2003
		\$000	\$000	\$000	\$000
Revenues from trading activities		251	261	-	-
Revenues from other activities	2	2	10	1	9
Expenditure recoverable from joint venture partner		1,820	1,053	-	-
Total revenue		2,073	1,324	1	9
Cost of sales		(167)	(152)	-	-
Inventories written off		(96)	(23)	-	-
Employee expenses		(1,776)	(938)	(342)	(150)
Depreciation expense		(41)	(32)	(1)	-
Amortisation of intangibles		(2,339)	(2,339)	-	-
Borrowing costs		(125)	(30)	(123)	-
Bad and doubtful debts		(1,567)	(2,157)	(17,808)	(970)
Legal fees		(391)	(261)	(388)	(169)
Patents		(411)	(466)	-	-
Marketing and advertising expenses		(64)	(58)	-	-
Travel and accommodation		(386)	(408)	(20)	(16)
Consulting fees		(1,410)	(1,370)	(666)	(780)
Telephone and other communication expenses		(120)	(23)	-	-
Rental expenses		(176)	(128)	-	-
Consumables and minor equipment		(191)	(156)	-	-
Computer related expenses		(215)	(2)	-	-
Intangibles written off		(6,065)	-	-	-
Other assets written off		(111)	-	-	-
Exchange loss		(13)	-	-	-
Other expenses from ordinary activities		(775)	(778)	(492)	(140)
Total expenses from ordinary activities		(16,439)	(9,321)	(19,839)	(2,225)
Loss from ordinary activities before related income tax benefit	3	(14,366)	(7,997)	(19,839)	(2,216)
Income tax (expense)/R&D rebate	4	61	176	-	-
Loss from ordinary activities after related income tax benefit	20	(14,305)	(7,821)	(19,839)	(2,216)
Earnings Per Share					
Cents per share (loss)	7	(10.9)	(8.1)		

Diluted earnings per share has not been shown as it would dilute the actual loss per share attributable to existing shareholders.

The accompanying notes form part of these financial statements.

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Statements of Financial Position

As at 30 June 2004

		Economic Entity		Parent Entity	
	Note	2004	2003	2004	2003
		\$000	\$000	\$000	\$000
CURRENT ASSETS					
Cash assets	8	370	245	346	242
Receivables	9	778	3,510	296	2,890
Inventories	10	306	105	-	-
Total current assets		1,454	3,860	642	3,132
NON-CURRENT ASSETS					
Receivables	9	45	-	30	14,175
Other financial assets	11	-	-	-	-
Property, plant & equipment	12	252	158	2	3
Intangibles	13	-	8,367	-	-
Other	14	-	148	-	-
Total non-current assets		297	8,673	32	14,178
TOTAL ASSETS		1,751	12,533	674	17,310
CURRENT LIABILITIES					
Payables	15	4,694	2,123	2,897	802
Interest bearing liabilities	16	1,113	93	1,056	-
Provisions	17	86	40	-	-
Total current liabilities		5,893	2,256	3,953	802
NON-CURRENT LIABILITIES					
Payables	15	229	362	-	-
Interest bearing liabilities	16	66	99	-	-
Total non-current liabilities		295	461	-	-
TOTAL LIABILITIES		6,188	2,717	3,953	802
NET (LIABILITIES)/ASSETS		(4,437)	9,816	(3,279)	16,508
EQUITY					
Contributed equity	18	19,253	19,201	19,253	19,201
Reserves	19	162	162	162	162
Accumulated losses	20	(23,852)	(9,547)	(22,694)	(2,855)
TOTAL (DEFICIENCY)/EQUITY		(4,437)	9,816	(3,279)	16,508

The accompanying notes form part of these financial statements.

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Statements of Cash Flows
For the year ended 30 June 2004

		Economic Entity		Parent Entity	
	Note	2004	2003	2004	2003
		\$000	\$000	\$000	\$000
Cash Flows from Operating Activities					
Receipts from customers		479	479	-	-
Payments to suppliers, consultants and employees		(5,444)	(3,324)	(1,204)	(620)
Borrowing costs		(68)	(17)	(66)	-
Interest received		2	10	-	9
Withholding tax paid		-	(5)	-	(5)
Net cash (used in) operating activities	23	<u>(5,031)</u>	<u>(2,857)</u>	<u>(1,270)</u>	<u>(616)</u>
Cash Flows from Investing Activities					
Advances to subsidiary		-	-	(3,637)	(2,267)
Purchase of property, plant and equipment		<u>(158)</u>	<u>(95)</u>	<u>-</u>	<u>-</u>
Net cash provided by (used in) investing activities		<u>(158)</u>	<u>(95)</u>	<u>(3,637)</u>	<u>(2,267)</u>
Cash Flows from Financing Activities					
Advances to director-related entities		(102)	(67)	(11)	-
Loan provided by other entities		380	-	380	-
Repayment of loan provided by other entities		(100)	-	(100)	-
Proceeds from issue of convertible notes		1,000	-	1,000	-
Proceeds from application of shares and yet to be issued		1,115	-	1,115	-
Costs of issuing shares and convertible notes		(121)	-	(121)	-
Proceeds from issue of shares		16	1,818	16	1,818
Proceeds from sales of Rights Issues from the underwriter		2,732	-	2,732	-
Proceeds from finance lease		-	181	-	-
Proceeds from R&D tax offset		463	-	-	-
Finance lease repayments		<u>(70)</u>	<u>(54)</u>	<u>-</u>	<u>-</u>
Net cash provided by financing activities		<u>5,313</u>	<u>1,878</u>	<u>5,011</u>	<u>1,818</u>
Net increase/(decrease) in cash held		124	(1,074)	104	(1,065)
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		1	-	-	-
Cash assets at the beginning of the financial year		<u>245</u>	<u>1,319</u>	<u>242</u>	<u>1,307</u>
Cash assets at the end of the financial year	8	<u>370</u>	<u>245</u>	<u>346</u>	<u>242</u>

The accompanying notes form part of these financial statements.

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Notes to the Financial Statements

For the year ended 30 June 2004

I. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report covers the economic entity of Safe Effect Technologies Ltd and controlled entities, and Safe Effect Technologies Ltd as an individual parent entity. Safe Effect Technologies Ltd is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

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

(a) Principles of Consolidation

A controlled entity is any entity controlled by Safe Effect Technologies Ltd. Control exists where Safe Effect Technologies Ltd has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Safe Effect Technologies Ltd to achieve the objectives of Safe Effect Technologies Ltd. A list of controlled entities is contained in Note 11 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

Outside interests in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Going Concern

These financial statements are prepared on the going concern basis, which assumes that the Economic Entity will be able to access adequate funds pursuant to its objectives, realise assets and settle liabilities in the normal course of business. During the year the shareholders and creditors provided financial support in the form of loans and extended credit on behalf of the Economic Entity. The continued applicability of the going concern basis is dependent upon the continued support of shareholders and creditors. Unless continued support is received, the Economic Entity may need to realise assets and settle liabilities other than in the normal course of business at amounts which may differ from those stated in these financial statements. At the date of this report the company is in active discussions with substantial investors with regards to further fund raising by way of convertible note and its ability to continue as a going concern is dependent on this.

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(c) Joint Venture

The Economic Entity's 51% share of plant and equipment and inventory of the Joint Venture is included in the consolidated Statement of Financial Position. Other assets and liabilities of the Joint Venture, such as receivables and creditors, are included in the Statement of Financial Position at their gross amounts with the other Joint Venture party's (Safe Effect Technologies International Ltd "SETI") share of those assets and liabilities shown as a net receivable from SETI. The Economic Entity's 51% share of Joint Venture revenue is included in the consolidated Statement of Financial Performance. Expenditures of the Joint Venture are shown at their gross amounts in the consolidated Statement of Financial Performance. SETI's share of the Joint Venture expenditure in excess of the Initial Expenditure, being \$2,250,000, is shown as expenditure recoverable from SETI in the Consolidated Statement of Financial Position (Refer Note 9).

