Safe Effect Technologies Ltd | ACN 099 107 623

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31 August 2007

AUSTRALIAN STOCK EXCHANGE LIMITED

Electronic Lodgement

Dear Sir or Madam,

Safe Effect Technologies Ltd Financial Results for the year ending 30 June 2007

In accordance with the Listing Rules, I enclose the following for immediate release:

1. Appendix 4E – full year report.
2. Media Release.
3. Annual Report for the year ending 30 June 2007 including audited financial statements, Directors Report and Audit Report

Yours faithfully,

Ross Blakey
Company Secretary

Appendix 4E

Preliminary final report

Rule 4.3A
Introduced 1/1/2003

Name of entity:	**Safe Effect Technologies Limited**
ABN:	**66 099 107 623**

1.	**Reporting period ("current period"):**	**Year ended 30 June 2007**
	Previous corresponding period	**Year ended 30 June 2006**

2. Results for announcement to the market

				$A'000
Revenue from ordinary activities	up	85.0%	to	2,531
Profit (loss) from ordinary activities after tax attributable to members	up	4.8%	to	(1,939)
Net profit (loss) for the period attributable to members	up	4.8%	to	(1,939)

	Amount per share cents	Franked amount per share cents
Dividends		
Final	Nil	N/A
Interim	Nil	N/A

Record date for determining entitlements to dividends: N/A

Brief explanation of figures in 2.1 to 2.4 (if necessary):

N/A

3. Condensed consolidated statement of financial performance

	Current period $'000	Previous corresponding period $'000
Revenues from trading activities	2,531	1,367
Revenues from other activities	70	219
Total revenue	2,601	1,586
Cost of sales	(1,122)	(507)
Stock write off	(136)	(92)
Employee expenses	(1,879)	(1,597)
Depreciation expense	(95)	(58)
Amortisation of IP	(199)	-
Borrowing costs	(37)	(535)
Bad and doubtful debts	(25)	(23)
Legal fees	(85)	(217)
Patents	(114)	(160)
Marketing and advertising expenses	(16)	(18)
Travel and accommodation	(131)	(106)
Consulting fees	(164)	(229)
Convertible Note raising fees	-	(291)
Telephone and other communication expenses	(45)	(35)
Rental expenses	(213)	(204)
Consumables and minor equipment	(41)	(178)
Computer related expenses	(23)	(35)
Profit on Assignment of Intellectual Property	-	484
Assignment of debt from SETI	(82)	(213)
Creditors written back	145	1,153
Cost of employee share options	(111)	(146)
Other expenses	(431)	(777)
Total expenses	(4,804)	(3,784)
Loss from continuing activities before related income tax benefit	(2,203)	(2,198)
Income tax expense / R&D rebate	264	348
Loss from continuing activities after related income tax benefit	(1,939)	(1,850)

4. Condensed consolidated statement of financial position

	Current period $'000	Previous corresponding period $'000
CURRENT ASSETS		
Cash and Cash equivalents	1,053	1,643
Trade and other Receivables	648	610
Inventories	1,227	938
Other current assets	27	52
Total current assets	2,955	3,243
NON-CURRENT ASSETS		
Trade and other Receivables	61	51
Property, plant and equipment	231	217
Other Financial Assets	-	-
Intangibles	2,785	2,984
Total non-current assets	3,077	3,252
TOTAL ASSETS	6,032	6,495
CURRENT LIABILITIES		
Trade and other Payables	522	1,356
Interest bearing liabilities	20	58
Provisions	116	69
Total current liabilities	658	1,483
NON-CURRENT LIABILITIES		
Trade and other Payables	-	-
Interest-bearing liabilities	78	925
Total non-current liabilities	78	925
TOTAL LIABILITIES	736	2,408
NET ASSETS/(LIABILITIES)	5,296	4,087
EQUITY		
Issued Capital	37,027	34,057
Foreign Currency Reserve	33	(34)
Other Reserves	419	308
Accumulated losses	(32,183)	(30,244)
TOTAL EQUITY	5,296	4,087

5. Condensed consolidated statement of cash flows

	Current period $'000	Previous corresponding period $'000
Net cash flows from operating activities		
Receipts from customers	2,499	1,190
Payments to suppliers, consultants & employees	(4,736)	(5,762)
Borrowing costs	(37)	(570)
Interest received	54	32
Net cash (used in) operating activities	(2,220)	(5,110)
Cash flows from investing activities		
Advances to subsidiary	-	-
Proceeds from disposal of property, plant and equipment	19	3
Purchase of property, plant and equipment	(124)	(101)
Net cash provided by / (used in) investing activities	(105)	(98)
Cash flows from financing activities		
Repayment of Directors and Director related entities	(571)	-
Proceeds from borrowings	93	-
Repayment of loan provided by other entities	-	(696)
Proceeds from issue of convertible notes	-	5,013
Proceeds from repayment of loans	-	1,368
Costs of issuing shares and convertible note	-	-
Proceeds from issue of shares	2,042	750
Proceeds from R&D tax offset	264	348
Finance lease and HP repayments	(90)	(46)
Net cash provided by financing activities	1,738	6,737
Net increase / (decrease) in cash and cash equivalents held	(587)	1,529
Effects of exchange rate fluctuations on the balance of cash held in foreign currencies	5	11
Cash and Cash equivalents at the beginning of the financial year	1,635	103
Cash and Cash equivalents at the end of the financial year	1,053	1,643

6. Dividends

Amount per security

		Amount per security cents	Franked amount per security at 30% tax cents	Amount per security of foreign source dividend cents
Final dividend	- current year	Nil	N/A	N/A
	- previous year	Nil	N/A	N/A
Interim dividend	- current year	Nil	N/A	N/A
	- previous year	Nil	N/A	N/A

Total dividends on all securities for the year

	Current period $'000	Previous corresponding period $'000
Ordinary securities	-	-
Preference securities	-	-
Other equity instruments	-	-
Total	-	-

7. Dividend reinvestment plans

The dividend reinvestment plans shown below are in operation:

None

Last date for receipt of election notices
for the dividend reinvestment plan: N/A

8. Retained earnings

	Current period $'000	Previous corresponding period $'000
(Accumulated losses) at beginning of financial period	(30,244)	(28,394)
Net (loss)/profit attributable to members	(1,939)	(1,850)
(Accumulated losses) at end of financial period	(32,183)	(30,244)

9. Net tangible assets

	Current period cents	Previous corresponding period cents
Net tangible asset backing per ordinary share	0.5	0.2

10. Details of entities over which control has been gained or lost

Control gained over entities N/A

Control lost over entities N/A

11. Details of associates and joint venture entities

N/A

12. Any other significant information

Details of any other significant information needed by an investor to make an informed assessment of the entity's financial performance and position:

N/A

13. Accounting standards

For foreign entities, set of accounting standards used in compiling report:

N/A

14. Results for the period

14.1 *Earnings per security*

	Current period cents	Previous corresponding period cents
Basic earnings per share	(0.4)	(0.8)
	Number '000	Number '000
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic EPS	432,741	235,017

14.2 ***Returns to shareholders***

N/A

14.3 ***Significant features of operating performance***

N/A

14.4 ***Segment results***

N/A

14.5 ***Trends in performance***

N/A

14.6 Any other factors which have affected the results in the period or which are likely to affect the results in the future, including those where the effect could not be quantified:

N/A

15. This report is based on accounts to which one of the following applies:

✓	The accounts have been audited.	☐	The accounts have been subject to review.
☐	The accounts are in the process of being audited or subject to review.	☐	The accounts have *not* yet been audited or reviewed.

16. Description of any likely audit dispute or qualification.

N/A

Sign here: Date: 31 August 2007
Company Secretary

Print name: Ross Blakey

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Safe Effect Technologies Ltd | ACN 099 107 623

MEDIA/ASX RELEASE **31 AUGUST 2007**

SAFE EFFECT DELIVERS 85% INCREASE IN SALES REVENUE FOR 2006/07

STRONG SALES GROWTH CONTINUES IN AUSTRALIAN AND SOUTH AFRICAN MARKETS

Advanced braking systems manufacturer, Safe Effect Technologies Limited (ASX: **SAF**), today announced its financial results for the 12 months to 30 June 2007, featuring an **85% increase in sales revenue** as the Company continues to benefit from rapid take-up of its Sealed Integrated Braking System (SIBS) products, particularly in the mining sector in Australia and South Africa.

Safe Effect said today 31 August 2007 that revenues from trading activities increased to $2.531 million in 2007, an 85% improvement over the 2006 full year result of $1.367m.

While the Company recorded a net loss for the year of $1.939m, a small increase over the previous year's loss of $1.85m, the result was impacted by the reversal of $1.153m of expenses in 2006. This reversal meant the underlying loss for 2006 was in fact $3.003m, meaning the 2007 result actually reflected an improvement of $1.064m or 35%.

Safe Effect's Managing Director, Mr Ken Johnsen, said the significant increase in sales revenue and the strong operational performance in 2007 highlighted the growth of its core business, with the Company expecting to achieve break-even sales quantities on a month-to-month basis early in the new financial year, based on current orders and inquiries.

"This is a pleasing result for Safe Effect in a year in which we have successfully managed a strategic recapitalisation and repositioning of the business," he said. "We are confident that the ongoing benefits of this restructure, as well as further improvements in turnover and gross margins, will enable Safe Effect to achieve self sustaining cash flow in the year ahead."

The strong performance has been achieved on the back of a number of new initiatives, including the launch of new SIBS products for Toyota Hilux, Fuso Canter and Isuzu NPS300, and the adoption of a direct sales and marketing model in Australia.

Mr Johnsen said the marketing model was aimed at increasing the level of Company-initiated sales and improving margins.

"The implementation of a direct sales model has allowed us build closer relationships with our Australian customers, and as a result we have seen an exponential increase in our product enquiry levels," he commented. "Bringing the sales and marketing functions in-house has also enabled us to maintain existing pricing levels to customers, while delivering improved profitability to the Company."

Accreditation of SIBS products by the South African Bureau of Standards has also been a key driver of business growth, with the South African market now generating regular sales and expected to grow to at least match Australian sales over the forthcoming financial year.

"Based on the strong sales we are now achieving in Australia and South Africa, our aim is to continue expanding the business to develop new markets for the SIBS product," Mr Johnsen said. "Safe Effect now has SIBS fitted to vehicles in Australia, North America, Asia and South Africa, and a major focus for the year ahead will be expanding the Company's geographic reach into Europe and South America."

Mr Johnsen said the Company was also planning to further expand its product offering to include various trucking applications, with a focus on securing customer-financed development programs for new product applications.

"In addition to geographic expansion, we are now exploring the opportunity to provide braking solutions to a number of new markets including cement trucks and larger brakes for various trucking applications," he said. "These products will be the foundation of new, market-driven development programs."

Under current investigation are funded projects on garbage truck brakes, concrete truck brakes and Nissan 4WD brakes." Mr Johnsen concluded.

Background Information – Safe Effect Technologies Ltd (ASX: SAF)

Perth-based Safe Effect Technologies Ltd (ASX: SAF) is dedicated to innovative braking systems. The Company's key asset is the Sealed Integrated Braking System (SIBS™), a comprehensively patented Australian invention which is regarded as the most significant development in braking technology since the invention of disc brakes 80 years ago.

SIBS™ utilises wet friction, with the moving and non-moving brake parts immersed in a liquid that dissipates heat and reduces wear through lubrication. As a result, the brakes are virtually wear and maintenance-free and may outlast the vehicles they are fitted to, unlike conventional drum and disc brakes. SIBS™ brakes deliver unparalleled safety, improved productivity and lower operating costs, and are engineered to survive the world's harshest conditions.

The proven technology is also environmentally friendly, eliminating brake dust emissions and noise and squealing, and provides a wide-range of benefits for on-road, off-road and industrial applications in terms of safety, reliability, performance and adaptability.

Safe Effect is collaborating with industries to adapt SIBS for trucks, conveyors, industrial brakes and other applications requiring safer braking systems.

Based in Perth, Western Australia, Safe Effect has a manufacturing plant in Thailand, worldwide patents on its technology and an intensive reseller network.

ENDS

Released by:
Nicholas Read / Kate Bell
Jan Hope & Partners
Telephone: (+61-8) 9388-1474

On behalf of:
Mr Ken Johnsen
Chief Executive
Safe Effect Technologies Ltd
Telephone: (+61-8) 9273-4800

SAFE EFFECT TECHNOLOGIES LIMITED
AND CONTROLLED ENTITIES

ABN 66 099 107 623

ANNUAL REPORT

2007

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

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

CORPORATE DIRECTORY

Directors
David Humann
Malcolm Richmond
Christopher Coudounaris
Ken Johnsen
Ross Blakey

Company Secretary
Ross Blakey

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Osborne Park West
WA 6017

Bankers
BankWest
BankWest Tower
108 St Georges Terrace
Perth WA 6000

Manufacturing
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Tambol Thungsukla, Amphur Sriracha
Chonburi 20230
Thailand

Share Registry
Computershare Investor Services Pty Ltd
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45 St George's Terrace
Perth, Western Australia
Telephone: (61 8) 9323 2000
Facsimile: (61 8) 9323 2033

Auditors
Moore Stephens
Level 3
12 St Georges Terrace
Perth, Western Australia

Solicitors
Q Legal
Level 4
105 St George's Terrace
Perth, Western Australia

ASX Home Branch
Australian Stock Exchange Limited
Exchange Plaza
2 The Esplanade
Perth, Western Australia

Country of Incorporation
Australia

Legal form of entity
Listed public company

ASX Code
SAF – Ordinary Shares

CHAIRMAN'S ADDRESS

Dear Shareholder

I am pleased to announce that Safe Effect has made outstanding progress in commercialising and marketing the Sealed Integrated Braking System (SIBS™) during the year to 30 June 2007. In this respect turnover has increased by 85% from $1,367,000 for the year ending 30 June 2007 to $2,531,000 for the year ending 30 June 2007. In addition the Company has developed brake products for Toyota Hilux, Fuso Canter and Isuzu NPS 300 vehicles as well as securing a contract for a "technology demonstrator" with an original equipment manufacturer ("OEM") and entering the lucrative South African market. The availability of new products, new markets and together with a new direct selling model introduced in Australia in January 2007, has seen the product enquiry level from customers increase exponentially during the year.

