# DULHUNTY POWER LIMITED

**ABN 38 002 679 469**

## Annual Financial Report

**for the year ended 30 June 2005**

# Corporate Information

### ABN 38 002 679 469

### Directors
Alfred J. Chown (Managing Director)
Philip Dulhunty (Non-Executive Director)
Marcus Everard (Non-Executive Director)
Richard Llewelyn (Non-Executive Director)

### Alternate Directors
Brian C. Mathiesen (alternate to Alfred J.Chown)
Peter W. Dulhunty (alternate to Philip Dulhunty)
Paul Grotowski (alternate to Marcus Everard)

### Company Secretary
Gregory R. Knoke

### Registered Office
7 Byfield Street
MACQUARIE PARK NSW 2113

### Bankers
Australia and New Zealand Banking Group Limited
20 Martin Place
SYDNEY NSW 2000

National Australia Bank Limited
NAB House, 255 George Street
SYDNEY NSW 2000

### Share Register
Computershare Investor Services Pty Ltd
Level 3, 60 Carrington Street
Sydney NSW 2000
Telephone:- (02) 8234 5000
Facsimile:- (02) 8234 5145

### Auditors
Gould Ralph & Company
Chartered Accountants
Level 42, AAP Centre
259 George Street
SYDNEY NSW 2000

# Contents

# Directors Report

**Your Directors submit their report for the year ended 30 June 2005**

## DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

### Names, qualifications, experience and special responsibilities

**Alfred J. Chown,** B.Econ (Age 44) (Managing Director) Appointed 4th July 1997.
Born in 1960, Mr. Chown is an Australian citizen, married and resident in Hong Kong. Founding Partner of E.L Consult Hong Kong Ltd ("E.L Consult") and Dulhunty Engineering Limited, he has been involved in commercial activities in China since 1983. Following the establishment of E.L Consult's Hong Kong office in 1987, Mr. Chown has been active in human resource issues throughout Asia. With Dulhunty Engineering Limited, he was among the first westerners to enter the PRC electricity fittings industry. E.L Consult is an executive recruitment firm with offices in Hong Kong, Singapore, Shanghai Beijing and Shenzhen, with affiliates in most related major centres. Mr Chown holds a Bachelor of Economics Degree from Monash University, and is a former Chairman of the Australian Chamber of Commerce in Hong Kong. He has travelled extensively in the Asian region and is well connected with regional business leaders over a range of industries. Mr Chown is also a member of the Remuneration Committee, Nomination Committee and Audit Committee.

**Philip W. Dulhunty OAM** (Age 81) (Non-Executive Director) Appointed 31st March 2003.
Founder of Dulhunty Power (Australia) Pty Ltd, importers, exporters and distributors of electrical power transmission equipment. Honorary Life Member and distinguished member of the international electrical transmission industry body, CIGRE and Honorary Life Senior member of IEEE. Holder of Centenary Medal for Contribution to Australian Industry. Mr Dulhunty is a member of the Remuneration Committee and Nomination Committee.

**Marcus Everard** (Aged 46) (Non-Executive Director) Appointed 31st March 2003.
Born June 1959, educated at Oundle School and Brasenose College, Oxford, MA Hons Chemistry, 1982. Employed by Credit Suisse First Boston (CSFB) from 1982 until 2001, mainly covering fixed Income, Derivatives and Investment Banking. In 1999 moved to Hong Kong and since leaving CSFB he has built up a portfolio of business interests and directorships in companies operating in Taiwan, Hong Kong and Beijing. Mr Everard is a member of the Audit Committee.

**Richard Llewellyn,** (Aged 54) (Non-Executive Director) Appointed 20 September 2005.
Company Director with 35 years experience in many senior marketing and management roles primarily in the financial services and IT&T sectors. CEO of an Australian IT company that grew 10 fold in five years. Vice president and member of the Executive Committee of a NYSE listed IT&T company. Over the past fifteen years involved in managing numerous corporate advisory and funding projects with a total value in excess of $A1 billion. National judge Telstra Small Business Awards. Founding member of the AICD and Fellow of AIM. Director and founder of Nextec Strategic Capital.

**Brian C. Mathiesen,** NZCE Electronics (Age 60) (Alternate Director to Alfred J. Chown) Appointed 1st December 2003
After more than twelve years service in the Royal NZ Navy where Mr Mathiesen attained the rank of Warrant Officer, he was appointed head sales engineer with Dulmison NZ Limited and was responsible for introducing preformed fittings into the NZ market. Mr Mathiesen was appointed General Manager of Dulmison NZ in 1976 and eventually General Manager of Dulmison UK from 1989 until 1996. Mr Mathiesen was a founder of Dulhunty Power (NZ) Limited and is currently General Manager of Dulhunty Power (NZ) Limited and International Sales Director for the Dulhunty Power Group.

**Peter Dulhunty,** Cert Mech Eng (Marketing) (Age 50) (Alternate Director to Philip Dulhunty) Appointed 1st March 2004
Peter Dulhunty has extensive experience in the industry of over 30 years, having previously worked with the Dulmison Group of companies and most recently assisted in the foundation of Dulhunty Power (Australia) Pty Limited. Peter is a member of I.E.C. and is the Dulhunty Power representative on CIGRE, holding numerous positions of importance with this body.

**Paul Grotowski** (Aged 37) (Alternate Director to Marcus Everard) Appointed 26th July 2005
Born October 1967, graduated from Australian National University with a Bachelor of Economics and a Bachelor of Arts (Asian Studies). Over 10 years investment banking experience with Credit Suisse First Boston (CSFB) and Merrill Lynch, primarily working in Tokyo, Hong Kong and London covering fixed income and foreign exchange. Currently based in Hong Kong with a focus on private equity Asian investment opportunities.

**Ian C. Worner**, B.Com (Age 67) (Non-Executive Director) Appointed 21st April 1998 – resigned 30th June 2005.
Mr. Ian Worner has an international record of achievement in planning and implementing major profit enhancement projects and in-depth experience in implementing mergers and acquisitions. Mr Worner retired from the AMP Society in 1995 after 40 years service, during which he held a variety of senior executive, investment and management roles in Australia, NZ, and the UK

# Directors Report (continued)

## COMPANY SECRETARY

Mr **Gregory R. Knoke,** B. Comm, CA (Age 52) was appointed to the position of company secretary on 30th April 2003. He is a Director of Cogenic Pty Limited and Dulhunty Yangzhou Line Fittings Co. Limited. Mr Knoke was a director of Dulhunty Power Limited from May 2000 until 30 April 2003, resigned upon acceptance of the position of CFO. Born in 1952, educated at University of NSW and graduated in 1973 with major in accountancy, he holds a Bachelor of Commerce degree with merit. Mr Knoke is a Chartered Accountant and Associate member of the Institute of Chartered Accountants in Australia since 1979, an affiliate member of Chartered Secretaries of Australia and member of the Australia China Business Council. Business consultant and advisor, with extensive work experience throughout Asia and Europe, Mr Knoke spent 13 years in Hong Kong as Asian Group Financial Controller and Director for BIL Asia Holdings Limited and subsidiaries of the Brierley Investments Limited Group. Ex-officio president of the Australian Association of Hong Kong and ex- governor of the Australian International School in Hong Kong.

## NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities during the year of entities within the economic entity were:
- the manufacture and sale of electricity transmission and distribution products and services, anchor systems and foundry products.
- development of energy generation technology

During the year Dulhunty Power Thailand Limited commenced production and sale both locally and overseas of electricity transmission and distribution products.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

The consolidated entities objectives and targets to achieve these for the 2006 financial year and beyond are:

- Continue to grow market share for existing business and increase revenue and operating activities by 20% per annum
- Continue to develop sales globally and in particular to tender for new business on an international level and to win a majority of tenders entered
- Develop new agencies for emerging technologies and product groups and to expand on current successful agencies
- Launch the new Dulhunty Power catalogue and continue to increase product range therein
- Expand manufacturing base in Thailand
- Consider strategic alliances in development of the Dulhunty Power Groups energy generation technology
- Capital raising with main aim to increase growth through acquisition
- Retention of key executives and employees

## REVIEW AND RESULTS OF OPERATIONS

Whilst it is not apparent in the reported results, Dulhunty Power Limited (DUL) is a markedly improved company from that which reported last year. The company now has a full line of products to meet all needs of the transmission and distribution market and product sales and references to ensure acceptance from the most discerning of customers. The company has won tenders for many different product types and categories in Morocco, USA, Tanzania, Peru, Saudi Arabia, Australia, China, New Zealand, Thailand, Hong Kong, Malaysia, Pacific Islands, and New Guinea – an amazing feat given the fact that 12 months ago it only had a couple of markets and three to four core products.

The company had another profitable year at operating group level, with the DEL Group, which comprises Dulhunty Power's core operations in Australia, New Zealand, China, Thailand and Hong Kong, reporting an EBIT return of $390,704 and $198,977 profit after tax and after goodwill amortization of $197,119. The DEL Board of Directors declared a dividend payable for the first time this year, of which DUL will receive $87,449 or 68.42%.

The Dulhunty Power Limited consolidated results show a loss after tax and minority interests of $577,096. These results are impacted by the following significant events:

Due to continuing uncertainty over the future economic benefits of the Cogenic Series 245 distributed generation units under development by Cogenic Pty Limited (Cogenic) and the failure of Cogenic to complete the development and testing of the unit at this time, the Board of Directors of DUL have re-assessed the valuation based on recoverability and resolved to write down the valuation of intellectual property against reserves and $113,638 against profit. Consistent with this decision the Directors have also written off the value of the inventory in Cogenic, resulting in a further loss of $380,023. Nevertheless, Directors are committed to seek a profitable return on this investment and will continue to endeavour to bring the Series 245 units to completion and market. The value of the parent entity interest in group equity has decreased due to the above write downs and the resultant effect on reserves.

The conversion of convertible notes into equity in Dulhunty Engineering Limited, as previously announced, removed $852,714 of debt from the subsidiary balance sheet and significantly reduced ongoing interest costs. However the impact of the new equity in DEL issued to minority interests on conversion of the convertible notes in DEL has also resulted in a decline in parent entity interest in the DEL operating group from 68.42% to 50%.

# Directors Report (continued)

## REVIEW AND RESULTS OF OPERATIONS (Cont'd)

It is the intention of the board to seek "DEL Vendor" acceptance to convert the interest bearing portion of the DEL Vendor Loan recorded as debt liability in the Statement of Financial Position of DUL, currently amounting to $886,051 inclusive of interest, into shares in DUL before December this year. This will significantly reduce overall parent entity debt. Such conversion is subject not only to acceptance by the DEL Vendors but also approval by shareholders. Should conversion of vendor debt proceed, it will have a markedly positive impact on the balance sheet of the company.

Structurally therefore by 30 December 2005, it is the aim of the Board to have an extremely clean, virtually debt free company with a solid manufacturing base in low cost labour countries, producing first world products sold globally by a first world brand. Such a company would be poised to take advantage of a global market upswing for transmission and distribution products. The upswing in demand has been brought on by increased energy demands and prior lack of investment in this sector now resulting in bottlenecks in both developed and undeveloped markets.

To truly capitalize the company's positioning and solid foundations that have been laid, it is the intention of the Board to pursue acquisitions in the electric power transmission and distribution sector that will enable the company to quickly access a greatly improved top line revenue stream and garner economies of scale from the existing underutilized manufacturing capacity of the company.

To this end, the Board welcomes the appointment of Mr Richard Llewellyn as independent Director. The Board is also seeking to appoint Mr. Martin Thomas as the new Chairman of the company and expects Mr Thomas will take up the role in October 2005. Mr. Thomas, a former Chairman of Energy Australia, and Mr. Llewellyn, a highly successful boutique investment banker, bring to the Board great depth not only in a general business sense but also in the endeavour of acquisition identification and implementation, a quest upon which Dulhunty Power is about to embark.

Whilst on the subject of acquisition and although the outlook is bright, the fact remains that Dulhunty Power is a very small business. If the first phase of the company's development was to restructure the business operations under the Australian operation, develop a full range of products and gain international product and brand acceptance – tasks the Board believes can be ticked off as being substantially achieved, the next phase is to take advantage of being a listed company to raise funds and build rapid growth via acquisition using the strong foundations now in place. The Board is fully aware that the market will only support success and on the face of it, the 2004/05 results do not fully reflect the success to date. However, if the aim of an annual report is to inform the market, then it would be very remiss of the Board to let the results be taken at face value. The company has made great advances and now needs scale to generate the results required to satisfy the shareholders of a listed entity.

The Board has made some ruthless decisions in writing off assets and cleaning up the balance sheet that negatively affect this year's results. It has done this so that going forward the information to be provided to prospective investors will be very straight forward and easy to understand, in short transparent, and thus in keeping with the Board's desire for good governance and the company's culture of being a pragmatic, down-to-earth business – producing solid, reliable yet innovative products for the most important sector of any economy.

Having purposely extended the time as acting Chairman in order to get the company in a position that a new independent Chairman can take it forward quickly and with confidence, I would like to thank the Board for its support and will happily hand over the role to Mr. Martin Thomas who I greatly look forward to supporting in achieving the objectives mentioned above.

The Board as a whole looks forward to a challenging year ahead that will reward the patience of investors in the company and deliver on the potential of the company.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than as disclosed elsewhere in this financial report, no significant changes in the state of affairs of the company occurred during the year.

## DIVIDENDS

No dividends were paid or declared since the start of the financial year. No recommendation for payment of a dividend has been made.

## NON-AUDIT SERVICES

During the year Gould Ralph & Company, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

# Directors Report (continued)

## NON-AUDIT SERVICES (Cont'd)

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement *F1 Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, Gould Ralph & Company, for audit and non-audit services provided during the year are set out in note 28 to the financial statements. In addition, amounts paid to other auditors for the statutory audit have been disclosed in that note.

A copy of the auditors' independence declaration as required under Section 307C of the Corporations Act is included in the Directors' report.

## EVENTS SUBSEQUENT TO REPORTING DATE

For reporting periods beginning on or after 1 July 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 33 to the financial statements.

Other than as detailed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The economic entity expects to maintain the present status and level of operations and hence there are no likely developments in the entity's operations.

## ENVIRONMENTAL REGULATION AND PERFORMANCE

The company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

### Indemnification

On 23 August 2003 and 21 September 2005, the Company entered into Deeds of Indemnity and Access with persons who are an Officer or Director of the Company or a related body corporate, indemnifying such persons against a liability incurred by them in their capacity as an Officer or Director, including costs and expenses of defending legal proceedings and providing them with access to company records where a claim is made or threatened against such Officer or Director.