During the year ending June 2005, the Economic Entity expects to issue a new takeover document to acquire all of the issued shares of the other Joint Venture participant, Safe Effect Technologies International Ltd (SETI). In the event that it acquires a controlling interest in SETI, the Economic Entity will terminate the Joint Venture Agreement, thereby accounting for the gross amount of assets, liabilities, revenue and expenditure.

(d) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(e) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. The cost of stocks includes direct material, direct labour, transportation costs and variable and fixed overhead costs.

(f) Property, Plant and Equipment

Each class of property, plant and equipment are carried at cost or fair value less, where applicable, any accumulated depreciation.

Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

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Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to depreciation. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

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

Plant and equipment	5 to 10 years
Motor vehicles	3 to 10 years
Office equipment and furniture	5 to 10 years

(g) Investments

Shares in listed companies held as current assets are valued by directors at those shares' market value at each balance date. The gains or losses, whether realised or unrealised, are included in profit from ordinary activities before income tax.

Non-current investments are measured on the cost basis. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-listed investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(h) Intangibles

The company has expended considerable amounts on patents, R&D and technology development. During the year the board decided to fully amortise any amounts on the balance sheet. The directors believe there is significant value to be derived from these but consider it difficult to substantiate any particular carrying value.

(i) Employee entitlements

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

(j) Cash

For the purpose of the statement of cash flows, cash includes:

- cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and
- investments in money market instruments with less than 14 days to maturity.

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(k) Revenue

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

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

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

(l) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(m) Foreign Currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at reporting date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

Translation of controlled foreign operations

The assets and liabilities of foreign operations, including controlled entities, associates and joint ventures, that are self sustaining are translated at the rates of exchange ruling at reporting date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the operations.

Prior to translation, the financial reports of self -sustaining operations in hyper-inflationary economies are restated to account for changes in the general purchasing power of the local currency, based on relevant price indices at reporting date.

The assets and liabilities of foreign operations, including controlled entities, associates and joint ventures, that are integrated are translated using the temporal method. Monetary assets and liabilities are translated into Australian currency at rates of exchange current at reporting date, while non-monetary items and revenue and expense items are translated at exchange rates current when the transactions occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

For integrated operations and hyper-inflationary self-sustaining operations, the translated amounts for non-monetary assets, other than inventory, are compared to recoverable amounts translated at spot rates at reporting dates any excess is expensed, unless a revaluation reserve balance exists for non-current assets carried at fair value.

The balance of the foreign currency translation reserve relating to a foreign operation that is disposed of, or partially disposed of, is transferred to retained profits in the year of disposal.

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(n) Comparatives

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(o) Rounding of Amounts

The parent entity has applied the relief available to it under ASIC Class Order 98/100 and accordingly, amounts in the financial report and directors' report have been rounded off to the nearest \$1,000.

(p) Impact of Adopting AASB Equivalents to IASB Standards

The Australian Accounting Standards Board is adopting the Standards of the International Accounting Standards Board for application to reporting periods beginning on or after 1 January 2005. Pending Accounting standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards' prescribes transitional provision for first-time adopters.

AASB 1047 'Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards' requires financial reports to disclose information about the impacts of any changes in accounting policies in the transition period leading up to the adoption date and will apply for June 2004 reporting.

The company has allocated internal resources and in conjunction with its auditors is assessing those accounting policies and key areas that are likely to be impacted by the transition to International Financial Reporting Standards (IFRS). As the company has a 30 June year end, priority has been given to the consideration of the impact of the Australian equivalents to the IFRS and the preparation of a balance sheet in accordance with those Australian equivalent standards as at 30 June 2004. This will form the basis of accounting for Australian equivalents of IFRS in the future, and is required when the company prepares its first fully IFRS compliant report for the year ended 30 June 2006. As required by AASB 1047, the key accounting policies which will change and may have an impact on the financial report of the company are set out below.

Goodwill

Under the Australian equivalents to IFRS 3 "Business Combinations" and IFRS 28 "Accounting for Investments in Associates", goodwill acquired on a business combination or in acquiring an investment in an associate company will no longer be able to be amortised, but instead will be subject to annual impairment testing. Under the new policy, amortisation will no longer be charged and if there is any impairment, it will be recognised immediately through the statement of financial performance.

Taxation

Under the Australian equivalent to IAS 12 "Income Taxes", a balance sheet approach will be adopted for calculating taxation, replacing the "statement of financial performance approach". This method recognises deferred tax balances for all temporary differences arising between the carrying value of an asset or liability and its tax base. Whilst there will be enhanced disclosure of the composition of the deferred tax assets and liabilities it is not expected that there will be any significant impact in terms of the statement of financial position or performance.

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Financial Instruments

Under AASB 139 "Financial Instruments: Recognition and Measurement", financial instruments will be required to be classified into five categories and to be measured based on the nature of the classification. The five categories and basis of measurement are:

- Financial asset or financial liability measured at fair value through the statement of financial performance
- Held to maturity investments measured at amortised cost, subject to impairment
- Loans and receivables measured at amortised cost, subject to impairment
- Available for sale assets measured at fair value with changes in fair value measured directly in equity
- Financial liability measured at amortised cost

This will result in a change in the current accounting policy that does not classify financial instruments.

Share based payments

The group currently does not recognize an expense for options issued to directors and staff. Under AASB 2 "Share Based Payments", the company will be required to recognize an expense for all share based remuneration, including options, and will amortise those expenses over the relevant vesting periods.

Intangible assets

Under the Australian equivalent to IAS 38 "Intangible Assets", intangibles acquired in a business combination and which have finite useful lives must be amortised over their useful lives. Internally generated goodwill, brands, costs related to research activities and items similar in substance may not be recognized as assets. All expenditure on research must be expensed when it is incurred. This will result in a change in the company's current accounting policy which allows for the capitalisation of costs incurred in the research phase of an internally generated intangible asset where future benefits are expected beyond a reasonable doubt. The derecognition of intangibles that do not qualify for recognition could impact significantly on the company's equity.

Impairment of Assets

Under the Australian equivalent to IAS 36 "Impairment of Assets" the recoverable amount of an asset is determined as the higher of net selling price and value in use. This will result in the company's current accounting policy which determines recoverable amount of an asset on the basis of undiscounted cashflows. Under the new policy it is likely that the impairment of assets will be recognized sooner and the amount of write downs will be greater.

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	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
2. REVENUES FROM OTHER ACTIVITIES				
Other activities				
- Interest received	2	10	1	9
Total revenue from ordinary activities	<u>2</u>	<u>10</u>	<u>1</u>	<u>9</u>
3. LOSS FROM ORDINARY ACTIVITIES				
Loss from ordinary activities before income tax has been determined after:				
Deducting the following expenses				
Cost of sales	<u>167</u>	<u>152</u>	<u>-</u>	<u>-</u>
Borrowing costs:				
-other parties	<u>90</u>	<u>30</u>	<u>88</u>	<u>-</u>
Total borrowing costs	<u>90</u>	<u>30</u>	<u>88</u>	<u>-</u>
Depreciation of non-current assets:				
-plant and equipment	27	26	-	-
-motor vehicle	5	2	-	-
-office equipment and furniture	8	3	1	-
-leasehold improvements	<u>1</u>	<u>1</u>	<u>-</u>	<u>-</u>
Total depreciation	<u>41</u>	<u>32</u>	<u>1</u>	<u>-</u>
Amortisation of non-current assets:				
-goodwill	25	25	-	-
-patents	13	13	-	-
-research and development	37	37	-	-
-wet brake technology	<u>2,264</u>	<u>2,264</u>	<u>-</u>	<u>-</u>
Total amortisation	<u>2,339</u>	<u>2,339</u>	<u>-</u>	<u>-</u>
Write off of non-current assets:				
-goodwill	66	-	-	-
-patents	33	-	-	-
-research and development	111	-	-	-
-wet brake technology	<u>5,966</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total write off	<u>6,176</u>	<u>-</u>	<u>-</u>	<u>-</u>
Bad and doubtful debts:				
-Trade debtors	-	32	-	-
-Subsidiary – Safe Effect Pty Ltd	-	-	17,812	-
-Safe Effect Technologies International Ltd (SETI)	87	67	11	-
-Safe Effect Joint Venture Operations (SETI)	1,481	1,088	-	-
-Other debtors (Underwriter to the February 2003 Rights Issue)	<u>(1)</u>	<u>970</u>	<u>(15)</u>	<u>970</u>
Total bad and doubtful debts	<u>1,567</u>	<u>2,157</u>	<u>17,808</u>	<u>970</u>
Operating Lease:				
-Rental expense	<u>176</u>	<u>128</u>	<u>-</u>	<u>-</u>
	<u>176</u>	<u>128</u>	<u>-</u>	<u>-</u>