The loss for the year of $1,939,000 has increased over the previous year loss of $1,850,000 by $89,000, but only as a consequence of the reversal of $1,153,000 expenses in 2006 (Note 3). The underlying loss for the year to 30 June 2006 was therefore $3,003,000, which reflects an improvement to 30 June 2007 of $1,064,000 or 35%.

We are confident that the enquiry rate recorded in our customer relationship management data base will translate into break even in the new financial year which commenced 1 July 2007.

The main achievements during the year under review may be summarised as follows:

- On the 15 August 2006 the Company's dormant wholly owned subsidiary Safe Effect Technologies International Ltd ("SETI") entered into a Deed of Company Arrangement and a final dividend was paid to creditors on 16 October 2006. As SETI has no assets or liabilities it is the Directors' intention to de-register SETI in the current financial year.

- On 28 August 2006 the Company restructured the Board of Directors. Mr John McClelland resigned as a non executive Director and Mr Roger Cowan resigned as Chairman and later resigned as a Director on 31 December 2006. I was appointed Chairman of the Company and Professor Malcolm Richmond was appointed Non executive Director to replace Mr McClelland. Mr Ken Johnsen and Mr Ross Blakey the CEO and CFO respectively joined the Board on the 30 April 2007 and 28 May 2007. Both bring many years of relevant commercial experience in executive positions at Board level.

- On the 8 September 2006 the Company issued 11,639,401 shares at 5 cents to convert part of the remaining Claymore Convertible Note amounting to $581,970.

.

- On 26 September 2006 the Company reached a commercial settlement of proceedings commenced against London Partners Australia Pty Ltd (Subject to Deed of Company Arrangement) ("London Partners"). As part of the settlement agreement, the Company and London Partners obtained an order from the Federal Court of Australia to rectify the Company's register to remove London Partners as a shareholder of 8.25 million fully paid ordinary shares in the Company.

- On 23 October 2006 Stanton Partners resigned as the Company's Auditors with effect from the Company's AGM on 9 November 2006. Moore Stephens was appointed to act as the Company's new auditors with effect from the Company's AGM on 9 November 2006.

- On 29 November and 4 December 2006 the Company issued 5,750,467 shares at 5 cents to convert the remaining amount due under the Claymore Convertible Note amounting to $287,523.

- On 12 December 2006 the Company's product was accredited by the South African Bureau of Standards for use with Toyota Hilux vehicles on public roads and in underground mines.

- On 14 December 2006 the Company executed a Distribution Agreement with Brakecore Supply Company Ltd a specialist and leading supplier of Brake systems to the mining industry in South Africa.

- On 24 January 2007 the Company raised $2,153,000 at 5.25 cents per share to underpin the new direct sales model and marketing strategy including the appointment of sales staff in the Eastern States in February 2007. As a consequence the Company was able to improve margins and achieve a closer relationship with its Australian customers.

- On 5 February 2007 the Company entered into a contract to adapt the SIBS technology to an overseas original equipment manufacturer's light commercial vehicle for technical evaluation purposes.

- On 5 March 2007 Company's product was accredited by the South African Bureau of Standards for use with Toyota Landcruiser vehicles on public roads and in underground mines.

- On 28 March 2007 the Company launched SIBS*Plus* which provides customers with improved braking performance as well as a longer service interval.

As at the 30 June 2007 the Company had net assets of $5.3 million and funds on deposit of $1,053,000.

The Directors and confident of significant improvements in turnover and gross margins during the forthcoming year as it targets break even point and self sustaining cash flow. The Company intends to develop new markets during 2007 to 2008 and onwards. The ability to do this will arise as it builds its present main markets in Australia and South Africa and resources manufacturing and marketing systems, continues to improve designs and recruit excellent technical personnel.

I would like to thank the Management and Staff of the Company for their perseverance and determination to achieve the Company's goals during an exhilarating and promising period and my fellow Directors for their important contribution and shareholders for their continued loyalty to the Company.
DAVID HUMANN

Chairman

CHIEF EXECUTIVE OFFICER UPDATE

It is my pleasure to provide shareholders with an overview of the operations of the Company and activities of the Board and Management for the year under review.

Products

Safe Effect's cornerstone product is the Sealed Integrated Braking System (SIBS) for the Toyota Landcruiser. with over 800 of vehicles having now been fitted with the system in Australia, North America, Asia and South Africa. During the year the Company's product portfolio has been expanded to include products for Toyota Hilux, Fuso Canter and Isuzu NPS300 vehicles. The South African market is now generating regularly monthly sales and we expect their sales to at least match Australian sales within the forthcoming financial year. In addition a major focus for the coming year is to expand the Company's geographic reach into Europe and South America.

The Company continues to provide braking solutions for industrial equipment such as conveyors and gearboxes. It is also looking to provide braking solutions for a number of further applications including cement trucks and larger brakes for various truck applications. These applications will be the foundation of new market driven development programs. In this respect, where possible the Company seeks to secure customer financed development programs for its new products applications.

Production

Safe Effect's operation in Thailand continues producing all of the Company's products and has a current production capacity of about 150 - 200 brake sets per month which can readily be increased with additional manpower and minor capital additions.

The Thailand facility relies primarily on local suppliers to provide castings and machined parts which are assembled into completed brake sets at the Company's factory. This year Safe Effect Thailand achieved the important ISO 9001-2000 quality accreditation. Thailand is a major centre for the manufacture of automotive and truck component parts with many of the multinational vehicle producers having operations there.

As of the date of this report there is about 12 months stock at historic rates of sales but this is expected to fall to 4 months as sales increase throughout the year. This current stock level plus existing production capacity leaves the Company well placed to meet future forecast demand.

In order to improve margins and maximise profitability and competitiveness, the company will undertake a value analysis of the all components used in the assembly of the Company's brakes. It is expected this will yield significant material cost saving in all the Company's products. As production volumes increase economies of scale will yield further cost reduction and an improved utilisation of fixed overheads.

Sales and prospects

Orders and enquiries in the pipeline number some 400 brake sets, these have various closing probability factors derived from a Customer Relationship Management system. Based on these probabilities the Company could achieve break even sales quantities on a month to month basis early in the new financial year.

CHIEF EXECUTIVE OFFICER UPDATE (Continued)

The Company changed its sales model in Australia in February 2007 by appointing technical sales staff in the Eastern States to support and grow the east coast customer base. The Company now sells its products direct to our Australian customers and the agreement with our Australian resellers has been discontinued. The Company continues to operate through resellers in South Africa and Canada. As the Company expands into other regions internationally it will look to appoint other resellers and/or service agents as the demand and customer's requirement dictate.

The Company's products are marketed and sold on three criteria:

- Safety – The Company's brakes employ an electronically modulated mechanically applied ("EMMA™") fail safe brake which is generally fitted to the rear axle of the vehicle. This feature meets the "fail safe" requirements of the mining industry.

- Serviceability – The Sealed Integrated Brake System ("SIBS™") last longer in harsh conditions and requires less service than a conventional dry brake. In addition as the system is sealed there are no harmful airborne particle emissions from the Company's brakes.

- Maintenance – the SIBS™ is particularly useful in reducing maintenance costs and increasing vehicle availability for increased productivity in harsh environments such as below ground or open cut mines.

Company based safety rules, such as BHP Billiton's Fatal Risk Protocol, and government mine safety regulations in various jurisdictions continue to drive sales on the safety criteria. The Safe Effect web site contains a return on investment calculator and this together with referrals, sales brochures and direct selling, drives our cost saving and serviceability sales.

In February 2007 the Company made its first sales to customers in South Africa and now enjoys increasing monthly sales into this market. The Company is also in the process of negotiating a supply contract with a European customer, which has a light vehicle fleet of 600 vehicles turned over at the rate of 120 new vehicles each year. In addition in Australia the Company is seeking to conclude supply agreements with customers operating fleets numbered in the hundreds.

During the year the Company entered into a contract with an Asian OEM to develop a prototype vehicle brake system for their evaluation. The subject vehicle is a light commercial vehicle which is being sold to mine operators in various parts of the world. This vehicle is similar in size and configuration to a Toyota Hilux. The development of this variant of SIBS™ is progressing smoothly. This development have seen the Company benefit from engineering fees which contribute to development costs and Company profit.

Development Activity

The Company's development activity has focussed on product improvements for the core design LCV1 design (initially designed for Toyota Landcruiser) and SIBS*Plus* was launched in March. The enhanced SIBS*Plus* braking system provides customers greater levels of reliability, fleet availability and reduction in brake maintenance costs.

SIBS*Plus* incorporates a number of technical developments including revised brake pad material and improved synthetic SIBS cooling fluid. All SIBSPlus brake systems include stainless steel brake lines, previously an optional extra.

CHIEF EXECUTIVE OFFICER UPDATE (Continued)

Other development activity is being undertaken in response to market needs and customer requests. Under current investigation are funded projects on:

1. Garbage truck brakes.
2. Concrete truck brakes.
3. Nissan 4WD brakes.

Outlook

The past year has been year of consolidation and the establishment of a solid foundation for further growth. Investments have been made in building inventory, improving existing products and expanding the product portfolio. In addition all substantive debt has been removed from the balance sheet and the Company begins the new financial year with a good working capital level. Having demonstrated an increase in sales revenue by $1,164,000 (85%) from $1,367,000 for the 12 months to 30 June 2006 to $2,531,000 for the 12 months to 30 June 2007 the task at hand is to continue this rate of sales growth in the forthcoming year and to reach and pass break even point and become cash self sufficient.

The Company looks forward to a much larger volume of sales and the establishment of a range of long term supply contracts. There has been an exponential growth in opportunities managed under the newly established Australian direct sales model that yields higher margins. Closing these opportunities and the further penetration into a global market for the Company's products should yield a tangible growth in shareholder value in the coming year.

Corporate

As reported in last year's Annual Report, Mr John McClelland resigned as a Director and Mr Roger Cowan resigned as Chairmen on 28 August 2006 and later on 31 December 2006, Mr Cowan resigned as a Director. The Company then welcomed two new experienced Directors with a background in mining. The Directors include, Mr David Humann a Chartered Accountant who was previously a member of the world Board of Price Waterhouse and the Chairman and Senior Partner of Price Waterhouse (Hong Kong and China) and currently Chairman of Mincor Resources NL; and Professor Malcolm Richmond a metallurgist and previous Executive Director of CRA/Rio Tinto Group. On 8 April 2007 and 28 May 2007 Mr Ken Johnsen CEO and previous Director of Orbital Ltd and Mr Ross Blakey CFO a previous Director of several private and a public companies, joined the Board respectively as executive Directors

The Company's dormant wholly owned subsidiary, Safe Effect Technologies International Ltd ("SETI"), which was placed into voluntary administration on 29 June 2006, entered into a Deed of Company Arrangement on 15 August 2006 and a final dividend was paid to creditors on 16 October 2006. SETI has no assets or liabilities and does not trade, it is the therefore the intention of the Directors to deregister SETI in the current financial year.

All residual matters except the Company's action against Hood Group and the previous executive Directors have been resolved

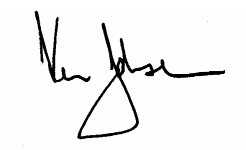
CHIEF EXECUTIVE OFFICER UPDATE (Continued)

On 1 July 2006 the Company issued 10,000,000 share options under an employee share option scheme approved by the shareholders at the Annual General Meeting of the Company held on November 1st 2005. This is a reward to those loyal staff for their services during difficult times as well as an incentive to create shareholder wealth through profitability and growth.

On 24 January 2007 the Company completed a $2,153,000 capital raising to further expand its product range and support the new direct sales model and marketing strategy, aimed at increasing the level of Company driven sales with improved margins and direct involvement with customers.

Acknowledgements

I would like to express my appreciation and thanks to my colleagues, staff and fellow Directors for their efforts and loyal support during the past year.



Ken Johnsen
Chief Executive Officer and Managing Director

CORPORATE GOVERNANCE STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

The Board of Directors of Safe Effect Technologies Limited has adopted the following set of principles for the corporate governance of the Company. These principles establish the framework of how the Board carries out its duties and obligations on behalf of the shareholders.

ASX BEST PRACTICE RECOMMENDATIONS

The ASX Listing Rules require listed companies to include in their annual report a statement disclosing the extent to which they have complied with the ASX Best Practice Recommendations in the reporting period. These recommendations are guidelines designed to produce an efficiency, quality or integrity outcome. The recommendations are not prescriptive so that if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to follow it. Where a company has not followed all the recommendations, the annual report must identify which recommendations have not been followed and give reasons for not following them.

Details have been included at the end of this statement setting out the ASX Best Practice Recommendations with which the Company has and has not complied in the reporting period.

Details of the Company's corporate governance practices in the relevant reporting period are set out below.

THE BOARD OF DIRECTORS

Role of the Board

The primary responsibilities of the Board are set out in a written policy and include:

- the establishment of the long term goals of the Company and strategic plans to achieve those goals;
- monitoring the achievement of these goals;
- the review of management accounts and reports to monitor the progress of the Company;
- the review and adoption of budgets for the financial performance of the Company and monitoring the results on a regular basis to assess performance;
- the review and approval of the annual and half-year financial reports;
- nominating and monitoring the external auditor;
- approving all significant business transactions;
- appointing and monitoring senior management;
- all remuneration, development and succession issues; and
- ensuring that the Company has implemented adequate systems of risk management and internal control together with appropriate monitoring of compliance activities.