### Insurance Premiums

The Company has not, during or since the end of the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate paid or agreed to pay a premium in respect of a contract insuring against a liability for costs or expenses of defending legal proceedings.

The Company has paid insurance premiums in respect of Directors' and Officers' liability and legal expense insurance for Directors and Officers of the Company. In accordance with subsection 300(9) of the Corporations Act 2001, further details have not been disclosed due to confidentiality provisions contained in the insurance contract.

## PROCEEDINGS ON BEHALF OF THE 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.

# Directors Report (continued)

## EMPLOYEES

The economic entity employed 113 employees as at 30 June 2005 (2004: 112 employees).

## REMUNERATION REPORT

The remuneration report is set out on page 10 and forms part of the directors' report for the financial year ended 30 June 2005.

## DIRECTORS' MEETINGS

The numbers of meetings of Directors (including meetings of Committees of Directors) held during the year and the number of meetings attended by each director were as follows:

| | Meeting of the Board of Directors' | Meetings of the Remuneration Committee | Meetings of the Audit Committee | Meeting of the Nomination Committee |
|---|---|---|---|---|
| **Number of meetings held:** | 5 | 2 | 2 | 2 |
| **Number of meetings attended:** | | | | |
| Alfred J. Chown | 5 | 2 | 2 | 2 |
| Ian C. Worner, resigned 28 June 2005 | 5 | | 2 | |
| Marcus Everard | 4 | | | |
| Philip Dulhunty | 5 | | | 2 |
| Brian Mathiesen, as Alternate Director to Alfred J Chown | - | | | |
| Peter W. Dulhunty, appointed 1 March 2005 as Alternate Director to Philip Dulhunty | - | | | |

### Committee membership

As at the date of this report, the members of the Audit Committee are Mr Alfred J Chown (Acting Chairman), Mr Marcus Everard and Mr Richard Llewelyn; members of the Remuneration Committee are Mr. Alfred Chown , Mr. Philip Dulhunty and Mr. Jack Roughan, CEO of the DEL group; and members of the Nomination Committee are Mr Alfred Chown and Mr Philip Dulhunty.

## INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

The relevant interest of each director in the shares, and options over such instruments, issued by the companies within the consolidated entity and other related bodies corporate, 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:

| | **Dulhunty Power Ltd** | | **Dulhunty Engineering Ltd** |
|---|---|---|---|
| | Ordinary Shares | Options | Ordinary Shares |
| Alfred J. Chown | 8,134,667 | 100,000 | 46,927 |
| Philip W Dulhunty | - | 100,000 | - |
| Marcus Everard | 2,000,000 | 100,000 | 1,032,311 |
| Richard Llewelyn | - | - | - |
| Paul Grotowski | - | - | - |
| Peter Dulhunty | 6,000,000 | 190,826 | - |
| Brian Mathiesen | 780,371 | 150,000 | - |

## CORPORATE GOVERNANCE

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of the Company support and have adhered to the principles of corporate governance. The Company's corporate governance principles are contained in the Corporate Governance Statement.

# Directors Report (continued)

### CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER DECLARATIONS

The chief executive officer and the chief financial officer declared in writing to the board that the financial records of the Company for the financial year have been properly maintained, the Company's financial reports for the year ended 30 June 2005 comply with accounting standards and present a true and fair view of the Company's financial condition and operational results. This statement is required annually.

### AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under Section 307C of the Corporations Act 2001 is set out on page 9 and forms part of the Director's Report for the year ended 30 June 2005.

Signed in accordance with a resolution of the Directors.

Alfred Chown
Managing Director

Hong Kong, 29 September 2005

Gould Ralph & Company Chartered Accountants

ABN 74 632 161 298
Level 42
AAP Centre
259 George Street
Sydney 2000 Australia
Telephone: (02) 9032 3000
Facsimile: (02) 9032 3088
Email: mail@gouldralph.com.au

The Board of Directors
Dulhunty Power Limited
7 Byfield Street
MACQUARIE PARK NSW 2113

29 September 2005

Dear Members of the Board

**LEAD AUDITOR'S INDEPENDENCE DECLARATION**
**UNDER SECTION 307C OF THE CORPORATIONS ACT 2001**

In relation to our audit of the financial report of Dulhunty Power Limited for the year ended 30 June 2005, and in accordance with the provisions of the Corporations Act 2001.

We declare that, to the best of our knowledge and belief, there have been:

- No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- No contraventions of the Code of Professional Conduct of the Institute of Chartered Accountants in Australia in relation to this audit.

Yours faithfully
GOULD RALPH & COMPANY

GREGORY C RALPH M.Com., F.C.A.
Partner

Liability limited by a scheme approved under Professional Standards Legislation

# Remuneration Report

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. Remuneration levels are set to attract and retain appropriately qualified and experienced Directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. The Remuneration Committee also assesses the appropriateness of 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. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the company.

Executive remuneration packages include a mix of fixed remuneration and performance based remuneration.

**Fixed Remuneration**
Fixed remuneration consists of base remuneration as well as employer contributions to superannuation funds. Remuneration levels are reviewed annually by the Remuneration Committee through a process that considers individual, segment and overall performance of the consolidated and operating entity. A senior executive's remuneration is also reviewed on promotion.

**Performance – linked Remuneration**
The Remuneration Committee links the nature and amount of each directors' and executives' emoluments to the company's financial and operational performance. All senior executives have the opportunity to qualify for participation in the Employee Bonus Plan, which currently provides incentives where specified criteria are met including criteria relating to profitability.

Performance linked remuneration includes both short term and long term incentives and is designed to reward executive directors and senior executives for meeting or exceeding financial and personal objectives. The short term incentive is an at risk bonus provided in the form of cash, and is based on the relevant operating subsidiaries' results and on achieving a preset target. The long term incentive is provided as options over ordinary shares of Dulhunty Power Limited under the rules of the Dulhunty Power Employee Share Option Plan.

Short term incentive bonus
Each half year the remuneration committee sets the key performance indicators, which generally include measures relating to the operating group, the relevant segment and the individual, and are based on financial, customer and strategy measures. The measures directly align the reward to the key performance indicators and the operating group performance. The financial performance objectives are operating group turnover and gross margin and profit after tax compared to budgeted amounts on a regional and consolidated basis. The non financial objectives vary with position and responsibility and include measures such as achieving strategic outcomes, safety and business development.

The remuneration committee approves the cash incentive to be paid to the individuals.

Long term incentive
Options are issued under the Dulhunty Power Employee Share Option Plan (made in accordance with thresholds set in plans approved by shareholders at the 2003 AGM), and it provides for directors, executives and employees to receive options in total limited to 5% of the issued ordinary capital and exercisable strictly under the terms of the Plan.

The Board considers that the above remuneration structure is generating the desired result. The evidence for this is firstly the sustained growth in turnover, and secondly, the performance linked element appears to be appropriate because the executives achieve a level of performance which qualifies them for bonuses.

The remuneration for all non executive directors, last voted upon by shareholders at the 1999 AGM, is not to exceed $150,000 per annum. Directors base fees are presently up to $20,000. Directors receive additional cash benefit of $2,500 for participation and attendance at audit and remuneration committees.

Details of the nature and amount of each element of the emolument of each director of the company and each of the executive officers of the company and the consolidated entity receiving the highest emolument for the financial year are disclosed in note 29 of the financial report.

# Statement of Financial Performance

| YEAR ENDED 30 JUNE 2005 | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| Sales revenue | | **9,504,984** | 9,473,957 | - | - |
| Other revenues from ordinary activities | | **262,950** | 189,351 | **221,538** | 55,573 |
| Total revenues from ordinary activities | 2 | **9,767,934** | 9,663,308 | **221,538** | 55,573 |
| Cost of sales | 3 | **(5,943,104)** | (6,452,379) | - | - |
| Marketing expenses | | **(60,190)** | (94,515) | - | - |
| Occupancy expenses | | **(202,446)** | (172,366) | - | (21,835) |
| Administrative expenses | | **(1,989,896)** | (1,764,204) | **(112,268)** | (214,839) |
| Borrowing costs expensed | 3(a) | **(233,299)** | (208,704) | **(106,778)** | (92,455) |
| Other expenses from ordinary activities | 3(c) | **(1,772,558)** | (1,273,371) | **(959,923)** | (13,662) |
| **LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE** | | **(433,559)** | (302,231) | **(957,431)** | (287,218) |
| **INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES** | 4 | **(89,286)** | (16,553) | - | - |
| **LOSS FROM ORDINARY ACTIVITIES AFTER INCOME TAX EXPENSE** | | **(522,845)** | (318,784) | **(957,431)** | (287,218) |
| **NET LOSS** | | **(522,845)** | (318,784) | **(957,431)** | (287,218) |
| **NET PROFIT ATTRIBUTABLE TO OUTSIDE EQUITY INTEREST** | 22 | **(54,254)** | (46,937) | - | - |
| **NET LOSS ATTRIBUTABLE TO MEMBERS OF DULHUNTY POWER LIMITED** | 20(c) | **(577,099)** | (365,721) | **(957,431)** | (287,218) |
| **Non-owner transaction changes in equity** | | | | | |
| Net increase/(decrease) in asset revaluation reserve – fair value adjustment | 20(a) | **(1,388,927)** | - | **(1,332,354)** | (45,218) |
| Net increase/(decrease) in foreign currency translation reserve | 20(b) | **(9,800)** | (573,913) | - | - |
| **TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF DULHUNTY POWER LIMITED AND RECOGNISED DIRECTLY IN EQUITY** | | **(1,398,727)** | (573,913) | **(1,332,354)** | (45,218) |
| **TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH OWNERS AS OWNERS ATTRIBUTABLE TO MEMBERS OF DULHUNTY POWER LIMITED** | | **(1,975,826)** | (939,634) | **(2,289,785)** | (332,436) |
| Basic earnings per share (cents per share) | 27 | **(0.99)** | (0.6) | | |

The Statement of Financial Performance is to be read in conjunction with the Notes to the Financial Statements.

# Statement of Financial Position

| AT 30 JUNE 2005 | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **CURRENT ASSETS** | | | | | |
| Cash assets | | **321,800** | 665,027 | **917** | 5,126 |
| Receivables | 5 | **2,689,354** | 2,947,199 | **91,172** | 964,795 |
| Inventories | 6 | **1,979,117** | 2,013,396 | **-** | - |
| Other | 7 | **110,908** | 205,354 | **14,676** | - |
| **TOTAL CURRENT ASSETS** | | **5,101,179** | 5,830,976 | **106,765** | 969,921 |
| **NON-CURRENT ASSETS** | | | | | |
| Receivables | 8 | **-** | - | **2,977,357** | 2,977,357 |
| Other financial assets | 9 | **90,000** | 90,000 | **139,126** | 1,471,480 |
| Property, plant and equipment | 11 | **1,001,195** | 961,957 | **2,539** | 3,816 |
| Intangible assets | 12 | **2,435,941** | 4,201,855 | **-** | - |
| **TOTAL NON-CURRENT ASSETS** | | **3,527,136** | 5,253,812 | **3,119,022** | 4,452,653 |
| **TOTAL ASSETS** | | **8,628,315** | 11,084,788 | **3,225,787** | 5,422,574 |
| **CURRENT LIABILITIES** | | | | | |
| Payables | 13 | **2,613,627** | 3,035,499 | **502,804** | 393,807 |
| Interest-bearing liabilities | 15 | **1,321,900** | 1,092,625 | **198,826** | 144,414 |
| Current tax liabilities | 4 | **42,297** | 50,444 | **-** | - |
| Provisions | 17 | **120,238** | 87,882 | **-** | - |
| **TOTAL CURRENT LIABILITIES** | | **4,098,062** | 4,266,450 | **701,630** | 538,221 |
| **NON-CURRENT LIABILITIES** | | | | | |
| Payables | 14 | **328,127** | 362,161 | **328,127** | 362,161 |
| Interest-bearing liabilities | 16 | **1,106,753** | 2,203,243 | **820,464** | 877,153 |
| Provisions | 18 | **4,904** | - | **-** | - |
| **TOTAL NON-CURRENT LIABILITIES** | | **1,439,784** | 2,565,404 | **1,148,591** | 1,239,314 |
| **TOTAL LIABILITIES** | | **5,537,846** | 6,831,854 | **1,850,221** | 1,777,535 |
| **NET ASSETS** | | **3,090,469** | 4,252,934 | **1,375,566** | 3,645,039 |
| **EQUITY** | | | | | |
| Parent entity interest | | | | | |
| Contributed equity | 19 | **6,054,101** | 6,033,789 | **6,054,101** | 6,033,789 |
| Reserves | 20 | **(734,356)** | 644,771 | **48,804** | 1,381,158 |
| Accumulated losses | 20(c) | **(4,825,295)** | (4,248,196) | **(4,727,339)** | (3,769,908) |
| Total parent entity interest in equity | | **494,450** | 2,430,364 | **1,375,566** | 3,645,039 |
| Total outside equity interest | 22 | **2,596,019** | 1,822,570 | **-** | - |
| **TOTAL EQUITY** | | **3,090,469** | 4,252,934 | **1,375,566** | 3,645,039 |

The Statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements.

# Statement of Cash Flows

| YEAR ENDED 30 JUNE 2005 | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | | |
| Receipts from customers | | **11,690,175** | 8,530,528 | **12,500** | 17,429 |
| Payments to suppliers and employees | | **(11,544,583)** | (8,281,947) | **(169,031)** | (314,207) |
| Interest received | | **4,622** | 2,187 | **133** | 58 |
| Borrowing costs | | **(117,347)** | (118,726) | **(16,426)** | (6,810) |
| Income tax paid | | **(127,513)** | (127,077) | **-** | - |
| NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES | 23(a) | **(94,646)** | 4,965 | **(172,824)** | (303,530) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | | |
| Proceeds from sale of property, plant and equipment | | **27,560** | 27,669 | **-** | - |
| Purchase of property, plant and equipment | | **(358,670)** | (290,273) | **-** | (755) |
| Proceeds from sale of investments | | **-** | 810 | **-** | - |
| Advances to related parties | | **(78,311)** | - | **93,890** | 104,922 |
| NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES | | **(409,421)** | (261,794) | **93,890** | 104,167 |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | | |
| Proceeds from issues of ordinary shares | | **-** | - | **20,313** | - |
| Proceeds from borrowings – other | | **45,715** | - | **-** | (18) |
| Repayments of borrowings – other | | **(74,820)** | (255,093) | **-** | - |
| NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES | | **(29,105)** | (255,093) | **20,313** | (18) |
| NET INCREASE/(DECREASE) IN CASH HELD | | **(533,172)** | (511,922) | **(58,621)** | (199,381) |
| Add cash at the beginning of the year | | **(173,642)** | 352,906 | **(139,288)** | 60,093 |
| Effects of exchange rate fluctuations on the balances of cash held in foreign currencies | | **(24,455)** | (14,626) | **-** | - |
| **CLOSING CASH CARRIED FORWARD** | 23(b) | **(731,269)** | (173,642) | **(197,909)** | (139,288) |

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements

# Notes to the Financial Statements

**30 JUNE 2005**

## 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

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

**(a) Basis of preparation**
The financial report is a general purpose financial report and that has been prepared in accordance with the requirements of the Corporations Act 2001 which includes applicable Accounting Standards, Urgent Issues Group Consensus Views, and other mandatory professional reporting requirements.

