Rules 4.1, 4.3

Appendix 4E

Preliminary final report

Introduced 30/6/2002.

Name of entity

QED Occtech Limited

ABN or equivalent company reference	Half yearly *(tick)*	Preliminary final *(tick)*	Financial year ended ('current period')
98 057 335 672		✓	30 June 2004

For announcement to the market

Extracts from this report for announcement to the market (see note 1). $A'000

Revenues from ordinary activities *(item 1.1)*	Down	9.4%	to	3,614
Profit (loss) from ordinary activities after tax attributable to members (*item 1.22*)	Up	112%	to	(6,095)
Profit (loss) from extraordinary items after tax attributable to members (*item 2.5(d)*)	gain (loss) of			-
Net profit (loss) for the period attributable to members *(item 1.11)*	up/~~down~~	112%	to	(6,095)

Dividends (distributions)	Amount per security	Franked amount per security
Final dividend *(Preliminary final report only - item 15.4)* Interim dividend *(Half yearly report only - item 15.6)*	Nil ¢	N/A
Previous corresponding period *(Preliminary final report - item 15.5; half yearly report - item 15.7)*	Nil ¢	N/A

+Record date for determining entitlements to the dividend,

(in the case of a trust, distribution) *(see item 15.2)*

N/A

Brief explanation of any of the figures reported above (see Note 1) and short details of any bonus or cash issue or other item(s) of importance not previously released to the market:

N/A

+ See chapter 19 for defined terms.

Condensed consolidated statement of financial performance

		Current period - $A'000	Previous corresponding period - $A'000
1.1	Revenues from ordinary activities *(see items 1.23 - 1.25)*	3,614	3,991
1.2	Expenses from ordinary activities (*see items 1.26 & 1.27)*	(9,694)	(6,781)
1.3	Borrowing costs	(15)	(52)
1.4	Share of net profits (losses) of associates and joint venture entities (*see item 16.7*)	-	(30)
1.5	**Profit (loss) from ordinary activities before tax**	**(6,095)**	**(2,872)**
1.6	Income tax on ordinary activities *(see note 4)*	-	-
1.7	**Profit (loss) from ordinary activities after tax**	**(6,095)**	**(2,872)**
1.8	Profit (loss) from extraordinary items after tax (*see item 2.5*)	-	-
1.9	**Net profit (loss)**	**(6,095)**	**(2,872)**
1.10	Net profit (loss) attributable to outside +equity interests	-	-
1.11	**Net profit (loss) for the period attributable to members**	**(6,095)**	**(2,872)**
Non-owner transaction changes in equity			
1.12	Increase (decrease) in revaluation reserves	-	-
1.13	Net exchange differences recognised in equity	-	-
1.14	Other revenue, expense and initial adjustments recognised directly in equity (attach details)	-	-
1.15	Initial adjustments from UIG transitional provisions	-	-
1.16	Total transactions and adjustments recognised directly in equity (items 1.12 to 1.15)	-	-
1.17	**Total changes in equity not resulting from transactions with owners as owners**	-	-

Earnings per security (EPS)		Current period	Previous corresponding Period
1.18	Basic EPS	(2.90) cents	(2.07) cents
1.19	Diluted EPS	(2.90) cents	(2.07) cents

+ See chapter 19 for defined terms.

Notes to the condensed consolidated statement of financial performance

Profit (loss) from ordinary activities attributable to members

		Current period - $A'000	Previous corresponding period - $A'000
1.20	Profit (loss) from ordinary activities after tax (*item 1.7*)	(6,095)	(2,872)
1.21	Less (plus) outside +equity interests	-	-
1.22	**Profit (loss) from ordinary activities after tax, attributable to members**	**(6,095)**	**(2,872)**

Revenue and expenses from ordinary activities

		Current period - $A'000	Previous corresponding period - $A'000
1.23	Revenue from sales or services	3,447	3,100
1.24	Interest revenue	20	77
1.25	Other relevant revenue	147	814
1.26	Details of relevant expenses	-	-
1.27	Depreciation and amortisation excluding amortisation of intangibles *(see item 2.3)*	546	380
Capitalised outlays			
1.28	Interest costs capitalised in asset values	-	-
1.29	Outlays capitalised in intangibles (unless arising from an +acquisition of a business)	-	-

Consolidated retained profits

		Current period - $A'000	Previous corresponding period - $A'000
1.30	Retained profits (accumulated losses) at the beginning of the financial period	(6,710)	(3,838)
1.31	Net profit (loss) attributable to members (*item 1.11*)	(6,095)	(2,872)
1.32	Net transfers from (to) reserves *(details if material)*	-	-
1.33	Net effect of changes in accounting policies	-	-
1.34	Dividends and other equity distributions paid or payable	-	-
1.35	**Retained profits (accumulated losses) at end of financial period**	(12,805)	(6,710)

+ See chapter 19 for defined terms.

Intangible and extraordinary items

		Consolidated - current period			
		Before tax $A'000 (a)	Related tax $A'000 (b)	Related outside +equity interests $A'000 (c)	Amount (after tax) attributable to members $A'000 (d)
2.1	Amortisation of goodwill	-	-	-	-
2.2	Amortisation/Writedown of other intangibles	3,938	-	-	3,938
2.3	**Total amortisation/writedown of intangibles**	3,938	-	-	3,938
2.4	Extraordinary items (details)	-	-	-	-
2.5	**Total extraordinary items**	-	-	-	-

Comparison of half year profits

(Preliminary final report only)

		Current year - $A'000	Previous year - $A'000
3.1	Consolidated profit (loss) from ordinary activities after tax attributable to members reported for the *1st* half year (item 1.22 in the half yearly report)	(1,358)	(1,443)
3.2	Consolidated profit (loss) from ordinary activities after tax attributable to members for the *2nd* half year	(4,737)	(1,429)

+ See chapter 19 for defined terms.

Condensed consolidated statement of financial position		At end of current period $A'000	As shown in last annual report $A'000	As in last half yearly report $A'000
	Current assets			
4.1	Cash	230	1,200	801
4.2	Receivables	452	915	398
4.3	Investments	-	-	-
4.4	Inventories	33	27	39
4.5	Tax assets	-	-	-
4.6	Other (provide details if material)	-	62	612
4.7	**Total current assets**	**715**	**2,204**	**1,850**
	Non-current assets			
4.8	Receivables	-	-	-
4.9	Investments (equity accounted)	-	243	243
4.10	Other investments	-	-	-
4.11	Inventories	-	-	-
4.12	Exploration and evaluation expenditure capitalised *(see para .71 of AASB 1022)*	-	-	-
4.13	Development properties (+mining entities)	-	-	-
4.14	Other property, plant and equipment (net)	1,184	1,648	1,843
4.15	Intangibles (net)	2,806	5,628	5,211
4.16	Tax assets	-	-	-
4.17	Other (provide details if material)	-	563	449
4.18	**Total non-current assets**	**3,990**	**8,082**	**7,746**
4.19	**Total assets**	**4,705**	**10,286**	**9,596**
	Current liabilities			
4.20	Payables	532	1,015	621
4.21	Interest bearing liabilities	22	122	89
4.22	Tax liabilities	-	-	-
4.23	Provisions exc. tax liabilities	149	268	173
4.24	Other (provide details if material)	-	-	-
4.25	**Total current liabilities**	**703**	**1,405**	**883**

+ See chapter 19 for defined terms.