The Board evaluates this policy on an ongoing basis.

**CORPORATE GOVERNANCE STATEMENT (Continued)
FOR THE YEAR ENDED 30 JUNE 2007**

Board composition

The Directors' report contains details of the Directors' skill, experience and education. The Board seeks to establish a Board that consists of Directors with an appropriate range of experience, skill, knowledge and vision to enable it to operate the Company's business with excellence. To maintain this, the Company's policy is that executive Directors should serve at least 3 years. At the completion of the first 3 years, the position of the Director is reviewed to ascertain if circumstances warrant a further term.

The Board comprises three non-executive independent Directors. Details of the Directors are set out in the Directors' Report.

The Board is primarily responsible for identifying potential new Directors but has the option to use an external consulting firm to identify and approach possible new candidates for Directorship. The selection of the Directors must be approved by the majority of the shareholders.

Retirement and re-election of Directors

The Constitution of the Company requires one third of Directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors to retire at that Annual General Meeting. Retiring Directors are eligible for re-election by shareholders.

Independence of Directors

The Board has reviewed the position and association of all Directors in office at the date of this report and considers that all the Directors are independent. In considering whether a Director is independent, the Board has regard to the independence criteria in ASX Best Practice Recommendations Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new Directors upon appointment and reviews their independence, and the independence of the other Directors, as appropriate.

The Board considers that all Directors meet the criteria in Principle 2. They have no material business or contractual relationship with the Company, other than as Directors and Shareholders, and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, they are considered to be independent.

Independent professional advice

With the prior approval of the Chairperson, each Director has the right to seek independent legal and other professional advice at the Company's expense concerning any aspect of the Company's operations or undertakings in order to fulfil their duties and responsibilities as Directors.

Board performance review

The performance of all Directors is assessed through review by the Board as a whole. A Director's attendance at and involvement in Board meetings, his contribution and other matters identified by the Board or other Directors are taken into consideration. Significant issues are actioned by the Board. Due to the Board's assessment of the effectiveness of these processes, the Board has not otherwise formalised measures of a Director's performance.

**CORPORATE GOVERNANCE STATEMENT (Continued)
FOR THE YEAR ENDED 30 JUNE 2007**

The Company has not conducted a performance evaluation of the members of the Board during the reporting period, however the Board conducts a review of the performance of the Company against budgeted targets on an ongoing basis.

Director remuneration

Details of the Company's remuneration policies are included in the "Directors' and executives' remuneration" section of the Directors' Report.

Non-executive Directors will be remunerated by cash or share benefits alone and will not be provided with retirement benefits (except in exceptional circumstances). Executive Directors may be remunerated by both fixed remuneration and equity performance based remuneration and no termination payments will be agreed other than a reasonable period of notice of termination as detailed in the executive's employment contract.

MANAGING BUSINESS RISK

The Company maintains policies and practices designed to identify and manage significant business risks, including:

- regular budgeting and financial reporting;
- procedures and controls to manage financial exposures and operational risks;
- the Company's business plan;
- corporate strategy guidelines and procedures to review and approve the Company's strategic plans; and
- insurance and risk management programmes which are reviewed by the Board.

The Board reviews these systems and the effectiveness of their implementation annually and considers the management of risk at its meetings. The Company's risk profile is reviewed annually. The Board may consult with the Company's external auditors on external risk matters or other appropriately qualified external consultants on risk generally, as required.

The Board receives regular reports about the financial condition and operating results of the consolidated group. The Managing Director (or Chief Executive Officer) and Chief Financial Officer annually provide a formal statement to the Board that in all material respects and to the best of their knowledge and belief:

- the Company's financial reports present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards; and
- the Company's risk management and internal control systems are sound, appropriate and operating efficiently and effectively.

CORPORATE GOVERNANCE STATEMENT (Continued)
FOR THE YEAR ENDED 30 JUNE 2007

Internal controls

Procedures have been established at the Board and executive management levels that are designed to safeguard the assets and interests of the Company, and to ensure the integrity of reporting. These include accounting, financial reporting and internal control policies and procedures. To achieve this, the non executive Directors perform the following procedures:

- ensure appropriate follow-up of significant audit findings and risk areas identified;
- review the scope of the external audit to align it with Board requirements; and
- conduct a detailed review of published accounts.

AUDIT COMMITTEE

The Board has delegated the Audit review responsibilities to a sub-committee of the Board, consisting of the three non executive Directors, with Chris Coudounaris as Chairperson. Meetings are held throughout the year between the Audit Committee the Company's CFO and the auditors to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

The Board has no formal procedures for the selection, appointment or rotation of its external auditor but reviews this matter on an ongoing basis and implements changes as required.

ETHICAL STANDARDS

In pursuit of the highest ethical standards, the Company has adopted a Code of Conduct which establishes the standards of behaviour required of Directors and employees in the conduct of the Company's affairs. This Code is provided to all Directors and employees. The Board monitors implementation of this Code. Unethical behaviour is to be reported to the Company's Managing Director (or in his place the Chairperson) as soon as practicable.

The Code of Conduct is based on respect for the law, and acting accordingly, dealing with conflicts of interest appropriately, using the consolidated entity's assets responsibly and in the best interests of the Company, acting with integrity, being fair and honest in dealings, treating other people with dignity and being responsible for actions and accountable for the consequences.

TRADING IN THE COMPANY'S SECURITIES BY DIRECTORS AND EMPLOYEES

The Board has adopted a policy in relation to dealings in the securities of the Company which applies to all Directors and employees. Under the policy, Directors are prohibited from short term or "active" trading in the Company's securities and Directors and employees are prohibited from dealing in the Company's securities whilst in possession of price sensitive information. The Company's Managing Director (or in his place the Chairperson) must also be notified of any proposed transaction.

CORPORATE GOVERNANCE STATEMENT (Continued)
FOR THE YEAR ENDED 30 JUNE 2007

This policy is provided to all Directors and employees. Compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

CONTINUOUS DISCLOSURE

The Company has in place a continuous disclosure policy, a copy of which is provided to all Company officers and employees who may from time to time be in the possession of undisclosed information that may be material to the price or value of the Company's securities.

The continuous disclosure policy aims to ensure timely compliance with the Company's continuous disclosure obligations under the Corporations Act 2001 (Cth) and ASX Listing Rules and ensure officers and employees of the Company understand these obligations. The procedure adopted by the Company is essentially that any information which may need to be disclosed must be brought to the attention of the Chairperson, who in consultation with the Board (where practicable) and any other appropriate personnel, will consider the information and whether disclosure is required and prepare an appropriate announcement.

At least once in every 12 month period, the Board will review the Company's compliance with this continuous disclosure policy and update it from time to time, if necessary.

SHAREHOLDERS

The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company. Information is communicated to shareholders as follows:

- as the Company is a disclosing entity, regular announcements are made to the Australian Stock Exchange in accordance with the Company's continuous disclosure policy, including quarterly cash flow reports, half-year audit reviewed accounts, year end audited accounts and an Annual Report;

- the Board ensures the Annual Report includes relevant information about the operations of the Company during the year, changes in the state of affairs and details of future developments;

- shareholders are advised in writing of key issues affecting the Company by effective use of the Company's share registry;

- any proposed major changes in the Company's affairs are submitted to a vote of shareholders, as required by the Corporations Act 2001;

- the Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification of the Company's strategies and goals. All shareholders who are unable to attend these meetings are encouraged to communicate or ask questions by writing to the Company; and

- the external auditor is requested to attend the annual general meetings to answer any questions concerning the audit and the content of the auditor's report.

The Board reviews this policy and compliance with it on an ongoing basis.

ASX BEST PRACTICE RECOMMENDATIONS

Pursuant to the ASX Listing Rules, the Company advises that based upon the information set out above, it does comply with the following Best Practice Recommendations, issued by the ASX Corporate Governance Council.

Recommendation 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.
The Board has adopted a statement of its primary responsibilities as set out above, which reflects the policies that were in place during the reporting year.

Recommendation 2.1: A majority of the board should be independent Directors.
As set out above, the Board consider that the majority three from five Directors are independent non-executive Directors.

Recommendation 2.2: The Chairperson should be an independent Director.
As set out above, the Company's chairperson, Mr David Humann is considered to be an independent Director.

Recommendation 2.3: The roles of the chairperson and chief executive officer should not be exercised by the same individual
The role of the chairperson has been fulfilled by Mr David Humann and the role of Chief Executive Officer has been fulfilled by Mr Ken Johnsen.

Recommendation 3.1: Establish a code of conduct to guide Directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:
- *3.1.1 the practices necessary to maintain confidence in the company's integrity*
- 3.1.2 *the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.*

As set out above, the Company has adopted a Code of Conduct, which reflects policies that were in place during the reporting year.

Recommendation 3.2: Disclose the policy concerning trading in company securities by Directors, officers and employees.
As set out above, the Company has adopted a securities trading policy.

Recommendation 3.3: Provide the information indicated in "Guide to Reporting on Principle 3".
The Company has made available a summary of its Code of Conduct and securities trading policy in this statement, but has not otherwise made this information publicly available.

Recommendation 4.1: Require the chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state in writing to the board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

As set out above, the Company complies with this requirement.

CORPORATE GOVERNANCE STATEMENT (Continued)
FOR THE YEAR ENDED 30 JUNE 2007

Recommendation 4.2: The Board should establish an Audit Committee.
As set out above the Board has established an Audit committee

Recommendation 4.3: Structure of the Audit Committee so that it consists of:
- *only Non-Executive Directors;*
- *a majority of Independent Directors;*
- *an independent Chairperson, who is not chairperson of the Board;*
- *at least three members.*

The Audit committee consists of three non Executive Directors with an independent Chairperson who is not the Chairperson of the Board.

Recommendation 4.4: The Audit Committee should have a formal charter.
The Audit committee has a formal charter. The Board also adheres to the Company's Code of Conduct and procedures to ensure independent judgement in decision making, as set out in relation to ASX Best Practice Recommendation 2.1. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.
As set out above, the Company has adopted a continuous disclosure policy, which reflects policies that were in place during the reporting year.

Recommendation 5.2: Provide the information indicated in "Guide to Reporting on Principle 5".
The Company has provided a summary of its continuous disclosure policy in this Statement.

Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.
As set out above, the Company has adopted a communications policy, which reflects policies that were in place during the reporting year.

Recommendation 6.2: Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.
As set out above, the Company requests its auditor to attend the annual general meeting.

Recommendation 7.1: The board or appropriate committee should establish policies on risk oversight and management.
As set out above, the Board has established policies on risk oversight and management.

Recommendation 7.2: The chief executive officer (or equivalent) and the chief financial officer (or equivalent) to state to the board in writing that:

7.2.1 the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

As set out above, the Company complies with this requirement.

CORPORATE GOVERNANCE STATEMENT (Continued)
FOR THE YEAR ENDED 30 JUNE 2007

Recommendation 7.3: Provide the information indicated in "Guide to Reporting on Principle 7".
The Company has provided relevant information in this Statement upon recognising and managing risk, but has not otherwise made a description of its risk management policy and internal compliance and control system publicly available.

Recommendation 8.1: Disclose the process for performance evaluation of the board, its committees and individual Directors, and key executives.
The Company's processes for performance evaluation are set out above.

Recommendation 9.1: Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to Directors and key executives and corporate performance.
The Company's remuneration policies are referred to above.

Recommendation 9.3: Clearly distinguish the structure of non-executive Directors' remuneration from that of executives.
The distinction between non-executive and executive remuneration is detailed above.

Recommendation 9.4: Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.
As set out in the Company's remuneration policies, the Company complies with this requirement.

Recommendation 10.1: Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.
As set out above, the Company has adopted a Code of Conduct setting standards of behaviour and compliance with obligations to stakeholders, which reflects policies in place during the reporting year.

Pursuant to the ASX Listing Rules, the Company advises that it does not comply with the following Best Practice Recommendations, issued by the ASX Corporate Governance Council. Reasons for the Company's non-compliance are detailed below.

Recommendation 2.4: The Board should establish a Nomination Committee.
The functions to be performed by a nomination committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 2.5: Provide the information indicated in "Guide to reporting on Principle 2".
One of the matters to be included in the corporate governance section of the Annual Report pursuant to the *Guide to reporting on Principle 2* is "*the names of members of the nomination committee and their attendance at meetings of the committee*". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a nomination committee and therefore this information has not been included in the annual report or otherwise made publicly available. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 2* by the inclusion of information in this Statement, but has not otherwise made the information publicly available.

Recommendation 9.2: The Board should establish a Remuneration Committee.
The functions to be performed by a remuneration committee under the ASX Best Practice Recommendations are currently performed by the full Board and this is reflected in the written policy setting out the responsibilities of the Board. Having regard to the number of members currently comprising the Company's Board, the Board does not consider it appropriate to delegate these responsibilities to a sub-committee. These arrangements will be reviewed periodically by the Board to ensure that they continue to be appropriate to the Company's circumstances.

Recommendation 9.5: Provide the information indicated in "Guide to reporting on Principle 9".
One of the matters to be included in the corporate governance section of the Annual Report pursuant to the *Guide to reporting on Principle 9* is "*the names of members of the remuneration committee and their attendance at meetings of the committee*". As stated in the previous paragraph, the Board does not consider it appropriate for the Company to establish a remuneration committee and therefore this information has not been included in the annual report. However as the Board fulfils the role of the remuneration committee, details of the Company's Directors and their attendance at Board meetings are set out in the Company's Annual Report. In all other respects, the Company has complied with the disclosure requirements contained in the *Guide to reporting on Principle 9*.

