CONTENTS

COMPANY DETAILS

Directors:
Donald Smith
Milton Cooper
Douglas Wood

Secretary:
David McArthur

Registered Office:
2nd Floor, 45 Stirling Highway
Nedlands, Western Australia
Telephone: (08) 9389 8799
Facsimile: (08) 9389 8327

Auditors:
Stanton Partners
Level 1
1 Havelock Street
West Perth, Western Australia

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

Bankers:
Bankwest Limited
Mends Street
South Perth, Western Australia

Share Registry:
Security Transfer Registrars Limited
PO Box 535
Applecross, Western Australia
Telephone: (08) 9315 0933
Facsimile: (08) 9315 2233

Solicitors:
Steinepreis Paganin
Level 14, Chancery House
37 St George's Terrace
Perth, Western Australia

OPERATIONS REPORT

On behalf of the Board of Directors we hereby present a summary of the activities during the past year.

Corporate structure

The past twelve months saw the retirement of two of our Directors and our company secretary and the subsequent appointment of Mr Douglas Wood as Managing Director and Mr David McArthur as Company Secretary. The Company has also acknowledged the input by shareholders from last year's Annual General Meeting with the appointment of Mr Alan Grant-Smith as General Manager of the Company to assist in the formulation of a corporate and business plan together with budgeting and general day-to-day activities.

Financial issues

During the year we have focused on the financial issues and responsibilities of the Company. A review of operational costs and expenditure has been undertaken and a corporate and business plan prepared with a view to establishing opportunities to derive income at the earliest possible time whilst remaining focused on the core function of the Company's principal activity, namely the establishment of a fully developed project involving the growth, harvesting, refinement, promotion and sale of natural betaCarotene.

Sale of product

Sale of product, whilst in small quantities, commenced in May 2003 and since balance date a further 210 kilos of specific material has been supplied.

We are currently negotiating a supply agreement to enable a value-added form of our product into the USA and Canadian markets which would enable the first continuous flow of production from our core operation.

Organic certification

Based on the Company's philosophy as a natural betaCarotene producer it has become apparent that international trends are towards organically grown and produced materials. Since balance date we are currently finalising an application for Organic Certification within Australia to be followed by a further application in the USA. Whilst the effects of such approvals are unknown the Company views this development as having a beneficial impact upon its position and capability within the marketplace because as far as we are aware there would appear to be no other supplier that will have this Organic Certification.

Marketing and distribution

Enquiries are currently being pursued with a number of prospective purchasers for different forms of material within the production capacity of the Company. Results of those discussions should result in a marketing appointment on a commercial basis to evaluate our various global market opportunities.

Mining lease operations

The Company is currently commercialising soil material surplus to its own requirements. These sale contracts involving general fill material, whilst erratic due to the unknown demand for supply of general gravel materials to the anticipated North-West Burrup projects, still provide a real opportunity and source of revenue. The Company is pleased with the timely sale of the general gravel material to date.

This source of revenue has been fortuitous and whilst described as an unforseen windfall, has allowed the Company to stabilise the difficulties of the past 12 months and allow it to focus on the restructuring of its administration, and the commercialisation of the core operation to enable the potential for expansion of the facilities in the North and downstream activities.

OPERATIONS REPORT

Corporate business plan

In recent months, the Company has finalised a business plan for its future expansion requirements.

This entailed the analysis of all operations and expenditure and identified the Company's weaknesses and its strengths. It is acknowledged that some difficult decisions will need to be made but they are considered essential in providing the Company with an on-going opportunity to establish an income-producing operation.

In conclusion

The Company has for the first time the opportunity for a source of revenue. The Directors believe that the ensuing 12 months will see revenue from Mining Lease operations and the sale of Company product together with the identification of the Company as an organically recognised operation thus positioning itself within global markets.

We look forward to the progress during the next 12 months and acknowledge the understanding and patience shown by our shareholders.

CORPORATE GOVERNANCE STATEMENT

FOR THE YEAR ENDED 30 JUNE 2003

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

The Board of directors

Role of the Board

The Board of directors is responsible for setting the strategic direction and establishing the policies of AquaCarotene Limited. It is responsible for overseeing the financial position, and for monitoring the business and affairs of the Company on behalf of the shareholders, by whom the directors are elected and to whom they are accountable. It also addresses issues relating to internal controls and approaches to risk management.

Composition of the Board

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

Currently there are 3 directors, all of whom are executive.

The Board has the option to use an external consulting firm to identify and approach possible new candidates for directorship. The selection of the directors must be approved by the majority of the shareholders.

Details of directors' shareholdings are disclosed in the Director's report and financial statements.

Independent professional advice

The Company has well-established procedures enabling any director to seek external professional advice as considered necessary, at the Company's expense with the approval of the Chair.

Conflict of interest

In the event that a potential conflict of interest may arise, involved directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over other Board members or receive relevant Board papers.

Shareholder relations

The Company's shareholders are responsible for voting on the appointment of directors. The Board seeks to inform shareholders of all major developments affecting the Company by:

- Preparing half-yearly financial reports and quarterly cash flow reports and making these available to all shareholders.
- Advising shareholders of the key issues affecting the Company.
- Submitting proposed major changes in the Company's affairs to a vote of shareholders, as required by the Corporations Act 2001.
- Holding an Annual General Meeting each year to enable shareholders to receive reports by the Board of the Company's activities. All shareholders who are unable to attend these meetings are encouraged to communicate issues or ask questions by writing to the Company.

Corporate Governance Statement

For the Year Ended 30 June 2003

Audit committee

As at the date of the Directors' report the Company did not have an audit committee to the Board of directors. The Company is not of a size, nor are the affairs of a complexity, sufficient to warrant the existence of a separate audit committee. All matters which could be delegated to such a committee are dealt with by the full Board.

Disclosures about directors

Details of the directors' remuneration and retirement benefits are disclosed in Note 20 and in the Directors' report. Details about the indemnity given to directors are disclosed in the Directors' report. Details about directors' shareholdings are disclosed in Note 21.

Remuneration

The details of directors' and officers' remuneration are provided in the Directors' report, which precedes this statement.

Internal controls

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

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

Ethical standards and performance

The Board acknowledges the need for continued maintenance of the highest standards of corporate governance practice and ethical conduct by all directors and employees.

A fundamental theme within the Company is that all business affairs are conducted legally, ethically and with the strict observance of the highest standards of integrity and propriety. The directors and management have the responsibility to carry out their functions with a view to maximising the financial performance of the consolidated entity. This concerns the propriety of decision making in conflict of interest situations and quality of decision making for the benefit of shareholders.

External auditor

The present external auditors were appointed on 7 April 1998. The lead external audit engagement partner will be rotated off the engagement during the 2005 financial year.

DIRECTORS' REPORT

The directors of AquaCarotene Limited submit herewith the annual financial report for the financial year ended 30 June 2003. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Directors

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

Donald J Smith
MAICD
Executive Director

As a member of the Australian Institute of Company Directors, Mr Smith has over 33 years' corporate and commercial experience in finance and property development. He has been actively involved in the development of AquaCarotene from its inception as a private company. His corporate and commercial experience and substantial involvement with the betaCarotene operations are valuable to the Board.