Condensed consolidated statement of financial position continued

	Non-current liabilities			
4.26	Payables	285	304	292
4.27	Interest bearing liabilities	32	126	-
4.28	Tax liabilities	-	-	-
4.29	Provisions exc. tax liabilities	-	-	-
4.30	Other (provide details if material)	-	-	-
4.31	**Total non-current liabilities**	**317**	**430**	**292**
4.32	**Total liabilities**	**1,020**	**1,835**	**1,175**
4.33	**Net assets**	**3,685**	**8,451**	**8,421**
	Equity			
4.34	Capital/contributed equity	16,490	15,161	16,489
4.35	Reserves	-	-	-
4.36	Retained profits (accumulated losses)	(12,805)	(6,710)	(8,068)
4.37	**Equity attributable to members of the parent entity**	**3,685**	**8,451**	**8,421**
4.38	Outside +equity interests in controlled entities	-	-	-
4.39	**Total equity**	**3,685**	**8,451**	**8,421**
4.40	Preference capital included as part of 4.37	-	-	-

+ See chapter 19 for defined terms.

Notes to the condensed consolidated statement of financial position

Exploration and evaluation expenditure capitalised

(To be completed only by entities with mining interests if amounts are material. Include all expenditure incurred.)

		Current period $A'000	Previous corresponding period - $A'000
5.1	Opening balance		
5.2	Expenditure incurred during current period		
5.3	Expenditure written off during current period		
5.4	Acquisitions, disposals, revaluation increments, etc.	N/A	N/A
5.5	Expenditure transferred to Development Properties		
5.6	**Closing balance as shown in the consolidated balance sheet** *(item 4.12)*		

Development properties

(To be completed only by entities with mining interests if amounts are material)

		Current period $A'000	Previous corresponding period - $A'000
6.1	Opening balance		
6.2	Expenditure incurred during current period		
6.3	Expenditure transferred from exploration and evaluation		
6.4	Expenditure written off during current period	N/A	N/A
6.5	Acquisitions, disposals, revaluation increments, etc.		
6.6	Expenditure transferred to mine properties		
6.7	**Closing balance as shown in the consolidated balance sheet** *(item 4.13)*		

+ See chapter 19 for defined terms.

Condensed consolidated statement of cash flows

		Current period $A'000	Previous corresponding period - $A'000
	Cash flows related to operating activities		
7.1	Receipts from customers	3,830	3,677
7.2	Payments to suppliers and employees	(5,205)	(6,135)
7.3	Dividends received from associates	-	-
7.4	Other dividends received	-	-
7.5	Interest and other items of similar nature received	20	101
7.6	Interest and other costs of finance paid	(15)	(51)
7.7	Income taxes paid	-	-
7.8	Other (provide details if material)	-	-
7.9	**Net operating cash flows**	**(1,370)**	**(2,408)**
	Cash flows related to investing activities		
7.10	Payment purchases of property, plant, equipment	(744)	(674)
7.11	Proceeds sale of property, plant and equipment	125	87
7.12	Payment for purchases of equity investments	-	-
7.13	Proceeds from sale of equity investments	-	-
7.14	Loans to other entities	-	-
7.15	Payments for purchase of controlled entity (net of cash)	-	(664)
7.16	Other (provide details if material)	(116)	(279)
7.17	**Net investing cash flows**	**(735)**	**(1,530)**
	Cash flows related to financing activities		
7.18	Proceeds issues of +securities (net of costs)	1,329	1,749
7.19	Proceeds from borrowings	-	-
7.20	Repayment of borrowings	(194)	(221)
7.21	Dividends paid	-	-
7.22	Other (incl loan to controlled entity pre acquisition)	-	(475)
7.23	**Net financing cash flows**	**1,135**	**1,053**
7.24	**Net increase (decrease) in cash held**	(970)	(2,885)
7.25	Cash beginning of period *(see Reconciliation of cash)*	1,200	4,085
7.26	Exchange rate adjustments to item 7.25.	-	-
7.27	**Cash at end of period** *(see Reconciliation of cash)*	230	1,200

+ See chapter 19 for defined terms.

Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows. *(If an amount is quantified, show comparative amount.)*

N/A

Reconciliation of cash

Reconciliation of cash at the end of the period (as show in the consolidated statement of cash flows) to the related items in the accounts is as follows.		Current period $A'000	Previous corresponding period - $A'000
8.1	Cash on hand and at bank	120	906
8.2	Deposits at call	110	294
8.3	Bank overdraft	-	-
8.4	Other (provide details)	-	-
8.5	**Total cash at end of period** *(item 7.27)*	**230**	**1,200**

Other notes to the condensed financial statements

Ratios		Current period	Previous corresponding Period
9.1	**Profit before tax / revenue** Consolidated profit (loss) from ordinary activities before tax (*item 1.5*) as a percentage o revenue (*item 1.1*)	(168%)	(72%)
9.2	**Profit after tax / +equity interests** Consolidated net profit (loss) from ordinary activities after tax attributable to members (*item 1.11*) as a percentage of equity (similarly attributable) at the end of the period (*item 4.37*)	(165%)	(34%)

+ See chapter 19 for defined terms.

Earnings per security (EPS)

10. Details of basic and diluted EPS reported separately in accordance with paragraph 9 and 18 of *AASB 1027: Earnings Per Share* are as follows.

Basic Earnings per share	(2.90 cents)	(2.07 cents)
Diluted Earnings per share	(2.90 cents)	(2.07 cents)
Weighted Average shares used	210,008,765	137,840,832

NTA backing	Current period	Previous corresponding Period
11.1 Net tangible asset backing per +ordinary security	0.40 cents	1.5 cents

Discontinuing Operations

(Entities must report a description of any significant activities or events relating to discontinuing operations in accordance with paragraph 7.5 (g) of AASB 1029: Interim Financial Reporting, or, the details of discontinuing operations they have disclosed in their accounts in accordance with AASB 1042: Discontinuing Operations.)

12.1 Discontinuing Operations

N/A

Control gained over entities having material effect

13.1 Name of entity (or group of entities)	N/A
13.2 Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) since the date in the current period on which control was +acquired	N/A
13.3 Date from which such profit has been calculated	N/A
13.4 Profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the whole of the previous corresponding period	N/A

+ See chapter 19 for defined terms.

Loss of control of entities having material effect

14.1	Name of entity (or group of entities)	N/A
14.2	Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) for the current period to the date of loss of control	$ N/A
14.3	Date to which the profit (loss) in item 14.2 has been calculated	N/A
14.4	Consolidated profit (loss) from ordinary activities and extraordinary items after tax of the controlled entity (or group of entities) while controlled during the whole of the previous corresponding period	$ N/A
14.5	Contribution to consolidated profit (loss) from ordinary activities and extraordinary items from sale of interest leading to loss of control	$ N/A

Dividends (in the case of a trust, distributions)

15.1	Date the dividend (distribution) is payable	N/A
15.2	+Record date to determine entitlements to the dividend (distribution) (ie, on the basis of proper instruments of transfer received by 5.00 pm if +securities are not +CHESS approved, or security holding balances established by 5.00 pm or such later time permitted by SCH Business Rules if +securities are +CHESS approved)	N/A
15.3	If it is a final dividend, has it been declared? *(Preliminary final report only)*	N/A

+ See chapter 19 for defined terms.