DIRECTORS' REPORT

The Directors of Safe Effect Technologies Limited submit herewith the annual financial report for the financial year ended 30 June 2007. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The names and particulars of the Directors of the Company during or since the end of the financial year are:

Roger Cowan OAM *Non-Executive Director*

As reported in last year's Annual Report, Roger stepped down as the Chairman of the Company on 28 August 2006. Later on 31 December 2006 Roger retired as a Director of the Company.

Appointed 8 November 2004
Resigned 31 December 2006

John McClelland *Non-Executive Director*

As reported in last year's Annual Report, John retired as a Director of the Company on 28 August 2006.

Appointed 12 July 2004
Resigned 28 August 2006

Christopher Coudounaris *Non-Executive Director*

Chris is a prominent Sydney lawyer, and brings a wealth of business and board experience to the Company. He was a partner of a national law firm and a Director of a policy and advisory firm. He has held numerous public company Directorships for technology based companies.

Appointed 29 April 2005.

David Humann *Chairman*

Mr Humann is a Chartered Accountant, Certified Practicing Accountant and FAICD. He was Chairman and Senior Partner of Price Waterhouse (Hong Kong and China firm) from 1986 until 1994. He was also the Managing Partner of Price Waterhouse, Asia Pacific Region, and a member of the World Board of Price Waterhouse and of the global firm's World Executive Committee based in London and New York. He was formally a member of the Australian and New Zealand firm's Executive Policy Committee. Mr Humann is a member of the boards of a number of public and private companies.

Appointed 28 August 2006

DIRECTORS' REPORT (Continued)

Professor Malcolm Richmond *Non-Executive Director*

Professor Richmond is currently visiting Professor of Business and Professor of Engineering at the University of Western Australia and Adviser Technology Commercialisation at Curtin University. Currently, he is a Director of Magnesium International Limited and was formerly Chairman of Territory Iron Limited, a non-executive Director of Sons of Gwalia Limited and SGS (Australia) Ltd.

He is a metallurgist by profession whose career spanned 26 years with CRA/Rio Tinto Group where he worked in a number of positions including: Vice President - Strategy and Acquisitions; Managing Director - Research and Technology; Managing Director - Development of Hamersley Iron Pty Limited. He was recently Vice Chairman of the Australian Mineral Industries Research Association and a member of the Murdoch University Senate.

Appointed 28 August 2006

Mr Ken Johnsen *Executive Director and CEO*

Mr Ken Johnsen joined the Company as Chief Executive Officer on 9 September 2005. Mr Johnsen has over 30 years experience in the development and licensing of advanced technology for the automotive industry. He has held senior management roles in both Australia and the USA with Orbital Corporation Ltd and served on the Orbital board for 13 years.

Since joining Safe Effect Technologies Ltd, Mr Johnsen has lead the recapitalisation and relisting of the Company, as well as the commercialisation of the Company's products

Appointed 30 April 2007

Mr Ross Blakey *Executive Director, CFO and Company Secretary*

Mr Blakey joined Safe Effect on 1 February 2006 as Chief Financial Officer and was later appointed Company Secretary on 30 June 2006. He played a key role in restructuring Safe Effect's finances and in managing the Company's recapitalisation, as well as introducing rigorous financial reporting and accountability.

Mr Blakey is a Certified Practising Accountant and a Chartered Management Accountant with 35 years experience in the financial management of public and private companies as Company Secretary, Finance Director and CEO.

Appointed 28 May 2007

DIRECTORS' REPORT (Continued)

Directorships of other listed companies

Directorships of other listed companies held by Directors in the 3 years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
Chris Coudounaris	Lake Technology Limited	1998 – 2005
	PocketMail Group Limited	1999 – 2004
	Strathfield Group Limited	2003 – 2005
David Humann	Jupiter Energy Ltd	2003 – 2005
	Macmahon Holdings Ltd	2002 – 2006
	Tethyan Copper Company Ltd	2000 – 2006
	Braemore Resources PLC	2006 – to date
	India Resources Ltd	2006 – to date
	Matrix Metals Ltd	2006 – to date
	Mincor Resources NL	2006 – to date
	Monarch Gold Mining Company Ltd	2006 – to date
Malcolm Richmond	Sons of Gwalia Ltd	2001 –2005
	Territory Iron Ltd	2005 –2006
	Magnesium International Ltd	2001 – to date
	Strike Resources Limited	2006 – to date
	Structural Monitoring Systems Ltd	2006 – to date

Company Secretary

Ross Blakey is a Certified Practicing Accountant and a Chartered Management Accountant and was appointed on 1 July 2006.

Principal activities

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 commercialisation, research, development and manufacture of the Wet Brake Technology.

DIRECTORS' REPORT (Continued)

Operating results

The results of the Economic Entity for the year ended 30 June 2007 was a loss after income tax of $1,939,000 (loss for year ended 30 June 2006: $1,850,000 but only as a consequence of the reversal of $1,153,000 expenses in 2006 (Note 3). The underlying loss for the year to 30 June 2006 was therefore $3,003,000, which reflects an improvement to 30 June 2007 of $1,064,000 or 35%.). Revenues from trading activities increased from $1,367,000 for the year ending 30 June 2006 to $2,531,000 for the year ending 30 June 2007, an 85% increase over the previous year. This is an excellent result considering sales of finished brakes did not commence until October 2005, pending the re-start of production out of Thailand.

Dividends

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

Summary of material transactions

On the 10 July 2006 the Company issued 10,000,000 Employee Share Options under the Employee Share Option Scheme as approved by shareholders at the Company's AGM on 1 November 2005. The shares vest on 1 July 2008 and expire on 1 July 2010. The exercise price is 6 cents per share (see Note 30).

On the 15 August 2006 the Company's wholly owned subsidiary Safe Effect Technologies International Ltd ("SETI") entered into a Deed of Company Arrangement and the final dividend was paid to creditors on 16 October 2006. As SETI has no assets or liabilities it is the Directors' intention to de-register SETI by 30 June 2008.

On the 8 September 2006 the Company issued 11,639,401 shares at 5 cents to convert part of the remaining Claymore Convertible Note amounting to $581,970.

On 28 August 2006 the Company restructured the Board of Directors and Mr John McClelland resigned as a non executive Director and Mr Roger Cowan resigned as Chairman and later resined as a Director on 31 December 2006. Mr David Humann was appointed Chairman of the Company and Professor Malcolm Richmond was appointed Non executive Director to replace Mr McClelland.
.
On 26 September 2006 the Company reached a commercial settlement of proceedings commenced against London Partners Australia Pty Ltd (Subject to Deed of Company Arrangement) ("London Partners"). As part of the settlement agreement, the Company and London Partners obtained an order from the Federal Court of Australia to rectify the Company's register to remove London Partners as a shareholder of 8.25 million fully paid ordinary shares in the Company.

On 26 September 2006, 992,818 shares were issued to Mr K Johnsen, the CEO at 5.036 cents as part payment of his remuneration for the previous year.

On 23 October 2006 Stanton Partners resigned as the Company's Auditors with effect from the Company's AGM on 9 November 2006. Moore Stephens was appointed to act as the Company's new auditors with effect from the Company's AGM on 9 November 2006.

On 29 November and 4 December 2006 the Company issued 5,750,467 shares at 5 cents to convert the remaining amount due under the Claymore Convertible Note amounting to $287,523.

DIRECTORS' REPORT (Continued)

Summary of material transactions (continued)

On 12 December 2006 the Company's Hilux brake was accredited by the South African Bureau of Standards for use with Toyota Hilux vehicles on public roads and in underground mines.

On 14 December 2006 the Company executed a Distribution Agreement with Brakecore Supply Company Ltd a specialist and leading supplier of Brake systems to the mining industry in South Africa.

On the 3 January 2007, 327,950 shares were issued to non executive Director Professor Malcolm Richmond at 5.082 cents as payment for his Directors Fees to December 2006.

On 24 January 2007 the Company concluded a $2,153,875 capital raising with 41,026,190 shares at 5.25 cents per share. The funds have been used to further expand the Company's product range and to support a new sales and marketing strategy aimed at increasing the level of Company initiated sales and direct involvement with customers.

Significant changes in the state of affairs

Other than as described elsewhere in this report there were no significant changes in the state of affairs of the Company during the financial year.

Events subsequent to balance date

There have been no material events subsequent to the balance date.

Unissued Shares

At the date of this report there were 17,750,000 unissued shares relating to share options. At the date of this report share option holders do not have any right, by virtue of the option, to participate in Dividends or any new share issue of the Company or any related body corporate or in the interest issue of any other registered scheme.

Future developments

The Economic Entity will continue to commercialise the Wet Brake Technology business in Australia and expand into overseas markets, as well as develop variants for various makes of four wheel drive vehicles used in various industrial applications.

DIRECTORS' REPORT (Continued)

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	Ordinary shares
C Coudounaris	1,445,511
D Humann	nil
M Richmond	751,680
K Johnsen	1,059,818
R Blakey	nil

The relevant interest of each Director in share options of the 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	Unlisted options
C Coudounaris	3,000,000
D Humann	nil
M Richmond	nil
K Johnsen	3,000,000
R Blakey	2,000,000

Directors' meetings

During the financial year there were 16 meetings of Directors, including circulating and written resolutions, pursuant to the Company's Constitution.

The attendances of the Directors at these meetings were:

	Meetings	
	Attended	Possible Attended
R Cowan	7	9
J McClelland	4	4
C Coudounaris	15	16
D Humann	12	13
M Richmond	10	13
K Johnsen	2	2
R Blakey	1	1

DIRECTORS' REPORT (Continued)

Audit Committee meetings

The Audit Committee has met once in the year to 30 June 2007 and all non executive Directors attended.

REMUNERATION REPORT
Details of emoluments

The details of the nature and amount of emoluments of each Director and Specified Executive (Key Management Personnel) of the Company are:

	Primary	***Post Employment***	***Equity***	***Equity***	
	Salaries and Fees	**Super**	**Share Options**	**Ordinary Shares**	**Total**
Directors	**$**	**$**	**$**	**$**	**$**
R Cowan	25,000	-	11,800	-	36,800
J McClelland	6,466	-	-	-	6,466
C Coudounaris	40,000	-	7,867	-	47,867
D Humann	64,167	-	-	-	64,167
M Richmond	-	-	-	36,667	36,667
K Johnsen	235,035	21,153	29,550	**	285,738
R Blakey	150,191	13,517	19,700	-	183,408
Total	**520,859**	**34,670**	**68,917**	**36,667**	**661,113**
Specified Executives					
M Sheehan	91,583	8,242	7,388	-	107,213
J Davey	85,000	7,650	14,775	-	107,425
Total	**176,583**	**15,892**	**22,163**	-	**214,638**

Mr K Johnsen, Mr R Blakey and Mr J Davey are employed through Employment Contracts.

** Mr K Johnsen was paid $50,000 by way of the issue of shares in the Company issued at 5.036 cents being the weighted average ASX trading price in the 30 days immediately preceding the issue. The cost of the shares issued to Mr K Johnsen was accrued and disclosed in his remuneration for the year ending 30 June 2006 but not reflected in the remuneration table for that year.

Further details of Directors' remuneration are contained in Notes 5 and 25 to the Financial Statements.

DIRECTORS' REPORT (Continued)

Remuneration Committee and Remuneration Policy

The Remuneration Committee is made up of the full Board of Directors. The Remuneration Committee determines remuneration policy and recommends salary increases for executive Directors and specified executives.

The remuneration policy of the Company is to pay non executive Directors and specified executives at market rates which are sourced from average wage and salary publications such as Hays. In addition Directors and employees are issued share options to encourage loyalty and provide an incentive through the sharing of wealth created through equity growth which is linked to Company performance. The Remuneration Committee members believe the remuneration policy to be appropriate and effective and tailored to increase congruence between shareholders and Directors and executives.

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.

Indemnification and Insurance of Directors, Officers and Auditor

During the course of the year the Company has paid $15,005 in premiums for Directors and Officers liability insurance for costs and expenses incurred by them in defending legal proceedings arising out of their conduct whilst acting in the capacity of Director or Officer of the Company other than conduct involving wilful breach of duty in relation to the Company. The Company has not during or since the end of the financial year, in respect of an auditor of the Economic Entity, paid a premium to indemnify an auditor against a liability incurred as an auditor, including costs and expenses in successfully defending legal proceedings.

The Company has not paid or agreed a premium in respect of a contract insuring against a liability incurred by anyone as a Director or an Officer of the Company.

Proceedings on behalf of Company

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

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

Auditors' Independence Declaration

The auditors' independence declaration is included after this Director's Report.

DIRECTORS' REPORT (Continued)

Non-Audit Services

The Directors are satisfied that the provision of non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Details of the amounts paid to the auditor for audit and non-audit services provided during the year are set out below:

	Consolidated		Company	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
Audit and review of financial reports	30	72	17	65
Other Services	-	6	-	6
	30	78	17	71

Rounding of Amounts

The Company is an entity to which ASIC Class Order 98/100 applies and accordingly, amounts in the financial statements and Directors' report have been rounded to the nearest thousand dollars.

Signed in accordance with a resolution of the Board of Directors.

DAVID HUMANN
Director

Perth, Western Australia
21 August 2007

MOORE STEPHENS

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

AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF SAFE EFFECT TECHNOLOGIES LTD

I declare, that to the best of my knowledge and belief, during the year ended 30 June 2007 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Neil Pace

Moore Stephens

NEIL PACE	**MOORE STEPHENS**
PARTNER	**CHARTERED ACCOUNTANTS**

Signed at Perth this 21st day of August 2007.