The financial report has been prepared in accordance with the historical cost convention and except where stated, does not take into account changing money values or fair values of non current assets.

**(b) Changes in accounting policies**
The accounting policies adopted are consistent with those of the previous year.

**(c) Principles of consolidation**
The consolidated financial statements are those of the consolidated entity, comprising Dulhunty Power Limited (the parent entity) and all entities which Dulhunty Power Limited controlled from time to time during the year and at balance date.

Information from the financial statements of controlled entities is included from the date the parent company obtains control until such time as control ceases. Where there is loss of control of a controlled entity, the consolidated financial statements include the results for the part of the reporting period during which the parent company had control.

Controlled entity acquisitions are accounted for using the purchase method of accounting.

The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated in the same way as unrealized gains, unless costs cannot be recovered.

Changes in ownership interest - New issue of capital by controlled entity
When a controlled entity makes a new issue of capital and the consolidated entity's percentage ownership changes, the share of retained profits and reserves is attributed to the Company and outside equity interest reflecting the new ownership interest. The adjustment is not reflected in net profit but as a direct adjustment to the specific equity accounts.

**(d) Foreign currencies**

*Translation of foreign currency transactions*
Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

A monetary item arising under a foreign currency contract outstanding at the reporting date where the exchange rate for the monetary item is fixed in the contract is translated at the exchange rate fixed in the contract. Except for certain specific hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year. Any gains or costs on entering a hedge are deferred and amortised over the life of the contract.

*Specific hedges*
Where a purchase or sale is specifically hedged, exchange gains or losses on the hedging transaction arising up to the date of purchase or sale and costs, premiums and discounts relative to the hedging transaction are deferred and included in the measurement of the purchase or sale. Exchange gains and losses arising on the hedge transaction after that date are taken to the Statement of Financial Performance.

# Notes continued

**30 JUNE 2005**

**(d) Foreign currencies (Cont'd)**
*Hedges of foreign operations*
Exchange differences relating to foreign currency monetary items forming part of the net investment in a self-sustaining foreign operation, together with hedges of such monetary items and related tax effects, are transferred to the foreign currency translation reserve on incorporation of the foreign operation's financial report into the financial report of Dulhunty Power Limited.

Translation of financial reports of overseas operations
All overseas operations are deemed self-sustaining as each is financially and operationally independent of Dulhunty Power Limited. The assets and liabilities of foreign operations, including controlled entities, are translated at the rates of exchange ruling at balance date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve until the disposal, or partial disposal, of the operations.

**(e) Cash and cash equivalents**
Cash on hand and in banks and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand, in banks and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts.

Bank overdrafts are carried at the principal amount. Interest is charged as an expense as it accrues.

**(f) Receivables**
Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due. Interest is taken up as income on an accrual basis.

**(g) Investments**
*Listed Shares*
Listed shares held available for sale are carried at net market value.

*Investment and Development Capital Investments*
The Company's investment in developing companies using new or innovative technology are stated at fair value. The carrying value of other financial assets is reviewed by the Directors and is revalued to an amount not above their recoverable amount.

The ultimate value of the Company's investment and development capital type investments, which are of a high risk nature, is dependent upon the successful development and exploitation of the investees companies' technology.

*Investment in Controlled Entities*
The Company's investment in its controlled entities is recorded at fair value. The carrying value of the investment in each controlled entity is reviewed at balance date by the Directors and is not revalued to an amount above its recoverable amount.

*Fair Value*
Fair Value means the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arms' length transaction. Where a quoted market price in an active and liquid market is available for an asset, that price represents the best evidence of the asset's fair value. Where a quoted market price is not available, fair value is estimated by reference to the best available market evidence of the price at which the assets could be exchanged between knowledgeable, willing parties in an arm's length transaction.

# Notes continued

**30 JUNE 2005**

### (h) Inventories

*Manufacturing*

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials - purchase cost on a first-in-first-out basis; and
- Finished goods and work-in-progress - cost of direct material and labour and a proportion of manufacturing overheads based on normal operating capacity.

### (i) Recoverable Amount

Non-current assets measured using the cost basis are not carried at an amount above their recoverable amount, and where a carrying value exceeds this recoverable amount, the asset is written down. In determining recoverable amount, the expected net cash flows have been discounted to their present value using a market determined risk adjusted discount rate.

### (j) Property, plant and equipment

*Cost and valuation*

All classes of property, plant and equipment are measured at cost.

*Depreciation*

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, taking into account estimated residual value. Finance lease assets are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated or amortised from the date of acquisition.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent that they are included in the carrying amount of another asset as an allocation of production overheads.
The major depreciation rates, on the straight line basis, used for each class of asset are as follows:

| | |
|---|---|
| Major depreciation rates are: | |
| Freehold buildings: | 4.5% |
| Plant and machinery | 7.5% - 33.3% |
| Computer equipment | 20.0% - 40.0% |
| Furniture, fixtures and fittings | 7.5% - 20.0% |
| Motor Vehicles | 15.0% - 22.5% |

### (k) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Operating leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis.

Contingent rentals are recognised as an expense in the financial year in which they are incurred.

*Finance leases*

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the group are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance.

# Notes continued

**30 JUNE 2005**

**(l) Intangibles**

*Patents and licences*

Patents and licences are carried at cost and amortised on a straight-line basis over their useful lives, being 10 years.

*Goodwill*

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of a business or shares in a controlled entity.

Goodwill is amortised on a straight line basis over the period during which benefits are expected to be received. This is taken as being 10 years.

**(m) Payables**

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

Payables to related parties are carried at the principal amount. Interest, when charged by the lender, is recognised as an expense on an accrual basis.

**(n) Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is charged as an expense as it accrues.

Finance lease liability is determined in accordance with the requirements of AASB 1008 "Leases".

**(o) Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

**(p) Contributed equity**

Issued and paid up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

**(q) Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Sale of Goods*

Control of the goods has passed to the buyer.

*Rendering of Services*

Revenue is recognised only to the extent that costs have been incurred.

*Interest*

Control of the right to receive the interest payment.

*Dividends*

Control of the right to receive the dividend payment.

# Notes continued

**30 JUNE 2005**

**(r) Taxes**

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Where assets are revalued no provision for potential capital gains tax has been made.

*Goods and Services Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(s) Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the interest rates attaching to government guaranteed securities which have terms to maturity approximating the terms of the related liability are used.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits; and
- other types of employee benefits

are charged against profits on a net basis in their respective categories.

**(t) Earnings per share**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

**(u) Borrowing costs**

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange differences net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

# Notes continued

**30 JUNE 2005**

**(u) Borrowing costs (Cont'd)**

Borrowing costs are expensed as incurred unless they relate to qualifying assets. Qualifying assets are assets which take more than 12 months to get ready for their intended use or sale. In these circumstances, borrowing costs are capitalised to the cost of the assets. Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is those incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

**(v) Use and revision of accounting estimates**

The preparation of the financial report requires the making of estimations and assumptions that affect the recognised amounts of assets, liabilities, revenues and expenses and the disclosure of contingent liabilities. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**(w) Comparatives**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **2. REVENUE FROM ORDINARY ACTIVITIES** | | | | | |
| **Revenues from operating activities** | | | | | |
| Revenue from sale of goods | | **9,504,984** | 9,473,957 | - | - |
| Revenue from services | | **59,016** | 57,909 | - | 4,273 |
| Foreign exchange gains on unhedged transactions | | **173,957** | 61,332 | **133,956** | 38,742 |
| Total revenues from operating activities | | **9,737,957** | 9,593,198 | **133,956** | 43,015 |
| **Revenues from non-operating activities** | | | | | |
| Management fees | | | - | - | 12,500 |
| Interest - Other persons/corporations | | **4,623** | 2,160 | **133** | 58 |
| Dividend – related entity | | - | - | **87,449** | - |
| Proceeds on disposal of non current assets | | - | 27,669 | - | - |
| Other income | | **25,354** | 40,281 | - | - |
| Total revenues from non-operating activities | | **29,977** | 70,110 | **87,582** | 12,558 |
| **Total revenues from ordinary activities** | | **9,767,934** | 9,663,308 | **221,538** | 55,573 |
| **3. EXPENSES AND LOSSES/(GAINS)** | | | | | |
| **(a) Expenses** | | | | | |
| Cost of goods sold | | **5,943,104** | 6,452,379 | - | - |
| Depreciation and amortisation of non current assets | | | | | |
| Amortisation of intangible assets | | **323,067** | 327,106 | - | - |
| Plant and equipment | | **71,876** | 74,022 | - | - |
| Buildings and Leasehold Improvements | | **20,723** | 15,323 | - | - |
| Motor vehicles | | **21,370** | 21,564 | - | - |
| Furniture, fixtures and fittings | | **25,235** | 17,624 | **1,277** | 1,978 |
| Computer equipment | | **58,275** | 46,364 | - | - |
| Total depreciation and amortisation of non-current assets | | **520,546** | 502,003 | **1,277** | 1,978 |
| Borrowing costs expensed | | | | | |
| Interest expense | | **229,147** | 204,124 | **106,778** | 92,455 |
| Finance charges on capitalised leases | | **4,151** | 4,580 | - | - |
| | | **233,298** | 208,704 | **106,778** | 92,455 |
| Bad and doubtful debts – related party | | - | - | **958,646** | - |
| Decrement in asset revaluation reserve | | - | - | **(1,332,354)** | (45,218) |
| Research and development costs | | **28,300** | 18,657 | - | - |
| Superannuation contributions | | **93,897** | 77,490 | **281** | 2,644 |
| Operating Lease Rental Expense: | | | | | |
| Minimum lease payments | | **193,671** | 1,983 | - | - |

**(b)** The consolidated net loss has been determined after inclusion of the following item:

| | PEI | OEI | Consolidated |
|---|---|---|---|
| | $ | $ | $ |
| Profit / (Loss) on new issue of shares by subsidiary | (588,909) | 588,909 | - |

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **3. EXPENSES AND LOSSES/(GAINS) (Cont'd)** | | | | | |
| **(c) Reconciliation of other expenses** | | | | | |
| Other expenses included the following material expenses whose disclosure is relevant in explaining the financial performance of the entity: | | | | | |
| Consulting fees | | **370,059** | 361,442 | **-** | |
| Travel and Accommodation | | **285,492** | 299,106 | **-** | 748 |
| Legal Fees | | **36,747** | 34,601 | **-** | 10,936 |
| Provision for doubtful debt | | **-** | - | **958,646** | - |
| Depreciation and amortisation of non-current assets | | **520,546** | 502,003 | **1,277** | 1,978 |
| Other | | **559,714** | 76,219 | **-** | - |
| | | **1,772,558** | 1,273,371 | **959,923** | 13,662 |
| **(d) Individually Significant Items** | | | | | |
| Loss from ordinary activities before income tax expense includes the following material (revenues) and expenses whose disclosure is relevant in explaining the financial performance of the entity: | | | | | |
| Provision for doubtful debt | | **-** | - | **958,646** | - |
| Consulting fees | | **370,059** | 361,442 | **-** | - |
| **4. TAXATION** | | | | | |
| **(a) Income tax expense** | | | | | |
| Prima facie tax on profit from ordinary activities at 30% | | **(156,853)** | (90,669) | **(287,230)** | (86,166) |
| Increase in income tax expense due to: | | | | | |
| - Future Income Tax Benefit not brought to account | | **321,993** | 172,646 | **35,085** | 35,576 |
| - Provision for doubtful debt | | **-** | - | **287,594** | - |
| - Unrealised Foreign exchange gains | | | 61,150 | **-** | 48,671 |
| - Sundry Items | | **39,205** | 4,586 | **984** | 1,919 |
| Decrease in income tax expense due to: | | | | | |
| - Research and development allowance | | **(12,000)** | (22,500) | **-** | - |
| - Unrealised foreign exchange losses | | **(40,876)** | - | **(36,433)** | - |
| - Effect of lower rates of tax on overseas income | | **(50,955)** | (98,278) | **-** | - |
| | | **100,514** | 26,935 | **-** | - |
| Income tax overprovided in the prior year | | **(11,228)** | (10,382) | **-** | - |
| Income tax expense attributable to ordinary activities | | **89,286** | 16,553 | **-** | - |

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **(b) Current tax liabilities** | | | | | |
| ***Provision for current income tax*** | | | | | |
| Movements during the year: | | | | | |
| Balance at the beginning of the year | | **50,444** | 161,876 | - | - |
| Income tax paid | | | | | |
| - operating activities – current year | | **(15,046)** | (26,934) | - | - |
| - operating activities – prior year | | **(82,387)** | (101,050) | - | - |
| Current year's income tax expense on profit from ordinary activities | | **100,514** | 26,934 | - | - |
| Overprovision in prior year | | **(11,228)** | (10,382) | - | - |
| | | **42,297** | 50,444 | - | - |

## 4. TAXATION (Cont'd)

**(c) Future income tax benefit not taken to account**

| | | | | |
|---|---|---|---|---|
| The potential future income tax benefit arising from tax losses and timing differences has not been recognised as an asset because recovery of tax losses is not virtually certain and recovery of timing differences is not assured beyond any reasonable doubt. | **3,849,526** | 3,527,533 | **3,124,791** | 3,024,630 |

This future income tax benefit will only be obtained if:

(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;

(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and

(c) no changes in tax legislation adversely affect the consolidated entity in realising the benefit.