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	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Exchange loss				
-Exchange loss in translating the foreign operations	13	-	-	-
	<u>13</u>	<u>-</u>	<u>-</u>	<u>-</u>

4. INCOME TAX

The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:

Loss from ordinary activities before income tax	(14,366)	(7,997)	(19,839)	(2,216)
Prima facie income tax benefit on the loss at 30% (2003: 30%)	(4,310)	(2,399)	(5,952)	(665)

Tax effect of permanent differences which reduce the tax benefit:

- R&D tax offset	61	176	-	-
- non-deductible doubtful debts expense	470	647	5,342	291
- non-deductible depreciation and amortisation	702	702	-	-
- write down of intangibles and other assets	1,853	7	-	-
- other non-deductible expenses	181	45	181	45
	<u>(1,043)</u>	<u>(822)</u>	<u>(429)</u>	<u>(329)</u>

Tax effect of timing differences which reduce the tax benefit

	139	235	139	124
Future income tax benefit not brought to account	965	763	290	205

R&D tax offset/income tax expense	<u>61</u>	<u>176</u>	<u>-</u>	<u>-</u>
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Future benefits of tax losses at a tax rate of 30% total approximately \$1,866,000 (2003: \$901,000) (Economic Entity) and \$695,000 (2003: \$405,000) (Parent Entity). These benefits have not been brought to account. The benefits will only be obtained if:

1. The Economic Entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised, in accordance with the Income Tax Assessment Act;
2. The Economic Entity continues to comply with the conditions for deductibility imposed by law; and
3. No changes in tax legislation adversely affect the Economic Entity in realising the benefit from the deductions for the loss.

5. DIRECTOR AND EXECUTIVE DISCLOSURES

a. Details of Specified Directors and Specified Executives

(i) Specified Directors

Roger Cowan	Executive Chairman, appointed 8 th November 2004
Vic Smith	Interim Non-executive Chairman, appointed 12 th July 2004 and resigned 12 th October 2004
Thomas J R O'Brien	Former Chairman, resigned 12 th July 2004
Vin Morley	Executive Director and CEO, appointed as a director 12 th July 2004
Dr Dorota H Kieronska	Executive Director
David Field	Non-executive Director, appointed 12 th July 2004 and resigned 12 th October 2004
John McClelland	Non-executive Director, appointed 12 th July 2004
Vincent Sweeney	Non-executive Director, appointed 12 th January 2004 and resigned 12 th July 2004
Patrick J Lyons	Non-executive Director, resigned 12 th January 2004

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(ii) Specified Executives

The Board of Directors of Safe Effect Technologies Limited believes the Economic Entity does not have any executives other than executive directors.

b. Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Board of Directors of Safe Effect Technologies Limited is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Board assesses the appropriateness, the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

(i) Remuneration of Specified Directors

	Primary Salary & Fees	Post Employment Superannuation	Total
Specified Directors			
Roger Cowan OAM			
2004	-	-	-
Vic Smith			
2004	-	-	-
Vin Morley*			
2004	293,594	-	293,594
2003	280,000	-	280,000
Dr Dorota H Kieronska ^^			
2004	35,000	3,150	38,150
2003	35,000	3,150	38,150
David Field			
2004	-	-	-
John McClelland			
2004	-	-	-
Thomas J R O'Brien AM			
2004	189,516	6,750	196,266
2003	245,000	6,750	251,750
Patrick J Lyons			
2004	32,083	2,887	34,970
2003	35,000	3,150	38,150
Vincent Sweeney			
2004	45,000	-	45,000
2003	-	-	-

* Vin Morley has been the Chief Executive Officer since May 2002 and was appointed as an Executive Director on 12th July 2004 and continues as Chief Executive Officer.

The Company has received professional services from a company in which Mr Sweeney is a principal, but relating to time periods outside his directorship and the value of these services during the financial year was \$75,000.

^^ In addition to the above, the Company has a consultancy contract with Australis Panoptic Technologies Pty Ltd to provide research and development services. This contract remunerates Dorota H Kieronska, a director of the Economic Entity (in addition to one other senior engineer), who is also a director of and, has an interest in, Australis Panoptic Technologies Pty Ltd. The amounts payable by way of contract for the years ended 30 June 2004 and 30 June 2003 were \$185,000. The Company has also incurred an amount of \$81,482 (2003: \$100,760) to Australis Panoptic Technologies Pty Ltd for promotional and information technology services.

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c. Equity holdings and transactions

The movement during the reporting period in the number of ordinary shares of Safe Effect Technologies Limited held, directly, indirectly or beneficially, by each specified director, including their personally-related entities is as follows:

	Held at 1 July 2003/Date of Appointment	Purchases	Received on Exercise of Options	Sales	Held at 30 June 2004
Specified Directors					
Vin Morley *	7,462,826	-	-	-	7,462,826
Dr Dorota H Kieronska *	7,462,826	-	-	-	7,462,826
Thomas J R O'Brien AM	27,877	-	-	-	27,877
Patrick Lyons	-	-	-	-	-
Vincent Sweeney	-	-	-	-	-
Total	14,953,529	-	-	-	14,953,529

* Australis Panoptic Technologies Pty Ltd, a company in which Dorota Kieronska and Vin Morley have an interest, owns 7,462,826 ordinary shares in the Company.

During the financial year no shares and options were granted to any of the directors as equity compensation benefits.

d. Other transactions and balances with specified directors and specified executives

Services

The Company has also incurred an amount of \$81,482 (2003:\$100,760) to Australis Panoptic Technologies Pty Ltd, a company related to Dorota H Kieronska, an executive director, for promotional and information technology services.

e. Loans to specified directors

During the year, the Economic Entity paid expenses of the following director – related entity and remained outstanding at 30 June 2004:

	Economic Entity	
	2004	2003
	\$000	\$000
Current Account		
Safe Effect International Limited	153	67
Less: provision for doubtful debt	(153)	(67)
	<u>-</u>	<u>-</u>
Payments for JV Expenditure		
Safe Effect International Limited	2,570	1,088
Less: provision for doubtful debt	(2,570)	(1,088)
	<u>-</u>	<u>-</u>

Advances to the above director-related entity are interest-free, unsecured and have no fixed term of repayment.