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

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

		Economic Entity		Parent Entity	
		2007	**2006**	**2007**	**2006**
	Notes	**$'000**	**$'000**	**$'000**	**$'000**
Revenues from trading activities		2,531	1,367	-	-
Revenues from other activities	2	70	219	49	52
Total revenue		2,601	1,586	49	52
Cost of sales		(1,122)	(507)	-	-
Stock write off		(136)	(92)	-	-
Employee expenses		(1,879)	(1,597)	(173)	(136)
Depreciation expense		(95)	(58)	-	-
Amortisation of IP		(199)	-	-	-
Borrowing costs		(37)	(535)	(27)	(512)
Bad and doubtful debts		(25)	(23)	-	-
Legal fees		(85)	(217)	(85)	(217)
Patents		(114)	(160)	-	-
Marketing and advertising expenses		(16)	(18)	(13)	-
Travel and accommodation		(131)	(106)	(4)	(31)
Consulting fees		(164)	(229)	(6)	(134)
Convertible Note raising fees		-	(291)	-	(291)
Telephone and other communication expenses		(45)	(35)	-	-
Rental expenses		(213)	(204)	-	-
Consumables and minor equipment		(41)	(178)	-	-
Computer related expenses		(23)	(35)	-	-
Profit on Assignment of Intellectual Property		-	484	-	(2,500)
Assignment of debt from SETI		(82)	(213)	(82)	(213)
Creditors written back	3	145	1,153	-	965
Cost of employee share options		(111)	(146)	(111)	(146)
Other expenses		(431)	(777)	(100)	(287)
Total expenses		(4,804)	(3,784)	(601)	(3,502)
Loss from continuing activities before related income tax benefit	3	(2,203)	(2,198)	(552)	(3,450)
Income tax expense / R&D rebate	4	264	348	-	-
Loss from continuing activities after related income tax benefit	21	(1,939)	(1,850)	(552)	(3,450)
Basic loss per share (cents)	7	(0.4)	(0.8)		

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

Notes to the financial statements are included on pages 33 to 72.

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

BALANCE SHEET
AS AT 30 JUNE 2007

		Economic Entity		Parent Entity	
		2007	2006	2007	2006
	Notes	$'000	$'000	$'000	$'000
CURRENT ASSETS					
Cash and Cash equivalents	8	1,053	1,643	902	1,523
Trade and other Receivables	9	648	610	-	-
Inventories	10	1,227	938	-	-
Other current assets	11	27	52	-	40
Total current assets		2,955	3,243	902	1,563
NON-CURRENT ASSETS					
Trade and other Receivables	9	61	51	4,703	3,094
Property, plant and equipment	13	231	217	-	-
Other Financial Assets	12	-	-	-	-
Intangibles	14	2,785	2,984	-	-
Total non-current assets		3,077	3,252	4,703	3,094
TOTAL ASSETS		6,032	6,495	5,605	4,657
CURRENT LIABILITIES					
Trade and other Payables	16	522	1,356	92	772
Interest bearing liabilities	17	20	58	-	22
Provisions	18	116	69	-	-
Total current liabilities		658	1,483	92	794
NON-CURRENT LIABILITIES					
Trade and other Payables	16	-	-	-	-
Interest-bearing liabilities	17	78	925	-	879
Total non-current liabilities		78	925	-	879
TOTAL LIABILITIES		736	2,408	92	1,673
NET ASSETS/(LIABILITIES)		5,296	4,087	5,513	2,984
EQUITY					
Issued Capital	19	37,027	34,057	37,027	34,057
Foreign Currency Reserve		33	(34)	-	-
Other Reserves	20	419	308	419	308
Accumulated losses	21	(32,183)	(30,244)	(31,933)	(31,381)
TOTAL EQUITY		5,296	4,087	5,513	2,984

Notes to the financial statements are included on pages 33 to 72.

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

CASH FLOW STATEMENT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Notes	Economic Entity 2007 $'000	Economic Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Net cash flows from operating activities					
Receipts from customers		2,499	1,190	-	-
Payments to suppliers, consultants & employees		(4,736)	(5,762)	(492)	(1,177)
Borrowing costs		(37)	(570)	(27)	(547)
Interest received		54	32	49	27
Net cash (used in) operating activities	24	(2,220)	(5,110)	(470)	(1,697)
Cash flows from investing activities					
Advances to subsidiary		-	-	(1,608)	(3,094)
Proceeds from disposal of property, plant and equipment		19	3	-	-
Purchase of property, plant and equipment		(124)	(101)	-	-
Net cash provided by / (used in) investing activities		(105)	(98)	(1,608)	(3,094)
Cash flows from financing activities					
Repayment of Directors and Director related entities		(571)	-	(571)	-
Proceeds from borrowings		93	-	-	-
Repayment of loan provided by other entities		-	(696)	-	(696)
Proceeds from issue of convertible notes		-	5,013	-	5,013
Proceeds from repayment of loans		-	1,368	-	1,305
Costs of issuing shares and convertible note		-	-	-	-
Proceeds from issue of shares		2,042	750	2,042	750
Proceeds from R&D tax offset		264	348	-	-
Finance lease and HP repayments		(90)	(46)	(14)	-
Net cash provided by financing activities		1,738	6,737	1,457	6,372
Net increase / (decrease) in cash and cash equivalents held		(587)	1,529	(621)	1,581
Effects of exchange rate fluctuations on the balance of cash held in foreign currencies		5	11	-	-
Cash and Cash equivalents at the beginning of the financial year		1,635	103	1,523	(58)
Cash and Cash equivalents at the end of the financial year	8	1,053	1,643	902	1,523

Notes to the financial statements are included on pages 33 to 72.

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Attributable to equity holders of the parent			Total
	Issued capital $'000	Accumulated losses $'000	Other reserves $'000	$'000
CONSOLIDATED				
At 1 July 2006	34,057	(30,244)	274	4,087
Foreign currency translation	-	-	67	67
Total income and expense for the year recognised directly in equity	-	-	67	67
Profit/(loss) for the year	-	(1,939)	-	(1,939)
Total income/(expense) for the year	-	(1,939)	67	(1,872)
Cost of share-based payment	-	-	111	111
Issue of ordinary shares	2,970	-	-	2,970
At 30 June 2007	37,027	(32,183)	452	5,296

	Issued capital $'000	Accumulated losses $'000	Other reserves $'000	Total $'000
CONSOLIDATED				
At 1 July 2005	21,168	(28,394)	200	(7,026)
Foreign currency translation	-	-	(72)	(72)
Total income and expense for the year recognised directly in equity	-	-	(72)	(72)
Profit/(loss) for the period	-	(1,850)	-	(1,850)
Total income/(expense) for the year	-	(1,850)	(72)	(1,922)
Cost of share-based payment	-	-	146	146
Issue of ordinary shares	12,889	-	-	12,889
At 30 June 2006	34,057	(30,244)	274	4,087

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

STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

	Attributable to equity holders of the parent			Total
	Issued capital $'000	Accumulated losses $'000	Other reserves $'000	$'000
COMPANY				
At 1 July 2007	34,057	(31,381)	308	2,984
Foreign currency translation	-	-	-	-
Total income and expense for the year recognised directly in equity	-	-	-	-
Profit/(loss) for the year	-	(552)	-	(552)
Total income/(expense) for the year	-	(552)	-	(552)
Cost of share-based payment	-	-	111	111
Issue of ordinary shares	2,970	-	-	2,970
At 30 June 2007	37,027	(31,933)	419	5,513

	Issued capital $'000	Accumulated losses $'000	Other reserves $'000	Total $'000
COMPANY				
At 1 July 2006	21,168	(27,931)	162	(6,601)
Foreign currency translation	-	-	-	-
Total income and expense for the year recognised directly in equity	-	-	-	-
Profit/(loss) for the year	-	(3,450)	-	(3,450)
Total income/(expense) for the year	-	(3,450)	-	(3,450)
Cost of share-based payment	-	-	146	146
Issue of ordinary shares	12,889	-	-	12,889
At 30 June 2006	34,057	(31,381)	308	2,984

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

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 of Safe Effect Technologies Ltd and controlled entities, and Safe Effect Technologies Ltd as an individual parent entity comply with all Australian equivalents to International Financial Reporting Standards (IFRS) in their entirety. It is recommended that this financial report be read in conjunction with any public announcements made by Safe Effect Technologies Ltd and its controlled entities during the 12 months to 30 June 2007, in accordance with continuous disclosure requirements arising under the *Corporations Act 200.1*

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.

Reporting Basis and Conventions

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, and financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Accounting policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Joint venture

The Economic Entity's joint venture with Safe Effect Technologies International Ltd "SETI" was effectively terminated when the Economic Entity acquired SETI on 1 March 2006. All the previous entries in respect of SETI' s beneficial interest in the Wet Brake Technology and 49% interest in the Company's assets have been reversed in the financial statements to 30 June 2006.

SETI's 49% beneficial interest in the Company's Wet Brake Technology was assigned on 27 June 2006 and has been brought to account in the Company's financial statements as an intangible asset. SETI was put into administration on 29 June 2006 and under a Deed of Company Arrangement on 15 August 2006 a final dividend was paid to SETI creditors on 17 October 2006 leaving SETI with no assets or liabilities. It is the Directors intention to de-register SETI before 30 June 2008.

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1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Principles of consolidation

The consolidated financial statements have been prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 "Consolidated and Separate Financial Statements". Consistent accounting policies have been employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceed the cost of acquisition, the deficiency is credited to Income Statement in the period of acquisition.

The consolidated financial statements include the information and results of each controlled entity from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

(c) Foreign currency

Functional and presentation currency
The consolidated financial statements are presented in Australian dollars, which is the functional and presentation currency of the Company and its Australian subsidiaries. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions
All foreign currency transactions during the financial year are initially brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at that date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign operations

On consolidation, the assets and liabilities of the consolidated entity's overseas operations are translated at the exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are recognised in the foreign currency translation reserve, and recognised in profit or loss on disposal of the foreign operation.

(d) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of any outstanding bank overdrafts.

(e) Goods and services tax

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

Receivables and payables are recognised inclusive of GST.

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

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The cost of technology assets are amortised over the average life of the patents granted for each technology asset. The average life of a patent varies between 10 and 20 years and technology assets in the Intellectual Property purchased from Safe Effect Technology International Ltd is amortised over 15 years.

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired. An impairment of goodwill is not subsequently reversed.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Taxation

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, branches, associates and joint ventures except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

(h) Receivables

Trade and other receivables are recorded at the fair value of the amounts due less any allowance for doubtful debts.

(i) Payables

Trade and other payables are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services, whether or not billed.

(j) Financial assets

Investments are recognised and derecognised on trade date where purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through Income Statement

Financial assets held for trading purposes are classified as current assets and are stated at fair value, with any resultant gain or loss recognised in the Income Statement.

Loans and receivables

Trade receivables, loans, and other receivables are recorded at amortised cost less impairment.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Provisions

Provisions are recognised when the consolidated entity has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

An onerous contract is considered to exist where the consolidated entity has a contract under which the unavoidable cost of meeting the contractual obligations exceed the economic benefits estimated to be received. Present obligations arising under onerous contracts are recognised as a provision to the extent that the present obligation exceeds the economic benefits estimated to be received.

(l) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit or loss attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other than ordinary shares and converting preference shares classified as ordinary shares for EPS calculation purposes), by the weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares adjusted for any bonus issue.

(m) Revenue recognition

Revenue from the sale of goods is recognised when the consolidated entity has transferred to the buyer the significant risks and rewards of ownership of the goods.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

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

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Intangible assets

Patents
Patents are recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

Research and development costs
Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attribute to the intangible asset during its development.

Capitalised development costs are amortised over their expected useful life of 5 years.

Intangible assets acquired in a business combination
All potential intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair value can be measured reliably.

(o) Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Leased assets

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Consolidated entity as lessor
Amounts due from lessees under finance leases are recorded as receivables. Finance lease receivables are initially recognised at amounts equal to the present value of the minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between interest, revenue and reduction of the receivable over the term of the lease in order to reflect a constant periodic rate of return on the net investment outstanding in respect of the lease.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

Consolidated entity as lessee
Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the consolidated entity's general policy on borrowing costs.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

(q) Property, plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Depreciation is provided on property, plant and equipment. Depreciation is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period.

The following estimated useful lives are used in the calculation of depreciation:

Plant and equipment	5 – 10 years
Motor vehicles	3 – 10 years
Office equipment and furniture	5 – 10 years
Intellectual Property	15 years

(r) Share Based Payment transactions/Employee Share Plans

The Company provides benefits to employees including Directors in the form of share based transactions whereby employees receive share options as an incentive for meeting predetermined targets or in recognition of exceptional service. Share options are valued at fair value using the theoretical Black-Scholes option model and expensed in the Income Statement. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of SETL (‘market conditions’).

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (‘vesting date’).

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007 (Continued)

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(s) Comparative Figures

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

(t) 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.