Mr Smith is the Chief Executive Officer of AquaCarotene. He has been a Board member since 1996. Mr Smith's services are currently provided without any cost to the Company.

Milton C Cooper
AAPI
Executive Director

Mr Cooper is an Executive Director of AquaCarotene and is involved on a day to day basis with the development of AquaCarotene's betaCarotene interest since inception. He has managed AquaCarotene's operations in the downstream process, including staff liaison, building and construction, development of processing technologies, construction and purchase of various plant and equipment, to enable the downstream process for production of natural betaCarotene.

Mr Cooper has been a Board member since 1996.

Douglas T Wood
CA FTIA CD
Managing Director

Mr Wood is a chartered accountant, a Fellow of the Taxation Institute of Australia and is also a Commissioner for Declarations. He has over 30 years' experience in the accounting profession and has been involved in the management of public companies for many years fulfilling the roles of chairman and managing director.

Appointed 11 December 2002.

Sydney J Chesson
Resigned 11 December 2002.

Geoffrey J Coad
Resigned 20 December 2002.

Principal activities

The principal activities of the Company during the financial year were to further the Project for the growth, harvesting, refinement, promotion and sale of natural betaCarotene.

There were no significant changes in the nature of the economic entity's principal activities during the financial year.

Operating results

The consolidated net loss of the economic entity after providing for income tax amounted to $1.69 million (loss for year ended 30 June 2002: $3.68 million), after taking into account the effects of depreciation and amortisation of intangible assets amounting to $1.06 million.

Directors' Report

Dividends

Since the end of the previous financial year no dividends have been paid or declared by the Company, and the directors of the Company recommend that no dividend be provided for the year ended 30 June 2003.

Summary of material transactions

On 6 August 2002 the Company announced that 280,000 options expiring 31 January 2003 had been exercised, resulting in the issue of 280,000 ordinary shares for consideration of $14,000.

On 16 August 2002 the Company announced that a further 770,000 options expiring 31 January 2003 had been exercised, resulting in the issue of 770,000 ordinary shares for consideration of $38,500.

On 3 September 2002 the Company announced that it had been granted approval for ground disturbance on its mining leases in Karratha, and that it was considering the possibility of supplying other users of gravel and soil, due to the increased economic activity in Karratha.

Also on 3 September 2002 the Company announced that it had issued 150,000 ordinary shares and 150,000 options exercisable at 5 cents each on or before 31 January 2003 for consideration of $7,500 to assist the Company in finalising the initial processing facility and to provide additional working capital.

Also on 3 September 2002 the Company announced that a further 200,000 options expiring 31 January 2003 had been exercised, resulting in the issue of 200,000 ordinary shares for consideration of $10,000.

On 13 September 2002 the Company announced that it had issued 800,000 ordinary shares and 800,000 options exercisable at 5 cents each on or before 31 January 2003 for consideration of $40,000 to assist the Company in finalising the initial processing facility and to provide additional working capital.

On 24 September 2002 the Company announced that it had issued 300,000 ordinary shares and 300,000 options exercisable at 5 cents each on or before 31 January 2003 for consideration of $15,000 to assist the Company in finalising the initial processing facility and to provide additional working capital.

On 16 October 2002 the Company announced that that it had issued 200,000 ordinary shares and 200,000 options exercisable at 5 cents each on or before 31 January 2003 for consideration of $10,000 to assist the Company in finalising the initial processing facility and to provide additional working capital.

On 18 November 2002 the Company announced that a further 400,000 options expiring 31 January 2003 had been exercised, resulting in the issue of 400,000 ordinary shares for consideration of $20,000.

On 3 December 2002 the Company announced that a further 576,000 options expiring 31 January 2003 had been exercised, resulting in the issue of 576,000 ordinary shares for consideration of $28,800.

On 11 December 2002 Mr Sydney Chesson resigned as a director of the Company.

Also on 11 December 2002 Mr Douglas Wood was appointed a director of the Company.

On 20 December 2002 Mr Geoffrey Coad resigned as a director of the Company.

On 3 February 2003 the Company announced that a further 5,571,122 options expiring 31 January 2003 had been exercised prior to the date of expiry, resulting in the issue of 5,571,122 ordinary shares for consideration of $278,556.

On 4 February 2003 the Company announced that it has issued 1,172,250 ordinary shares and 1,172,250 unlisted options exercisable at 4.5 cents on or before 30 June 2005 to raise $52,751 for working capital purposes.

DIRECTORS' REPORT

On 7 February 2003 the Company announced that the Department of Mineral and Petroleum Resources and the Environmental Protection Authority had granted the Company permission to commence development and operation of an earthmoving project on a stage 1 development of 6 hectares of the 120 hectares of available ground held by the Company under mining lease at Karratha. The Company also announced that it was well advanced in discussions with a major earthmoving contractor with a view to the commercial sale by the Company of sand and gravel.

On 7 March 2003 the Company announced that it had entered into an exclusive "Option to Sub Lease" with BGC Contracting Pty Ltd in relation to the Karratha ground under mining lease. BGC paid the Company a $50,000 option fee giving them 90 days to carry out extensive drilling, surveying, sampling and testing of materials to assess material quality and quantity. On exercise of the option BGC had the right to remove material from the site.

Also on 7 March 2003, the Company announced that it had issued 1,765,218 ordinary shares to raise $88,261 for working capital purposes.

On 19 March 2003 the Company announced that it had issued 500,000 ordinary shares and 500,000 unlisted options exercisable at 4.5 cents on or before 30 June 2005 to raise $22,500 for working capital purposes.

On 21 March 2003 the Company announced its intention to raise up to $900,000 in working capital by way of a 1:5 entitlements issue. Shares were to be issued at 4.5 cents each, with a free attaching option, exercisable at 5 cents on or before 30 June 2005. A prospectus with details of the issue was lodged with the ASIC on 11 April 2003.

On 27 May 2003 the Company announced that it had received acceptances for 3,229,747 new shares and free attaching options pursuant to the above entitlements issue, raising $145,339 in working capital.

Significant changes in the state of affairs

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

Events subsequent to balance date

On 20 August 2003 the Company announced that it had issued 1,525,822 shares and options expiring 30 June 2005, exercisable at 5 cents each, pursuant to the directors' discretion to place shortfall from the entitlements issue conducted in April / May 2003. A total of $68,662 was raised.

On 25 August 2003 the Company announced that it had issued a further 1,000,000 shares and options expiring 30 June 2005, exercisable at 5 cents each, pursuant to the directors' discretion to place shortfall from the above entitlements issue. A total of $45,000 was raised.