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	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
6. AUDITORS' REMUNERATION				
Remuneration of the auditor of the parent entity for:				
- Auditing the financial statements	46	26	46	26
- Other services	31	2	31	2
	<u>77</u>	<u>28</u>	<u>77</u>	<u>28</u>

7. EARNINGS PER SHARE

Net loss (14,305) (7,821)

Weighted average number of ordinary shares
outstanding during the year used in calculation of
basic EPS (in '000) 131,765 97,075

Loss per share (cents) (10.9) (8.1)

8. CASH ASSETS

Cash at bank	370	245	346	242
	<u>370</u>	<u>245</u>	<u>346</u>	<u>242</u>

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
statement of financial position as follows:

Cash at bank	370	245	346	242
	<u>370</u>	<u>245</u>	<u>346</u>	<u>242</u>

9. RECEIVABLES

Current

Trade debtors	50	105	-	-
Less: Provision for doubtful debts	-	(68)	-	-
	<u>50</u>	<u>37</u>	<u>-</u>	<u>-</u>

Other debtors	a	1,033	3,746	-	3,746
Less: Provision for doubtful debts		(994)	(1,010)	-	(1,010)
		<u>39</u>	<u>2,736</u>	<u>-</u>	<u>2,736</u>

GST receivable	b	643	385	254	146
Withholding tax refundable		-	8	-	8
Prepayments		46	-	42	-
R&D tax offset	c	-	344	-	-
		<u>778</u>	<u>3,510</u>	<u>296</u>	<u>2,890</u>

a. Included in other debtors are amounts outstanding for shares issued pursuant to The Prospectuses dated February 2003 and February 2002 amounting to \$994,000.

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b. Included in current receivables as at 30 June 2004 is an amount of \$643,000 (Parent Entity:\$254,000) due from the Australian Tax Office ("ATO") for GST paid, which includes GST paid on tax invoices raised in the name of companies outside the Economic Entity. The ATO has recently conducted, but not finalised, an audit into the GST paid and received. Until such time that a final assessment is received from the ATO, the recoverability of the amount recorded can not be determined.

c. 49% of the R&D Tax Offset receivable has been credited to Safe Effect Technologies International Ltd as Joint Venture Partner.

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Non - Current				
Loan: related entity - Safe Effect Technologies International Ltd (as JV Partner)	2,570	1,088	-	-
Less: Provision for doubtful debts	(2,570)	(1,088)	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loan: related entity - Safe Effect Technologies International Ltd	153	67	11	-
Less: Provision for doubtful debts	(153)	(67)	(11)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loan – controlled entity	-	-	17,812	14,175
Less: Provision for doubtful debts	-	-	(17,812)	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,175</u>
Deposits placed as securities	45	-	30	-
	<u>45</u>	<u>-</u>	<u>30</u>	<u>14,175</u>

10. INVENTORIES

Current

Inventory, at the lower of cost and net realisable value

	306	105	-	-
	<u>306</u>	<u>105</u>	<u>-</u>	<u>-</u>

11. OTHER FINANCIAL ASSETS

Non-Current

Shares in controlled entities -at cost

Provision for diminution

	-	-	200	200
	-	-	(200)	(200)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(a) Safe Effect Pty Ltd

ACN 088 129 917 (Incorporated in WA)

	Parent Entity	
	2004	2003
	Number of Shares	
Class and number of shares: Ordinary	200,002	200,002

On 28th May 2002 the parent entity acquired 100% of Safe Effect Pty Ltd for a purchase consideration of \$200,002. The principal activity of the company is brake research and commercialisation.

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(b) Safe Effect (Thailand) Ltd
Registration No. 10154601984
(Incorporated in Thailand)

	Safe Effect Pty Ltd	
	2004	2003
	Number of Shares	
Class and number of shares: Ordinary	80,000	-

On 22nd June 2004, Safe Effect Pty Ltd established a 100% owned subsidiary in Thailand, namely Safe Effect (Thailand) Ltd with the initial capital of \$275,155. The principal activity of the company is manufacturing of brakes.

(c) Joint Venture

Period ended June 2002. Safe Effect Pty Ltd ("SEPL") has a 51% interest in the Safe Effect Joint Venture. In terms of the joint venture agreement dated 18 February 2002, Safe Effect Pty Ltd must fund by way of sole contribution joint venture expenditure to the level of the Initial Expenditure as defined in the joint venture agreement as being \$2,250,000. At the 30 June 2002 contributions by Safe Effect Pty Ltd had not reached the Initial Expenditure level. As a result, all revenues and expenditure incurred by the joint venture operations have been brought to account in the financial statements of the company.

In the 2003 financial year, the Safe Effect Joint Venture achieved the Initial Expenditure of \$2,250,000. The Safe Effect Joint Venture forms part of the Economic Entity's financial report and the contribution receivable from the joint venture partner, Safe Effect Technologies International Ltd (SETI) has, with respect to their share of costs, been recognised under revenues in the Statement of Financial Performance as "Expenditure recoverable from the Joint Venture partner" in the amount of \$1,820,000 (2003: \$1,053,000).

At 30 June 2004, the costs incurred by the Safe Effect Joint Venture which are in excess of \$2,250,000 and the amount of sales recorded by the Safe Effect Joint Venture, have been apportioned in accordance with joint venture equity participation. The net amount receivable from SETI of \$2,570,000 (2003: \$1,088,000) comprising costs less sales revenue and 49% of the costs of inventory and the written down value of plant and equipment of the Joint Venture allocated to SETI has been included as a non current receivable as at 30 June 2004. A full provision has been raised by the Economic Entity for these receivables and other amounts paid on behalf of Safe Effect Technologies International Ltd, as in the opinion of the Directors, there is significant uncertainty as to whether these amounts will be recovered.

Economic Entity		Parent Entity	
2004	2003	2004	2003
\$000	\$000	\$000	\$000

12. PROPERTY, PLANT AND EQUIPMENT

Plant & Equipment at cost	234	160	-	-
Less: accumulated depreciation	(71)	(40)	-	-
	<u>163</u>	<u>120</u>	<u>-</u>	<u>-</u>
Motor Vehicles at cost	25	25	-	-
Less: accumulated depreciation	(8)	(3)	-	-
	<u>17</u>	<u>22</u>	<u>-</u>	<u>-</u>
Office Equipment and Furniture at cost	66	20	3	3
Less: accumulated depreciation	(12)	(4)	(1)	-
	<u>54</u>	<u>16</u>	<u>2</u>	<u>3</u>

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	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Leasehold Improvements at cost	19	1	-	-
Less: accumulated depreciation	(1)	(1)	-	-
	<u>18</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total property, plant and equipment, at net written down value	<u>252</u>	<u>158</u>	<u>2</u>	<u>3</u>

Certain assets are secured in terms of Hire Purchase Agreements as disclosed in Note 16(b).

Reconciliations

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year

	Plant & Equipment	Motor Vehicles	Office Equipment & Furniture	Leasehold Improvements	Total
	\$000	\$000	\$000	\$000	\$000
Economic Entity: 2004					
Balance at the beginning of year	120	22	16	-	158
Additions	87	-	52	19	158
Depreciation expense	(27)	(5)	(8)	(1)	(41)
Depreciation charged to cost of inventories	(3)	-	-	-	(3)
Apportionment to joint venture partner	(14)	-	(6)	-	(20)
Carrying amount at the end of year	<u>163</u>	<u>17</u>	<u>54</u>	<u>18</u>	<u>252</u>
Parent Entity: 2004					
Balance at the beginning of year	-	-	3	-	3
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation expense	-	-	(1)	-	(1)
Carrying amount at the end of year	<u>-</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>2</u>
Economic Entity: 2003					
Balance at the beginning of year	177	10	13	-	200
Additions	63	19	12	1	95
Depreciation expense	(26)	(2)	(3)	(1)	(32)
Apportionment to joint venture partner	(94)	(5)	(6)	-	(105)
Carrying amount at the end of year	<u>120</u>	<u>22</u>	<u>16</u>	<u>-</u>	<u>158</u>
Parent Entity: 2003					
Balance at the beginning of year	-	-	3	-	3
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation expense	-	-	-	-	-
Carrying amount at the end of year	<u>-</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>3</u>