Amount per security

		Amount per security	Franked amount per security at % tax (see note 4)	Amount per security of foreign source dividend
	(Preliminary final report only)			
15.4	**Final dividend:** Current year	N/A ¢	N/A ¢	N/A ¢
15.5	Previous year	N/A ¢	N/A ¢	N/A ¢
	(Half yearly and preliminary final reports)			
15.6	**Interim dividend:** Current year	N/A ¢	N/A ¢	N/A ¢
15.7	Previous year	N/A ¢	N/A ¢	N/A ¢

Total dividend (distribution) per security (interim *plus* final)

(Preliminary final report only)

		Current year	Previous year
15.8	+Ordinary securities	- ¢	- ¢
15.9	Preference +securities	- ¢	- ¢

Half yearly report - interim dividend (distribution) on all securities *or* Preliminary final report - final dividend (distribution) on all securities

		Current period $A'000	Previous corresponding period - $A'000
15.10	+Ordinary securities *(each class separately)*	-	-
15.11	Preference +securities *(each class separately)*	-	-
15.12	Other equity instruments *(each class separately)*	-	-
15.13	**Total**	-	-

The +dividend or distribution plans shown below are in operation.

N/A

The last date(s) for receipt of election notices for the +dividend or distribution plans

N/A

Any other disclosures in relation to dividends (distributions). *(For half yearly reports, provide details in accordance with paragraph 7.5(d) of AASB 1029 Interim Financial Reporting)*

N/A

+ See chapter 19 for defined terms.

Details of aggregate share of profits (losses) of associates and joint venture entities

Group's share of associates' and joint venture entities':	Current period $A'000	Previous corresponding period - $A'000
16.1 Profit (loss) from ordinary activities before tax	-	(30)
16.2 Income tax on ordinary activities	-	-
16.3 Profit (loss) from ordinary activities after tax	-	(30)
16.4 Extraordinary items net of tax	-	-
16.5 Net profit (loss)	-	(30)
16.6 Adjustments	-	-
16.7 Share of net profit (loss) of associates and joint venture entities	-	(30)

Material interests in entities which are not controlled entities

The economic entity has an interest (that is material to it) in the following entities. *(If the interest was acquired or disposed of during either the current or previous corresponding period, indicate date of acquisition ("from dd/mm/yy") or disposal ("to dd/mm/yy").)*

Name of entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to net profit (loss) (*item 1.9*)	
17.1 Equity accounted associates and joint venture entities	Current period	Previous corresponding period	Current period $A'000	Previous corresponding period - $A'000
BEST Solutions LLC	30%	-	-	(30)
17.2 Total			-	(30)
17.3 Other material interests			-	-
17.4 Total			-	(30)

+ See chapter 19 for defined terms.

Issued and quoted securities at end of current period

(Description must include rate of interest and any redemption or conversion rights together with prices and dates)

Category of +securities	Total number	Number quoted	Issue price per security (cents)	Amount paid up per security (cents)
18.1 **Preference +securities** Cumulative Preference 'B'	1,962	-	-	-
18.2 Changes during current period (a) Increases through issues (b) Decreases through returns of capital, buybacks, redemptions Cumulative Preference 'A'	(1,962)	-	-	-
18.3 **+Ordinary securities**	224,639,262	224,639,262		
18.4 Changes during current period (a) Increases through issues	40,116,238	40,116,238	5 cents	-
(b) Decreases through returns of capital, buybacks	-	-	-	
18.5 **+Convertible debt securities** *(description and conversion factor)*	-	-	-	-
18.6 Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted	- -	- -	- -	- -
18.7 **Options** *(description and conversion factor)*			*Exercise price*	*Expiry date (if any)*
QEDO – Listed Options	26,714,000	26,714,000	20 cents	31/8/04
QEDAS – Employee Options	4,900,000	-	20 cents	28/6/08
18.8 Issued during current period	-	-	-	-
18.9 Exercised during current period	-	-	-	-
18.10 Expired during current period	-	-	-	-
18.11 **Debentures** *(description)* 18.12 Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted	- -	- -		
18.13 **Unsecured notes** *(description)* 18.14 Changes during current period (a) Increases through issues (b) Decreases through securities matured, converted	- -	- -		

+ See chapter 19 for defined terms.

Segment reporting

(Information on the business and geographical segments of the entity must be reported for the current period in accordance with *AASB 1005: Segment Reporting* and for half year reports, *AASB 1029: Interim Financial Reporting*. Because entities employ different structures a pro forma cannot be provided. Segment information in the layout employed in the entity's +accounts should be reported separately and attached to this report.)

Comments by directors

(Comments on the following matters are required by ASX or, in relation to the half yearly report, by *AASB 1029: Interim Financial Reporting*. The comments do not take the place of the directors' report and statement (as required by the Corporations Act) and may be incorporated into the directors' report and statement. For both half yearly and preliminary final reports, if there are no comments in a section, state NIL. If there is insufficient space to comment, attach notes to this report.)

Basis of financial report preparation

19.1 *If this report is a half yearly report, it is a general purpose financial report prepared in accordance with the listing rules and AASB 1029: Interim Financial Reporting.* ***It should be read in conjunction with the last +annual report and any announcements to the market made by the entity during the period.*** *The financial statements in this report are "condensed financial statements" as defined in AASB 1029: Interim Financial Reporting. This report does not include all the notes of the type normally included in an annual financial report.*

19.2 Material factors affecting the revenues and expenses of the economic entity for the current period. In a half yearly report, provide explanatory comments about any seasonal or irregular factors affecting operations.

Refer comments in attached detailed financial statements

19.3 A description of each event since the end of the current period which has had a material effect and which is not already reported elsewhere in this Appendix or in attachments, with financial effect quantified (if possible).

Refer comments in attached detailed financial statements

19.4 Franking credits available and prospects for paying fully or partly franked dividends for at least the next year.

N/A

19.5 Unless disclosed below, the accounting policies, estimation methods and measurement bases used in this report are the same as those used in the last annual report. Any changes in accounting policies, estimation methods and measurement bases since the last annual report are disclosed as follows. (Disclose changes and differences in the half yearly report in accordance with *AASB 1029: Interim Financial Reporting*. Disclose changes in accounting policies in the preliminary final report in accordance with *AASB 1001: Accounting Policies-Disclosure*).

Refer comments in attached detailed financial statements

+ See chapter 19 for defined terms.

19.6 Revisions in estimates of amounts reported in previous interim periods. For half yearly reports the nature and amount of revisions in estimates of amounts reported in previous +annual reports if those revisions have a material effect in this half year.

N/A

19.7 Changes in contingent liabilities or assets. For half yearly reports, changes in contingent liabilities and contingent assets since the last + annual report.

Refer comments in attached detailed financial statements

Additional disclosure for trusts

20.1	Number of units held by the management company or responsible entity or their related parties.	N/A
20.2	A statement of the fees and commissions payable to the management company or responsible entity. Identify: • initial service charges • management fees • other fees	N/A

Annual meeting

(Preliminary final report only)

The annual meeting will be held as follows:

Place	TBA
Date	TBA
Time	TBA
Approximate date the +annual report will be available	15 September 2004

+ See chapter 19 for defined terms.

Compliance statement

1 This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX (see note 12).

Identify other standards used	

2 This report, and the +accounts upon which the report is based (if separate), use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed (see note 2).