2. REVENUES FROM OTHER ACTIVITIES

	Economic Entity		Parent Entity	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Other activities				
- interest received	54	32	49	27
- net foreign exchange (loss)/gain	(14)	115	-	-
- income from sale of fixed assets	8	3	-	-
- other income	22	69	-	25
Total revenue from other activities	70	219	49	52

	Economic Entity		Parent Entity	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
3. LOSS BEFORE INCOME TAX				
Loss before income tax has been determined after:				
Deducting the following expenses				
Cost of sales	1,122	507	-	-
Borrowing costs				
- other parties	37	535	27	512
Total borrowing costs	37	535	27	512
Depreciation of non-current assets				
- plant and equipment	41	16	-	-
- motor vehicle	24	21	-	-
- office equipment and furniture	30	22	-	-
- leasehold improvements	-	-	-	-
Total depreciation	95	59	-	-
Bad and doubtful debts				
- trade debtors	25	21	-	-
- Safe Effect Joint Venture Operations	-	2	-	-
Total bad and doubtful debts	25	23	-	-
Operating lease				
- Property Rental expense	213	204	-	-
Total operating lease	213	204	-	-
Reversal of the following expense				
Creditors written back	(145)	(1,153)	-	(965)

	Economic Entity		Parent Entity	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**

4. INCOME TAX

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

	Economic Entity 2007 $'000	Economic Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Loss from ordinary activities before income tax	(2,203)	(2,198)	(551)	(3,450)
Prima facie income tax benefit on the loss at 30% (2006: 30%)	(661)	(659)	(165)	(1,035)
Tax effect of permanent differences:				
- R&D tax offset	(79)	-	-	-
- non-deductible doubtful debts expense	-	-	-	-
- Share options expensed	33	44	33	44
- write down of intangibles and other assets	-	-	-	-
- other non-deductible expenses	12	159	4	158
- section 40-880 deduction	(138)	(175)	(138)	(175)
	(833)	(631)	(266)	(258)
Tax effect of timing differences	(6)	(262)	(6)	(280)
Future income tax benefit not brought to account	575	1,241	272	538
R&D tax offset / income tax expense	264	348	-	-

Future benefits of tax losses at a tax rate of 30% total approximately $4,335,000 (2006: $3,496,000 – Economic Entity) and $2,062,000 (2006: $1,788,000 – Parent Entity). These benefits have not been brought to account. The benefits will only be obtained if:

(i) 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;

(ii) the Economic Entity continues to comply with the conditions for deductibility imposed by law; and

(iii) no changes in tax legislation adversely affect the Economic Entity in realising the benefit from the deductions for the loss.

4. INCOME TAX (Continued)

	ECONOMIC ENTITY		PARENT ENTITY	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Deferred Tax Assets not bought to account				
Tax losses	4,264	3,496	2,062	1,788
Provisions/accruals	63	56	8	15
Capital raising costs	284	363	284	363

5. DIRECTOR AND EXECUTIVE DISCLOSURES

(a) Details of Key management personnel

(i) Specified Directors

Name	Position	Appointment Date	Resignation Date
R Cowan	Non-executive Director	8 November 2004	31 Dec 2006
J McClelland	Non-executive Director	12 July 2004	28 Aug 2006
C Coudounaris	Non-executive Director	29 April 2005	-
M Richmond	Non-executive Director	28 August 2006	-
D Humann	Chairman	28 August 2006	-
K Johnsen*	Executive Director and CEO	30 April 2007*	-
R Blakey*	Executive Director and CFO	28 May 2007*	-

*Previously employed and shown as a specified executive during the previous months of the financial year and previous year ending 30 June 2006.

(ii) Specified Executives

Name	Position	Appointment Date	Resignation Date
J Davey	Director of Sales	14 November 2005	-
M Sheehan	General Manager Thailand	26 February 2001	-

(b) Remuneration of Directors and Executives

Remuneration policy

The Remuneration Committee made up of the Directors of the Company is responsible for determining and reviewing compensation arrangements for the Directors, the chief executive officer and the executive team. The Directors assess 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.

Executive Contracts

Mr D Humann, Mr Blakey, Mr Johnsen Mr Sheehan and Mr Davey are employed through Employment contracts with one month's notice on either side. On 26 September 2007 Mr K Johnsen was paid $50,000 in the Company's shares for the year to 30 June 2006 and on 3 January 2007 Professor M Richmond was paid $16,667 in the Company's shares in payment of his Director fees, to 31 December 2006. Subsequent to the year end on 6 July 2007, Professor M Richmond was paid $20,000 in the Company's shares in payment of his Director fees to 30 June 2007. The shares in the Company were issued at the weighted average ASX trading price in the 30 days immediately preceding the issue.

Remuneration of specified Directors and specified executives

		Primary	*Post-employment*		*Equity*	*Equity*	
	Year	**Salary & Fees**	**Super**	**Interest on Director's loans**	**Share Options**	**Ordinary Shares**	**Total**
Directors		**$**	**$**	**$**	**$**	**$**	**$**
R Cowan	**2007**	25,000	-	-	11,800	-	36,800
	2006	70,000	-	74,371	62,500	-	206,871
J McClelland	**2007**	6,466	-	-	-	-	6,466
	2006	38,333	-	18,603	41,667	-	98,603
C Coudounaris	**2007**	40,000	-	-	7,867	-	47,867
	2006	38,333	-	-	41,667	-	80,000
D Humann	**2007**	64,167	-	-	-	-	64,167
	2006	-	-	-	-	-	-
M Richmond	**2007**	-	-	-	-	36,667	36,667
	2006	-	-	-	-	-	-
*K Johnsen	**2007**	235,035	21,153	-	29,550	-	285,738
	2006	123,057	11,075	-	-	**50,000	184,132
*R Blakey	**2007**	150,191	13,517	-	19,700	-	183,408
	2006	16,783	42,050	-	-		58,833
Total	**2007**	**520,859**	**34,670**	**-**	**68,917**	**36,667**	**661,113**
	2006	**286,506**	**53,125**	**92,974**	**145,834**	**50,000**	**628,439**

(b) Remuneration of Directors and Executives (continued)

		Primary	*Post-employment*	*Other*	*Equity*	*Equity*	
	Year	**Salary & Fees**	**Super**	**Interest on loans**	**Share Options**	**Ordinary Shares**	**Total**
Executives		$	$	$	$	$	$
M Sheehan	**2007**	91,583	8,242	-	7,388	-	107,213
	2006	89,167	8,025	-	-	-	97,192
J Davies	**2007**	85,000	7,650	-	14,775	-	107,425
	2006	53,125	4,781	-	-	-	57,906
Total	**2007**	**176,583**	**15,892**	**-**	**22,163**	**-**	**214,638**
	2006	**142,292**	**12,806**	**-**	**-**	**-**	**155,098**

***** K Johnsen and R Blakey were included under specified executives for the year ending 30 June 2006. Mr Johnsen and Mr Blakey were appointed as Directors on 8 April 2007 and 28 May 2007 respectively. (see previous page)

** In the Financial Statements to 30 June 2006, the Company's shares issued to Mr Johnsen on 26 September 2006 were accrued and disclosed by way of note and not reflected in the remuneration table. (see previous page)

(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 2006	**Held at date of appointment**	**Other changes**	**Held at date of cessation of appointment**	**Held at 30 June 2007**
Specified Directors					
R Cowan	15,870,753	4,155,895		-	15,870,753
J McClelland	4,400,000	1,000,000		4,400,000	4,400,000
C Coudounaris	1,445,511	-		1,445,511	1,445,511
M Richmond	-	-	327,950	-	327,950
D Humann	-	-	-	-	-
K Johnsen	3,067,000	4,059,818	992,818	-	4,059,818
R Blakey	-	-	-	-	-
Total	21,716,264	5,155,895	1,320,768	5,845,511	26,104,032

(c) Equity holdings and transactions (Continued)

During the financial year Mr K Johnsen was paid $50,000 in remuneration for the 12 months to 30 June 2006 by the issue of 992,818 shares at 5.25 cents per share. On 3 January 2007 Professor M Richmond was paid $16,667 by the issue of 327,950 shares in the Company at 5.082 cents per share in payment of his Director fees, to 31 December 2006. In the previous year a quantity of 10,500,000 share options were granted to Directors as equity compensation benefits as approved by members in general meeting on 1 November 2005. A quantity of 2,000,000 has subsequently been forfeited:

(i) 4,500,000 to Roger Cowan;
(ii) 3,000,000 to John McClelland, 2,000,000 of which were forfeited when Mr McClelland retired on 28 August 2006; and
(iii) 3,000,000 to Chris Coudounaris.

One third of the share options have an exercise price of 10 cents, vest on 1 November 2005 and expire on 1 July 2008. One third of the share options have an exercise price of 15 cents, vest on 14 November 2006 and expire on 1 July 2009. One third of the share options have an exercise price of 20 cents, vest on 14 November 2007 and expire on 1 July 2010.

	Vested	**Granted**	**Forfeited**		**Terms & Conditions of each Grant**		
					Value per option at grant date	*Exercise price per share*	
	No.	No.		Grant Date	($)	($)	Expiry Date
Specified Directors							
R Cowan	1,500,000	*1,500,000		1/11/2005	0.10	0.10	1/07/2008
	1,500,000	*1,500,000		1/11/2005	0.10	0.15	1/07/2009
		*1,500,000		1/11/2005	0.10	0.20	1/07/2010
J McClelland	1,000,000	*1,000,000		1/11/2005	0.10	0.10	1/07/2008
		*1,000,000	(1,000,000)	1/11/2005			
		*1,000,000	(1,000,000)	1/11/2005			
C Coudounaris	1,000,000	*1,000,000		1/11/2005	0.10	0.10	1/07/2008
	1,000,000	*1,000,000		1/11/2005	0.10	0.15	1/07/2009
		*1,000,000		1/11/2005	0.10	0.20	1/07/2010

(c) Equity holdings and transactions (Continued)

	Vested	**Granted**	**Forfeited**		**Terms & Conditions of each Grant**		
					Value per option at grant date	*Exercise price per share*	
	No.	No.		Grant Date	($)	($)	Expiry Date
Specified Directors							
K Johnsen		3,000,000		1/07/2006	0.05	0.06	1/07/2010
R Blakey		2,000,000		1/07/2006	0.05	0.06	1/07/2010
Total	6,000,000	15,500,000	(2,000,000)				

The shares options issued to Directors have been valued at fair value using the theoretical Black-Scholes valuation method. The basic assumptions were the volatility was at 50% and the risk free interest rate used was 5.3% and 5.5% for Mr Johnsen and Mr Blakey's share options.

*The Company's shares which were valued at 10 cents per shares for the above options applied a lack of marketability factor of 40% was applied because at the time of grant the Company was not trading on the ASX.

	Economic Entity		**Parent Entity**	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
6. AUDITORS' REMUNERATION				
Remuneration of the auditor of the parent entity for:				
Auditing the financial statements	37	87	24	80
Other services	-	9	-	9
Over Provision prior year	(7)	(18)	(7)	(18)
	30	78	17	71
Remuneration of auditor Safe Effect (Thailand) Pty Ltd	9	7	-	-

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
7. EARNINGS PER SHARE				
Net loss(1,939)	(1,850)			
Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS (in '000)	432,741	235,017		
Loss per share (cents)	(0.4)	(0.8)		
8. CASH AND CASH EQUIVALENTS				
Cash at bank	1,053	1,643	902	1,523
Reconciliation of cash				
Cash at the end of the financial year as shown in the Cash Flows Statement is reconciled to items in the Balance Sheet as follows:				
Cash at bank	1,053	1,643	902	1,523
9. TRADE AND OTHER RECEIVABLES				
Current				
Trade debtors	673	610	-	-
Less: provision for doubtful debts	(25)	-	-	-
	648	610	-	-
Other debtors (a)	994	994	994	994
Less: provision for doubtful debts	(994)	(994)	(994)	(994)
	-	-	-	-

Included in other debtors are amounts outstanding for shares issued pursuant to the Prospectuses dated February 2003 and February 2002 amounting to $994,000. Action to recover these funds was lodged in the federal court on 6 March 2006.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007 (Continued)

9. TRADE AND OTHER RECEIVABLES (Continued)

	Economic Entity		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
Non-current				
Loan: related entity – Safe Effect Technologies International Ltd (as JV Partner)	-	-	-	-
Less: provision for doubtful debts	-	-	-	-
	-	-	-	-
Loan: related entity – Safe Effect Technologies International Ltd	-	-	-	-
Less: provision for doubtful debts	-	-	-	-
	-	-	-	-
Loan: controlled entities	-	-	26,306	24,697
Less: provision for doubtful debts	-	-	(21,603)	(21,603)
	-	-	4,703	3,094
Other receivables	61	51	-	-
	61	51	4,703	3,094

10. INVENTORIES

	Economic Entity 2007 $'000	Economic Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Current				
Finished Goods	228	322	-	-
Components and WIP	999	616	-	-
	1,227	938	-	-

11. OTHER CURRENT ASSETS

	Economic Entity 2007 $'000	Economic Entity 2006 $'000	Parent Entity 2007 $'000	Parent Entity 2006 $'000
Prepayments	27	52	-	40

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
12. OTHER FINANCIAL ASSETS				
Non-current				
Shares in controlled entities – at cost	200	200	200	200
Provision for diminution	(200)	(200)	(200)	(200)
	-	-	-	-

(a) Safe Effect Pty Ltd ACN 088 129 917 (Incorporated in WA)

	Parent Entity	
	2007	2006
	Number	Number
Class and number of shares: ordinary	200,002	200,002

On 28 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.

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

	Safe Effect Pty Ltd	
	2007	2006
	Number	Number
Class and number of shares: ordinary	80,000	80,000

On 22 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 the assembly of brakes.

NOTES TO THE FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007 (Continued)

12. OTHER FINANCIAL ASSETS (Continued)

(c) Joint Venture

Under the terms of the joint venture agreement dated 18 February 2002 between SETI and the Company's subsidiary Safe Effect Pty Ltd ("SEPL"), there was a Deed of Cross Charge registered at ASIC. SETI had not met all its obligations under the Joint Venture and had not contributed to the joint venture expenditure in terms of the Deed. As at 31 December 2005 the amount due from SETI to SEPL was $4,545,327 being the joint venture expenditure SEPL had paid or incurred on SETI's behalf. On 27 June 2006 SETI and SEPL entered into a a Deed of Assignment of SETI's joint venture beneficial interest in the intellectual property of the Company's wet brake technology. Therefore in a accordance with clause 8.9 of the Joint Venture Agreement the parties agreed that the value of SETI's joint venture interest was $2,984,000 being the consolidated value of SETI in the audit reviewed accounts of the Company as at 31 December 2005. Following execution of the Deed $1,561,327 remained owing to SEPL by SETI and accordingly the Directors appointed an Administrator on 29 June 2006. On the 15 August 2006 SETI entered into a Deed of Company Arrangement and the final dividend was paid to creditors on 16 October 2006. As SETI has no assets or liabilities it is the Directors' intention to de-register SETI by 30 June 2008.