## 5. RECEIVABLES (CURRENT)

| | Notes | Economic Entity 2005 | Economic Entity 2004 | Dulhunty Power Limited 2005 | Dulhunty Power Limited 2004 |
|---|---|---|---|---|---|
| Trade debtors | 5(b) | **2,465,721** | 2,851,494 | - | - |
| Provision for doubtful debts | | **(10,000)** | (13,730) | - | - |
| | | **2,455,721** | 2,837,764 | - | - |
| Goods and Services Tax receivable | | **15,967** | 7,089 | **1,370** | **6,149** |
| Other receivables | 5(b) | **37,009** | - | - | - |
| Amounts other than trade debts receivable from controlled entities (partially owned): | 5(a) | - | - | **1,048,448** | **958,646** |
| Provision for doubtful debt- partially owned controlled entity | | - | - | **(958,646)** | - |
| Amounts due from Director related entities | | **180,657** | 102,346 | - | - |
| | | **2,689,354** | 2,947,199 | **91,172** | **964,795** |
| **(a) Related party receivables** | | | | | |
| Controlled entity (partially owned) | | - | - | **89,802** | **958,646** |
| Director related entities | | **180,657** | 102,346 | - | - |
| | | **180,657** | 102,346 | **89,802** | **958,646** |

**(b) Terms and conditions**

(i) Trade debtors are non-interest bearing and generally on 30 day terms.

(ii) Sundry debtors and other receivables are non-interest bearing and have repayment terms between 30 and 90 days.

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **6. INVENTORIES (CURRENT)** | | | | | |
| Raw materials at cost | | **587,582** | 613,041 | - | - |
| Finished goods at cost | | **1,080,477** | 1,321,368 | - | - |
| Work in progress at cost | | **13,147** | 23,278 | - | - |
| Stock in transit at cost | | **297,911** | 55,709 | - | - |
| Total inventories at lower of cost and net realisable value | | **1,979,117** | 2,013,396 | - | - |
| **7. OTHER CURRENT ASSETS** | | | | | |
| Prepayments | | **110,908** | 205,354 | **14,676** | - |
| **8. RECEIVABLES (NON-CURRENT)** | | | | | |
| **Related party receivables** | | | | | |
| Controlled entities – wholly owned | | - | - | **2,977,357** | 2,977,357 |
| **9. OTHER FINANCIAL ASSETS (NON-CURRENT)** | | | | | |
| *Investment at fair value:* | | | | | |
| Shares | | | | | |
| Unlisted | | **90,000** | 90,000 | 90,000 | 90,000 |
| Controlled entities – unlisted | | - | - | 49,126 | 1,381,480 |
| Total investments | | **90,000** | 90,000 | 139,126 | 1,471,480 |

The investment in unlisted shares consists of an investment in Development Capital investments. The fair value has been determined by directors with reference to prices paid by other investees in the asset. There has not been an independent valuation.

There would be no capital gains tax payable if these assets were sold at their fair values at the reporting date.

**10. INTERESTS IN CONTROLLED ENTITIES**

| Name | Country of incorporation | Percentage of equity interest held by the consolidated entity | |
|---|---|---|---|
| | | 2005 | 2004 |
| | | % | % |
| Cogenic Pty Ltd | Australia | **97** | 97 |
| Dulhunty Power Limited HK | Hong Kong | **100** | 100 |
| Dulhunty Engineering Limited | British Virgin Islands | **50** | 68 |
| Dulhunty Power (Aust) Pty Limited | Australia | **50** | 68 |
| Dulhunty Power (NZ) Limited | New Zealand | **50** | 68 |
| Dulhunty Power (Thailand) Limited | Thailand | **50** | 68 |

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **11. PROPERTY, PLANT AND EQUIPMENT** | | | | | |
| Buildings and leasehold improvements | | | | | |
| At cost | | **440,638** | 322,667 | - | - |
| Accumulated depreciation | | **(80,695)** | (67,272) | - | - |
| | 11(a) | **359,943** | 255,395 | - | - |
| Plant & machinery | | | | | |
| At cost | | **914,898** | 876,857 | - | - |
| Accumulated depreciation | | **(553,074)** | (503,688) | - | - |
| | 11(a) | **361,824** | 373,169 | - | - |
| Motor vehicles | | | | | |
| At cost | | **90,587** | 85,225 | - | - |
| Under lease | | **51,172** | 51,172 | - | - |
| | | **141,759** | 136,397 | | |
| Accumulated depreciation and amortisation | | **(59,182)** | (62,456) | - | - |
| | 11(a) | **82,577** | 73,941 | - | - |
| Furniture, fixtures and fittings | | | | | |
| At cost | | **127,983** | 114,417 | **8,402** | 8,402 |
| Accumulated depreciation | | **(61,149)** | (35,945) | **(5,863)** | (4,586) |
| | 11(a) | **66,834** | 78,472 | **2,539** | 3,816 |
| Computer equipment | | | | | |
| At cost | | **411,402** | 430,925 | - | - |
| Accumulated depreciation | | **(281,385)** | (249,945) | - | - |
| | 11(a) | **130,017** | 180,980 | - | - |
| Total property, plant and equipment | | | | | |
| Cost | | **1,985,508** | 1,881,263 | **8,402** | 8,402 |
| Under lease | | **51,172** | - | - | - |
| | | **2,036,680** | 1,881,263 | **8,402** | 8,402 |
| Accumulated depreciation and amortisation | | **(1,035,485)** | (919,306) | **(5,863)** | (4,586) |
| Total written down amount | | **1,001,195** | 961,957 | **2,539** | 3,816 |

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |

## 11. PROPERTY, PLANT AND EQUIPMENT (Con't)

**(a) Reconciliation**

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year.

| | Notes | ECONOMIC ENTITY 2005 $ | ECONOMIC ENTITY 2004 $ | DULHUNTY POWER LIMITED 2005 $ | DULHUNTY POWER LIMITED 2004 $ |
|---|---|---|---|---|---|
| *Buildings and Leasehold Improvements* | | | | | |
| Carrying amount at beginning of year | | 255,395 | | - | |
| Additions | | 148,294 | | - | |
| Net foreign currency differences on translation of self sustaining operation | | (23,023) | | - | |
| Depreciation expense | | (20,723) | | - | |
| | | 359,943 | | - | |
| *Plant and machinery* | | | | | |
| Carrying amount at beginning of year | | 373,169 | | - | |
| Additions | | 86,915 | | - | |
| Net foreign currency differences on translation of self sustaining operation | | (26,384) | | - | |
| Depreciation expense | | (71,876) | | - | |
| | | 361,824 | | - | |
| *Motor vehicles* | | | | | |
| Carrying amount at beginning of year | | 73,941 | | - | |
| Additions | | 40,612 | | - | |
| Disposals | | (10,606) | | - | |
| Depreciation expense | | (21,370) | | - | |
| | | 82,577 | | - | |
| *Furniture, fixtures and fittings* | | | | | |
| Carrying amount at beginning of year | | 78,472 | | 3,816 | |
| Additions | | 13,582 | | - | |
| Net foreign currency differences on translation of self sustaining operation | | 15 | | - | |
| Depreciation expense | | (25,235) | | (1,277) | |
| | | 66,834 | | 2,539 | |
| *Computer equipment* | | | | | |
| Carrying amount at beginning of year | | 180,980 | | - | |
| Additions | | 31,184 | | - | |
| Disposals | | (16,954) | | - | |
| Net foreign currency differences on translation of self sustaining operation | | (6,918) | | - | |
| Depreciation expense | | (58,275) | | - | |
| | | 130,017 | | - | |

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **12. INTANGIBLES** | | | | | |
| Goodwill | * | **3,030,098** | 3,030,098 | - | - |
| Accumulated amortisation | | **(751,145)** | (448,134) | - | - |
| | | **2,278,953** | 2,581,964 | - | - |
| Patents and licenses – cost | | **214,457** | 218,352 | - | - |
| Accumulated amortisation | | **(57,469)** | (78,461) | - | - |
| | | **156,988** | 139,891 | - | - |
| Other intangibles - fair value | | **-** | 1,480,000 | - | - |
| | | **2,435,941** | 4,201,855 | - | - |

* Refer also note 14(a) below.

The fair value of the intangible asset of $- (2004: $1,480,000) had been revalued by extrapolation of an arms length transaction by which the minority shareholder obtained a 3% holding and an option to acquire a further 2% interest in the company for $74,000.

| | Notes | ECONOMIC ENTITY 2005 | ECONOMIC ENTITY 2004 | DULHUNTY POWER LIMITED 2005 | DULHUNTY POWER LIMITED 2004 |
|---|---|---|---|---|---|
| **13. PAYABLES (CURRENT)** | | | | | |
| Unsecured | | | | | |
| - Trade creditors | | **1,734,686** | 2,510,326 | **17,768** | 58,540 |
| - Other creditors and accruals | | **878,941** | 525,173 | **194,899** | 200,991 |
| - Related parties- controlled entities (partially owned) | | **-** | - | **224,552** | 134,276 |
| Secured | | | | | |
| - Other payable | (i) | **-** | - | **65,585** | - |
| | | **2,613,627** | 3,035,499 | **502,804** | 393,807 |

(i) Other secured payables amounting to $65,585 are secured by a fixed and floating charge over Dulhunty Power Limited's 50% equity interest in Dulhunty Engineering Limited, amounting to $3,167,405.

| | ECONOMIC ENTITY 2005 | ECONOMIC ENTITY 2004 | DULHUNTY POWER LIMITED 2005 | DULHUNTY POWER LIMITED 2004 |
|---|---|---|---|---|
| **14. PAYABLES (NON-CURRENT)** | | | | |
| Other payables | **328,127** | 362,161 | **328,127** | 362,161 |

(a) Other payables amounting to $328,127 (2004- $362,161) is the AUD equivalent, at balance date of USD250,000, being the contingent deferred purchase consideration that may become payable to the vendors from whom the Company acquired a controlled entity ("the Controlled entity"). The contingency upon which the obligation will arise is that the auditor certifies, after 31 December 2005, that the aggregate of the Earnings Before Interest and Tax of the Controlled entity for the calendar years ending 31 December 2003, 2004 and 2005 exceeded USD3.1 million. In the event that the obligation arises, it is to be paid out of 75% of dividends declared and paid and actually received by the Company from the Controlled entity in each year after the date of the auditors certificate until the amount is fully paid.

Should the obligation not arise, no amount is payable.

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **15. INTEREST-BEARING LIABILITIES (CURRENT)** | | | | | |
| Secured | | | | | |
| - bank loans | (i) | **74,100** | 74,100 | **-** | - |
| - bank overdraft | (i) (ii) | **1,053,069** | 838,669 | **198,826** | 144,414 |
| - other loans | (iii) | **161,060** | 161,060 | **-** | - |
| - hire purchase liability | (iv) | **33,671** | 18,796 | **-** | - |
| | | **1,321,900** | 1,092,625 | **198,826** | 144,414 |

Terms and conditions relating to the above financial instruments

(i) The bank loan totaling $74,100 and the bank overdraft of $854,243 of Dulhunty Power (Australia) Pty Limited, a controlled entity, are secured by a fixed and floating charge over the assets of Dulhunty Power (Australia) Pty Limited, an unlimited guarantee from Dulhunty Power Limited, and a standard authority to appropriate and set off the cash deposit amounting to $74,477 held by the bank.

(ii) The bank overdraft of Dulhunty Power Limited totaling $198,826 is secured by a fixed and floating charge over the assets of Dulhunty Power Limited.

(iii) Other loans amounting to $161,060 are repayable on 31 December 2005 and 30 June 2006. Interest accrues daily, in the range of 3.24% to BBSW + 3.00% pa. These loans are secured by a fixed charge over the tangible and intangible assets in Cogenic Pty Limited, a controlled entity.

(iv) The economic entity's hire purchase agreements are secured by the related assets of $51,172, as in the event of default, the assets revert to the financier.

(v) A 97% owned controlled entity, Cogenic Pty Limited, entered into an option agreement with DEUS (Department of Energy, Utilities and Sustainability) whereby in consideration for the payment of an option premium of $74,000, Cogenic has granted DEUS an option to acquire shares in Cogenic, up to a further 2% of the total issued capital of Cogenic at the date of exercise of the option.

| | Notes | ECONOMIC ENTITY 2005 $ | ECONOMIC ENTITY 2004 $ | DULHUNTY POWER LIMITED 2005 $ | DULHUNTY POWER LIMITED 2004 $ |
|---|---|---|---|---|---|
| **16. INTEREST-BEARING LIABILITIES (NON-CURRENT)** | | | | | |
| Secured | | | | | |
| - hire purchase | (iii) | **25,616** | 59,288 | **-** | - |
| - bank loans | (iv) | **99,613** | 154,082 | **-** | - |
| - other loans | (i) (ii) | **981,524** | 1,038,213 | **820,464** | 877,153 |
| Unsecured | | | | | |
| - other loans | | **-** | 951,660 | **-** | - |
| | | **1,106,753** | 2,203,243 | **820,464** | 877,153 |

Terms and conditions relating to the above financial instruments

(i) Other secured loans amounting to $161,060 are repayable on 31 December 2006. Interest accrues daily, in the range of 3.24% to BBSW + 3.00% pa. These loans are secured by a fixed charge over the tangible and intangible assets in Cogenic Pty Limited, a controlled entity.

(ii) Other secured loans amounting to $820,464 are secured by a fixed and floating charge over Dulhunty Power Limited's 50% equity interest in Dulhunty Engineering Limited, amounting to $3,167,405.

(iii) The economic entity's hire purchase agreements are secured by the related assets of $51,172, as in the event of default, the assets revert to the lessor.

(iv) The bank loans totaling $99,613 are secured by a fixed and floating charge over the assets of a controlled entity, an unlimited guarantee from Dulhunty Power Limited, and a standard authority to appropriate and set off the cash deposit amounting to $74,477 held by the bank.

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **16. INTEREST-BEARING LIABILITIES (NON-CURRENT) (Cont'd)** | | | | | |
| **16 (b) Financing Arrangements** | | | | | |
| The consolidated entity has access to the following lines of credit: | | | | | |
| Total facilities available: | | | | | |
| Bank overdraft | | **1,200,000** | 950,000 | | |
| Bank Loan | | **177,700** | 285,000 | | |
| Global Payments | | **96,000** | 96,000 | | |
| | | **1,473,700** | 1,331,000 | | |
| Facilities utilised at reporting date: | | | | | |
| Bank overdraft | | **1,053,069** | 838,669 | | |
| Bank Loan | | **177,700** | 228,182 | | |
| | | **1,230,769** | 1,066,851 | | |
| Facilities not utilised at reporting date | | | | | |
| Bank Overdraft | | **146,931** | 111,331 | | |
| Bank Loan | | **-** | 56,818 | | |
| Global Payments | | **96,000** | 96,000 | | |
| | | **242,931** | 264,149 | | |
| **17. PROVISIONS (CURRENT)** | | | | | |
| Employee entitlements | 24(a) | **120,238** | 87,882 | - | - |
| **18. PROVISIONS (NON-CURRENT)** | | | | | |
| Employee entitlements | 24(a) | **4,904** | - | - | - |
| Number of employees at the end of the year | | **113** | 112 | - | - |

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |

## 19. CONTRIBUTED EQUITY

**(a) Issued and paid up capital**

| | | | | |
|---|---|---|---|---|
| Ordinary shares fully paid | **6,054,101** | 6,033,789 | **6,054,101** | 6,033,789 |

**(b) Movements in shares on issue**

| | 2005 | | 2004 | |
|---|---|---|---|---|
| | **Number of shares** | **$** | Number of shares | $ |
| Beginning of the financial year | **58,302,371** | **6,033,789** | 57,122,463 | 5,973,914 |
| Issued during the year | | | | |
| – payment of Directors Fees | **461,647** | **20,312** | 1,179,908 | 59,875 |
| End of the financial year | **58,764,018** | **6,054,101** | 58,302,371 | 6,033,789 |

(i) On 16 March 2005 the Company issued 461,647 shares at $0.044 to Directors in payment of outstanding director's fees.