4 This report is based on +accounts to which one of the following applies.
(Tick one)

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

5 If the audit report or review by the auditor is not attached, details of any qualifications are attached/will follow immediately they are available* *(delete one). (Half yearly report only - the audit report or review by the auditor must be attached to this report if this report is to satisfy the requirements of the Corporations Act.)*

6 The entity ~~has/~~does not have* *(delete one)* a formally constituted audit committee.

Robert S Middlemas
Company Secretary

31 August 2004

+ See chapter 19 for defined terms.

QED Occtech

Limited

ABN 98 057 335 672

2004 ANNUAL REPORT

CORPORATE DIRECTORY

Directors

Douglas H Miller	-	Executive Chairman
Ivan Bristow	-	Managing Director
Peter Macintosh	-	Executive Director
Ian P Middlemas	-	Non Executive Director

Company Secretary

Robert S Middlemas

Principal Business and Registered Office

QED Occtech Limited
23 Wheeler Street
BELMONT WA 6104

Telephone: (61) (8) 9270 9999
Facsimile: (61) (8) 9477 3777
Email: info@qedocctech.com
Website:www.qedocctech.com

Share Registry

Computershare Investor Services Pty Ltd
Level 2, Reserve Bank Building
45 St Georges Terrace, PERTH WA 6000

Telephone: (61) (8) 9323 2000
Facsimile: (61) (8) 9323 2096

Stock Exchange Listing

Australian Stock Exchange Limited

ASX Stock Exchange Codes

QED	-	Ordinary Shares
QEDO	-	Listed Options

CONTENTS

REVIEW OF COMPANY ACTIVITIES

1. Overview

The last 12 months has again proved to be a very difficult trading environment and even though the company was awarded and performed a number of specialist waste water treatment contracts domestically and internationally, it has failed to secure sufficient work to operate profitably.

The company successfully raised $1.4 million in November 2003 to provide funding for working capital and maintaining its marketing operations, but the ongoing delays in award of work and start up and operating difficulties at the waste water treatment plant (WWTP) installed at PB Foods dictated the need for a further capital raising in June 2004. The June 2004 capital raising was not supported by shareholders and as a result the company was forced to assess other alternatives to maintain operations. A proposal from the executive directors was received and will be put to shareholders in September 2004. Under the proposal they will acquire a licence to the company's proprietary technology in return for a potential future royalty stream. This proposal would result in the company effectively outsourcing the commercialisation of its technology and refocussing its business towards the ownership and development of technologies for commercial gain.

During the year some operational benefits were derived from the merger of QED and Occtech with the main benefits being:

- the integration of the primary (QTFS) and secondary (biological) waste water treatment capability with the tertiary (membrane) treatment capability to secure business in additional new market sectors; and
- the combination of the proven capability of the QED Tangential Flow Separator (QTFS) with the Occtech chemical engineering expertise to identify new opportunities and secure new projects in sectors that were not previously available, such as mining and industrial.

The company has continued to place a very high priority on the potential market in the USA treating waste streams emanating from intensive farming operations. During the period we completed the final installation and commissioning of the large scale QTFS plant at McArthur farms north of Okeechobee in Florida and subsequent optimization of the plant operations.

2. Markets

During 2003/2004 the Company focused its marketing activities on Western Australia, Australia, USA eastern seaboard, Malaysia and Japan.

Western Australia

The Western Australian market continued to be driven by the high cost of water supply and disposal of waste effluent and offering proven water treatment systems to recover reusable water from waste streams. In addition to recovering water the technology is ideal for removing BOD, COD suspended solids and oil and grease, all of which attract high disposal charges, when directed into the sewerage system.

Even though there has been significant publicity and discussion with regard to water conversation, water reuse and the minimization of water streams, few projects have been initiated to take advantage of the proven technology that is available.

Australia

In a similar vein to Western Australia, a majority of Australia has faced significant water supply issues and there has been some attention to waste stream treatment and water reuse. There have also been initiatives to save the major river systems with initiatives to reduce salt, phosphorous and nitrogen discharge into the waterways.

USA

The USA focus remains on treating waste streams produced from the large scale concentrated animal farming operations (CAFOs). The market is generally dominated by the large scale corporate farming organisations that have a greater emphasis on deferring decisions with regard to treating the waste streams rather than implement practices and systems to treat the waste at source. As a result of the approach by the large scale farming operations, our marketing attention has been re directed to the 'family' farming operation.

Marketing priorities have been on the Lake Okeechobee area, Jacksonville area and Suwannee Basin in Florida, the Brazos Basin in Texas and selected parts of southern Georgia. Work continues with a number of state and federal government agencies to assist the farmers with securing the funding available for on farm treatment systems.

The Company has a number of proposals outstanding for treatment systems in various parts of Florida and Texas, although decisions, mainly based on funding issues, have been subject to continued delays. Opportunities in acid mine drainage and waste stream treatment for selected mining and mineral processing operations in the southern part of the USA are also being pursued.

Malaysia

The Company has continued to maintain a focus on Malaysia and specifically the land fill leachate and palm oil waste treatment opportunities. There are a number of such opportunities in both mainland Malaysia and East Malaysia, but as with other opportunities there continues to be delays in securing contracts. The two plants installed at landfill sites during 2003 have performed to expectations and are able to be used as reference plants for other potential sites.

Japan

We maintain a target on two specific sectors in Japan, namely waste streams from intensive agricultural operations and industrial waste streams.

3. Marketing Strategy

The marketing strategy is premised on:

- Demonstrating robustness of the waste water treatment technology by referring potential customers to reference plants;
- Demonstrating the commercial benefits of treating waste streams and recovering water and other components for reuse; and
- Targeting government incentives available for treating waste streams.

One of our greatest challenges in marketing waste water treatment technology is demonstrating to potential customers that the technology works. Initially a number of customers are sceptical about 'new' technology as past experiences cloud judgements. We now have operational plants in place and a number of clients who are willing to verify the effectiveness of QED Occtech waste water treatment technologies.

4. Recent Contracts

PB Foods Balcatta WA

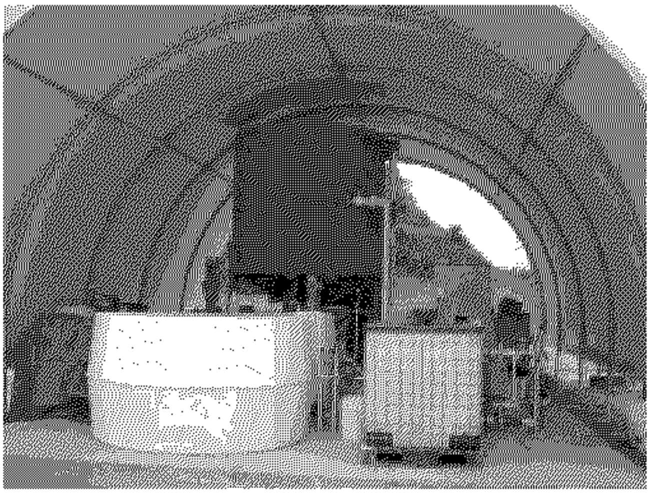
In August 2003, the Minister for the Environment Dr Judy Edwards opened the WWTP installed at PB Foods in Balcatta. Unfortunately the treatment regime resulted in strong odors being generated and a number of changes were required to the plant. In took some 8 months of testing and changes to prove the system would effectively treat the waste stream without impacting on the near by neighbours. In addition the commercial benefits originally envisaged from treating the waste stream were not materializing. The plant was re-engineered in late April 2004 and these changes appear to be producing the required quality of water with no further odor issues. The plant operated during this period to 30 June 2004, at near to cash flow positive. A formal program has now been implemented to increase the commercial return from the plant.