As a consequence of the above actions all amounts due from SETI were reversed as at 30 June 2006 and SETI's interest in the Company's intellectual property was brought to account as an Intangible Asset per Note 14.

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
13. PROPERTY, PLANT AND EQUIPMENT				
Plant and equipment at cost	249	225	-	-
Less: accumulated depreciation	(166)	(128)	-	-
	83	97	-	-
Motor vehicles at cost	158	110	-	-
Less: accumulated depreciation	(54)	(48)	-	-
	104	62	-	-
Office equipment and furniture at cost	132	117	-	-
Less: accumulated depreciation	(88)	(54)	-	-
	44	58	-	-
Leasehold improvements at cost	3	3	-	-
Less: accumulated depreciation	(3)	(3)	-	-
	-	-	-	-
Total at net written down value	231	217	-	-

Certain assets are secured in terms of Hire Purchase Agreements as disclosed in Note 17(b).

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation

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 $'000	Motor Vehicles $'000	Office Equipment & Furniture $'000	Leasehold Improve-ments $'000	Total $'000
2007					
Economic Entity					
Balance at the beginning of year	97	62	58	-	217
Additions	29	77	17	-	123
Disposals	-	(11)	-	-	(11)
Depreciation expense	-	(24)	(29)	-	(53)
Depreciation charged to cost of inventories	(41)	-	-	-	(41)
Foreign exchange translation	(2)	-	(2)	-	(4)
Carrying amount at the end of year	83	104	44	-	231
Parent Entity					
Balance at the beginning of year	-	-	-	-	-
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation expense	-	-	-	-	-
Carrying amount at the end of year	-	-	-	-	-
2006					
Economic Entity					
Balance at the beginning of year	85	12	46	-	143
Additions	28	62	15	-	105
Disposals	-	-	-	-	-
Depreciation expense	(21)	-	(24)	-	(45)
Depreciation charged to cost of inventories	(21)	(23)	-	-	(44)
Write-up from joint venture partner	22	11	18	-	51
Foreign exchange translation	4	-	3	-	7
Carrying amount at the end of year	97	62	58	-	217
Parent Entity					
Balance at the beginning of year	-	-	-	-	-
Additions	-	-	-	-	-
Disposals	-	-	-	-	-
Depreciation expense	-	-	-	-	-
Carrying amount at the end of year	-	-	-	-	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007 (Continued)**

	Economic Entity		Parent Entity	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
14. INTANGIBLES				
Wet Brake technology assigned from SETI	2,984	2,984	-	-
Less - Accumulated amortisation	(199)	-	-	-
- Write off	-	-	-	-
	2,785	2,984	-	-
15. OTHER ASSETS				
Non-current				
Research and development	-	-	-	-
Less - Accumulated amortisation	-	-	-	-
- Write off	-	-	-	-
	-	-	-	-
16. TRADE AND PAYABLES				
Current (unsecured)				
Trade creditors	348	451	30	125
Accrued expenses	139	135	27	59
Amounts due to Directors	35	470	35	438
Amounts due to other entities	-	300	-	150
	522	1,356	92	772

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007 (Continued)

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
16. TRADE AND OTHER PAYABLES (Continued)				
Included in the amounts due to Directors are:				
- Directors fees and consulting fees outstanding	35	233	-	233
- interest payable on Director loans	-	5	-	5
Non-current (unsecured)				
Accrued expenses	-	-	-	-
Amounts due to other entity	-	-	-	-
	-	-	-	-
17. INTEREST BEARING LIABILITIES				
Current (secured)				
Hire purchase agreements	26	39	-	-
Unexpired interest charges	(6)	(4)	-	-
Insurance Premium Funding	-	15	-	14
	20	50	-	14
Convertible note payable accrued interest	-	8	-	8
	-	8	-	8
	20	58	-	22

17. INTEREST BEARING LIABILITIES (Continued)

In November 2003, the Company issued a Convertible Note with a total face value of $1,000,000. In the previous financial year the Company raised an additional $5,013,000, after deducting outstanding interest and raising costs from the Convertible Note taking it to $9 million and $8,053,000 of the Note was converted to shares by 30 April 2006. A further $68,000 was converted to shares in June 2006. On 29 November and 4 December 2006 the Company issued 5,750,467 shares at 5 cents to convert the remaining amount due under the Claymore Convertible Note amounting to $287,523.

	Economic Entity		**Parent Entity**	
	2007 $'000	**2006 $'000**	**2007 $'000**	**2006 $'000**
Non-current (secured)				
Hire purchase agreements	90	51	-	-
Unexpired interest charges	(12)	(5)	-	-
Convertible Note (see above)	-	879	-	879
	78	925	-	879
(a) Total current and non-current secured liabilities:				
Hire purchase agreement	116	90	-	-
Unexpired interest charges	(18)	(9)	-	-
Insurance Premium Funding	-	15	-	14
Convertible Note Interest	-	8	-	8
Convertible Note Loan (see above)	-	879	-	879
	98	983	-	901
(b) The carrying amounts of non-current assets pledged as security are:				
Plant and equipment	-	19	-	-
Motor vehicles	81	62	-	-
Office equipment	13	32	-	-
	94	113	-	-

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000
18. PROVISIONS				
Current				
Employee entitlements	116	69	-	-
(a) Aggregate employee benefits liabilities	116	69	-	-
	Number of Employees			
(b) Number of employees at year-end	35	31	-	-

19. ISSUED CAPITAL

As at the 30 June 2007, 459,285,098 (2006: 407,731,971) fully paid ordinary shares.

	Economic & Parent Entitles			
	2007		2006	
	Number of shares	$'000	Number of shares	$'000
Ordinary shares				
At the beginning of the financial year	407,731,971	34,057	154,628,871	21,168
Shares issued on 8 September 2006 to convert Note at 5cents per share	11,639,401	582		
Cancellation of London Partners shares on 8 September 2006	(8,250,000)	-		
Shares issue to Mr Johnsen at 5.036 cents per share for remuneration.	992,818	50		
Shares issued on 28 November 2006 to convert Note at 5cents per share	170,467	8		
Shares issued on 4 December 2006 to convert Note at 5cents per share	5,580,000	279		
Shares issue to Professor Richmond at 5.082 cents per share for remuneration	327,950	17		
Share placement to financial institution on 24 January 2007 at 5.25 cents per share	41,026,190	2,154		
Shares issued to financial institution on 1 March 2007 per investment agreement	66,301	-		
Ordinary shares issues at various prices			253,103,100	13,505
	459,285,098	37,147	407,731,971	34,673
Transaction costs relating to share issues		(120)	-	(616)
Balance at end of financial year	459,285,098	37,027	407,731,971	34,057

Included in share capital and other debtors at 30 June 2007 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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2007 (Continued)**

	Economic Entity		Parent Entity	
	2007	2006	2007	2006
	$'000	$'000	$'000	$'000

20. RESERVES

Foreign Exchange Translation Reserve	33	(34)	-	-
Option premium reserve	419	308	419	308

Employees were granted 10,000,000 share options on 1 July 2006 in accordance with the Company's Employee Share Option Scheme approved by shareholders in general meeting on 1 November 2005. Directors were granted 10,500,000 share options as approved by members in general meeting on 1 November 2005 per Note 5(c). The employee share options were valued at $197,000 using the Black Scholes method and amortised over the vesting period. The amount written off for the year ending 30 June 2007 was $91,113. The Director Share Options were valued at $210,000 using the Black Scholes method and amortised over the vesting period. The amount written off for the year ending 30 June 2007 was $19,667. Note Share Options issued to Mr Blakey and Mr Johnsen were issued prior to their appointment as Directors and the cost is included under employees.

21. ACCUMULATED LOSSES

Accumulated losses at the beginning of the financial year	(30,244)	(28,394)	(31,381)	(27,931)
Net loss attributable to members of the parent entity	(1,939)	(1,850)	(552)	(3,450)
Accumulated losses at the end of the financial year	(32,183)	(30,244)	(31,933)	(31,381)

22. CONTRACT AND LEASING COMMITMENTS

(a) Hire purchase commitments

Payable				
- not later than 1 year	26	39	-	-
- later than 1 year but not later than 5 years	90	51	-	-
	116	90	-	-
Less future finance charges	(18)	(9)	-	-
Total hire purchase liability	98	81	-	-

22. CONTRACT AND LEASING COMMITMENTS (Continued)

(b) Operating lease commitments

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

Payable				
- not later than 1 year	100	125	-	-
- later than 1 year but not later than 5 years	10	54	-	-
	110	179	-	-

23. SEGMENT REPORTING

Segment revenues

	External sales		Inter-segment sales		Other		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Australia	2,531	1,367	41	-	70	*219	2,642	1,586
Thailand	-	-	1,306	874	-	-	1,306	874
Total of all segments							3,948	2,460
Eliminations							(1,347)	(874)
Consolidated							2,601	1,586

* Note – Expenditure recoverable from joint venture partner of $579,000 and included in other revenue last year has been removed and offset against provision for Joint Venture bad debts.

Segment results

	2007	2006
	$'000	$'000
Australia	(1,840)	(1,540)
Thailand	(290)	(451)
Total of all segments	(2,130)	(1,991)
Eliminations	(73)	(207)
Loss before income tax expense	(2,203)	(2,198)
Income tax expense	264	348
Loss after income tax expense	(1,939)	(1,850)

23. SEGMENT REPORTING (Continued)

Segment assets and liabilities

	Assets		Liabilities	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Australia	14,118	11,414	28,907	27,673
Thailand	3,618	2,351	4,973	3,475
Total of all segments	17,736	13,765	33,880	31,148
Eliminations	(11,704)	(7,270)	(33,144)	(28,740)
Consolidated	6,032	6,495	736	2,408

Other segment information

	Australia		Thailand	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Acquisition of property, plant and equipment and intangible assets	94	3,056	29	33
Depreciation and amortisation of segment assets	56	55	38	17
Intangibles and other assets written off	-	-	-	-
Other non-cash expenses	381	*1,083	-	18

* Note – A provision for non recovery of joint venture expenditure recovered shown in non cash expenses last year has been offset against joint venture expenditure recoverable included in other revenue last year.

Information on business segments

	Revenue from external customers		Segment assets		Acquisition of segment assets	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Brake industry	2,601	2,165	6,032	6,495	123	3,089

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

24. CASH FLOW INFORMATION

(a) Reconciliation of Cash Flow from operations with (loss) after income tax

	Economic Entity		Parent Entity	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
Loss from ordinary activities after income tax	(1,939)	(1,850)	(551)	(3,450)
Investing/financing activities				
(Profit)/loss on disposal of property, plant and equipment	(8)	17	-	-
Non-cash flows in loss from ordinary activities				
Cost of share options	111	146	110	146
Depreciation	95	58	-	-
Amortisation of IP	199	-	-	-
Inventories written off	-	-	-	-
Bad and doubtful debts	25	602	-	-
Shares issued for professional services	67	1,518	67	1,518
(Profit)/loss on SETI assignment of IP	-	(484)	-	2,500
Foreign exchange (gain)/loss	(28)	(115)	-	-
Other				
R&D tax offset	(264)	(348)	-	-
Changes in assets and liabilities, net of the effects of allocating to joint venture partner				
(Increase) in trade and other receivables	(66)	(379)	-	284
(Increase)/decrease in inventories	(231)	(829)	-	-
(Increase)/decrease in other current assets	24	(50)	39	(39)
Increase/(decrease) in trade and other payables	(251)	(3,401)	(135)	(2,656)
Increase/(decrease) in provisions	46	5	-	-
Cash (outflows) from operations	(2,220)	(5,110)	(470)	(1,697)

(b) Non-cash financing and investing activities

2007
During the year, the Company issued 1,026,190 new shares at 5.25 cents to Brokers in satisfaction of share brokerage fees charged in respect of the placement of 40,000,000 shares on 8 January 2007

2006
During the year, the Company issued 28,185,540 new shares at prices ranging from $0.05 to $0.10 totalling $2,134,000 to its suppliers in satisfaction of professional services, corporate costs and interest on the Convertible Note.

25. RELATED PARTY TRANSACTIONS

Transactions between related parties are on normal commercial terms and conditions except inter company loans which are provided at no interest and are treated by the Parent Entity as an investment in the subsidiary. The following related party transactions took place during the year ended 30 June 2006:

	Economic Entity		Parent Entity	
	2007	**2006**	**2007**	**2006**
	$'000	**$'000**	**$'000**	**$'000**
a) Associated Companies				
Loan to Safe Effect (Thailand) Pty Ltd	-	-	573	573
Loan to Safe Effect Pty Ltd	-	-	4,130	2,521
Total Loans	-	-	4,703	3,094

The loans to subsidiary companies are at call and are interest free and are treated by the Parent as an investment in subsidiaries. The loans have been carried at the Directors estimate of fair value. Refer Note 9.

b) Key management personnel

2007
During the year to 30 June 2007 ordinary shares were issued to Professor Richmond a non executive Director and Mr Johnsen prior to his appointment as a Director. The Director transaction was approved by shareholders in General Meeting on 9 November 2006. The transactions were as follows:

- The issue of 992,818 shares on 26 September 2006 at 5.036 cents to Mr K Johnsen in part payment of his remuneration. The shares were priced at the ASX volume weighted average price in the month leading up to their issue.
- The issue of 327,950 shares on 3 January 2007 to Professor M Richmond at 5.082 cents per share in payment of Directors Fees to 31 December 2006. The shares were priced at the ASX volume weighted average price in the month leading up to their issue.