**(c) Share Options**

*Options over ordinary shares:*

Details of the employee share options scheme is detailed in note 30. There were no other options issued over ordinary shares during the current financial year.

**(d) Terms and conditions of contributed equity**

*Ordinary shares*

Ordinary shares have the right to receive dividends as declared and, in the event of winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amount paid up on shares held. Ordinary shares entitle the holders to one vote, either in person or by proxy, at a meeting of the Company.

## 20. RESERVES AND RETAINED PROFITS

| | Notes | ECONOMIC ENTITY 2005 | ECONOMIC ENTITY 2004 | DULHUNTY POWER LIMITED 2005 | DULHUNTY POWER LIMITED 2004 |
|---|---|---|---|---|---|
| Asset revaluation | (a) | **-** | 1,388,927 | **48,804** | 1,381,158 |
| Foreign currency translation | (b) | **(734,356)** | (744,156) | **-** | - |
| | | **(734,356)** | 644,771 | **48,804** | 1,381,158 |
| Retained profits | (c) | **(4,825,295)** | (4,248,196) | **(4,727,339)** | (3,769,908) |

**(a) Asset revaluation**

*(i) Nature and purpose of reserve*

The asset revaluation reserve is used to record increments and decrements in the value of non-current assets. The reserve can only be used to pay dividends in limited circumstances.

*(ii) Movements in reserve*

| | | | | |
|---|---|---|---|---|
| Balance at beginning of year | **1,388,927** | 1,388,927 | **1,381,158** | 1,426,376 |
| Transfers into / (decrement in) reserve | **(1,388,927)** | - | (1,332,354) | (45,218) |
| Balance at end of year | **-** | 1,388,927 | **48,804** | 1,381,158 |

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |

## 20. RESERVES AND RETAINED PROFITS (Cont'd)

**(b) Foreign Currency translation**

*(i) Nature and purpose of reserve*

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations, the translation of transactions that hedge the Company's net investment in a foreign operation or the translation of foreign currency monetary items forming part of the net investment in a self-sustaining operation. Refer to accounting policy Note 1

| *(ii) Movements in reserve* | | | | | |
|---|---|---|---|---|---|
| Balance at beginning of year | | **(744,156)** | (170,243) | - | - |
| Transfers into reserve | | **9,800** | (573,913) | - | - |
| Balance at end of year | | **(734,356)** | (744,156) | - | - |

| **(c) Retained profits** | | | | | |
|---|---|---|---|---|---|
| Balance at the beginning of year | | **(4,248,196)** | (3,882,475) | **(3,769,908)** | (3,482,690) |
| Net loss attributable to members of Dulhunty Power Limited | | **(577,099)** | (365,721) | **(957,431)** | (287,218) |
| Balance at end of year | | **4,825,295** | (4,248,196) | **(4,727,339)** | (3,769,908) |

## 21. DIVIDENDS PAID OR PROVIDED FOR ON ORDINARY SHARES

No dividends have been paid or proposed for the year ended 30 June 2005 (2004: Nil)

**(a) Franking credits balance**

The amount of franking credits available for the subsequent financial year are:

| | | | | | |
|---|---|---|---|---|---|
| – franking account balance as at the end of the financial year at 30% (2004: 30%) | | | | **1,868** | 1,868 |

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **22. OUTSIDE EQUITY INTEREST** | | | | | |
| Reconciliation of outside equity interest in controlled entities: | | | | | |
| Interest in retained profits at the beginning of the financial year after adjusting for outside equity interests in entities acquired during the year | | **113,355** | 66,418 | | |
| Interest in operating profit from ordinary activities after tax | | **54,254** | 46,937 | | |
| Interest in Share Capital | (a) | **1,821,274** | 968,557 | | |
| Interest in Reserves | | **607,136** | 740,658 | | |
| Closing balance | | **2,596,019** | 1,822,570 | | |

(a) As a result of the conversion of convertible notes into equity in Dulhunty Engineering Limited (DEL), new equity in DEL has been issued to outside equity interests (OEI) which has resulted in a decline in parent entity interest (PEI) in the DEL operating group from 68.42% to 50%. This capital transaction between the controlled entity and outside shareholders has increased the net assets of the economic entity by $852,714 by removing debt from the subsidiary balance sheet. The transaction has no impact on the retained profits or accumulated losses and reserves of the economic entity and causes no gain or loss to the economic entity. However the PEI has made a notional loss by not maintaining its proportionate ownership interest in the subsidiary and an equivalent gain has been made by the OEI. Refer note 3(b).

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **23. STATEMENT OF CASH FLOWS** | | | | | |
| **(a) Reconciliation of the net profit after tax to the net cash flows from operations** | | | | | |
| Net Loss | | **(522,845)** | (318,784) | **(957,431)** | (287,218) |
| **Non-Cash Items** | | | | | |
| Depreciation of non-current assets | | **217,536** | 198,993 | **1,277** | 1,978 |
| Amortisation of intangible assets | | **323,067** | 303,010 | | |
| Provision for doubtful debt | | **-** | - | **958,646** | - |
| Net (Increase)/Decrease in value of non-current assets | | **93,581** | - | **-** | - |
| Net (Increase)/Decrease in value of current assets | | **380,023** | - | **-** | - |
| Net movement in provisions | | **47,619** | (45,075) | **-** | - |
| Net (profit)/loss on disposal of financial assets | | **-** | (247) | **-** | - |
| Unrealised foreign exchange movements | | **(58,894)** | (16,365) | **-** | - |
| **Changes in assets and liabilities** | | | | | |
| (Increase)/decrease in trade and other receivables | | **(71,733)** | (1,639,481) | **(14,677)** | 49,288 |
| (Increase)/decrease in inventory | | **(407,163** | 244,480 | | - |
| (Decrease)/increase in payables | | **(95,837)** | 1,278,434 | **(160,639)** | (67,578) |
| Net cash flow from operating activities | | **(94,646)** | 4,965 | **(172,824)** | (303,530) |

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |
| **23. STATEMENT OF CASH FLOWS (Cont'd)** | | | | | |
| **(b) Reconciliation of cash** | | | | | |
| Cash balance comprises: | | | | | |
| Cash on hand | | **321,800** | 665,027 | **917** | 5,126 |
| Bank overdraft | | **(1,053,069)** | (838,669) | **(198,826)** | (144,414) |
| Closing cash balance | | **(731,269)** | (173,642) | **(197,909)** | (139,288) |
| **24. COMMITMENTS** | | | | | |
| **(a) Employee benefits and superannuation commitments** | | | | | |
| The aggregate employee benefit liability comprises of: | | | | | |
| Accrued wages, salaries, bonuses and on costs | | **38,648** | 40,976 | - | - |
| Provisions (current) | | **120,238** | 87,882 | - | - |
| Provisions (non-current) | | **4,904** | - | - | - |
| | | **163,790** | 128,858 | - | - |
| **(b) Non-cancellable operating lease expense commitments** | | | | | |
| Future operating lease commitments not provided for in the financial statements and payable: | | | | | |
| Within one year | | **388,870** | 120,162 | - | - |
| One year or later and no later than five years | | **1,679,174** | 200,270 | - | - |
| Later than five years | | **1,140** | - | - | |
| | | **2,069,184** | 320,432 | - | - |

## 25. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Details of contingent liabilities and contingent assets where the probability of future payments/receipts is not considered remote are set out below, together with details of contingent liabilities and contingent assets, which although considered remote, the directors consider should be disclosed. The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required or the amount is not capable of reliable measurement.

**(a) Contingent liabilities considered remote**

**Other persons**

**John Fielding Pty Limited**

Previous financial statements of the Company have noted a contingent liability to John Fielding Pty Ltd for services carried out prior to 30 June 1995 in regards to amendments to income tax returns. However in accordance with the contract no fee is payable until a cash benefit is received by the Company. At this stage no cash benefit has been received by the Company. The maximum liability is $130,241.

**Bank Guarantee**

A controlled entity has provided indemnities to its bankers in respect of bank guarantees given by the bank to third parties. The maximum liability is $84,329 (2004-$79,235).

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |

**26. SUBSEQUENT EVENTS**

**International Financial Reporting Standards**

For reporting periods beginning on or after 1 January 2005 the consolidated entity must comply with Australia equivalents to International Financial reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 32 to the financial statements.

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

**27. EARNINGS PER SHARE**

| | 2005 | 2004 |
|---|---|---|
| The following reflects the income and share data used in the calculations of basic and diluted earnings per share: | | |
| Net Loss | **(522,845)** | (318,784) |
| **Adjustments:** | | |
| Net profit attributable to outside equity interest | **(54,254)** | (46,937) |
| Earnings used in calculating basic and diluted earnings per share | **(577,099)** | (365,721) |
| | **Number of shares** | **Number of shares** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | **58,437,703** | 57,711,694 |

There are no securities that have a dilutive effect on the earnings per ordinary share.

**28. AUDITORS' REMUNERATION**

| | Economic Entity 2005 | Economic Entity 2004 | Dulhunty Power Limited 2005 | Dulhunty Power Limited 2004 |
|---|---|---|---|---|
| Amounts received or due and receivable by Gould Ralph & Company for: | | | | |
| - audit or review of the financial report of the entity and any other entity in the consolidated entity | **55,000** | 70,716 | **34,909** | 15,072 |
| - other services in relation to the entity and any other entity in the consolidated entity | **9,010** | 7,343 | **8,260** | 3,601 |
| | **64,010** | 78,059 | **43,169** | 18,673 |
| Other auditors: | | | | |
| Audit and review of financial reports | **19,844** | 13,631 | - | - |
| Other services | **6,988** | 8,536 | - | - |
| | **26,832** | 22,167 | - | - |
| | **90,842** | 100,226 | **43,169** | 18,673 |

# Notes continued

**30 JUNE 2005**

| | Notes | ECONOMIC ENTITY | | DULHUNTY POWER LIMITED | |
|---|---|---|---|---|---|
| | | 2005 | 2004 | 2005 | 2004 |
| | | $ | $ | $ | $ |

## 29. DIRECTOR AND EXECUTIVE DISCLOSURES

Remuneration levels are set to attract and retain appropriately qualified and experienced Directors and senior executives. The Remuneration Committee obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Executive remuneration packages include a mix of fixed remuneration and performance based remuneration.

The remuneration structures are designed to attract suitably qualified candidates and to effect the broader outcome of increasing the consolidated entity's operating result and net profit attributable to members of the parent entity. The remuneration structures result in and took into account:

- the overall level of remuneration for each director and executive
- the executives ability to control performance: and
- the amount of incentives within each executive's remuneration

Executives may receive bonuses based on the achievement of specific performance hurdles. The performance hurdles are based on the relevant operating subsidiaries' results and on achieving a preset target.

The Board considers that the above remuneration structure is generating the desired result. The evidence for this is firstly, the very strong growth in turnover in this period, and secondly, the performance linked element appears to be appropriate because the executives achieve a level of performance which qualifies them for bonuses.

Total remuneration for all non executive directors, last voted upon by shareholders at the 1999 AGM, is not to exceed $150,000 per annum. Directors base fees are presently up to $20,000. Directors receive additional cash benefit of $2,500 for participation and attendance at audit and remuneration committees.

The following table provides the details of all directors of the Company ("specified directors") and the executives of the consolidated entity with the greatest authority ("specified executives"), and the nature and amount of the elements of their remuneration for the year ended 30 June 2005.

# Notes continued

**30 JUNE 2005**

**Remuneration of specified directors and specified executives by the consolidated entity**

**Specified Directors**

| Name | Position Held | | Primary | | | Post-employment | | Equity Compens -ation | |
|---|---|---|---|---|---|---|---|---|---|
| | | | Salary and Fees | Bonus | Non-monetary benefits | Super-annu-ation | Eligible Terminatio n payment | Value of shares | Total |
| | | | $ | $ | $ | $ | $ | $ | $ |
| Alfred J Chown | Managing Director | **2005** | **63,729** | - | - | - | - | - | **63,729** |
| | | 2004 | 47,529 | - | - | - | - | - | 47,529 |
| Peter C Lucas (resigned 30 June 2004) | Chairman | 2004 | 12,500 | - | - | 844 | - | 12,500 | 25,844 |
| Philip W Dulhunty | Non-executive Director | **2005** | **94,807** | - | - | - | - | - | **94,807** |
| | | 2004 | 103,846 | - | - | 932 | - | - | 104,778 |
| Marcus Everard | Non-executive Director | **2005** | - | - | - | - | - | - | - |
| | | 2004 | - | - | - | - | - | - | - |
| Ian Worner (resigned 28 June 2005 | Non-executive Director | **2005** | **14,063** | | | | | **8,438** | **22,501** |
| | | 2004 | 11,250 | - | - | - | - | 11,250 | 22,500 |
| Peter Dulhunty | Alternative Director and Sales Manager | **2005** | **96,698** | **7,339** | **18,864** | **9,248** | - | - | **132,149** |
| | | 2004 | 96,542 | 7,198 | 10,375 | 9,006 | - | - | 123,121 |
| Brian Mathiesen | Alternative Director and New Zealand Manager (appointed 1 December 2003) | **2005** | **151,224** | **11,074** | - | - | - | - | **162,298** |
| | | 2004 | 110,023 | 15,167 | - | - | - | - | 125,190 |
| | Total, all specified directors | **2005** | **420,521** | **18,413** | **18,864** | **9,248** | | **8,438** | **475,484** |
| | | 2004 | 381,690 | 22,365 | 10,375 | 10,782 | - | 23,750 | 448,962 |

# Notes continued

**30 JUNE 2005**

**Specified Executives**

| Name | Position Held | | Primary: Salary and Fees $ | Primary: Bonus $ | Primary: Non-monetary benefits $ | Post-employment: Superannuation $ | Post-employment: Eligible Termination payment $ | Equity Compensation: Value of shares $ | Total $ |
|---|---|---|---|---|---|---|---|---|---|
| John C Roughan | Chief Executive Officer of Dulhunty Engineering Limited, employed by Dulhunty Power (Aust) Pty Limited | **2005** | **111,480** | **4,231** | **5,641** | **10,281** | - | - | **131,633** |
| | | 2004 | 115,712 | 4,231 | 5,641 | 10,280 | - | - | 135,864 |
| Gregory Knoke | Chief Financial Officer of Dulhunty Power Limited and subsidiaries, employed by Dulhunty Power (Aust) Pty Limited | **2005** | **101,346** | **7,692** | **4,660** | **9,692** | - | - | **123,390** |
| | | 2004 | 99,476 | 7,375 | 8,753 | 9,149 | - | - | 124,753 |
| Joe K Yung | Manager of Dulhunty Yangzhou Line Fittings Co. Limited | **2005** | **104,954** | **8,576** | **4,995** | - | - | - | **118,525** |
| | | 2004 | 114,837 | 9,137 | 5,344 | - | - | - | 129,318 |
| Pana PongPairoj | Manager of Dulhunty Power Thailand Limited | **2005** | **52,543** | - | - | - | - | - | **52,543** |
| David Taylor | Sales Manager | 2004 | 35,200 | - | - | 3,168 | 46,205 | - | 84,573 |
| | Total all specified executives | **2005** | **370,323** | **20,499** | **15,296** | **19,973** | - | - | **426,091** |
| | | 2004 | 365,225 | 20,743 | 19,738 | 22,597 | 46,205 | - | 474,509 |

The company does not have any other specified executives.