McArthur Farms Florida USA

In September 2003 the large scale QTFS system was commissioned at McArthur farms in Florida, with the plant treating the waste stream from a 1600 head dairy in the intensive farming area north of Lake Okeechobee. QED Occtech has worked closely with the various government agencies involved to demonstrate the flexibility and effectiveness of the waste water treatment system. Since commissioning there has been significant interest from interstate government agencies, farming groups and farmers with regard to the effectiveness of the system with a number of tours etc conducted.

Landfill Leachate Malaysia

The company installed the second QTFS system in Malaysia at the Miri landfill site. The QTFS treats 5 cubic metres per hour of concentrated waste stream such that the treated effluent meets with the requirements for discharge into the environment.



5. CynoFree™

Results of test work on the CynoFree™ development project were disappointing during the year, and work was scaled back to concentrate on income producing ventures. The concepts are still being tested in the laboratory and it is anticipated this project will be restarted in the near future.

DIRECTORS' REPORT

The Directors present their report on QED Occtech Limited ("QED Occtech" or "QED" or "Parent Entity") and of the Consolidated entity, being QED Occtech and its controlled entities, for the year ended 30 June 2004, and the auditor's report thereon.

DIRECTORS

The names and details of the Directors of QED Occtech during the financial year and until the date of this report are:

Mr. Douglas H Miller
Executive Chairman

Mr Douglas Miller (62) was the founding director of QED and developed QED's waste water treatment business following its acquisition of a licence for the Tangential Flow Technology in 1992. He is a graduate in statistics from Liverpool University, United Kingdom and has an extensive background in the oil and gas and environmental industries. Mr Miller has been instrumental in the development of QED and the worldwide marketing of the QTFS technology and remains at the forefront of the Company's development.

Ivan Bristow
Managing Director

Mr Ivan Bristow (52) is a Civil Engineer with in excess of 25 years experience in project and company management. Mr Bristow joined Occtech in 2000 as a non-executive director and in May 2001 was appointed managing director. He was formerly managing director of the Dawson Group (acquired by Brown & Root in 1996) during the period 1991 through 1996 when revenue grew from $15 million p.a. to $100 million p.a.

Mr Peter Macintosh
Executive Director

Mr Peter Macintosh (49) founded Occtech in 1986. He is a Chemical Engineer with over 25 years experience in process design and project management experience. Mr Macintosh has extensive technical expertise in membrane technology and specialist wastewater treatment processes. Mr Macintosh is regarded in the membrane industry, as one of the most successful participants in creating commercial applications from membrane technology and he currently leads the Company's research and development activities, in these specialty areas.

Mr. Ian Peter Middlemas
Non-Executive Director

Mr Ian Middlemas (43) is a Chartered Accountant and has been in commerce for twenty years holding senior executive positions and directorships in a number of public companies. He originally worked for Arthur Andersen before joining the Normandy Group where he was a Senior Group Executive for approximately ten years. Mr Middlemas has considerable corporate, financial and management expertise. He is an Associate of the Securities Institute of Australia.

Professor Anthony Fane was a Director from 14 October 2002 until his resignation on 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activities during the financial year by QED Occtech were to provide wastewater treatment and biomass/biosolids management solutions to clients and to develop new technologies and patents for commercialisation.

There have been no significant changes in these activities during the financial year.

RESULTS OF OPERATIONS

The net loss after income tax for the consolidated entity for the financial year was $6,094,764 (2003: $2,871,834).

DIVIDENDS

No dividend has been paid since the end of the previous financial year and no dividend is recommended for the current year.

REVIEW OF ACTIVITIES

Difficult operating conditions continued to exist during the year leading to a loss before depreciation, amortisation and writedowns of $1.86 million, with environmental oriented projects suffering from lack of capital commitment from our major clients. The Company has made a number of significant writedowns at year-end, which together with other depreciation and amortisation increased the net loss to $6.094m.

Revenues from ordinary activities for the year increased by 12% over the corresponding period last year. This was due mainly to the introduction of Occtech Limited (only reflected for 9 months in 2003), and the number of jobs that were undertaken during the year. These included 2 waste water treatment systems in Japan sold to the Global Pig Farm group, a complete wastewater treatment plant for the ABMT Textile group in Victoria, a second QTFS installation on a landfill site in Malaysia, and a QTFS installation at the BGC fibre cement plant in Perth.

The Build Own Operate (BOO) QTFS installation was completed during the year at PB Foods Balcatta ice cream and milk product factory. The plant experienced a number of operational problems during the startup period, and some significant re-engineering work was required, leading to large operating losses of over $300,000, and additional capital costs. Early indications are that the benefits of the changes are now being experienced, and we are in the process of optimising its operation, which should see a return to a cash flow positive position.

Generally operating overheads were reduced during the year, with a number of staff reductions, and the Company relocated to more appropriate office premises. All these items along with other management initiatives were aimed at lowering the fixed operating costs of the Company.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors there were no significant changes in the state of affairs of the parent entity or the consolidated entity that occurred during the financial year under review except for the following:

In November and December 2003, the Company completed an excluded placement of 27,500,000 ordinary shares at 3.5 cents/share to sophisticated investors, followed by a Share Purchase Plan to all shareholders at the same price, which led to a further issue of 12,614,276 fully paid ordinary shares. Funds were used to supplement the Company's working capital requirements and to enhance the existing marketing programmes, particularly in Florida, USA.

ENVIRONMENTAL REGULATION

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board is committed to achieving a high standard of environmental performance, and regular monitoring of potential environmental exposures is undertaken by the environmental management group. The board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of those environmental requirements as they apply to the consolidated entity.

OPTIONS OVER UNISSUED CAPITAL

Listed Options

As at 30 June 2004 a total of 26,714,000 options exercisable at $0.20 each on or before 31 August 2004, were outstanding in respect of ordinary shares. During the financial year there was no listed options exercised.

Unlisted Options

As at 30 June 2004, a total of 4,900,000 employee options were on issue under the QED Occtech Employee Option Plan. The unlisted options are exercisable at $0.20 each on or before 26 June 2008, and will be vested at a rate of 25% per annum providing employment conditions of staff are maintained. At 30 June 2004, none of the options had been exercised.

DIRECTORS' REPORT (Continued)

EVENTS SUBSEQUENT TO BALANCE DATE

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 and the consolidated entity to affect substantially the operations of the Company or the consolidated entity, the results of those operations or the state of affairs of the Company or the consolidated entity in subsequent financial years, except as follows:

On 30 June 2004 the Company advised that it was planning to outsource the further commercialisation of its proprietary technologies to the current QED Senior Management team. This proposal, subject to shareholder approval, will see QED retain ownership of its proprietary technologies and licence them out, earning royalties from successful commercialisation.

Under the terms of the proposal the three executive directors, via Wisemind Investments Pty Ltd will be provided with an exclusive global licence to commercialise QED's proprietary technologies. They will also purchase Occtech Limited and QED Environmental Solutions LCC (Florida) along with various assets and all contract works in hand. Total consideration for the transaction will be the cancellation of shareholdings totalling 100,843,687 ordinary shares.