Future developments

The likely developments in the operation of the Company and the expected results of those operations in future financial years are as follows:

Organic certification

Based on the Company's philosophy as a natural betaCarotene producer it has become apparent that international trends are towards organically grown and produced materials. Since balance date we are currently finalising an application for Organic Certification within Australia to be followed by a further application in the USA. Whilst the effects of such approvals are unknown the Company views this development as having a beneficial impact upon its position and capability within the marketplace because as far as we are aware there would appear to be no other supplier that will have this Organic Certification.

Directors' Report

Marketing and distribution

Enquiries are currently being pursued with a number of prospective purchasers for different forms of material within the production capacity of the Company. Results of those discussions should result in a marketing appointment on a commercial basis to evaluate our various global market opportunities.

The Board expects that the above developments will provide benefits for the Company and its shareholders.

Environmental issues

The Company currently meets all development and operational conditions associated with the Company's operations, particularly with regard to gravel permits for the excavation of our newly acquired leases.

Directors' shareholdings

The directors of the Company hold the following interests, directly and indirectly, in shares and options in the Company as at the date of this report:

Director	**Ordinary shares**	**Options expiring 30/06/2005**
Donald J Smith	18,537,729	760,379
Milton C Cooper	6,560,766	-
Douglas T Wood	1,200,000	200,000

Directors' meetings

During the financial year there were 13 meetings of directors, including circulating resolutions, pursuant to the Company's Constitution.

The attendances of the directors at these meetings was:

	Meetings	
	Attended	**Possible Attended**
Donald J Smith	13	13
Milton C Cooper	13	13
Douglas T Wood	9	9
Sydney J Chesson	4	4
Geoffrey J Coad	4	4

Directors' and executives' emoluments

The Company's policy for determining the nature and amount of emoluments of members of the Board and senior executives of the Company is on a case by case basis based on the achievements of the Company in obtaining its short term and long term goals.

The remuneration structure for Executive Officers, including Executive Directors, seeks to emphasise payment for results. The objective of the remuneration structure is to reinforce the short and long term goals of the Company and to provide a common interest between management and shareholders, and giving regard to the capacity of the Company to meet such costs in its early days of development.

At the date of this report, there are no Executive Officers of the Company.

DIRECTORS' REPORT

Details of the nature and amount of each element of the emolument of each director of the Company are shown below:

	Salary/Fees $	Other $	Total $
Donald J Smith	6,000	-	6,000
Milton C Cooper	-	124,988	124,988
Douglas T Wood	-	21,667	21,667
Sydney J Chesson	11,400	-	11,400
Geoffrey J Coad	6,000	-	6,000

Indemnifying officers

During the financial year, the Company indemnified or agreed to indemnify Directors and Officers of the Company as follows:

- The Company has paid or agreed to pay insurance premiums, the amount of such premium paid totalling $13,340, to insure each of the Directors and Officers against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of Director or Officer of the Company, other than conduct involving a wilful breach of duty in relation to the Company as follows:

  Mr Sydney J Chesson
  Mr Donald J Smith
  Mr Geoffrey J Coad
  Mr Milton C Cooper
  Mr Simon JS Chesson

Directors' authorisation

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

DONALD J SMITH
Director

DOUGLAS T WOOD
Director

Perth, Western Australia
30 September 2003

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

		Consolidated		Company	
		2003	2002	2003	2002
	Notes	$	$	$	$
Revenue – sand and gravel	2	186,800	-	186,800	-
Other revenues from ordinary activities	2	1,205	2,700	1,205	2,700
Gross profit		188,005	2,700	188,005	2,700
Amortisation	3	(350,000)	-	(350,000)	-
Borrowing costs	3	(30,513)	(28,197)	(30,513)	(28,197)
Depreciation expense	3	(710,847)	(377,744)	(710,847)	(377,744)
Employee expense		(259,776)	(234,715)	(259,776)	(234,715)
Office administration		(62,652)	(49,835)	(62,652)	(49,835)
Operational expenses		(82,461)	(116,376)	(82,461)	(116,376)
Professional fees		(295,437)	(310,042)	(295,437)	(310,042)
Share registry and statutory fees		(27,450)	(5,933)	(27,450)	(5,933)
Write down of intangibles	3	-	(2,500,000)	-	(2,500,000)
Write off of research and development costs	3	-	(37,508)	-	(37,508)
Other expenses from ordinary activities		(58,495)	(19,711)	(58,495)	(19,711)
Loss from ordinary activities before income tax expense		(1,689,626)	(3,677,361)	(1,689,626)	(3,677,361)
Income tax expense relating to ordinary activities	4	-	-	-	-
Loss from ordinary activities after related income tax expense		(1,689,626)	(3,677,361)	(1,689,626)	(3,677,361)
Net loss attributable to members of the parent entity		(1,689,626)	(3,677,361)	(1,689,626)	(3,677,361)
Total changes in equity other than those resulting from transactions with owners as owners		(1,689,626)	(3,677,361)	(1,689,626)	(3,677,361)
Basic earnings per share (cents)	6	(1.81)	(4.56)		

Notes to the financial statements are included on pages 15 to 29.

Statement of Financial Position

As at 30 June 2003

	Notes	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
CURRENT ASSETS					
Cash	18(a)	1,693	-	1,693	-
Receivables	7	196,728	-	196,728	-
Other	8	-	1,000	-	1,000
TOTAL CURRENT ASSETS		198,421	1,000	198,421	1,000
NON-CURRENT ASSETS					
Property, plant and equipment	9	1,698,637	2,345,668	1,698,637	2,345,668
Intangibles	10	3,150,000	3,500,000	3,150,000	3,500,000
TOTAL NON-CURRENT ASSETS		4,848,637	5,845,668	4,848,637	5,845,668
TOTAL ASSETS		5,047,058	5,846,668	5,047,058	5,846,668
CURRENT LIABILITIES					
Payables	11	454,893	301,956	454,893	301,956
Interest bearing liabilities	12	63,786	74,298	63,786	74,298
Provisions	13	23,075	17,722	23,075	17,722
TOTAL CURRENT LIABILITIES		541,754	393,976	541,754	393,976
NON-CURRENT LIABILITIES					
Interest-bearing liabilities	12	210,000	210,000	210,000	210,000
Provisions	13	-	24,255	-	24,255
TOTAL NON-CURRENT LIABILITIES		210,000	234,255	210,000	234,255
TOTAL LIABILITIES		751,754	628,231	751,754	628,231
NET ASSETS		4,295,304	5,218,437	4,295,304	5,218,437
EQUITY					
Contributed equity	14	26,905,284	26,138,791	26,905,284	26,138,791
Accumulated losses	15	(22,609,980)	(20,920,354)	(22,609,980)	(20,920,354)
TOTAL EQUITY		4,295,304	5,218,437	4,295,304	5,218,437

Notes to the financial statements are included on pages 15 to 29.