# Notes continued

**30 JUNE 2005**

**Equity Instruments – equity holdings and transactions**

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

| | Held at 1 July 2004 | Received in payment of fees | Transfer of shares held indirectly | Purchased | Held at 30 June 2005 |
|---|---|---|---|---|---|
| **Specified directors** | | | | | |
| Alfred J Chown | 11,656,488 | - | (3,990,732) | 468,911 | 8,134,667 |
| Philip W Dulhunty | - | - | - | - | - |
| Marcus Everard | 2,000,000 | - | - | - | 2,000,000 |
| Richard Llewelyn (appointed 20 September 2005) | - | - | - | - | - |
| Ian Worner (resigned 28 June 2005) | 1,079,031 | 319,062 | - | - | 1,398,093 |
| Peter Dulhunty | 6,000,000 | - | - | - | 6,000,000 |
| Brian Mathiesen | 780,371 | - | - | - | 780,371 |
| Paul Grotowski (appointed 26 July 2005) | - | - | - | - | - |
| **Specified executives** | | | | | |
| John C Roughan | - | - | - | 40,000 | 40,000 |
| Gregory Knoke | 5,937,687 | - | (3,990,732) | 468,911 | 2,415,866 |
| Joe K Yung | - | - | - | - | - |
| Pana-Pongpairoj | - | - | - | - | - |
| David Taylor (resigned 30 January 2004) | - | - | - | - | - |

**Equity Instruments – option holdings and transactions**

The movement during the reporting period in the number of options of Dulhunty Power Limited, held directly, indirectly or beneficially, by each specified executive, including their personally-related entities is as follows:

| | Held at 1 July 2004 | Issued under Employee Share Ownership Plan | Held at 30 June 2005 |
|---|---|---|---|
| **Specified directors** | | | |
| Alfred J Chown | - | 100,000 | 100,000 |
| Philip W Dulhunty | - | 100,000 | 100,000 |
| Marcus Everard | - | 100,000 | 100,000 |
| Richard Llewelyn (appointed 20 September 2005) | - | - | - |
| Ian Worner (resigned 28 June 2005) | - | 100,000 | 100,000 |
| Peter Dulhunty | - | 190,826 | 190,826 |
| Brian Mathiesen | - | 150,000 | 150,000 |
| Paul Grotowski (appointed 26 July 2005) | - | - | - |
| **Specified executives** | | | |
| John C Roughan | - | 220,000 | 220,000 |
| Gregory Knoke | - | 200,000 | 200,000 |
| Joe K Yung | - | - | - |
| Pana-Pongpairoj | - | - | - |
| David Taylor (resigned 30 January 2004) | - | - | - |

# Notes continued

**30 JUNE 2005**

**Loans and other transactions with specified directors and executives**

*Loans*

Details regarding loans outstanding at the reporting date to specified directors and specified executives, where the individual aggregate loan balance exceeded $100,000 at any time in the reporting period, is as follows:

| | Balance at 1 July 2004 | Balance at 30 June 2005 | Interest paid or payable in the reporting period | Highest balance in the period |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Specified directors** | | | | |
| Philip W Dulhunty | 102,346 | 180,657 | - | 180,657 |

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the economic entity to each group of specified directors and specified executives, and the number of individuals in each group, are as follows:

| | Opening Balance | Closing Balance | Interest paid and payable | Number in group at 30 June |
|---|---|---|---|---|
| | $ | $ | $ | |
| **Specified directors** | | | | |
| 2005 | 102,346 | 180,657 | - | 1 |
| 2004 | 32,034 | 102,346 | - | 1 |

The above loan is repayable by 30 June 2006. No amounts have been written down or recorded as allowances, as the balance is considered fully collectible.

*Other transactions with the Company or its controlled entities*

A number of specified directors and specified executives, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arm's length basis.

Details of these transactions are as follows:

Mr Alfred Chown is a director of NLP International Limited. A subsidiary company, Dulhunty Engineering Limited during the period employed the services of NLP International Limited as consultant. The consideration paid for these services was $63,729 and is included in directors emoluments as disclosed.

Mr Philip Dulhunty continues to be employed as a consultant to Dulhunty Power (Aust) Pty Limited. The consideration paid for these services was $94,807 and is included in directors emoluments as disclosed.

# Notes continued

**30 JUNE 2005**

## Equity instruments of directors

**Interests at balance date**

Interests in the equity instruments of Dulhunty Power Limited held by Directors of the reporting entity and their director-related entities:

| | Ordinary Shares Fully Paid | |
|---|---|---|
| | **2005** | **2004** |
| | **Number** | **Number** |
| Alfred J. Chown | **8,134,667** | 11,656,488 |
| Ian C. Worner (resigned at 28 June 2005) | **1,398,093** | 1,079,031 |
| Marcus Everard | **2,000,000** | 2,000,000 |
| Peter Dulhunty | **6,000,000** | 6,000,000 |
| Brian Mathiesen | **780,371** | - |

**30. EMPLOYEE BENEFITS**

**Equity-based plans**
***Employee share option plan (ESOP)***

The Company has an employee share option plan approved at the annual general meeting on 21 November 2003.

The plan provides for any employee, including a director or officer, who has been an employee, director or officer of the company or any of its controlled entities for more than six months to receive an offer from the company for options over ordinary shares each year for no consideration.

Each option is convertible to one ordinary share. The exercise price of the options, determined in accordance with the Rules of the plan, is based on the weighted average price of the Company's shares traded during the twenty trading days preceding the date of the company offering the option.

Options are exercisable commencing either 1) For employees, directors or officers who have been in the employ of the company or any controlled entity for longer than 12 months, 14 days after the acceptance of the offer by the employee; or 2) for any other employee, director or officer, 14 days after such person` completes 12 months of employment with the company or any of its controlled entities. All options expire on the earlier of three years after their issue or twelve months after the termination of the employee's employment. There are no voting or dividend rights attached to the options. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised.

*Summary of options over unissued ordinary shares*
Details of options over unissued ordinary shares as at the beginning and ending of the reporting date and movements during the year are as follows:

| Grant date | Exercise date on or after | Expiry date | Exer--cise price | Number of options at the beginning of the year | Options granted | Number of options at the end of the year on issue |
|---|---|---|---|---|---|---|
| 8 December 2004 | 22 December 2004 | 8 December 2007 | 4.18¢ | - | 1,958,626 | 1,958,626 |

No options have been exercised during the year, and therefore no proceeds have been received on the exercise of options.

# Notes continued

**30 JUNE 2005**

**31. SEGMENT INFORMATION**

**Segment products and locations**

The economic entity comprises the following main business segments based on the economic entity's management reporting system:

Investment:- provision of investment capital to small to medium sized enterprises, focusing on the power sector.

Energy: - the manufacture and distribution of products and services in the Electricity Transmission and Distribution sector of industry, as well as the development of energy generation technology.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of the entity generating the revenue. Segment assets are based on the geographical location of the assets. The consolidated entity's business segments operate geographically as follows:

Australia:- provision of investment and development capital and the development of energy generation technology. Assembly and distribution of products and provision of services in the Electricity Transmission and Distribution sector of industry.

Asia:- manufacture and distribution of products in the Electricity Transmission and Distribution sector of industry. Manufacture and distribution of anchor systems and foundry products.

New Zealand:- distribution of products in the Electricity Transmission and Distribution sector of industry.

**Segment accounting policies**

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

# Notes continued

**30 JUNE 2005**

**31. SEGMENT INFORMATION - PRIMARY SEGMENT**

| Business segments | Investment | | Energy | | Eliminations | | Economic Entity | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Revenue** | | | | | | | | |
| Sales / services to customers outside the consolidated entity | - | 4,273 | **9,564,000** | 9,527,593 | - | - | **9,564,000** | 9,531,866 |
| Other revenues from customers outside the consolidated entity | **236,023** | 38,800 | **55,381** | 92,642 | **(87,470)** | - | **203,934** | 131,442 |
| Intersegment revenues | - | 12,500 | - | - | - | (12,500) | - | |
| Total segment revenue | **236,023** | 55,573 | **9,619,381** | 9,620,235 | **(87,470)** | (12,500) | **9,767,934** | 9,663,308 |
| Non-segment revenues | | | | | | | - | - |
| Unallocated revenue | | | | | | | - | - |
| Total consolidated revenue | | | | | | | **9,767,934** | 9,663,308 |
| **Results** | | | | | | | | |
| Segment result | **(944,191)** | (286,957) | **(448,013)** | (15,274) | **958,645** | - | **(433,559)** | (302,231) |
| Non-segment expenses | | | | | | | - | - |
| Consolidated entity profit from ordinary activities before income tax expense | | | | | | | **(433,559)** | (302,231) |
| Income tax expense | | | | | | | **(89,286)** | (16,553) |
| Consolidated entity profit from ordinary activities after income tax expense | | | | | | | **(522,845)** | (318,784) |
| Net Loss | | | | | | | **(522,845)** | (318,784) |

# Notes continued

30 JUNE 2005

31. SEGMENT INFORMATION - PRIMARY SEGMENT (cont'd)

| Business segments | Investment | | Energy | | Eliminations | | Economic Entity | |
|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| **Assets** | | | | | | | | |
| Segment assets | **3,340,712** | 3,246,478 | **9,626,694** | 12,176,228 | **(4,339,091)** | (4,337,918) | **8,628,315** | 11,084,788 |
| Non-segment assets | | | | | | | - | - |
| Total assets | | | | | | | **8,628,315** | 11,084,788 |
| **Liabilities** | | | | | | | | |
| Segment liabilities | **1,991,146** | 1,931,679 | **3,636,496** | 4,900,175 | **(89,801)** | - | **5,537,841** | 6,831,854 |
| Non-segment liabilities: | | | | | | | | |
| Total liabilities | | | | | | | **5,537,841** | 6,831,854 |
| **Other segment information:** | | | | | | | | |
| Acquisition of property, plant and equipment, intangible assets and other non-current assets | - | 755 | **358,670** | 289,518 | - | - | **358,670** | 290,273 |
| Depreciation and amortisation | **1,277** | 1,978 | **216,259** | 197,015 | - | - | **520,546** | 502,003 |

31. SEGMENT INFORMATION - SECONDARY SEGMENT

| Geographic segments | Asia | | Australia | | New Zealand | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ |
| **Segment revenue** | **3,251,791** | 2,611,078 | **6,662,329** | 6,229,709 | **1,737,308** | 1,403,266 | **(1,883,494)** | (580,745) | **9,767,934** | 9,663,308 |
| **Segment assets** | **9,373,788** | 9,972,398 | **8,127,476** | 9,588,820 | **566,527** | 308,906 | **(9,439,476)** | (8,785,336) | **8,628,315** | 11,084,788 |
| **Other segment information:** | | | | | | | | | | |
| Acquisition of property, plant and equipment, intangible assets and other non-current assets | **234,701** | 82,431 | **109,795** | 207,562 | **14,174** | 280 | - | - | **358,670** | 290,273 |

# Notes continued

**30 JUNE 2005**

## 32. FINANCIAL INSTRUMENTS

### 32 (a) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

| Financial Instruments | Floating interest rate | | Fixed interest rate maturing in: 1 year or less | | Fixed interest rate maturing in: Over 1 to 5 years | | Non-interest bearing | | Total carrying amount as per the statement of financial position | | Weighted average effective interest rate | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | $ | $ | $ | $ | $ | $ | $ | $ | $ | $ | % | % |
| *(i) Financial assets* | | | | | | | | | | | | |
| Cash | **247,323** | 591,382 | **74,477** | 72,464 | **-** | - | **-** | 1,181 | **321,800** | 665,027 | **2.2** | 0.5 |
| Trade and other receivables | **-** | - | **-** | - | **-** | - | **3,054,502** | 2,947,199 | **3,054,502** | 2,947,199 | **-** | - |
| Unlisted shares | **-** | - | **-** | - | **-** | - | **90,000** | 90,000 | **90,000** | 90,000 | **-** | - |
| Total financial assets | **247,323** | 591,382 | **74,477** | 72,464 | **-** | - | **3,144,502** | 3,038,380 | **3,466,302** | 3,702,226 | | |
| *(ii) Financial liabilities* | | | | | | | | | | | | |
| Bank overdraft | **-** | 838,669 | **-** | - | **-** | - | **-** | - | **1,053,070** | 838,669 | **8.7** | 7.9 |
| Trade creditors | **-** | - | | - | | - | **1,307,018** | 2,510,326 | **1,307,018** | 2,510,326 | **-** | - |
| Other creditors | **-** | - | | - | | - | **1,241,023** | 525,173 | **1,241,023** | 525,173 | **-** | - |
| Bank and other loans | **347,714** | 402,182 | **107,732** | 92,856 | **99,676** | 1,085,008 | **-** | - | **555,122** | 1,580,046 | **6.6** | 5.2 |
| Deferred cash settlement for controlled entity acquired | **886,051** | 877,153 | | - | **-** | - | **328,127** | 362,161 | **1,214,178** | 1,239,314 | **11.3** | 10.5 |
| Total financial liabilities | **2,286,835** | 2,118,004 | **182,209** | 92,856 | **99,676** | 1,085,008 | **2,876,168** | 3,397,660 | **5,370,411** | 6,693,528 | | |

# Notes continued

**30 JUNE 2005**

**32. FINANCIAL INSTRUMENTS (cont'd)**

**32(b) Net fair values**

All financial assets and liabilities have been recognised at the balance date at their net fair values.