Occtech Limited will assume all QED Occtech's operational liabilities along with all ongoing operational and maintenance obligations in respect of all current QED Occtech Plants. This will leave the Company with sufficient assets and resources to continue its operating activities, holding its current waste water technologies, and allowing it to pursue other potential acquisitions that will complement its existing portfolio assets.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The proposed outsourcing of further commercialisation of the Proprietary technologies and license and royalty agreement will allow the company to continue its operations and identify other opportunities for future growth.

DIRECTORS' INTERESTS

As at the date of this report, the Directors interests in the shares and options of the Company are as follows:

Director	Director's Interests in Ordinary Shares		Director's Interests in Listed Options	
	Direct	Indirect	Direct	Indirect
Douglas H Miller	19,970,537	20,095,535	-	200,000
Ivan Bristow	-	24,552,166	-	-
Peter Macintosh	29,672,517	6,677,932	-	-
Ian P Middlemas	-	7,250,000	500,000	2,500,000

DIRECTORS' MEETINGS

The number of meetings of the Company's Directors held in the period each Director held office during the financial year and the number of meetings attended by each Director were:

Director	Board of Directors' Meetings	
	Held While Director	*Attended*
Douglas H Miller	5	5
Ivan Bristow	5	5
Peter Macintosh	5	5
Anthony Fane (a)	2	2
Ian P Middlemas	5	5

(a) Professor A Fane resigned on 31 December 2003.

During the financial year there were 5 general Directors' meetings for which formal notice of meeting was given.

DIRECTORS' REPORT (Continued)

DIRECTORS' & EXECUTIVES' REMUNERATION

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and the executive team. The Board of Directors 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 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.

Remuneration of Non-Executive Directors is determined by the Board with the maximum amount approved by the shareholders from time to time.

Details of the nature and amount of each element of the emoluments of each Director of QED Occtech Limited are as follows:

Directors	Base Remuneration $	Other Benefits (non cash) $	Superannuation $	Retirement Benefits $
Douglas H Miller	126,217	4,371	10,684	-
Ivan Bristow	134,759	-	9,644	-
Peter Macintosh	133,718	-	10,685	-
Anthony Fane (i)	18,750	-	1,688	-
Ian P Middlemas	25,000	-	2,250	-

(i) Mr Fane resigned from the board on 31 December 2003.

Emoluments of the five most highly paid executive officers of QED Occtech and the consolidated entity:

Name	Base Emolument $	Other Benefits (non cash) $	Superannuation $	Retirement Benefits $	Consulting Fees $
Robert S Middlemas (i) (ii)	48,667	7,767	4,875	53,036	33,862
William Walker (i)	28,076	3,252	16,437	71,228	-
Neil Beckingham (iii)	104,089	34,352	9,371	-	-
Robert Kelly(i)	44,923	4,443	4,500	26,982	-
Neil Wende	120,000	-	10,800	-	-

(i) Executives left the group during staff restructuring on 13 November 2003.
(ii) Executive provided consulting services to the company under a contract through Sparkling Investments Pty Ltd
(iii) Executive resided in USA for the entire financial year.

OFFICERS' INDEMNITIES AND INSURANCE

During the year the consolidated entity paid an insurance premium to insure certain officers of the consolidated entity and related bodies corporate. The officers of the consolidated entity covered by the insurance policy include the Directors named in this report.

The Directors' and Officers' Liability insurance provides cover against all costs and expenses that may be incurred in defending civil or criminal proceedings that fall within the scope of the indemnity and that may be brought against the officers in their capacity as officers of the Company or a related body corporate. The insurance policy does not contain details of the premium paid in respect of individual officers of the Company. Disclosure of the nature of the liability cover and the amount of the premium is subject to a confidentiality clause under the insurance policy.

DIRECTORS' REPORT (Continued)

OFFICERS' INDEMNITIES AND INSURANCE (continued)

Neither the Company nor any of its related bodies corporate have provided any insurance for an auditor of the Company or a related body corporate.

DATED at Perth this 31st day of August 2004

Signed in accordance with a resolution of the Directors.

Douglas H. Miller

DH Miller
Executive Chairman

QED OCCTECH LIMITED AND ITS CONTROLLED ENTITIES

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of QED Occtech Limited is responsible for its corporate governance, that is, the system by which the Company and its subsidiaries ("the Group") are managed.

1. Board of Directors

1.1 Role of the Board and Management

The Board represents shareholders' interests in continuing a successful business, which seeks to optimise medium to long-term financial gains for shareholders. By not focusing on short-term gains for shareholders, the Board believes that this will ultimately result in the interests of all stakeholders being appropriately addressed when making business decisions.

The Board is responsible for ensuring that the Group is managed in such a way to best achieve this desired result. Given the current size and operations of the business, the Board currently undertakes an active, not passive role.

The Board is responsible for evaluating and setting the strategic directions for the Group, establishing goals for management and monitoring the achievement of these goals. The Managing Director is responsible to the Board for the day-to-day management of the Group.

The Board has sole responsibility for the following:

- Appointing and removing the Managing Director and any other executives and approving their remuneration;
- Appointing and removing the Company Secretary / Chief Financial Officer and approving their remuneration;
- Determining the strategic direction of the Group and measuring performance of management against approved strategies;
- Review of the adequacy of resources for management to properly carry out approved strategies and business plans;
- Adopting operating and capital expenditure budgets at the commencement of each financial year and monitoring the progress by both financial and non-financial key performance indicators;
- Monitoring the Group's short, medium and long term capital and cash flow requirements;
- Approving and monitoring financial and other reporting to regulatory bodies, shareholders and other organisations;
- Determining that satisfactory arrangements are in place for auditing the Group's financial affairs;
- Review and ratify systems of risk management and internal compliance and control, codes of conduct and compliance with legislative requirements; and
- Ensuring that policies and compliance systems consistent with the Group's objectives and best practice are in place and that the Company and its officers act legally, ethically and responsibly on all matters.

The Board's role and the Group's corporate governance practices are being continually reviewed and improved as required.

1.2 Composition of the Board and New Appointments

The Company currently has the following Board members:

Mr Douglas Miller	Executive Chairman
Mr Ivan Birstow	Managing Director
Mr Peter Macintosh	Executive Director
Mr Ian Middlemas	Non Executive Director

The Company's Constitution provides that the number of directors shall not be less than three and not more than ten. There is no requirement for any share holding qualification.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the appointment and further expense of an independent Non-Executive Chairman and additional independent Non-Executive Directors. The Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues.

If the Company's activities increase in size, nature and scope the size of the Board will be reviewed periodically and the optimum number of directors required for the Board to properly perform its responsibilities and functions.

The membership of the Board, its activities and composition is subject to periodic review. The criteria for determining the identification and appointment of a suitable candidate for the Board shall include quality of the individual, background of experience and achievement, compatibility with other Board members, credibility within the Company's scope of activities, intellectual ability to contribute to Board's duties and physical ability to undertake Board's duties and responsibilities.

Directors are initially appointed by the full Board subject to election by shareholders at the next annual general meeting. Under the Company's Constitution the tenure of directors (other than managing director, and only one managing director where the position is jointly held) is subject to reappointment by shareholders not later than the third anniversary following his last appointment. Subject to the requirements of the Corporations Act 2001, the Board does not subscribe to the principle of retirement age and there is no maximum period of service as a director. A managing director may be appointed for any period and on any terms the directors think fit and, subject to the terms of any agreement entered into, the Board may revoke any appointment.