STATEMENT OF CASH FLOW

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

		Consolidated		Company	
		2003	2002	2003	2002
	Notes	$	$	$	$
Net cash flows from operating activities					
Receipts from customers		37,315	2,503	37,315	2,503
Payments to suppliers & employees		(444,548)	(490,136)	(444,548)	(490,136)
Interest received		209	197	209	197
Interest paid		(30,513)	(28,197)	(30,513)	(28,197)
Increase in sundry assets		-	6,580	-	6,580
Net cash used in operating activities	18(b)	(437,537)	(509,053)	(437,537)	(509,053)
Cash flows from investing activities					
Payments for plant & equipment		(63,816)	(216,420)	(63,816)	(216,420)
Net cash used in investing activities		(63,816)	(216,420)	(63,816)	(216,420)
Cash flows from financing activities					
Net proceeds from share issues		428,558	45,000	428,558	45,000
Received from debtor-underwriter		-	696,715	-	696,715
Repayment of borrowings		(17,194)	(16,667)	(17,194)	(16,667)
Loans from director-related entities		85,000	-	85,000	-
Net cash provided by financing activities		496,364	725,048	496,364	725,048
Net decrease in cash held		(4,989)	(425)	(4,989)	(425)
Cash at the beginning of the financial year		(57,104)	(56,679)	(57,104)	(56,679)
Cash at the end of the financial year	18(a)	(62,093)	(57,104)	(62,093)	(57,104)

Notes to the financial statements are included on pages 15 to 29.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

1. SUMMARY OF ACCOUNTING POLICIES

Significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report covers the economic entity of the Company and controlled entities, and AquaCarotene Limited ("AQL" or "the Company") as an individual parent entity. The Company is a listed public company, incorporated and domiciled in Australia.

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

The financial report has been prepared on a going concern basis. The directors continue to monitor the on-going funding requirements of the Company and will seek further equity funding where necessary. In addition the Company is currently receiving income from the sale of sand and gravel on the ground held by the Company under mining lease in Karratha.

The directors are confident that sufficient funding will be secured to enable the Company to continue as a going concern and as such are of the opinion that the financial statements have been appropriately prepared on a going concern basis.

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

(a) Principles of consolidation

A controlled entity is any entity controlled by the Company. Control exists where the Company has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Company to achieve the objectives of AquaCarotene Limited. A list of controlled entities is contained in Note 22 to the financial statements.

(b) Income tax

The Company adopts the liability method of tax-effect accounting whereby the income tax expense shown in the profit and loss account is based on the profit from ordinary activities adjusted for any permanent differences.

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

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

NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

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

(c) Property, Plant and Equipment

Property, plant and equipment are valued on the cost basis. The carrying amount of property, plant and equipment is reviewed to determine whether it is in excess of its recoverable amount at reporting date. If the carrying amount exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts of property, plant and equipment, the relevant cash flows have not been discounted to their present value.

The cost of fixed assets constructed within the economic entity includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads.

Depreciation

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

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

Class of Fixed Assets	Depreciation Rate
Buildings	2%
Leasehold improvements	4-5%
Plant and equipment	5-33%
Plant and equipment leased to external parties	10-20%
Leased plant and equipment	15%

(d) Leases

Leases of fixed assets where substantially all of the risks and benefits incidental to the owner ship of the asset, but not legal ownership, are transferred to the Company are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Lease assets are depreciated on a straight line basis over the estimated useful lives where it is likely that the Company will obtain ownership of the asset or over the term of the lease.

Lease incentives under operating leases are recognised as a liability. Lease payments received reduce the liability.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

(e) Intangible assets

In line with the accounting treatment of intangibles and technology assets in the marketplace, the Directors have considered the value of the Technology and Know-how and have written it down to a value which reflects a realisable value.

In accordance with the Australian Accounting Standards and the Corporations Law, the Directors have undertaken a review the value of the Technology and Know-how. The technology has been written down to its recoverable amount based on expected cash flows which have been discounted using a market determined risk adjusted discount rate. The Directors will continue to review the Technology and Know-how assets each financial year.

Furthermore, the Australian Accounting Standards require the Technology and Know-how to be amortised over its useful life. The Directors have adopted a period of 10 years in accordance with Australian Accounting Standards.

(f) Employee entitlements

Provision is made for the Company's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at their nominal rate at the expected time of payment. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

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

(g) Cash

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

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

(h) Comparative figures

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

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$

2. *REVENUE*

Sales – sand & gravel	186,800	-	186,800	-
Interest received – other	210	197	210	197
Fuel rebate revenue	995	1,173	995	1,173
Other income	-	1,330	-	1,330
	188,005	2,700	188,005	2,700

3. *OPERATING LOSS FROM OPERATING ACTIVITIES*

The operating loss from ordinary activities before income tax has been determined after:

Expenses				
Depreciation of property, plant and equipment	710,847	377,744	710,847	377,744
Borrowing costs	30,513	28,197	30,513	28,197
Amortisation of intangibles	350,000	-	350,000	-
Write down of intangibles	-	2,500,000	-	2,500,000
Write off of research & development costs	-	37,508	-	37,508

4. *INCOME TAX*

(a) A reconciliation of the income tax expense for the accounting loss for the year is as follows:

Accounting loss	(1,689,626)	(3,677,361)	(1,689,626)	(3,677,361)
Tax attributable to accounting loss at 30%	506,888	1,103,208	506,888	1,103,208
Less non-deductible & timing differences	(105,000)	(750,000)	(105,000)	(750,000)
Tax benefit not brought to account	(401,888)	(353,208)	(401,888)	(353,208)
Income tax expense	-	-	-	-

(b) At 30 June 2003, the Company has carry forward tax losses of approximately $5.9 million not brought to account (2002 - $4.5 million), available to offset against future taxable income. The future income tax benefit which may be derived from these tax losses, has not been carried forward as an asset in the balance sheet and will only be obtained if:

(i) the Company and the economic entity derives assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the loss to be realised;

(ii) the Company and economic entity continues to comply with the conditions for deductibility imposed by law; and

(iii) no changes in tax legislation adversely affect the Company and the economic entity in realising the benefit from the deductions for the losses.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
5. *AUDITORS' REMUNERATION*				
Remuneration of the auditor of the Company for auditing and reviewing the accounts	10,000	9,000	10,000	9,000

6. *EARNINGS PER SHARE*

Classification of securities as ordinary shares

The Company has only one category of ordinary shares included in basic earnings per share.

Classification of securities as potential ordinary shares

There are currently no securities to be classified as potential ordinary shares which are dilutive and therefore no diluted earnings per share has been shown.