**Notes**

*The following methods and assumptions are used to determine the net fair values of financial assets and liabilities*

**Recognised financial instruments**

*Cash, cash equivalents and short-term investments:* The carrying amount approximates fair value because of their short-term to maturity.

*Trade receivables, trade creditors and dividends receivable:* The carrying amount approximates fair value.

*Short-term borrowings:* The carrying amount approximates fair value because of their short-term to maturity.

*Long-term loans receivable:* The fair values of long-term loans receivable are estimated using discounted cash flow analysis, based on current incremental lending rates for similar types of lending arrangements.

*Long-term bank borrowings and debentures:* The fair values of long-term borrowings are estimated using discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

*Non-current investments/securities:* For financial instruments traded in organised financial markets, fair value is the current quoted market bid price for an asset or offer price for a liability, adjusted for transaction costs necessary to realise the asset or settle the liability. For investments where there is no quoted market price, a reasonable estimate of the fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows or the underlying net asset base of the investment/security. The net fair value of the unlisted options is determined to be the difference between the market price and the exercise price of the underlying shares.

*Deferred cash settlement for controlled entity acquired:* The carrying value of the deferred cash settlement for the controlled entity acquired approximates its fair value. The fair value is estimated using current commercial borrowing rates for similar types of borrowing arrangements.

*Forward exchange contracts:* The fair values of forward exchange contracts is determined as the recognised gain or loss at reporting date calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

**32(c) Credit risk exposures**

*Concentrations of credit risk*

The company minimises concentrations of credit risk in relation to trade receivables by undertaking transactions with a large number of customers from across the range of business segments in which the group operates. Refer also to Note 31 - Segment Information.

* The maximum credit risk exposure does not take into account the value of any collateral or other security held, in the event other entities/parties fail to perform their obligations under the financial instruments in question.

**33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS**

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP) applicable for reporting periods ended 30 June 2005.

**Transition management**

The board has established a formal implementation project, monitored by a steering committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the 30 June 2006 financial year.

# Notes continued

**30 JUNE 2005**

**33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)**

***Assessment and planning phase***

The assessment and planning phase generated a high level overview of the impacts of conversion to AIFRS on existing accounting and reporting policies and procedures, systems and processes, business structures and staff.

The assessment and planning phase is substantially completed as at 30 June 2005.

**Design phase**

The design phase formulated the changes required to existing accounting policies and procedures and systems and processes in order to transition to AIFRS.

The design phase is substantially completed as at 30 June 2005.

***Implementation phase***

The implementation phase includes implementation of identified changes to accounting and business procedures, processes and systems and operational training for staff and enables the consolidated entity to generate the required reconciliations and disclosures of AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards.*

This phase is substantially complete as at 30 June 2005.

**Impact of transition to AIFRS**

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliations from current Australian GAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half-year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary, therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliations from current Australian GAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Note. Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the 30 June 2005 financial report.
- additional guidance on the application of AIFRS in a particular industry or to a particular transaction
- changes to the Company's and consolidated entity's operations.

Where the application or interpretation of an accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of those deliberations. The uncertainty relating to the accounting guidance is disclosed in the relevant accounting policy note and where practicable, the expected impact of the alternative interpretation is also disclosed.

The rules for first time adoption of AIFRS are set out in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards.* In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS. The accounting policies note includes details of the AASB 1 elections adopted.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below:

*(a) Leased assets*

Classification

At the date for transition to AIFRS leases will be classified as operating leases or finance leases on the basis of circumstance existing at inception of the lease. Under Australian GAAP certain leases were classified as operating leases that are classified as finance leases under AIFRS due to differences in the classification criteria. AIFRS requires consideration of the probability of expected risks and benefits not just the possible risks and benefits.

No adjustments are expected for the Company or economic entity.

# Notes continued

**30 JUNE 2005**

### 33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

*(b) Goodwill*
Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. In respect of acquisitions prior to transition date, goodwill is expected to be included on the basis of its deemed cost, which represents the amount recorded under Australian GAAP, adjusted for reclassifications of other intangible assets not meeting the AIFRS recognition criteria. Dulhunty Power Limited expects to elect not to apply AASB 3 *Business Combinations* to past business combinations, as permitted by AASB 1 *First-time adoption of Australian Equivalents to International Financial Reporting Standards*. No adjustments are expected for the Company or economic entity.

Goodwill will be stated at cost less any accumulated impairment losses. Goodwill will be allocated to cash generating units and tested annually for impairment (refer (d) for further details on impairment testing). Negative goodwill arising on acquisition will be recognised directly in profit and loss unless it is deemed to be a transaction with owners. Under current Australian GAAP negative goodwill is allocated to the non-monetary assets acquired. There is no expected impact of this change in treatment on transition.

*Research and development*
Under AIFRS expenditure on research activities will be expensed as incurred. Under A-GAAP expenditure on development activities may be capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete the development. Capitalised development expenditure will be stated at cost less accumulated amortisation and impairment losses.

No research and development expenditure has been capitalised under current Australian GAAP in the year ended 30 June 2005, therefore there is no impact expected for the Company or economic entity.

*Other intangible assets*
Other intangible assets acquired will be stated at cost less accumulated amortisation and impairment losses. On transition other intangible assets are being reviewed to ensure they are capable of recognition under AASB 138, *Intangible Assets* and tested for impairment. No reclassifications or impairment losses are expected.

*(c) Amortisation*
Amortisation will be recognised on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Goodwill and intangible assets with an indefinite useful life will not be subject to amortisation but tested for impairment annually. Other intangible assets will be amortised from the date they are available for use. Changes in useful life on transition to AIFRS will be accounted for prospectively. Intangible assets are expected to have infinite lives.

The impact on the results for the year ended 30 June 2005 is expected to be a profit of $303,011 from the reversal of the goodwill amortisation, and a profit of $57,469 from the reversal of amortisation of the intellectual property, for the consolidated entity and no impact for the Company.

*(d) Impairment*
Under current Australian GAAP the carrying amounts of non-current assets valued on a cost basis are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. Where a group of assets working together supports the generation of cash inflows, recoverable amount is assessed in relation to that group of assets. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under current Australian GAAP the collectibility of receivables is assessed at each reporting date and a provision is raised based on the age of the outstanding overdue balance to allow for doubtful accounts. Under AIFRS, the carrying amount of the consolidated entity's non-current assets, excluding deferred tax assets, goodwill and indefinite life intangible assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

Goodwill, which is not amortised under AIFRS, intangible assets that have an indefinite useful life and intangible assets not yet ready for use are tested for impairment annually. If there is any indication that an asset is impaired (or for those tested annually), the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash generating unit to which the asset belongs will be determined.

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets. Each cash-generating unit must be no larger than a segment. An impairment loss will be recognised whenever the carrying amount of an asset, or its cash generating unit, exceeds its recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be treated in the same way as a revaluation decrease.

# Notes continued

**30 JUNE 2005**

### 33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

Goodwill and indefinite life intangible assets will be tested for impairment as at transition date. No impact is expected for the economic entity or company

*Calculation of recoverable amount*
Under current Australian GAAP, the recoverable amount of non-current assets was assessed at an entity level using undiscounted cash flows.

Under AIFRS, receivable with a short duration are not discounted. The recoverable amount of other assets will be the greater of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows will be discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the risks specific to the asset or cash generating unit. Cash flows will be estimated for the asset or cash generating unit in its current condition and therefore will not include cash inflows and outflows improving or enhancing the asset's performance or expected to arise from future restructuring not yet committed to at testing date.

No impact of the change in the basis of impairment testing for trade receivables is expected for the company and economic entity.

*Reversals of impairment*
Under current Australian GAAP impairment losses may have been reversed. However, the economic entity made no such reversals. Under AIFRS an impairment loss in respect of goodwill must not be reversed. In respect of other assets, an impairment loss will be reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss will be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. There is no expected impact of this change in treatment on transition.

*(e) Taxation*
On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the liability method applied currently under Australian GAAP. Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax payable in respect of previous years. Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences will not be provided for: goodwill for which amortisation is not tax deductible, the initial recognition of assets and liabilities that affect neither accounting or taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided will be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

No adjustments are expected for the Company or economic entity.

*(f) Employee benefits*
Share based payments
Under current Australian GAAP no expense is recognised for options issued to employees. Under AIFRS, the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees becomes unconditionally entitled to the options. The fair value of options granted will be measured using the binomial method, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

For the financial year ended 30 June 2005, employee benefits expense and retained earnings of the economic entity and company are not expected to be impacted materially by the application of AIFRS.

# Notes continued

**30 JUNE 2005**

**33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)**

*(g) Foreign currency*
*Financial statements of foreign operations*
Under current Australian GAAP, the assets and liabilities of self-sustaining foreign operations are translated at the rates of exchange ruling at reporting date. Equity items and goodwill are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are recognised directly in the foreign currency translation reserve until disposal of the operation, when it is transferred directly to retained earnings.

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

Under AIFRS each entity in the consolidated entity determines its functional currency, being the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's presentation currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenues and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity. There are no expected changes in functional currency for the Company or its subsidiaries.

All foreign operations are translated into Australian dollars using the method described above, the concepts of 'self-sustaining' and 'integrated' operations do not exist in the AIFRS framework. On disposal of a foreign operation, the amount recognised in the foreign currency translation reserve attributable to the foreign operation is included in the calculation of gain or loss on disposal and recycled through the current year income statement.

The AASB 1 election to reset existing foreign currency translation reserve balance to nil is expected to be adopted. Goodwill and fair value adjustments arising on acquisition of foreign operations prior to transition date continue to be translated at historical rates as permitted by AASB 1, therefore there is no impact on transition in respect of this change.

The impact of the application of the transitional election to reset the foreign currency translation reserve for the year ended 30 June 2005 on the economic entity is to increase the foreign currency translation reserve by $744,156 and decrease the retained profits by the same amount.

*(h) Financial Instruments*
Dulhunty Power Limited expects to take advantage of the election in AASB 1 to not restate comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation;* and AASB 139 *Financial Instruments: Recognition and Measurement.* There are no expected adjustments in relation to these standards, for the economic entity and the company, for 1 July 2004 or the financial year ended 30 June 2005 as current Australian GAAP is expected to continue to apply.

The entity has followed Australian GAAP in accounting for financial instruments within the scope of AASB 132 and AASB 139 as described in Note 1, Statement of significant accounting policies.

# Notes continued

**30 JUNE 2005**

**33. IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)*Summary of Transitional Adjustments***

The following sets out the expected adjustments to the statement of financial position of the company and the consolidated entity at transition to AIFRS as at 1 July 2004 and for the AIFRS comparative period balance sheet as at 30 June 2005.

| | Economic Entity 1 July 2004 $ | | | Economic Entity 30 June 2005 $ | | | Company 1 July 2004 $ | | | Company 30 June 2005 $ | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | AGAAP | Transition Impact | AIFRS | AGAAP | Transition Impact | AIFRS | AGAAP | Transition Impact | AIFRS | AGAAP | Transition Impact | AIFRS |
| **ASSETS** | | | | | | | | | | | | |
| **TOTAL CURRENT ASSETS** | 5,830,976 | | 5,830,976 | 5,101,179 | | 5,101,179 | 969,921 | | 969,921 | 106,765 | | 106,765 |
| **NON-CURRENT ASSETS** | | | | | | | | | | | | |
| Receivables | - | | - | - | | - | 2,977,357 | | 2,977,357 | 2,977,357 | | 2,977,357 |
| Other financial assets | 90,000 | | 90,000 | 90,000 | | 90,000 | 1,471,480 | | 1,471,480 | 139,126 | | 139,126 |
| Property, plant & equipment | 961,957 | | 961,957 | 1,001,195 | | 1,001,195 | 3,816 | | 3,816 | 2,539 | | 2,539 |
| Intangible assets | 4,201,855 | 78,461 | 4,280,316 | 2,435,941 | 360,480 | 2,796,421 | - | | - | - | | - |
| Total non-current assets | 5,253,812 | | 5,332,273 | 3,527,136 | | 3,887,616 | 4,452,653 | | 4,452,653 | 3,119,022 | | 3,119,022 |
| **TOTAL ASSETS** | 11,084,788 | | 11,163,249 | 8,628,315 | | 8,988,795 | 5,422,574 | | 5,422,574 | 3,225,787 | | 3,225,787 |
| **LIABILITIES** | | | | | | | | | | | | |
| **TOTAL CURRENT LIABILITIES** | 4,266,450 | | 4,266,450 | 4,098,062 | | 4,098,062 | 538,221 | | 538,221 | 701,630 | | 701,630 |
| **NON-CURRENT LIABILITIES** | | | | | | | | | | | | |
| Payables | 362,161 | | 362,161 | 328,127 | | 328,127 | 362,161 | | 362,161 | 328,127 | | 328,127 |
| Interest-bearing liabilities | 2,203,243 | | 2,203,243 | 1,106,753 | | 1,106,753 | 877,153 | | 877,153 | 820,464 | | 820,464 |
| Provision | - | | - | 4,899 | | 4,899 | - | | - | - | | - |
| Total Non-Current liabilities | 2,565,404 | | 2,565,404 | 1,439,779 | | 1,439,779 | 1,239,314 | | 1,239,314 | 1,148,591 | | 1,148,591 |
| **TOTAL LIABILITIES** | 6,831,854 | | 6,831,854 | 5,537,841 | | 5,537,841 | 1,777,535 | | 1,777,535 | 1,850,221 | | 1,850,221 |
| **NET ASSETS** | 4,252,934 | | 4,331,395 | 3,090,474 | | 3,450,954 | 3,645,039 | | 3,645,039 | 1,375,566 | | 1,375,566 |
| **EQUITY** | | | | | | | | | | | | |
| Contributed equity | 6,033,789 | | 6,033,789 | 6,054,101 | | 6,054,101 | 6,033,789 | | 6,033,789 | 6,054,101 | | 6,054,101 |
| Reserves | 644,771 | 744,156 | 1,388,927 | (734,356) | (744,156) | 9,800 | 1,381,158 | | 1,381,158 | 48,804 | | 48,804 |
| Accumulated losses | (4,248,196) | (665,695) | (4,913,891) | (4,825,290) | (383,676) | (5,208,966) | (3,769,908) | | (3,769,908) | (4,727,339) | | (4,727,339) |
| Outside equity interest | 1,822,570 | | 1,822,570 | 2,596,019 | | 2,596,019 | - | | - | - | | - |
| **TOTAL EQUITY** | 4,252,934 | | 4,331,395 | 3,090,474 | | 3,450,954 | 3,645,039 | | 3,645,039 | 1,375,566 | | 1,375,566 |