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		Economic Entity		Parent Entity	
	Note	2004	2003	2004	2003
		\$000	\$000	\$000	\$000
13. INTANGIBLES					
Goodwill on acquisition		125	125	-	-
Less:					
Accumulated amortisation		(59)	(34)	-	-
Write off		(66)	-	-	-
		<u>-</u>	<u>91</u>	<u>-</u>	<u>-</u>
Patents		64	64	-	-
Less:					
Accumulated amortisation		(31)	(18)	-	-
Write off		(33)	-	-	-
		<u>-</u>	<u>46</u>	<u>-</u>	<u>-</u>
Wet Brake technology		11,319	11,319	-	-
Less:					
Accumulated amortisation		(5,353)	(3,089)	-	-
Write off		(5,966)	-	-	-
		<u>-</u>	<u>8,230</u>	<u>-</u>	<u>-</u>
		<u>-</u>	<u>8,367</u>	<u>-</u>	<u>-</u>

14. OTHER ASSETS

Non-Current

Research and Development		185	185	-	-
Less:					
Accumulated amortisation		(74)	(37)	-	-
Write off		(111)	-	-	-
		<u>-</u>	<u>148</u>	<u>-</u>	<u>-</u>

15. PAYABLES

Current (unsecured)

Trade creditors		845	774	270	373
Accrued expenses		1,554	796	626	51
Amounts due to directors	a	835	553	606	378
Amounts due to a director-related entity		65	-	-	-
Amounts due to other entity		280	-	280	-
Loan (unsecured)	b	1,115	-	1,115	-
		<u>4,694</u>	<u>2,123</u>	<u>2,897</u>	<u>802</u>

a) Included in the amounts due to directors are directors fees and consulting fees outstanding at 30 June 2004 & 2003:

	812	553	606	378
--	-----	-----	-----	-----

b) As at 30 June 2004, the Company had received applications amounting to \$1,115,000 forming part of the share issue of 20,850,000 ordinary shares in the Company and were not allotted on that date. Subsequent to balance date these shares were allotted.

SAFE EFFECT TECHNOLOGIES LTD
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	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Non-current (unsecured)				
Accrued expenses	229	362	-	-
	<u>229</u>	<u>362</u>	<u>-</u>	<u>-</u>

16. INTEREST BEARING LIABILITIES

Current (secured)	65	106	-	-
Hire Purchase Agreements	(8)	(13)	-	-
Unexpired Interest Charges	57	93	-	-
Convertible Note Payable Principal	1,000	-	1,000	-
Convertible Note Payable Accrued Interest	56	-	56	-
	<u>1,056</u>	<u>-</u>	<u>1,056</u>	<u>-</u>
	<u>1,113</u>	<u>93</u>	<u>1,056</u>	<u>-</u>

In November 2003, the Company issued a Convertible Note with a Total Face Value of \$1,000,000. The interest rate payable pursuant to the Convertible Note is 11% per annum, compounded monthly. The note may be converted into shares by the Company at the Strike Price at any time during the period commencing on the first business day after the lifting by ASX of the suspension and continuing for a period of 30 days thereafter (Conversion Period). If the Company has not elected to convert the note into shares, then the noteholder may convert the note into shares at the Strike Price at any time commencing on the first business day after expiry of the Conversion Period and continuing for a period of 30 days thereafter (Further Conversion Period). The Strike Price is the lesser of 10 cents per share or a discount of 25% of the price at which the shares are offered at the next capital raising undertaken by the Company. The noteholder is entitled to receive from the Company at the end of the Further Conversion Period, any amounts not already converted or repaid, including any interest outstanding.

	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
Non-current (unsecured)	72	113	-	-
Hire Purchase Agreements	(6)	(14)	-	-
Unexpired Interest Charges	66	99	-	-

a Total current and non-current secured liabilities:	137	219	-	-
Hire Purchase Agreements	(14)	(27)	-	-
Unexpired Interest Charges	<u>123</u>	<u>192</u>	<u>-</u>	<u>-</u>

b The carrying amounts of non-current assets pledged as security are:

Plant and Equipment	74	89	-	-
Motor Vehicles	14	18	-	-
Office Equipment	3	4	-	-
	<u>91</u>	<u>111</u>	<u>-</u>	<u>-</u>

These amounts represent 51% share of the non-current assets held by Safe Effect Pty Ltd in the Joint Venture.

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	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
17. PROVISIONS				
Current				
Employee entitlements	86	40	-	-
	86	40	-	-
a. Aggregate employee benefits liability	86	40	-	-
	Number of Employees			
b. Number of employees at year-end	23	17	-	-

18. EQUITY

134,324,671 (2003: 127,727,462) fully paid ordinary shares

	Economic & Parent Entities			
	2004		2003	
	Number of		Number of	
	Shares	\$000	Shares	\$000
a. Ordinary Shares				
At the beginning of the financial year	127,727,462	19,201	90,242,510	14,547
3,333,334 ordinary shares at \$0.15 each on 14 February 2003	-	-	3,333,334	500
196,890 ordinary shares at \$0.20 each on 21 February 2003	-	-	196,890	39
250,000 ordinary shares at \$0.15 each on 21 February 2003	-	-	250,000	38
33,539,728 ordinary shares at \$0.15 each on 2 May 2003 pursuant to 2003 prospectus	-	-	33,539,728	5,031
165,000 ordinary shares at \$0.20 each on 6 June 2003	-	-	165,000	33
5,000,000 ordinary shares issued at \$0.15 each as part of fundraising fee	5,000,000	750	-	-
200,000 ordinary shares issued at an average of \$0.125 each to consultants	200,000	25	-	-
81,209 options exercised at \$0.20 each	81,209	16	-	-
1,316,000 ordinary shares issued at \$0.10 each to consultants	1,316,000	132	-	-
	134,324,671	20,124	127,727,462	20,188
Transaction costs relating to share issues	-	(871)	-	(987)
Balance at end of financial year	134,324,671	19,253	127,727,462	19,201

Included in share capital and other debtors at 30 June 2004 are amounts totalling \$40,175 remaining unrecovered in respect of 209,875 shares issued pursuant to the 2002 prospectus. The company has placed a lien over the shares and has made full provision in respect of a possible short fall on the re-issue of the shares.

Included in share capital and other debtors at 30 June 2004 are amounts totalling \$953,860 remaining unrecovered pursuant to the February 2003 Prospectus. These shares have been fully sold to other parties at prices ranging from \$0.15 to \$0.10, recovering \$2,751,996 of the Underwriter's shortfall.

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	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
19. RESERVES				
Option premium reserve	162	162	162	162

Movements in Option Premium Reserve

Balance at beginning of financial year	162	162	162	162
81,209 options exercised	-	-	-	-
Balance at end of financial year	162	162	162	162

The options to subscribe for ordinary shares are exercisable at 20 cents each on or before 31 December 2003. The remaining unexercised options amounting to 127,440,103 lapsed at 31 December 2003.

20. ACCUMULATED LOSSES

Accumulated losses at the beginning of the financial year	(9,547)	(1,726)	(2,855)	(639)
Net loss attributable to members of the parent entity	(14,305)	(7,821)	(19,839)	(2,216)
Accumulated losses at the end of the financial year	(23,852)	(9,547)	(22,694)	(2,855)

21. CONTRACT AND LEASING COMMITMENTS

a. Hire Purchase Commitments

Payable				
-not later than 1 year	65	106	-	-
-later than 1 year but not later than 5 years	72	113	-	-
	137	219	-	-
Less future finance charges	14	27	-	-
Total hire purchase liability	123	192	-	-

b. Operating Lease Commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements

Payable				
-not later than 1 year	128	95	-	-
-later than 1 year but not later than 5 years	102	10	-	-
	230	105	-	-

c. Contract Commitments

The Economic Entity has entered into a number of contracts pursuant to the prospectus issued February 2002.