1.3 Committees of the Board

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of separate or special committees at this time. The Board as a whole is able to address the governance aspects of the full scope of the Company's activities and to ensure that it adheres to appropriate ethical standards.

The Board has also established a framework for the management of the Group including a system of internal controls, a business risk management process and the establishment of appropriate ethical standards.

The full Board currently holds meetings at such times as may be necessary to address any general or specific matters as required.

If the Group's activities increase in size, scope and nature, the appointment of separate or special committee's will be reviewed by the Board and implemented if appropriate.

1.4 Conflicts of Interest

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised, on an ongoing basis, of any interest that could potentially conflict with those of the Company. Where the Board believes that a significant conflict exists the Director concerned does not receive the relevant board papers and is not present at the meeting whilst the item is considered.

1.5 Independent Professional Advice

The Board has determined that individual Directors have the right in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. The engagement of an outside adviser is subject to prior approval of the Chairman and this will not be withheld unreasonably. If appropriate, any advice so received will be made available to all Board members.

2. Ethical Standards

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

2.1 Code of Conduct for Directors

The Board has adopted a Code of Conduct for Directors to promote ethical and responsible decision-making by the Directors. The code is based on a code of conduct for Directors prepared by the Australian Institute of Company Directors.

The principles of the code are:

- A director must act honestly, in good faith and in the best interests of the company as a whole.
- A director has a duty to use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office.
- A director must use the powers of office for a proper purpose, in the best interests of the company as a whole.
- A director must recognise that the primary responsibility is to the Company's shareholders as a whole but should, where appropriate, have regard for the interest of all stakeholders of the company.
- A director must not make improper use of information acquired as a director.
- A director must not take improper advantage of the position of director.

A director must not allow personal interests, or the interests of any associated person, to conflict with the interests of the company.

- A director has an obligation to be independent in judgment and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken as a Board.
- Confidential information received by a director in the course of the exercise of directorial duties remains the property of the Company and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised by the Company, or the person from whom the information is provided, or is required by law.
- A director should not engage in conduct likely to bring discredit upon the company.
- A director has an obligation at all times, to comply with the spirit, as well as the letter of the law and with the principles of the Code.

The principles are supported by guidelines as set out by the Australian Institute of Company Directors for their interpretation. Directors are also obliged to comply with the Company's Code of Ethics and Conduct, as outlined below.

2.2 Code of Ethics and Conduct

The Company has implemented a Code of Ethics and Conduct, which provides guidelines, aimed at maintaining high ethical standards, corporate behaviour and accountability within the Company.

All employees and directors are expected to:

- respect the law and act in accordance with it;
- respect confidentiality and not misuse company information, assets or facilities;
- value and maintain professionalism;
- avoid real or perceived conflicts of interest;
- act in the best interests of shareholders;
- by their actions contribute to the company's reputation as a good corporate citizen which seeks the respect of the community and environment in which it operates;
- perform their duties in ways that minimise environmental impacts and maximise workplace safety;
- exercise fairness, courtesy, respect, consideration and sensitivity in all dealings within their workplace and with customers, suppliers and the public generally; and
- act with honesty, integrity decency and responsibility at all times.

An employee that breaches the Code of Ethics and Conduct may face disciplinary action. If an employee suspects that a breach of the Code of Ethics and Conduct has occurred or will occur, he or she must report that breach to management. No employee will be disadvantaged or prejudiced if he or she reports in good faith a suspected breach. All reports will be acted upon and kept confidential.

2.3 Dealings in Company Securities

The Company's share trading policy imposes basic trading restrictions on all employees of the Company with 'inside information', and additional trading restrictions on the directors of the Company.

'Inside information' is information that:

- is not generally available; and
- if it were generally available, it would, or would be likely to influence investors in deciding whether to buy or sell the Company's securities.

If an employee possesses inside information, the person must not:

- trade in the Company's securities;
- advise others or procure others to trade in the Company's securities; or
- pass on the inside information to others – including colleagues, family or friends – knowing (or where the employee or Director should have reasonably known) that the other persons will use that information to trade in, or procure someone else to trade in, the Company's securities.

This prohibition applies regardless of how the employee or Director learns the information (eg. even if the employee or Director overhears it or is told in a social setting).

In addition to the above, Directors must notify the Company Secretary as soon as practicable, but not later than 5 business days, after they have bought or sold the Company's securities or exercised options. In accordance with the provisions of the Corporations Act and the Listing rules of the ASX, the Company on behalf of the Directors must advise the ASX of any transactions conducted by them in the securities of the Company.

Breaches of this policy will be subject to disciplinary action, which may include termination of employment.

2.4 Interests of Other Stakeholders

The Company's objective is to continue to develop and market its patented wastewater technologies. As the Company derives its business by providing solutions to environmentally harmful practices, the Company aims to ensure the highest standard of environmental care is achieved in all its operations.

To assist in meeting its objective, the Company conducts its business within the Code of Ethics and Conduct, as outlined in 2.2 above.

3. Disclosure of Information

3.1 Continuous Disclosure to ASX

The continuous disclosure policy requires all executives and Directors to inform the Managing Director or in their absence the Company Secretary of any potentially material information as soon as practicable after they become aware of that information.

Information is material if it is likely that the information would influence investors who commonly acquire securities on ASX in deciding whether to buy, sell or hold the Company's securities.

Information is not material and need not be disclosed if:

a) A reasonable person would not expect the information to be disclosed or is material but due to a specific valid commercial reason is not to be disclosed; and

b) The information is confidential; or

c) One of the following applies:

i. It would breach a law or regulation to disclose the information;
ii. The information concerns an incomplete proposal or negotiation;
iii. The information comprises matters of supposition or is insufficiently definite to warrant disclosure;
iv. The information is generated for internal management purposes;
v. The information is a trade secret;
vi. It would breach a material term of an agreement, to which the company is a party, to disclose the information;
vii. It would harm the company's potential application or possible patent application; or
viii. The information is scientific data that release of which may benefit the company's potential competitors.

The Managing Director is responsible for interpreting and monitoring the Company's disclosure policy and where necessary informing the Board. The Company Secretary is responsible for all communications with ASX.

3.2 Communication with Shareholders

The Company places considerable importance on effective communications with shareholders.

The Group's communication strategy requires communication with shareholders and other stakeholders in an open, regular and timely manner so that the market has sufficient information to make informed investment decisions on the operations and results of the Group. The strategy provides for the use of systems that ensure a regular and timely release of information about the Group is provided to shareholders. Mechanisms employed include:

- Announcements lodged with ASX;
- ASX Quarterly Cash Flow Reports;
- Half Yearly Report;
- Presentations at the Annual General Meeting/General Meeting's; and
- Annual Report.

The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and understanding of the Group's strategy and goals.

The Company also posts all reports, ASX and media releases and copies of significant business presentations on the Company's website.

CORPORATE GOVERNANCE STATEMENT (continued)

4. Risk Management

4.1 Identification of Risk

The Board is responsible for the oversight of the Group's risk management and control framework. Responsibility for control and risk management is delegated to the appropriate level of management within the Group with the Executive Directors and Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

Areas of significant business risk to the Group are highlighted in the Business Plan presented to the Board by the Managing Director each year.

Arrangements put in place by the Board to monitor risk management include monthly reporting to the Board in respect of operations and the financial position of the Group.