	Consolidated	
	2003	2002
	$	$
Basic earnings	(1,689,626)	(3,677,361)
	Number	**Number**
Weighted average number of ordinary shares used in the calculation of basic earnings per share	93,109,847	80,667,703

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
7. *RECEIVABLES*				
Current				
Trade debtors	150,480	-	150,480	-
GST receivables	46,248	-	46,248	-
	196,728	-	196,728	-
8. *OTHER ASSETS*				
Current				
Security deposit	-	1,000	-	1,000

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

9. PROPERTY, PLANT AND EQUIPMENT

Property, plant & equipment are included in the accounts, at cost, on the following basis:

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Plant & equipment				
Cost	2,794,411	2,730,595	2,794,411	2,730,595
Accumulated depreciation	(1,666,005)	(1,119,747)	(1,666,005)	(1,119,747)
	1,128,406	1,610,848	1,128,406	1,610,848
Land				
Cost	55,000	55,000	55,000	55,000
Leasehold improvements				
Cost	292,047	292,047	292,047	292,047
Accumulated depreciation	(138,088)	(79,786)	(138,088)	(79,786)
	153,959	212,261	153,959	212,261
Buildings				
Cost	532,151	532,151	532,151	532,151
Accumulated depreciation	(170,879)	(64,592)	(170,879)	(64,592)
	361,272	467,559	361,272	467,559
Total property, plant & equipment	1,698,637	2,345,668	1,698,637	2,345,668

Reconciliation of property, plant & equipment

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Plant & equipment				
Opening written down value	1,610,848	1,741,116	1,610,848	1,741,116
Additions	63,816	216,419	63,816	216,419
Depreciation	(546,258)	(346,687)	(546,258)	(346,687)
Closing written down value	1,128,406	1,610,848	1,128,406	1,610,848
Land				
Opening written down value	55,000	55,000	55,000	55,000
Closing written down value	55,000	55,000	55,000	55,000
Leasehold improvements				
Opening written down value	212,261	227,016	212,261	227,016
Depreciation	(58,302)	(14,755)	(58,302)	(14,755)
Closing written down value	153,959	212,261	153,959	212,261

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$

9. PROPERTY, PLANT AND EQUIPMENT (continued)

	2003	2002	2003	2002
Building				
Opening written down value	467,559	483,861	467,559	483,861
Depreciation	(106,287)	(16,302)	(106,287)	(16,302)
Closing written down value	361,272	467,559	361,272	467,559
Total property, plant & equipment	1,698,637	2,345,668	1,698,637	2,345,668

10. INTANGIBLES

Intangible assets consist of technology and know-how acquired with the acquisition of the operations of the Aqua-Carotene Unit Trust. In accordance with the Australian Accounting Standards and the Corporations Law, the Directors have undertaken a review of the value of the technology and know-how. The technology has been written down to its recoverable amount based on expected cash flows which have been discounted using a market determined risk adjusted discount rate. Australian Accounting Standards require the technology and know-how to be amortised over its useful life. The Directors have adopted a period of 10 years in accordance with Australian Accounting Standards.

	2003	2002	2003	2002
Technology & know-how – residual value	3,500,000	3,500,000	3,500,000	3,500,000
Accumulated amortisation	(350,000)	-	(350,000)	-
	3,150,000	3,500,000	3,150,000	3,500,000

11. PAYABLES

	2003	2002	2003	2002
Current				
Trade creditors	285,895	118,175	285,895	118,175
Accruals	8,027	-	8,027	-
Amounts payable to director-related entities	85,000	183,781	85,000	183,781
Other creditors	75,971	-	75,971	-
	454,893	301,956	454,893	301,956

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

	Notes	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
12. INTEREST-BEARING LIABILITIES					
Current					
Bank overdraft	18(a)	63,786	57,104	63,786	57,104
Bank loan		-	17,194	-	17,194
		63,786	74,298	63,786	74,298
Non-current					
Secured mortgage (i)		210,000	210,000	210,000	210,000

(i) The non-current mortgage loan of $210,000 is secured by a registered first mortgage over certain free hold property and is also guaranteed by Mr Smith. The average interest rate is approximately 9.0% per annum.

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
13. PROVISIONS				
Current				
Employee entitlements	23,075	17,722	23,075	17,722
Non-current				
Employee entitlements	-	24,255	-	24,255
	Number	**Number**	**Number**	**Number**
Employees at year end	4	5	4	5

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
14. CONTRIBUTED EQUITY				
Issued share capital				
101,599,804 (2002: 85,685,467) ordinary shares, fully paid	26,905,284	26,138,791	26,905,284	26,138,791

Fully paid ordinary shares carry one vote per share and the right to dividends.

	Number	Number	$	$
Movements in share capital				
Balance at beginning of financial year	85,685,467	80,430,243	26,138,791	25,876,029
Conversion of options expiring 31 January 2003 at 5 cents each	7,797,122	4,355,224	389,856	217,762
Issue of shares at 5 cents each pursuant to a placement	3,215,218	900,000	160,761	45,000
Issue of shares at 4.5 cents each pursuant to a placement	4,901,997	-	220,590	-
Less capital raising costs	-	-	(4,714)	-
Balance at end of financial year	101,599,804	85,685,467	26,905,284	26,138,791

Terms and conditions

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

	Option Classes			
	Number	Number	Number	Number
Options over ordinary shares				
Exercise price	$0.05	$0.045	$0.75	$0.05
Expiration date	30 Jun 2005	30 Jun 2005	31 Mar 2003	31 Jan 2003
On issue at beginning of year	-	-	2,559,804	24,204,800
Issued during the year	3,229,747	1,672,250	-	1,450,000
Exercised during the year	-	-	-	(7,797,122)
Expired during the year	-	-	(2,559,804)	(17,857,678)
Outstanding at end of year	3,229,747	1,672,250	-	-

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
15. ACCUMULATED LOSSES				
Opening balance (at the beginning of the financial year)	(20,920,354)	(17,242,993)	(20,920,354)	(17,242,993)
Current year losses	(1,689,626)	(3,677,361)	(1,689,626)	(3,677,361)
Closing balance (at the end of the financial year)	(22,609,980)	(20,920,354)	(22,609,980)	(20,920,354)

16. FINANCIAL INSTRUMENTS

(a) Derivative financial instruments

The Company does not currently employ any derivative financial instruments. The Directors have adopted a policy for sales contracts to be quoted in Australian dollars ($AU) in order to shift the foreign exchange risk from the Company to the consumer. The Directors will review this policy from time to time.

(b) Interest rate risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is presented in the table below.

Fixed interest rate maturing

	Average Interest Rate %	Variable Interest Rate $'000	Fixed Interest Rate $'000	Non-Interest Bearing $'000	Total $'000
2003					
Financial assets					
Cash assets	-	-	-	1,693	1,693
Receivables	-	-	-	196,728	196,728
		-	-	198,421	198,421
Financial liabilities					
Bank overdraft	10.76	50,494	-	13,292	63,786
Trade creditors and accruals	-	-	-	293,922	293,922
Amounts payable to director related entities	-	-	-	85,000	85,000
Other creditors	-	-	-	75,971	75,971
Secured mortgage	9.00	-	210,000	-	210,000
Employee entitlements provisions	-	-	-	23,075	23,075
		50,494	210,000	491,260	751,754

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

16. FINANCIAL INSTRUMENTS (continued)

(b) Interest rate risk (continued)

	Average Interest Rate %	Variable Interest Rate $'000	Fixed Interest Rate $'000	Non-Interest Bearing $'000	Total $'000
2002					
Financial assets					
Other assets	-	-	-	1,000	1,000
		-	-	1,000	1,000
Financial liabilities					
Bank overdraft	8.81	57,104	-	-	57,104
Trade creditors and accruals	-	-	-	118,175	118,175
Amounts payable to director related entities	-	-	-	183,781	183,781
Bank loan	8.81	17,194	-	-	17,194
Secured mortgage	9.00	-	210,000	-	210,000
Employee entitlements provisions	-	-	-	41,977	41,977
		74,298	210,000	343,933	628,231

(c) Credit risk

The maximum exposure to credit risk, excluding the value of any collateral or other security at balance date to be recognised as financial assets is the carrying amount as disclosed in the balance sheet and notes to the financial statements. The Company does not have any material credit risk exposure to any single trade debtor or group of trade debtors, as the level of trade debtors is insignificant compared with the total assets of the Company.