Payable				
-not later than 1 year	495	791	154	162
-later than 1 year but not later than 5 years	-	872	-	154
	495	1,663	154	316

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22. SEGMENT REPORTING

Geographical Segments	Australia		Thailand		Eliminations		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
REVENUE								
External segment revenue	2,072	1,324	1	-	-	-	2,073	1,324
Inter-segment sales	-	-	-	-	-	-	-	-
Total segment revenue	2,072	1,324	1	-	-	-	2,073	1,324
RESULT								
Segment result	(13,796)	(7,821)	(509)	-	-	-	(14,305)	(7,821)
Unallocated corporate expenses	-	-	-	-	-	-	-	-
Profit or (Loss) from ordinary activities before income tax expense	(13,857)	(7,821)	(509)	-	-	-	(14,366)	(7,997)
Income tax expense/R&D offset	61	176	-	-	-	-	61	176
Extraordinary items after income tax expense	-	-	-	-	-	-	-	-
Net profit/(Loss)	(13,796)	(7,821)	(509)	-	-	-	(14,305)	(7,821)
ASSETS								
Segment assets	1,697	12,533	445	-	(391)	-	1,751	12,533
Unallocated corporate assets	-	-	-	-	-	-	-	-
Consolidated total assets	1,697	12,533	445	-	(391)	-	1,751	12,533
LIABILITIES								
Segment liabilities	(5,929)	(2,717)	(375)	-	116	-	(6,188)	(2,717)
Unallocated corporate liabilities	-	-	-	-	-	-	-	-
Consolidated total liabilities	(5,929)	(2,717)	(375)	-	116	-	(6,188)	(2,717)
OTHER								
Acquisitions of property, plant and equipment and intangible assets	42	95	116	-	-	-	158	95
Depreciation and amortisation of segment assets	2,373	2,371	7	-	-	-	2,380	2,371
Intangibles and other assets written off	6,176	-	-	-	-	-	6,176	-
Other non cash segment expenses	328	1,698	-	-	-	-	328	1,698

The economic entity operates only in the brake industry in Australia and Thailand.

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	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
23. CASH FLOW INFORMATION				
a. Reconciliation of Cash Flow from Operations with (Loss) from Ordinary Activities after Income Tax				
Loss from ordinary activities after income tax	(14,305)	(7,821)	(19,839)	(2,216)
<i>Non-cash flows in loss from ordinary activities</i>				
Amortisation	2,339	2,339	-	-
Depreciation	41	32	1	-
Inventories written off	96	23	-	-
Bad and doubtful debts	1,567	2,157	17,808	970
Shares issued for professional services	177	151	177	151
Revenue allocated to JV Party (a director-related entity)	300	420	-	-
Expenditure recoverable from JV Party (a director-related entity)	(1,820)	(1,053)	-	-
Intangibles and other assets written off	6,176	-	-	-
Write off of withholding tax receivable	8	-	8	-
<i>Other</i>				
R&D tax offset	(61)	(176)	-	-
<i>Changes in assets and liabilities, net of the effects of allocating to joint venture partner</i>				
(Increase) in trade and other receivables	(143)	(102)	(72)	(93)
(Increase)/Decrease in inventories	(237)	166	-	-
Increase in trade and other payables	831	1,007	647	572
Cash (outflows) from operations	<u>(5,031)</u>	<u>(2,857)</u>	<u>(1,270)</u>	<u>(616)</u>

b. Non-cash Financing and Investing Activities

2004

During the year, Safe Effect Technologies Ltd (SETL) issued 6,516,000 new shares at prices ranging from \$0.15 to \$0.10 totalling \$906,600 to its suppliers in satisfaction of corporate and legal services rendered.

2003

On 26 February 2003, Safe Effect Technologies Ltd (SETL) issued a prospectus to raise \$5,030,959 from the issue of 33,539,728 new shares at \$0.15 per share. At balance date SETL has received \$1,325,103. The outstanding amount of \$3,705,856 has been included as a receivable. Since the end of the financial year, the Company has received a total of \$2,731,996 in cash from the disposal of the Underwriter's shares held in escrow. The Company further transferred 133,333 shares held in escrow to suppliers in satisfaction of corporate and legal services rendered.

24. RELATED PARTY TRANSACTIONS

The following persons were Directors of the Company during the year ended 30 June 2004 and 2003:

Thomas J R O'Brien AM
Patrick J Lyons
Dr Dorota H Kieronska
Vincent Sweeney

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	Economic Entity		Parent Entity	
	2004	2003	2004	2003
	\$000	\$000	\$000	\$000
The Economic Entity has a consultancy contract with Australis Panoptic Technologies Pty Ltd to provide research and development services. This contract further remunerates a director (Dorota Kieronska) of the Economic Entity (in addition to a senior engineer), who is also a director and has an interest in Australis Panoptic Technologies Pty Ltd. Amount paid or payable totalled	185	185	-	-
Payments to Australis Panoptic Technologies Pty Ltd for promotional and information technology services	81	101	-	-
The Economic Entity has a one year consultancy agreement with Thomas J R O'Brien which commenced March 2002. The agreement was not renewed and lapsed with effect from 30 June 2003. Amounts incurred according to the agreement for year are	-	170	-	170
Payments made on behalf of Safe Effect Technologies International Ltd	153	67	11	-
Directors fee payable to Dr Dorota Kieronska	38	38	38	38
Consultancy fee paid or payable to Vin Morley (appointed as a director on 12 th July 2004)	294	280	147	125
Directors fee paid or payable to Patrick J Lyons (resigned on 12 th January 2004)	35	38	38	38
Directors fees paid to Vincent Sweeney (resigned on 12 th July 2004)	45	-	45	-
RH Harrison (a director of Safe Effect International Limited)	87	7	-	-

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25. FINANCIAL INSTRUMENTS

a. Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate	Floating Interest Rate \$'000	Within 1 Year \$'000	1 to 5 Years \$'000	Non- interest Bearing \$'000	Total \$'000
2004						
Financial assets:						
Cash	1.00%	370	-	-	-	370
Receivables	4.30%	-	30	-	793	823
Total financial assets		370	30	-	793	1,193
Financial liabilities:						
Payables		-	-	-	4,923	4,923
Convertible note	11.00%	-	1,056	-	-	1,056
Hire purchase liabilities	8.00%	-	57	66	-	123
Provisions		-	-	-	86	86
Total financial liabilities		-	1,113	66	5,009	6,188
Net Financial Assets (Liabilities)		370	(1,083)	(66)	(4,216)	(4,995)

	Weighted Average Effective Interest Rate	Floating Interest Rate \$'000	Within 1 Year \$'000	1 to 5 Years \$'000	Non- interest Bearing \$'000	Total \$'000
2003						
Financial assets:						
Cash	1.00%	245	-	-	-	245
Receivables		-	-	-	3,510	3,510
Total financial assets		245	-	-	3,510	3,755
Financial liabilities:						
Payables		-	-	-	2,485	2,485
Hire purchase liabilities	8.00%	-	93	99	-	192
Provisions		-	-	-	40	40
Total financial liabilities		-	93	99	2,525	2,717
Net Financial Assets (Liabilities)		245	(93)	(99)	985	1,038

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		Economic Entity	
		2004	2003
	Note	\$000	\$000
Reconciliation of net financial assets to net assets			
Net financial (liabilities)/assets as above		(4,995)	1,038
Non-financial assets and liabilities			
Inventories	10	306	105
Property, plant & equipment	12	252	158
Intangibles	13	-	8,367
Other	14	-	148
Net (liabilities)/assets as per statement of financial position		<u>(4,437)</u>	<u>9,816</u>

b. Credit Risk

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

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

The Economic Entity's exposure to credit risk arises primarily from the motor vehicle industry.