# Notes continued

**30 JUNE 2005**

**33 IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Cont'd)**

***Reconciliation of profit for the financial year ended 30 June 2005***

The following sets out the expected adjustments to the statement of financial position of the company and the consolidated entity for the year ended 30 June 2005.

| | Economic Entity Year ended 30 June 2005 $ | | | Company Year ended 30 June 2005 $ | | |
|---|---|---|---|---|---|---|
| | AGAAP | Transitional Impact | AIFRS | AGAAP | Transitional Impact | AIFRS |
| Total revenue | 9,767,934 | - | 9,767,934 | 221,538 | | 221,538 |
| Total expenses | (10,201,493) | 360,480 | (9,841,013) | (1,178,969) | | (1,178,969) |
| Loss from ordinary activities before income tax | (433,559) | | (73,079) | (957,431) | | (957,431) |
| Income tax benefit/(expense) relating to ordinary activities | (89,286) | | (89,286) | - | | - |
| Net profit attributable to outside equity interest | (54,254) | | (54,254) | - | | - |
| Net profit attributable to members of parent entity | (577,099) | | (216,619) | (957,431) | | (957,431) |

***Summary of impact of transition to AIFRS on retained earnings***

The impact of the transition to AIFRS on retained earnings as at 1 July 2004 is summarised below.

| | Consolidated $ | Company $ |
|---|---|---|
| Accumulated losses at 1 July 2004 under AGAAP | (4,248,196) | (3,769,908) |
| AIFRS Reconciliation:- | | |
| Impact of amortisation of Intellectual Property | 78,461 | - |
| Impact of Foreign Currency Translation Reserve | (744,156) | - |
| **Retained earnings at 1 July 2004 under AIFRS** | (4,913,891) | (3,769,908) |

# Directors' Declaration

In accordance with a resolution of the Directors of Dulhunty Power Limited, I state that:

In the opinion of the Directors:

(a) the financial statements and notes of the company and of the economic entity are 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 2005 and of their performance as represented by the results of their operations and their cash flows for the year ended on that date; and

   (ii) complying with Accounting Standards in Australia and Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made to directors in accordance with Section 295A of the Corporations Act 2001, for the financial period ending 30 June 2005.

On behalf of the Board

A. J. Chown

Alfred J Chown
Director

Hong Kong, 29 September 2005

# Independent audit report to members of Dulhunty Power Limited

**Scope**

**The financial report and directors' responsibility**

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Dulhunty Power Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

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

**Audit approach**

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

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

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

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

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

**Independence**

We are independent of the company, and have met the independent requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the directors' report. In addition to our audit of the financial report and the additional disclosures, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

**Audit opinion**

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

(a) the *Corporations Act 2001*, including:

(i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of its performance for the year ended on that date; and

(ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

(b) other mandatory financial reporting requirements in Australia.

GOULD RALPH & COMPANY
Chartered Accountants

GREG RALPH M.Com., F.C.A.
Partner

29 September 2005, Sydney

Liability limited by a scheme approved under Professional Standards Legislation

# ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 31 August 2005.

**(a) Distribution of equity securities**

The number of shareholders, by size of holding, in each class of share are:

| | Ordinary shares | |
|---|---|---|
| | **Number of holders** | **Number of shares** |
| 1 - 1,000 | **101** | **58,855** |
| 1,001 - 5,000 | **310** | **787,048** |
| 5,001 - 10,000 | **142** | **1,059,767** |
| 10,001 - 100,000 | **184** | **5,626,900** |
| 100,001 and over | **72** | **51,230,908** |
| | **809** | **58,763,478** |
| The number of shareholders holding less than a marketable parcel of shares are: | **605** | **2,553,163** |

**(b) Twenty largest shareholders**

The names of the twenty largest holders of quoted shares are:

| | | Listed ordinary shares | |
|---|---|---|---|
| | | **Number of shares** | **Percentage of ordinary shares** |
| 1 | NLP International Ltd | **7,884,667** | **13.4** |
| 2 | Peter Dulhunty | **6,000,000** | **10.2** |
| 3 | Hot Springs Pty Ltd | **3,000,000** | **5.1** |
| 4 | Edmund Lacis | **2,893,936** | **4.9** |
| 5 | Zurich Square Investments Limited | **2,554,783** | **4.3** |
| 6 | Westpac Custodian Nominees | **2,302,548** | **3.9** |
| 7 | G.T. Consultants Ltd | **2,165,866** | **3.7** |
| 8 | Kexby Finance | **2,000,000** | **3.4** |
| 9 | Brendon A. Park | **1,544,522** | **2.6** |
| 10 | Granic Pty Ltd | **1,094,661** | **1.9** |
| 11 | Daradine Pty Ltd | **1,000,000** | **1.7** |
| 12 | Cliff Robertson | **968,911** | **1.6** |
| 13 | POW Communications Pty Ltd | **940,793** | **1.6** |
| 14 | Brian Mathiesen | **780,371** | **1.3** |
| 15 | J. Herbert Smith | **730,112** | **1.2** |
| 16 | Lisblue Pty Ltd | **764,864** | **1.3** |
| 17 | Philip Beard | **750,000** | **1.3** |
| 18 | Ian Clyne | **656,038** | **1.1** |
| 19 | Ian C. Worner | **633,229** | **1.1** |
| 20 | Mr Tony Mitchell | **566,025** | **1.0** |
| | | **39,231,326** | **66.8%** |

# ASX Additional Information

**(c) Substantial shareholders**

The number of shares held by substantial shareholders are:

| | Number of Shares |
|---|---|
| NLP International Limited | 7,884,667 |
| Peter Dulhunty | 6,000,000 |
| Hot Springs Pty Limited | 3,000,000 |

**(d) Voting rights**

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.

# Corporate Governance Statement

**Corporate Governance Statement**
Dulhunty Power Limited's corporate governance practices were in place throughout the year ended 30 June 2005 and were fully compliant with the ASX Corporate Governance Council best practice recommendations, unless otherwise stated below.

**Board of Directors**
The board of directors guides and monitors the business and affairs of Dulhunty Power Limited on behalf of the shareholders by whom they are elected and to whom they are accountable. The board of directors of Dulhunty Power Limited is responsible for the overall corporate governance of the consolidated entity . To assist the Board in discharging it's responsibilities it has adopted the following principles of corporate governance that are considered appropriate for the present size of the Economic Entity and that unless otherwise explained, follow the recommendations of the Australian Stock Exchange (ASX) Corporate Governance Council. The Board is responsible for:

- formulating strategic direction and monitoring performance objectives
- developing and monitoring adoption of the most appropriate principles of corporate governance
- reviewing and ratifying systems of risk management and internal control, codes of conduct and legal compliance
- approving and monitoring the progress of major capital expenditure projects, funding programmes, acquisitions and divestments
- reviewing and approving annual business plans and budgets
- reviewing and ratifying systems for health, safety and environmental management and controls
- appointing and evaluating the performance of senior executives
- appointing, removing and creating succession policies for directors and senior executives.
- approving and monitoring financial and other reporting. The board has delegated responsibility for operation and day to day administration of the company to the Chief Executive Officer, Chief Financial Officer and executive management.

**Board Composition**
The composition of the Board is determined in compliance with the Parent Entity's constitution. The names of the directors of the company in office at the date of this report, their term of office and their skills, experience and relevant expertise are detailed in the director's report.

The names of independent directors of the company are:

Marcus Everard Richard Llewellyn

An independent director is a director who is not a member of management and who:

- Is not a substantial shareholder of the company or an officer of, or otherwise associated directly with, a substantial shareholder of the company
- Has not within the last three years been employed in an executive capacity by the company or another group member, or been a director after ceasing to hold any such employment
- Within the last three years has not been a principal or employee of a material professional advisor or a material consultant to the company or another group member
- Is not a material supplier or customer of the company or another group member, or an officer of or otherwise associated with a material supplier or customer
- Has no material contractual relationship with the company or another group member other than as a director of the company
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company

Dulhunty Power Limited does not currently have a majority of independent directors on the board due to the size and industry specific nature of the company. The board is currently in the process of completing selection of a new independent Chairman and expects to announce this appointment shortly.

**Board Processes**
To assist in the execution of its responsibilities, the board has established a number of committees, including a nomination committee, a remuneration committee and an audit committee. The board has also established a framework for the management of the consolidated entity including regular management committee meetings, internal control systems and the establishment of appropriate ethical standards.
A schedule of directors meetings is detailed in the directors' report.

**Nomination Committee**
The names and qualifications of those appointed to the nomination committee for the year ended 30 June 2005 and their attendance at meetings of the committee are included in the director's report. This committee is involved in the overseeing of the appointment and induction process for new directors and committee members.

**Audit Committee**
The names and qualifications of those appointed to the audit committee for the year ended 30 June 2005 and their attendance at meetings of the committee are included in the director's report. All members were non executive directors with Mr Ian Worner being independent. Mr Worner resigned as a Director on 28 June 2005 and has been replaced on the audit committee by Mr Richard Llewellyn. The Chief Executive Officer and Chief Financial Officer are invited to audit committee meetings at the discretion of the committee. The external auditor met with members of the committee at least twice during the year.

# Corporate Governance Statement (Cont'd)

**Audit Committee (Cont'd)**

The responsibilities of the audit committee include:

- Assessing whether non – audit services provided by the external auditor are consistent with maintaining the external auditor's independence. Each reporting period the external auditor provides an independence declaration in relation to the audit or review.
- Providing advice to the Board in respect of whether the provision of the non – audit services by the external auditor is compatible with the general standard of independence of auditors imposed by the Corporations Act 2001.

**Remuneration Committee**

The remuneration committee reviews and makes recommendations to the board on remuneration packages and policies applicable to the Chief Executive Officer, senior executives and staff and directors themselves. It is also responsible for share option schemes, incentive performance packages, compliance with superannuation requirements, termination entitlements, fringe benefits policies and professional indemnity and liability insurance policies as applicable.

The names of the members of the remuneration committee and their attendance at meetings of the committee are detailed in the director's report. The remuneration committee in place for the year ended 30 June 2005 consisted of three directors but did not have a majority independent, due to the size of the company and its board, together with the industry knowledge of directors on the committee. The Chief Executive Officer and Chief Financial Officer are invited to Remuneration Committee meetings, as required, to discuss senior executives and staff performance and remuneration packages.

There are no schemes for retirement benefits other than statutory superannuation for non executive directors.

**Remuneration Policies**

Remuneration levels are set to attract and retain appropriately qualified and experienced directors, senior executives and staff to run the economic entity. The board considers that the remuneration structure will be able to attract and retain the best executives with the necessary incentives to work to grow long term shareholder value.

The remuneration committee obtains independent advice as necessary on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration includes a mix of fixed remuneration and performance based remuneration. All executives receive a base salary, superannuation, fringe benefits and performance incentives. The remuneration committee reviews executive packages semi annually by reference to company performance, executive performance, comparative industry information and relevant independent advise. The performance of executives is measured against criteria agreed half yearly which is based on the forecast growth of the company's turnover and profits and shareholders value.

Executives are also entitled to participate in the employee option arrangements.

The amount of remuneration for all directors and the five highest paid executives, including all monetary and non monetary components, are detailed in the note 29 to the financial report.

The board considers that the above performance linked remuneration structure is generating the desired outcome. The evidence for this is very strong growth in turnover over the recent period and the consistent high level of achievement of executives, which qualifies them for bonus.

**Risk Management**

The group takes a proactive approach to risk management. The board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives and activities are aligned with the risks and opportunities identified by the board.

The group believes that it is crucial for all board members to be a part of this process, and as such the board has not established a separate risk management committee. Instead sub-committees are convened as appropriate in response to issues and risks identified by the board as a whole, and the sub-committee further examines the issue and reports back to the board.

The board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the board. These include the following:

- Regular shareholder open days in addition to the AGM, attended by the Board and specified executives, which ensure that the board is cognisant of the diverse needs of various stakeholders and assist in identifying the risks the business may face if those needs are not met. The board holds ongoing discussion of issues raised in these meetings, to specifically review and update the corporate strategy as necessary.

- Board approval of a strategic business plan, which encompasses the entity's vision, mission and strategy statements, designed to meet stakeholders needs and manage business risk.

- Implementation of board approved operating plans and budgets and board monitoring of progress against these budgets, including the establishment and monitoring of key performance indicators (KPI's) of both a financial and non-financial nature.

- The establishment of committees to report on specific business risks, including for example, such matters as occupational health and safety.

- Monthly management meetings involving executive directors, specified executives, and staff during which reports are given on production, sales, financial, compliance and strategic issues and decisions taken on operating matters, or referred to the board.

# Corporate Governance Statement (Cont'd)

**Risk Management (Cont'd)**
Regular reports and cash forecasts from the CFO which assist in discharging the board's responsibility to manage the organisation's financial risks. The board is advised on such matters as the entity's liquidity, available credit and currency exposures and monitors actions to ensure they are in line with company policy.

**Financial Reporting**
To assist the Board in approving the Company's financial report, the Chief Executive Officer and the Chief Financial Officer are required to present a statement with regard to the integrity of the financial statements to confirm to the Board that the Company's financial statements present a true and fair view in all material respects of the Company's financial condition and that operational results are in accordance with applicable accounting standards and the Corporations Act 2001.

Convergence with Australian equivalents to International Financial Reporting Standards (AIFRS) is a key current financial reporting project, and the board has established a formal project, monitored by a steering committee, to ensure a smooth transition to AIFRS reporting, beginning with the half-year ended 31 December 2005.

Details of the progress of the implementation project and the expected impact of transition to AIFRS on the financial report for the year ended 30 June 2005 are included in Note 33. The consolidated entity is expected to be in a position to fully comply with the reporting requirements of AIFRS for the 30 June 2006 financial year.

Last year information for CGC Recommendation 7.2 was included under the heading of "Risk Management".

**Trading Policy**
The company's policy regarding directors and employees trading in its securities is set by the board. The board restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the security's prices.