(d) Net fair values

The net fair values of financial liabilities, in particular the secured mortgage loan and amounts due under that mortgage loan are reviewed using discounted cash flows, at market interest rates of similar borrowings, to their present value. However, as the Company is under a legal obligation to pay the amount shown in the notes, the Directors are of the opinion that the secured mortgage loan should be carried at that value.

17. CAPITAL AND LEASING COMMITMENTS

	Consolidated 2003 $	Consolidated 2002 $	Company 2003 $	Company 2002 $
Operating lease commitments				
Non cancellable operating leases contracted for but not capitalised in the accounts:				
Payable:				
- not longer than 1 year	-	2,100	-	2,100
- longer than 1 year but not longer than 2 years	-	2,100	-	2,100
- longer than 2 years but not longer than 5 years	-	6,300	-	6,300
- longer than 5 years	-	14,700	-	14,700
	-	25,200	-	25,200

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

18. NOTES TO THE CASH FLOW STATEMENT

(a) Cash

For the purposes of the statements of cash flows, cash includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts.

Cash at the end of the period as shown in the statement of cash flows is reconciled to the related item in the statement of financial position as follows:

		Consolidated		Company	
		2003	2002	2003	2002
	Notes	$	$	$	$
Cash at bank		1,693	-	1,693	-
Bank overdraft	12	(63,786)	(57,104)	(63,786)	(57,104)
		(62,093)	(57,104)	(62,093)	(57,104)

(b) Reconciliation of net income to cash flows provided by operating activities

Operating profit / (loss) after tax	(1,689,626)	(3,677,361)	(1,689,626)	(3,677,361)
Non-cash flows in operating profit				
Amortisation of technology & know-how	350,000	2,500,000	350,000	2,500,000
Depreciation	710,847	377,744	710,847	377,744
Shares issued for services	337,935	217,761	337,935	217,761
Credited to underwriter account	-	71,026	-	71,026
Changes in assets and liabilities				
(Increase) in receivables	(196,728)	-	(196,728)	-
Decrease in other assets	1,000	6,580	1,000	6,580
Increase / (decrease) in payables	67,937	(4,803)	67,937	(4,803)
(Decrease) in provisions	(18,902)	-	(18,902)	-
Net cash used in operating activities	(437,537)	(509,053)	(437,537)	(509,053)

(c) Non-cash financing and investing activities

During the financial year, entities related to Mr M Cooper exercised a total of 4,993,489 options expiring 31 January 2003 at a consideration of 5 cents each, in lieu of fees outstanding to Westaus Corporate Consultants Pty Ltd totalling $249,674.

During the financial year, 1,765,218 ordinary shares were issued at 5 cents each to satisfy debt of $88,261 owing to AustAsia Group Ltd for consulting and other services.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

19. EVENTS SUBSEQUENT TO BALANCE DATE

On 20 August 2003 the Company announced that it had issued 1,525,822 shares and options expiring 30 June 2005, exercisable at 5 cents each, pursuant to the directors' discretion to place shortfall from the entitlements issue conducted in April / May 2003. A total of $68,662 was raised.

On 25 August 2003 the Company announced that it had issued a further 1,000,000 shares and options expiring 30 June 2005, exercisable at 5 cents each, pursuant to the directors' discretion to place shortfall from the above entitlements issue. A total of $45,000 was raised.

20. DIRECTORS' AND EXECUTIVES' REMUNERATION

(a) Directors' remuneration

The Directors of the Company during the year were:

Donald J Smith
Milton C Cooper
Douglas T Wood (appointed 11 December 2002)
Sydney J Chesson (resigned 11 December 2002)
Geoffrey J Coad (resigned 20 December 2002)

	Consolidated		Company	
	2003	2002	2003	2002
	$	$	$	$
Directors' income				
The aggregate of income paid or payable, otherwise made available, in respect of the financial year, to all directors of the Company, directly or indirectly, by the Company or by any related party			170,055	48,000
The aggregate of income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity, directly or indirectly, by the entities in which hey are directors by any related party	170,055	48,000		
The number of current year directors of the Company and related bodies corporate whose income fell within the following bands:				
	Number	Number	Number	Number
$0 - $9,999	2	-	2	-
$10,000 - $19,999	1	4	1	4
$20,000 - $29,999	1	-	1	-
$120,000 - $129,999	1	-	1	-

(b) Executives' remuneration

The Company employed no executives earning over $100,000 during the financial year.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

21. RELATED PARTY DISCLOSURES

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

(a) Transactions with director related entities

During the year ended 30 June 2003, the economic entity paid fees for company secretarial services, consulting services, corporate advisory services and preparation of accounts amounting to $65,496 (2002: $104,068) to AustAsia Group Ltd, an entity related to Mr S Chesson.

During the year ended 30 June 2003, Broadway Management (WA) Pty Ltd, an entity related to Mr D Wood, charged the economic entity fees for accounting and administration services amounting to $36,000 (2002: Nil).

During the year ended 30 June 2003 Westaus Corporate Consultants Pty Ltd received remuneration of $87,179 for consulting services provided by Mr Dean Cooper BSc (Computer Science) (Hons) and Mr Milton Cooper. During the year ended 30 June 2002 Westaus Corporate Consultants Pty Ltd received remuneration of $255,528 for consulting services provided by Mr Dean Cooper, Mr Milton Cooper and Mr Don Smith. During the year ended 30 June 2003 entities related to Mr Milton Cooper and Mr Dean Cooper exercised a total of 4,993,489 options expiring 31 January 2003 at a consideration of 5 cents each, in lieu of the above consulting fees outstanding to Westaus Corporate Consultants Pty Ltd totaling $249,674. Mr M Cooper and Mr Smith have a beneficial interest in Westaus Corporate Consultants Pty Ltd.

During the financial year, 1,765,218 ordinary shares were issued at 5 cents each to satisfy debt of $88,261 owing to AustAsia Group Ltd for consulting and other services.

(b) Directors' shareholdings

	2003 Number	2002 Number
Directors and Director-related entities hold directly, indirectly or beneficially as at the reporting date the following numbers of shares	26,084,609	32,625,332

Directors and their related entities acquired 960,379 shares on terms and conditions available to other shareholders, pursuant to the Company's 1:5 entitlements issue. In addition, the Directors were issued 5,515,987 shares resulting from the conversion of options expiring 31 January 2003.