The Economic Entity is not materially exposed to any individual overseas country or individual customer.

c. Net Fair Values

The financial assets and liabilities included in current assets and current liabilities in the statement of financial position are carried at amounts that approximate net fair values.

26. EVENTS SUBSEQUENT TO BALANCE DATE

As at 30 June 2004, the Company had received \$1,115,000 for application of shares in the Company and were not allotted on that date. Since year end, the Company has issued 20,850,000 ordinary shares, all at \$0.10 each to raise further capital. The shares were issued in three separate tranches as follows: 12,550,000, 8,000,000, 300,000. This resulted in the Company raising \$2,085,000 in capital, exclusive of capital raising fees.

The Company also obtained loans, to provide working capital, to the total value of \$545,000 out of which \$245,000 is intended to be converted into 10 cent shares subject to shareholder approval.

On the 12th of October 2004, Mr Vic Smith and David Field resigned from the Board. Mr Roger Cowan OAM has been appointed as an Executive Chairman with effect from the 8th November 2004.

Other than the matters set out above, there has not arisen in the interval between the end of the 2004 financial year and the date of this Report any item, transaction or event of a material and unusual nature which, in the opinion of the Directors has significantly or may significantly affect the operations of the Company or its state of affairs.

SAFE EFFECT TECHNOLOGIES LTD

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27. CONTINGENT LIABILITIES

Safe Effect Technologies International Ltd, a company associated with the Economic Entity, entered into an IPO management agreement with Genetic and Medical Capital Ltd prior to the Safe Effect Technologies Ltd's incorporation. Genetic and Medical Capital Ltd is making a claim under the terms of the agreement against both Safe Effect Technologies International Ltd (SETI) and Safe Effect Technologies Ltd (SETL). There has been little activity on this matter over the past year. A counterclaim for damages is being prepared.

The directors consider the likely exposure to the company is in the order of \$50,000 to \$100,000, most of which is legal fees, but at the same time may succeed in receiving a similar amount.

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DIRECTORS' DECLARATION

The Directors of Safe Effect Technologies Ltd declare that:

- (a) the financial statements and notes, as set out on pages 14 to 40, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and Economic Entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and
- (b) subject to the matters noted in Note 1 to 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.

Dated at Perth, Western Australia this 27th January 2005.
Signed in accordance with a resolution of the directors:



Director: Vin Morley



STANTON PARTNERS

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WESTERN AUSTRALIA

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Facsimile: (08) 9321 1204

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INDEPENDENT AUDIT REPORT

TO THE MEMBERS OF SAFE EFFECT TECHNOLOGIES LIMITED

SCOPE

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash-flows, accompanying notes to the financial statements, and the directors' declaration for Safe Effect Technologies Limited (the Company) and the Consolidated Entity for the year ended 30 June 2004. The Consolidated Entity comprises both the Company and the entities it controlled during the year.

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

Audit approach

We 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*, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our 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*.

QUALIFICATION

The Company's 100% owned controlled entity Safe Effect Pty Limited ("SEPL") entered into a conditional Joint Venture agreement on 18 February 2002 whereby SEPL acquired a 51% interest and Safe Effect Technology International Limited ("SETI") a 49% interest in the Joint Venture for the purpose of conducting the business and activities associated with the research and development of the Wet Brake Technology and the marketing of products produced for sale and the licensing or other forms of commercialisation of the Wet Brake Technology. Included in the conditions of the Joint Venture agreement were requirements that the Company sole fund expenditure of the Joint Venture to the level of 75% of the funds raised from the issue of securities pursuant to the Prospectus of February 2002 and that separate books of account be maintained for the Joint Venture. In terms of an Asset Sale Agreement entered into between SEPL and Brake Products Technology Pty Limited, SEPL acquired 100% of the legal right and 51% of the beneficiary rights to various items of plant and equipment and inventory.

SEPL has not maintained a separate set of accounting records for the Joint Venture and all transactions relating to the Joint Venture have been recorded in the books of SEPL. The estimated costs incurred by the Joint Venture in excess of 75% of the funds raised from the issue of shares pursuant to the Prospectus, and the amount of sales recorded by the Joint Venture have been apportioned 51% to SEPL and 49% to SETI as at 30 June 2004. The net amount of estimated costs and sales revenues totalling \$1,517,000 has been allocated to SETI and is included in the amount of \$2,570,000 raised as a non-current receivable as at 30 June 2004. The \$2,570,000 also includes 49% of the written down value of plant and equipment and 49% of the amount payable to Galvale Pty Ltd in terms of a Deed of Termination that have been allocated to SETI (\$306,000). A full provision has been raised for this receivable and for other additional amounts paid on behalf of SETI by the Company, as in the opinion of the directors, there is significant uncertainty as to whether the amounts will be recoverable in full. Furthermore, certain costs that management have deemed to be expenses of the Company or SEPL have been expensed that relate to invoices not in the name of the Company or SEPL.

In view of the fact that a separate set of accounting records has not been maintained for the Joint Venture and there is some uncertainty regarding the nature and amount of the expenditure which was to be sole funded by the Company, we have been unable to determine whether the Consolidated Entity's share of expenditures, revenues and assets and liabilities of the Joint Venture have been properly accounted for in the consolidated financial statements of the Company. Furthermore, the accounting policy for the Joint Venture as set out in note 1(c) of the financial report and which has been consistently applied in this financial report is contrary to the requirements of Australian Accounting Standard AASB 1006 "Interest in Joint Ventures".

The Consolidated Entity made various payments on behalf of SETI, who may be deemed to be a related party. The amount disclosed at 30 June 2004 totals \$153,000 but excludes other expenses that were invoiced to SETI or its associates but claimed by management to be valid expenses of the Company or its controlled entities and thus expensed. In terms of Section 208(1) of the *Corporations Act 2001*, SETI is required to obtain the approval of its members before a financial benefit can be made to a related party of the Company or controlled entities, unless the funds were advanced on normal terms and conditions and on an arm's length basis. No such approval has been sought from the members of the Company and we have been unable to satisfy ourselves that the funds were advanced on normal terms and conditions and on an arm's length basis. Furthermore, we have been unable to confirm the balances owing by SETI to the Company and SEPL as at 30 June 2004.

Note 27 to the financial report refers to a contingent liability and note 9(b) refers to an Australian Taxation Office audit on the GST obligations of the Consolidated Entity. We cannot at this stage estimate the possible financial effects to the Consolidated Entity in the event of any adverse outcomes pertaining to such matters.

AUDIT OPINION

Based on our audit, except for the effects on the financial report of the matters referred to in the qualification paragraphs, we have not become aware of any matter that makes us believe that the financial report of the Company is not in accordance with:

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

INHERENT RISK REGARDING NON CURRENT ASSETS AND GOING CONCERN

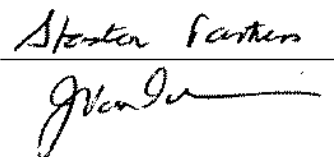
Without qualification to the opinion expressed above, attention is drawn to the following matters:

The Consolidated Entity has yet to make significant sales to third parties in relation to Wet Brake Technology products. Included in the consolidated Statement of Financial Position are inventories and property, plant and equipment relating to Wet Brake Technology products and its production facilities totalling \$558,000. The recoverability of such assets is dependent on the completion of development and successful commercial exploitation of the underlying technologies owned by the Company and its controlled entities to generate profits to support the current carrying values of the assets.

The ability of the Company and its controlled entities to meet their planned expenditure commitments and meet their liabilities as and when they fall due is subject to the Company and its controlled entities successfully exploiting the Wet Brake Technology as referred to above and/or continue raising further equity and/or loan capital. Note 1(b) to the financial report refers to the reasons why the accounts have been prepared on a going concern basis, however there is still significant uncertainty whether the Company and its controlled entities will be able to continue as going concerns. Therefore there exists significant uncertainty as to whether the Company and its controlled entities will realise their assets and extinguish their liabilities in the normal course of business and at amounts stated in the financial reports.