2006
On 1 November 2005 shareholders approved the following share issue to Directors of the Company:

- The issue of 2,517,438 shares at 10 cents per share to Fingora Pty Ltd a company associated with Mr R Cowan, to repay funds loaned by Fingora Pty Ltd for working capital in previous years.
- The issue of 650,000 shares at 10 cents per share to Concord Property Holdings Pty Ltd a company associated with Mr C Coudounaris for services rendered under a consultancy agreement in the previous year.
- The issue of 995,800 shares at 10 cents each to John McClelland to replace shares transferred by him to a third party on behalf of the Company in the previous year..

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(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:

	Average Interest Rate %	Floating Interest Rate $'000	Within 1 Year $'000	1 to 5 Years $'000	Non-Interest Bearing $'000	Total $'000
2007						
Financial assets						
Cash	5.95	1,051	-	-	2	1,053
Receivables	-	-	-	-	709	709
Total financial assets		1,051	-	-	711	1,762
Financial liabilities						
Payables	-	-	-	-	522	522
Hire purchase liabilities	7.93	-	20	78	-	98
Provisions	-	-	-	-	116	116
Total financial liabilities		-	20	78	638	736
Net Financial Assets/(Liabilities)		1,051	(20)	(78)	73	1,026
2006						
Financial assets						
Cash	5.09	1,629	-	-	14	1,643
Receivables	-	-	-	-	661	661
Total financial assets		1,629	-	-	677	2,304
Financial liabilities						
Payables	-		-	-	1,356	1,356
Convertible note	11.00	-	-	879	-	879
Hire purchase liabilities	9.00	-	58	46	-	104
Provisions	-	-	-	-	69	69
Total financial liabilities		-	58	925	1,425	2,408
Net Financial Assets/(Liabilities)		1,629	(58)	(925)	(748)	(104)

26. FINANCIAL INSTRUMENTS (Continued)

(a) Interest rate risk (continued)

	Economic Entity	
	2007	**2006**
	$'000	**$'000**
Reconciliation of net financial assets to net assets		
Net financial (liabilities)/assets as above	1,026	(104)
Non-financial assets and liabilities		
Inventories	1,227	938
Property, plant & equipment	231	217
Intangible Assets	2,785	2,984
Other	27	52
Net (liabilities)/assets as per the Balance Sheet	5,296	4,087

The Company's policy is to manage its interest rate risk through Convertible Notes at fixed interest rates and the financing of assets purchased through a mixture of lease and hire purchase agreements.

(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 Balance Sheet, 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.

The Company's policy is to manage credit risk by ensuring all customers who wish to trade on credit terms subject themselves to credit worthiness checks.

(c) Net fair values

The financial assets and liabilities included in current asset and current liabilities in the Balance Sheet position are carried at amounts that approximate net fair values or recoverable amount after testing the assets for impairment. The intangible asset is the Wet Brake technology assigned from SETI on 27 June 2006, which is amortised over 15 years being the average life of patents which underpin the carrying value. The Directors believe the value of the Intangible asset is stated at below recoverable amount.

Foreign Currency Risk

The group is exposed to foreign exchange risk as it has an overseas subsidiary and has sales of product internationally. No formal policy has yet to be put in place regarding foreign exchange risk. This may be addressed in 2007/08.

27. EVENTS SUBSEQUENT TO BALANCE DATE

On 27 July 2007 the Company moved to new larger premises and made an offer to lease for the new premises over a 5 year term with an option for a further 5 years. The annual rent is $120,000 plus outgoings. Rent will be reviewed annually at CPI Perth All Groups, with a market rent review at the end of the term.

28. CONTINGENT LIABILITIES

An amount of $999,750, previously accrued and written back in 2006 and which may be liable to previous Company Directors and related parties, has not been included in the financial statements as at 30 June 2007. The Company has lodged a Claim in the Federal Court against the previous Company Directors and related parties amounting to $1,310,017. In the event the Company's Claim against previous Company Directors and related parties amounting to $1,310,017 is not successful, there is a potential liability of $999,750. This is contingent on the failure of the Company's Claim and a counter claim being first made by the previous Directors and related parties and then that claim being successful. It is the current Directors' view that whilst the full amount of the Company's Claim may not be recoverable; there is a high probability of success that the Company will obtain judgement against the previous Directors. As a consequence, the Company's Claim has not been brought to account as a debtor and the liability to the previous Directors and related parties has also not been brought to account and $999,750 previously accrued, has been written back to the income statement for the period ending 30 June 2006.

Other than the above, in the opinion of the Directors, there are no other contingent liabilities as at 30 June 2007 or have arisen in the interval between 30 June 2007 and the date of this report.

29. IMPACTS OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The consolidated entity changed its accounting policies on 1 July 2005 to comply with Australian equivalents to International Financial Reporting Standards ('A-IFRS'). The transition to A-IFRS is accounted for in accordance with Accounting Standard AASB 1 'First-time Adoption of Australian Equivalents to International Financial Reporting Standards', with 1 July 2004 as the date of transition, except for financial instruments, including derivatives, where the date of transition is 1 July 2005.

30. SHARE BASED PAYMENTS

The following share based payments payment arrangements existed as at 30 June 2007:

An Employee Share Option Scheme was approved by shareholders at the Company's AGM on 1 November 2005. At the discretion of the Directors, employee share options may be granted to senior permanent employees of the Company who have served a probationary period of 3 months. The exercise price must be not lower than the ASX average weighted trading price for the previous 30 days plus 20%, immediately prior to the grant of the share options. The vesting date of employee share options is at the discretion of Directors when granted. Employee share options hold no voting rights or dividend rights and are not transferable. Employee Share Options are forfeited if an employee terminates his/her employment prior to vesting date.

On the 10 July 2006 the Company issued 10,000,000 Employee Share Options under the Employee Share Option Scheme as approved by shareholders at the Company's AGM on 1 November 2005.

	Economic Entity			
	2007		2006	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	10,500,000	$0.15	-	-
Granted	10,000,000	$0.06	10,500,000	$0.15
Forfeited	(2,750,000)	$0.14	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year end	17,750,000	$0.10	10,500,000	$0.15
Exercisable at year end	6,000,000	$0.12	3,500,000	$0.10

	Parent Entity			
	2007		2006	
	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	10,500,000	$0.15	-	-
Granted	10,000,000	$0.06	10,500,000	$0.15
Forfeited	(2,750,000)	$0.14	-	-
Exercised	-	-	-	-
Expired	-	-	-	-
Outstanding at year end	17,750,000	$0.10	10,500,000	$0.15
Exercisable at year end	6,000,000	$0.12	3,500,000	$0.10

30. SHARE BASED PAYMENTS (Continued)

The average fair value of the value of the options issued through the year was $197,000.
The price was calculated by using a Black-Scholes option pricing model applying the following inputs:

Weighted average exercise price	$0.06
Weighted average life of option	4 years
Underlying share price	$0.05
Expected share price volatility	50%
Risk free interest rate	5.5%

Volatility was based on shares trading in the same market sector and this may not eventuate.

The life of the options is based on the exercise date as there is no historical data on which to base the exercise date.

Under employee benefits the expense in the income statement relating to share-based payments is $111,000 (2006 – $146,000) and relates to the total cost value of all share options not forfeited, spread over the vesting period.

31. CHANGE IN ACCOUNTING POLICY

The following Australian Accounting Standards, issued or amended, are applicable to the Company but are not yet effective and have not been adopted in preparation of the financial statements at reporting date.

AASB Amendment	Standards Affected		Outline of Amendment	Application date of standard	Application date for Group
AASB 2005–10 Amendments to Australian Accounting Standards	AASB 1 AASB 101 AASB 114 AASB 117 AASB 139	First-time adoption of AIFRS Presentation of Financial Statements Segment Reporting Leases Financial Instruments: Recognition and Measurement	The disclosure requirements of AASB 132: Financial Instruments: Disclosure and Presentation have been replaced due to the issuing of AASB 7: Financial Instruments: Disclosures in August 2005. These amendments will involve changes to financial instrument disclosures within the financial report. However, there will be no direct impact on amounts included in the financial report as it is a disclosure standard.	1 Jan 2007	1 Jul 2007
AASB 7 Financial Instruments: Disclosures	AASB 132	Financial Instruments: Disclosure and Presentation	As above.	1 Jan 2007	1 Jul 2007

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 33 to 72, are in accordance with the Corporations Act 2001:

   (a) comply with Accounting Standards, and the Corporations Regulations 2001; and

   (b) give a true and fair view of the financial position as at 30 June 2007 and of the performance for the year ended on that date of the Company and economic entity.

2. In the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

3. The Directors have been given the declaration required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2007.

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

D HUMANN
Director

Perth, Western Australia
21 August 2007

MOORE STEPHENS

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF SAFE EFFECT TECHNOLOGIES LTD

Report on the financial report

We have audited the accompanying financial report of Safe Effect Technologies Ltd (the company) and the Consolidated Entity, for the year ended 30 June 2007, as set out on pages 28 to 73. The consolidated Entity comprises the company and the entities it controlled at the year's end or at any time during the financial year.

Directors' responsibility for the financial report
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: 'Presentation of Financial Statements', that compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

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

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

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

Independence
In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001* and confirm that the independence declaration provided to the directors, as included in this financial report, would be in the same terms if provided to the directors as at the date of this auditor's report.

INDEPENDENT AUDIT REPORT
TO THE MEMBERS OF SAFE EFFECT TECHNOLOGIES LTD (Continued)

Auditor's opinion

In our opinion:

a. the financial report of Safe Effect Technologies Ltd is in accordance with 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 2007 and of their performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

b. The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Inherent Uncertainty Regarding Contingencies

Without qualification to the opinion expressed above attention is drawn to the matters disclosed in Note 28.

As discussed in Note 28, the circumstances of the claims are such that the ultimate outcome of the litigation cannot presently be determined with any acceptable degree of reliability, and accordingly no provision for any liability or receivable that may result has been made in the financial statements.

Neil Pace

NEIL PACE
PARTNER

Moore Stephens

MOORE STEPHENS
CHARTERED ACCOUNTANTS

Signed at Perth this 21st day of August 2007.

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

STOCK EXCHANGE INFORMATION

The following information is provided in accordance with the Listing Rules of Australian Stock Exchange Limited.

1. Statement of issued capital at 3 August 2007.

(a) Distribution of fully paid ordinary shares

Size of Holding	Number of Shareholders	Shares Held
1 - 1,000	2	1,221
1,001 - 5,000	21	74,529
5,001 - 10,000	208	1,997,743
10,001 - 100,000	619	28,294,892
100,001 and Over	357	429,340,444

(b) There are 246 shareholders with less than a marketable parcel.

(c) There are no restrictions on voting rights attached to the ordinary shares on issue. On a show of hands, every member present in person shall have one vote and upon a poll, every member present in person or by proxy shall have one vote for every share held.

2. Substantial shareholders

The Company has the following substantial shareholders:

- Mr Richard Andrew Palmer	28,731,591 shares
- Ms Tracey-Ann Palmer	26,194,893 shares
- Mr Dale Monson and related parties	24,227,824 shares

3. Shareholders

The twenty largest shareholders hold 55.26% of the total issued ordinary shares in the Company as at 3 August 2007.

4. Unlisted Options expiring 1 November 2008 exercisable at $0.10

Number of Options	3,500,0000
Number of Holders	3

Unlisted Options expiring 1 November 2009 exercisable at $0.15

Number of Options	2,500,000
Number of Holders	2

Unlisted Options expiring 1 July 2010 exercisable at $0.06

Number of Options	9,250,000
Number of Holders	10

Unlisted Options expiring 1 November 2010 exercisable at $0.20

Number of Options	2,500,000
Number of Holders	2

6. Quotation

Shares in Safe Effect Technologies Limited are listed on Australian Stock Exchange Limited.

7. Audit Committee

As at the date of the Directors' report the Company had a separate audit committee, consisting of the non executive Directors Professor Malcolm Richmond (Chairman) Mr David Humann and Mr Chris Coudounaris. There was one meeting during the year attended by all members. In addition meetings are held between senior management and auditors throughout the year to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

Twenty Largest Fully Paid Ordinary Shareholders

The names of the twenty largest shareholders who hold 55.26% of the fully paid ordinary shares in the Company at 3 August 2007.

	Name	**Number of Shares**	**% of Issued Shares**
1.	Mr Richard Andrew Palmer	28,731,591	6.25
2.	Ms Tracey-Ann Palmer	26,194,893	5.70
3.	J P Morgan Nominees Australia	21,401,623	4.66
4.	HSBC Custody Nominees (Australia) Limited – A/C 3	20,066,301	4.37
5.	ANZ Nominees Limited (Cash Income A/C)	18,581,767	4.04
6.	Delera Pty Ltd (Cowan Family Super Fund A/C)	14,353,315	3.12
7.	Knarf Investments Pty Ltd	14,104,313	3.07
8.	Galvale Pty Ltd	13,297,882	2.89
9.	Mondal Investments Pty Ltd	11,747,607	2.56
10.	Dale Monson (Super Fund A/C)	10,945,000	2.38
11.	Kittredge Pty Ltd	10,329,399	2.25
12.	R E Jones Properties Ltd (Greenhill Property A/C)	10,329,399	2.25
13.	Mr Terry Tzaneros	9,150,000	1.99
14.	Mr J L Cutbush & Estate M L Cutbush (Cutbush Family A/C)	8,309,882	1.81
15.	Peter Brent	8,000,000	1.74
16.	Claymore Capital Pty Ltd	7,017,402	1.53
17.	Greenvest Investments Pty Ltd	6,458,414	1.40
18.	Bankrupt Estate of Australis Panoptic Technologies Pty Ltd	5,000,000	1.09
19.	Level 1 Pty Ltd	5,000,000	1.09
20.	Mr Steven Tzaneros	5,000,000	1.09
		254,018,788	55.26