	2003 Number	2002 Number
Directors and Director-related entities hold directly, indirectly or beneficially as at the reporting date the following numbers of options	960,379	13,884,936

Directors and their related entities acquired 960,379 options on terms and conditions available to other shareholders, during the period. These options were acquired pursuant to the Company's 1:5 entitlements issue.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2003

22. CONTROLLED ENTITIES

(a) Controlled entities

	Country of formation or incorporation	Percentage owned 2003 %	Percentage owned 2002 %
Parent Entity			
AquaCarotene Limited	Australia		
Subsidiaries			
Natural BetaCarotene (Australia) Ltd	Australia	100	100

(b) AquaCarotene Limited has guaranteed to support the liabilities and obligations of Natural BetaCarotene (Australia) Ltd. Natural BetaCarotene (Australia) Ltd is a member of the Closed Group.

The subsidiary did not trade during the financial year. All expenses relating to the subsidiary were consolidated with the Company's operations.

The Company has fully provided for its investment in Natural BetaCarotene (Australia) Ltd.

DIRECTORS' DECLARATION

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 12 to 29, are in accordance with the Corporations Act 2001:

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

   (b) give a true and fair view of the financial position as at 30 June 2003 and of the performance for the year ended on that date of the Company and economic entity.

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

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

DONALD J SMITH	DOUGLAS T WOOD
Director	Director

Perth, Western Australia
30 September 2003

STANTON PARTNERS

1 HAVELOCK STREET
WEST PERTH 6005
WESTERN AUSTRALIA

TELEPHONE: (08) 9481 3188
Facsimile: (08) 9321 1204
e-mail: australia@stanton.com.au

INDEPENDENT QUALIFIFED AUDIT REPORT TO THE MEMBERS OF AQUACAROTENE LIMITED

Scope

We have audited the financial report of Aquacarotene Limited (the Company) for the financial period ended 30 June 2003 as set out on pages 12 to 30. The financial report includes the consolidated financial statements of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and the Corporations Act 2001 so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Qualification

Included in the Statements of Financial Position for the parent and economic entities are non-current assets being Property, Plant and Equipment at a written down value of $1,698,637 and Technology and Know-How at a written down value of $3,150,000. The recoverability of these assets is dependent on the completion of development and successful commercial exploitation of the underlying product owned by the Company to generate profits in excess of the current carrying value of the non-current assets. As there have been minimal sales of the product since inception and as there are no sales contracts in existence to date, we are unable to determine whether the value of non-current assets can be realised at book values.

Qualified Audit Opinion

In our opinion, except for the effects on the financial report of the matter referred to in the qualification paragraph, the financial report of Aquacarotene Limited presents fairly 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 2003 and of their performance for the financial year ended on that date; and

 (i) complying with Accounting Standards in Australia and the Corporations Regulations 2001.

(b) other mandatory professional reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a Going Concern

Attention is drawn to Note 1 which identifies the requirement for additional significant capital to be raised to ensure the Company continues as a going concern. If the Company is unable to raise additional debt or equity finance, significant uncertainty would exist as to whether the Company would continue as a going concern.

If the Company is unable to continue as a going concern it will be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts that may materially differ from those stated in the financial report. Furthermore, non-current liabilities would crystallise and become immediately due and payable.

STANTON PARTNERS

Stanton Partners

J P Van Dieren
Partner

West Perth, Western Australia
30 September 2003

STOCK EXCHANGE INFORMATION

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

1. Statement of issued capital at 2 October 2003.

(a) Fully Paid Ordinary Shares

Size of Holding	Number of Shareholders	Shares Held
1 - 1,000	14	7,961
1,001 - 5,000	221	630,187
5,001 - 10,000	119	919,618
10,001 - 100,000	344	14,433,801
100,001 and Over	161	88,134,059
	859	104,125,626

(b) Distribution of 30 June 2005 options

Size of Holding	Number of Option holders	Options Held
1 - 1,000	11	7,645
1,001 - 5,000	31	89,023
5,001 - 10,000	8	67,526
10,001 - 100,000	20	593,138
100,001 and Over	10	4,998,237
	80	5,755,569

(c) There are 391 shareholders with less than a marketable parcel.

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

2. Substantial shareholders

The Company has the following substantial shareholders:

- Mr Donald Jeffrey Smith 18,537,729 shares
- Mr Milton Curtis Cooper 6,560,766 shares

3. Shareholders

The twenty largest shareholders hold 41.87% of the total issued ordinary shares in the Company as at 2 October 2003.

Stock Exchange Information

4. *Listed Optionholders*

The twenty largest 30 June 2005 optionholders hold 94.16% of the total issued 30 June 2005 options in the Company as at 2 October 2003.

5. *Unlisted Options expiring 30 June 2005 exercisable at $0.045*

Number of Options	1,672,250
Number of Holders	4

6. *Quotation*

Shares in AquaCarotene Limited are listed on Australian Stock Exchange Limited.

7. *Audit Committee*

As at the date of the directors' report the Company did not have a separate audit committee, however meetings are held between senior management and auditors throughout the year to discuss the Company's ongoing activities and to discuss any proposed changes prior to their implementation and to seek advice in relation thereto.

STOCK EXCHANGE INFORMATION

Twenty Largest Fully Paid Ordinary Shareholders

The names of the twenty largest shareholders who hold 41.87% of the fully paid ordinary shares in the Company at 2 October 2003.

	Name	Number of Shares	% of Issued Shares
1.	Aqua-Carotene Industries (Aust) Pty Ltd	9,857,721	9.56
2.	Whitehall Corporation Pty Ltd	3,388,001	3.28
3.	Mr Russell Charles Wilson	3,250,000	3.15
4.	Denken Pty Ltd	2,670,136	2.59
5.	Milkay Investments Pty Ltd	2,226,424	2.16
6.	Mr Allan Wayne Clark & Mrs Lolita Maria Clark	2,209,541	2.14
7.	GC Constructions Pty Ltd	2,000,000	1.94
8.	Mrs Lynn Andrea McMullan	1,858,732	1.80
9.	Tabah Pty Ltd	1,843,119	1.79
10.	Whitehall Corporation Pty Ltd (Wyljon A/C)	1,547,347	1.50
11.	Mr Alan Grant Smith & Mrs Susan Grant Smith	1,450,000	1.41
12.	Mr Allan John Omacini	1,333,339	1.29
13.	Mrs Susan Grant-Smith	1,310,000	1.27
14.	Mr Dean Raymond Cooper	1,272,530	1.23
15.	Mr Ian Colin McLean	1,209,534	1.17
16.	DMD Holdings Pty Ltd	1,200,000	1.16
17.	Mr Noel Arthur McRoberts & Mrs Vivienne Kay McRoberts	1,200,000	1.16
18.	Bellcourt Holdings Pty Ltd	1,142,700	1.11
19.	Mr Albert Hampton Charles Tuckwell	1,118,956	1.08
20.	Southern Seasons Pty Ltd	1,115,760	1.08
		43,203,840	41.87

Stock Exchange Information

Twenty largest 30 June 2005 Optionholders

The names of the twenty largest 30 June 2005 Optionholders who hold 94.16% of the options in the Company at 2 October 2003.