In the event that the Company and the Consolidated Entity is not successful in raising further funds, the realisable value of the Company's and the Consolidated Entity's non-monetary assets may be significantly less than their current carrying values.

STANTON PARTNERS



J P Van Dieren
Partner

Perth, Western Australia
28 January 2005

SAFE EFFECT TECHNOLOGIES LTD

AND CONTROLLED ENTITIES

ABN 66 099 107 623

ASX ADDITIONAL INFORMATION

1 Shareholder and Optionholder Information

a Distribution of Shareholder Numbers as at 31 December 2004

Share Range	Number of Holders	Number of Shares	%
1- 1,000	0	0	0
1,001- 5,000	24	84,057	0.05
5,001- 10,000	264	2,539,502	1.64
10,001- 100,000	353	11,421,367	7.36
100,000- and over	131	141,133,945	90.95
Total	772	155,178,871	100.00

b The number of shareholdings held in less than marketable parcels is 11

c The names of the substantial shareholders as at 31 December 2004 are:

Safe Effect Technologies International Ltd
 Knarf Investments Pty Ltd <Terrigal A/C>
 London Partners Australia Pty Ltd
 Australis Panoptic Technologies Pty Ltd
 Galvale Pty Ltd

d Voting Rights

Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

e The 20 largest registered holders of shares at 31 December 2004 were:

Shareholder	Number of Shares	% of Total IC
Knarf Investments Pty Ltd	14,104,313	9.09
Safe Effect Technologies International Ltd	12,113,930	7.81
London Partners Australia Pty Ltd	10,200,875	6.57
Australis Panoptic Technologies Pty Ltd	7,462,826	4.81
Galvale Pty Ltd	7,401,441	4.77
Mr Terry Tzaneros	7,000,000	4.51
Mr Peter Brent	5,000,000	3.22
Claymore Capital Pty Ltd	5,000,000	3.22
Mr Steven Tzaneros	5,000,000	3.22
Mondal Investments Pty Ltd	4,652,174	3.00
Hintern Holdings Pty Ltd	4,341,667	2.80
Valette Pty Ltd {ATF McClelland Family Trust>	3,950,000	2.55
Mr Vin Morley <ATF Phoenix Trust>	3,941,351	2.54
Fingora Pty Ltd	2,405,895	1.55
Ms Jeanette Helen Turner	1,586,739	1.02
Aloi Holdings Pty Ltd	1,500,000	0.97
Ms Mary Ann Brent	1,442,500	0.93
Knarf Investments Pty Ltd	1,041,667	0.67
Mr John McClelland	1,004,200	0.65
Miss Patricia Coulloupas	1,000,000	0.64
	<u>100,149,578</u>	<u>64.54</u>

SAFE EFFECT TECHNOLOGIES LTD
AND CONTROLLED ENTITIES
ABN 66 099 107 623

ASX ADDITIONAL INFORMATION

2 The name of the company secretary is Mr Vincent Sweeney.

3 The address of the principal registered office in Australia is C/- Walker Herceg, Level 22 Australia Square, 264 George Street, Sydney, NSW 2000.

4 Registers of securities are held at the following address

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace
Perth, Western Australia, 6000
Telephone: 61 8 9323 2000
Facsimile: 61 8 9323 2033

5 Registers of securities are held at the following address

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.

6 Unquoted Securities

The following shares are subject to escrow and are unquoted.
Voluntary Restricted

200,875

APPENDIX 2

December 2004 Unaudited Balance Sheet

SAFE EFFECT TECHNOLOGIES LTD

Statement of Financial Position

Consolidated

as at 31 December 2004

	DEC SETL GROUP	DEC SETL
CURRENT ASSETS		
Cash	235,408	(142,962)
Receivables	1,036,085	522,058
Inventories	207,277	0
TOTAL CURRENT ASSETS	1,478,771	379,096
NON-CURRENT ASSETS		
Property, plant & equipment	207,031	0
TOTAL NON-CURRENT ASSETS	185,037	0
TOTAL ASSETS	1,663,808	379,096
CURRENT LIABILITIES		
Payables	(2,072,611)	(409,017)
Interest bearing liabilities	(1,111,268)	(1,074,406)
Provisions	(66,936)	0
TOTAL CURRENT LIABILITIES	(3,250,815)	(1,483,424)
NON-CURRENT LIABILITIES		
Payables	(2,986,649)	(2,596,065)
Interest bearing liabilities	(46,874)	0
TOTAL NON-CURRENT LIABILITIES	(3,033,523)	(2,596,065)
TOTAL LIABILITIES	(6,284,338)	(4,079,488)
NET ASSETS	(4,620,531)	(3,700,392)
EQUITY		
Contributed equity - rights issue	21,781,394	21,313,607
Reserves	162,264	162,264
Accumulated losses	(24,316,546)	(22,695,096)
Current year gains/(losses)	(2,247,643)	(2,481,167)
TOTAL EQUITY	(4,620,531)	(3,700,392)

THIS IS AN IMPORTANT DOCUMENT. IF YOU ARE IN ANY DOUBT AS TO HOW TO DEAL WITH IT, PLEASE CONSULT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER IMMEDIATELY.

Offer by Bidder:

to acquire all of Your Shares in Safe Effect Technologies International Limited ACN 087 044 228 ("Target") a company incorporated in Victoria, Australia

ACCEPTANCE FORM

(See Instructions overleaf)

Shares

(If your name, address or shareholding is incorrect, please amend and initial)

-

I/We accept the Offer for the above shares in terms of the Offer and paragraphs A, B and C (overleaf)

Sign here: _____ affix Common Seal

1st shareholder or director as appropriate here

*

Sign here: _____

2nd shareholder or director as appropriate

Dated / /2005

(*Affix Common Seal if appropriate)

SEND THIS FORM TO:

(08) 9240 1577

"Safe Effect Technologies Limited, PO Box 632 Balcatta Western Australia 6914."

To be received no later than 5.00 pm WST on the last day of the Offer Period (see clause 5 of the Offer).

1. TERMS OF ACCEPTANCE

I/We whose name and address appears overleaf being the holder of the number of Shares shown

- A. ACCEPT the Offer contained in the Statement by the Bidder for the number of my/our Shares shown overleaf subject to the terms and conditions set out in the Statement.
- B. ACKNOWLEDGE the effect of the acceptance set out in clause 8 of the Statement.
- C. TRANSFER to the Bidder or its nominee (as permitted by clause (e)) my/our Shares shown overleaf.

Where this document is signed under power of attorney the donee of the power advises that he/she has no notice of the revocation of that power.

INSTRUCTIONS

2. ALL HOLDERS

The Offer is for all of your holding of the Shares.

IF YOU HAVE SOLD part of your Shares recently or IF YOU HAVE PURCHASED further Shares recently please alter the number of Shares shown overleaf to show that number of Shares now held by you.

COMPLETING THE FORM:-

Check your name, address and holding of the Shares as shown overleaf, and correct and initial if necessary.

Sign where indicated overleaf.

Post this form as soon as possible to:

“Safe Effect Technologies Limited, PO Box 632, Balcatta Western Australia 6914.”

JOINT HOLDERS – in the case of joint holders, all must sign.

POWER OF ATTORNEY – if signed under power of attorney, the power must be attached to this Acceptance Form unless it has already been noted by the Target.

CORPORATIONS – execution by a corporation must be under its seal or by its duly constituted attorney.

DECEASED ESTATES – probates, letters of administration or certificates of grant accompanied (where required by law for the purpose of transfer) by a certificate of payment of death and succession duties and (if necessary) a declaration in terms of subsection 1091(4) of the Corporations Act must be forwarded with this form unless already noted by the Target.

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