	Name	**Number of Shares**	**% of Issued Shares**
1.	Whitehall Corporation Pty Ltd	1,731,334	30.08
2.	Niche Pty Ltd	1,000,000	17.37
3.	Mrs Lynn Andrea McMullan	434,574	7.55
4.	Whitehall Corporation Pty Ltd (Wyljon A/C)	428,725	7.45
5.	Mr Allan Wayne Clark & Mrs Lolita Maria Clark	359,924	6.25
6.	Tabah Pty Ltd	307,187	5.34
7.	DMD Holdings Pty Ltd	200,000	3.47
8.	Mr Noel Arthur McRoberts & Mrs Vivienne Kay McRoberts	200,000	3.47
9.	Mr Albert Hampton Charles Tuckwell	186,493	3.24
10.	Mr Christopher Pollard	150,000	2.61
11.	Mr John Edgar Tick & Mrs Carmel Marie Tick	100,000	1.74
12.	Whitehall Nominees Pty Ltd (GFC Super Fund A/C)	61,540	1.07
13.	Mr Joanne Delongis	50,000	0.87
14.	Mrs Karen Anne Kailis	40,000	0.69
15.	RBC Global Services Australia Nominees Pty Limited	40,000	0.69
16.	Mrs Sally Anne Saunders	34,644	0.60
17.	Mr Bradley Keith Ellett	30,000	0.52
18.	Mr John Charles Spurge	23,460	0.41
19.	Mr Nicholas John Hogarth & Ms Amy Jo Vickery	22,222	0.39
20.	Elliott Investments (Echuca) Pty Ltd	20,000	0.35
		5,420,103	94.16

AquaCarotene Limited
ABN 18 074 969 056

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of AquaCarotene Limited will be held at 2nd Floor, 45 Stirling Highway, Nedlands, on Thursday, 27 November 2003 at 11.00am.

In order to determine voting entitlements, the register of Shareholders will be closed at 5.00pm Tuesday, 25 November 2003.

AGENDA

To consider and, if thought fit, to pass the following resolutions.

ORDINARY BUSINESS

2003 Accounts
To receive and consider the Directors' report and statement of financial performance for the year ended 30 June 2003, the statement of financial position at that date and the Auditors' report and Directors' declaration on the accounts.

Ordinary Resolution 1: Re-election of a Director
That Mr Donald Smith, a director retiring by rotation in accordance with the Company's Constitution, is re-elected a director of the Company.

Information about Mr Smith is set out in the Company's 2003 Annual Report. Mr Smith will abstain from voting on this resolution.

Ordinary Resolution 2: Re-election of a Director
That Mr Milton Cooper, is re-elected a director of the Company.

Information about Mr Cooper is set out in the Company's 2003 Annual Report. Mr Cooper will abstain from voting on this resolution.

Ordinary Resolution 3: Election of a Director
That Mr Douglas Wood, a director who, having been appointed since the last Annual General Meeting, retires in accordance with the Company's Constitution, be elected as a director of the Company.

Information about Mr Wood is set out in the Company's 2003 Annual Report. Mr Wood will abstain from voting on this resolution.

By order of the board

D M McARTHUR
Company Secretary
Dated: 17 October 2003

AquaCarotene Limited
ABN 18 074 969 056

PROXY FORM

Registered Office: **2nd Floor, 45 Stirling Highway**
NEDLANDS WA 6009
Telephone: (08) 9389 8799
Facsimile: (08) 9389 8327

I, ____
(Full Name - Block Letters)

of ____
(Full Address - in Block Letters)

being a member/s of AquaCarotene Limited, hereby appoint:

Name of Proxy ____

Address of Proxy ____

or failing that, the Chairman of the Meeting, as my proxy to vote for me and on my behalf at the Annual General Meeting of the Company to be held on Thursday, 27 November 2003 at 11.00am, and at any adjournment thereof, in the manner indicated below, or in the absence of indication as he or she thinks fit.

If two proxies are being appointed, the following additional instructions should be completed:

This proxy is authorised to exercise ____________ votes/ _______% of my/our total voting rights. The Company will supply an additional proxy form on request. If two proxies are appointed and a proportion is not specified each proxy is deemed to vote in respect of half of the appointor's voting rights.

ORDINARY BUSINESS

		FOR	AGAINST	ABSTAIN
Ordinary Resolution 1	Re-election of Mr Donald Smith as a Director	☐	☐	☐
Ordinary Resolution 2	Re-election of Mr Milton Cooper as a Director	☐	☐	☐
Ordinary Resolution 3	Election of Mr Douglas Wood as a Director	☐	☐	☐

(Shareholders to indicate by a tick how a proxy holder is to vote in respect of the above Resolutions. If none of the above boxes are ticked, shareholders are to read and complete the box below.)

If you appoint the chairman of the meeting as your proxy, and you do not direct him how to vote, the chairman will vote in favour of all Resolutions.

☐ ***If you appoint the chairman of the meeting as your proxy and you do not wish to direct the proxy how to vote, tick this box.***

By marking this box, you acknowledge that the chairman may exercise your proxy even if he has an interest in the outcome of a Resolution.

Dated this day of 2003.

Signature of Member ____

THE COMMON SEAL of	)	________________________
	)	Director
	)	
was hereunto affixed by authority of	)	________________________
the Board of Directors in the presence of:	)	Director / Secretary

PROXIES

1. A member entitled to attend and vote at the meeting is entitled to appoint not more than two proxies.

2. If a member appoints two proxies, each proxy must be appointed to represent a specified portion or number of the member's voting rights and neither proxy may vote on a show of hands.

3. If a member appoints two proxies, and the appointment does not specify the proportion or number of the member's votes each proxy may exercise, each proxy may exercise half of the votes.

4. A proxy need not be a member of the company.

5. If a corporate representative is to attend the meeting on behalf of a corporation, a formal notice of appointment must be brought to the meeting.

6. The Proxy Form must be signed by the shareholder or the shareholder's attorney. If the shareholder is a corporation, the Proxy Form should be signed under its common seal, or by two directors (or a director and a company secretary), or if a corporation with a sole director and sole secretary by that director, with the office held printed under each signature. Alternatively, a corporation can sign by its attorney or duty authorised officer.

7. The Proxy Form and any power of attorney or authority under which it is signed must be received at the registered office of the Company not less than 48 hours prior to the appointed time of meeting. Proxy Forms can be lodged:

   - **in person** at: AquaCarotene Limited
2nd Floor, 45 Stirling Highway
NEDLANDS WA 6009

   - **by post** to: AquaCarotene Limited
PO Box 985
NEDLANDS WA 6909

   - **by facsimile** on: (08) 9389 8327

Please advise of any change of address by completion of the section below:

My new address is____

____