4.2 Integrity of Financial Reporting

Commencing 30 June 2004, the Company's Managing Director and Chief Financial Officer (or equivalent) report in writing to the Board that:

- the consolidated financial statements of the Company and its controlled entities for each half and full year present a true and fair view, in all material aspects, of the Company's financial condition and operational results and are in accordance with accounting standards;
- the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating efficiently and effectively in all material respects.

4.3 Role of Auditor

The Company's practice is to invite the auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

5. Performance Review

The Board has adopted a self-evaluation process to measure its own performance and the performance of its committees during each financial year. Also, an annual review is undertaken in relation to the composition and skills mix of the directors of the Company.

Arrangements put in place by the Board to monitor the performance of the Group's executives include:

- a review by the Board of the Group's financial performance; and
- annual performance appraisal meetings incorporating analysis of key performance indicators with each individual to ensure that the level of reward is aligned with respective responsibilities and individual contributions made to the success of the Company.

6. Remuneration Arrangements

The broad remuneration policy is to ensure that remuneration properly reflects the relevant person's duties and responsibilities, and that the remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board believes that the best way to achieve this objective is to provide Executive Directors and executives with a remuneration package consisting of fixed components that reflect the person's responsibilities, duties and personal performance.

The remuneration of Non-Executive Directors is determined by the Board as a whole having regard to the level of fees paid to non-executive directors by other companies of similar size in the industry.

The aggregate amount payable to the Company's Non-Executive Directors must not exceed the maximum annual amount approved by the Company's shareholders.

Details of remuneration are set out in Note 19 to the financial statements and the director's report.

Compliance with ASX Corporate Governance Recommendations

1. Role of the Board and Management

Council Principle 1:
Lay solid foundations for management and oversight

Council Recommendation 1.1:
Formalise and disclose the functions reserved to the board and those delegated to management.

The Company complies with this recommendation. Refer Section 1.1 of Corporate Governance Statement.

2. Composition of the Board

Council Principle 2
Structure the board to add value

Council Recommendation 2.1:
A majority of the board should be independent directors.

The Board considers that a majority of the Board is not independent in accordance with Recommendation 2.1, however the Board believes that the individuals on the Board can make, and do make, quality and independent judgments in the best interests of the Company on all relevant issues. Directors having a conflict of interest in relation to a particular item of business must absent themselves from the Board Meeting before commencement of discussion on the topic.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of independent Non-Executive Directors.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.2:
The chairperson should be an independent director.

The Company's Executive Chairman, Mr Douglas Miller, is considered by the Board not to be independent in terms of the ASX Corporate Governance Council's definition of independent director. However the Board believes that the Chairman is able and does bring quality and independent judgment to all relevant issues falling within the scope of the role of a Chairman.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the expense of the appointment of an independent Non-Executive Chairman.

Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.3:
The roles of the chairperson and chief executive officer should not be exercised by the same individual.

The Company complies with this recommendation. Refer Section 1.2 of Corporate Governance Statement.

Council Recommendation 2.4:
The board should establish a nomination committee.

The Board considers that the Company is not currently of a size to justify the formation of a nomination committee. The Board as a whole undertakes process of reviewing the skill base and experience of existing Directors to enable identification or attributes required in new Directors. Where appropriate independent consultants are engaged to identify possible new candidates for the Board.

The Board acknowledges this does not comply with recommendation 2.4 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a nomination committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

3. Ethical and Responsible Decision-making

Council Principle 3:
Promote ethical and responsible decision-making.

Council Recommendation 3.1:
Establish a code of conduct to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to:

3.1.1 the practices necessary to maintain confidence in the company's integrity;
3.1.2 the responsibility and accountability of individuals for reporting and investigating reports of unethical practice.

The Company complies with this recommendation. Refer Sections 2.1 and 2.2 of Corporate Governance Statement.

Council Recommendation 3.2:
Disclose the policy concerning trading in company securities by directors, officers and employees.

The Company complies with this recommendation. Refer Section 2.3 of Corporate Governance Statement.

4. Integrity of Financial Reporting

Council Principle 4:
Safeguard integrity in financial reporting.

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

Refer Section 4.2 of Corporate Governance Statement.

Council Recommendation 4.2:
The board should establish an audit committee.

The Board considers that the Company is not of a size, nor are its financial affairs of such complexity to justify the formation of an audit committee. The Board as a whole undertakes the selection and proper application of accounting policies, the identification and management of risk and the review of the operation of the internal control systems.

The Board acknowledges this does not comply with recommendation 4.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of an audit committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Council Recommendation 4.3:
Structure the audit committee so that it consists of:

- *only non-executive directors;*
- *a majority of independent directors;*
- *an independent chairperson, who is not chairperson of the board;*
- *at least three members.*

Refer Recommendation 4.2.

Council Recommendation 4.4
The audit committee should have a formal operating charter.

Refer Recommendation 4.2.

5. Continuous Disclosure to ASX

Council Principle 5:
Make a timely and balanced disclosure

Council Recommendation 5.1:
Establish written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.

The Company complies with this recommendation. Refer Section 3.1 of Corporate Governance Statement.

6. Communication with Shareholders

Council Principle 6:
Respect the rights of shareholders

Council Recommendation 6.1:
Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

The Company complies with this recommendation. Refer Section 3.2 of Corporate Governance Statement.

Council Recommendation 6.2:
Request the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The Company complies with this recommendation. Refer Section 4.3 of Corporate Governance Statement.

7. Risk Management

Council Principle 7:
Recognise and manage risk

Council Recommendation 7.1:
The Board or appropriate board committee should establish policies on risk oversight and management.

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

Council Recommendation 7.2
The chief executive officer and the chief financial officer should state in writing that:

- *7.2.1 the statement given in accordance with best practice recommendation 4.1 is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board;*
- *7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.*

The Company complies with this recommendation. Refer Section 4.1 of Corporate Governance Statement.

8. Performance

Council Principle 8:
Encourage enhanced performance

Council Recommendation 8.1:
Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.

The Company complies with this recommendation. Refer Section 5 of Corporate Governance Statement.

9. Remuneration

Council Principle 9:
Remunerate fairly and responsibly

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

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.2
The board should establish a remuneration committee.

The Board considers that the Company is not currently of a size, nor are its affairs of such complexity to justify the formation of a remuneration committee. The Board as a whole is responsible for the remuneration arrangements for Directors and executives of the Company.

The Board acknowledges this does not comply with recommendation 9.2 of the ASX Corporate Governance Guidelines. If the Company's activities increase in size, scope and nature, the appointment of a remuneration committee will be reviewed by the Board and implemented if appropriate.

Refer Section 1.3 of Corporate Governance Statement.

Council Recommendation 9.3
Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

The Company complies with this recommendation. Refer Section 6 of Corporate Governance Statement.

Council Recommendation 9.4
Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.

The Company complies with this recommendation. The Company currently has no equity-based remuneration plan.

10. Interests of Stakeholders

Council Principle 10:
Recognise the legitimate interests of stakeholders

Council Recommendation 10.1:
Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

The Company complies with this recommendation. Refer Section 2.4 of Corporate Governance Statement.

QED OCCTECH LIMITED AND ITS CONTROLLED ENTITIES

STATEMENTS OF FINANCIAL PERFORMANCE

For the year ended 30 June 2004

	NOTE	CONSOLIDATED 2004	CONSOLIDATED 2003	PARENT ENTITY 2004	PARENT ENTITY 2003
		$	$	$	$
Revenue from ordinary activities		3,446,800	3,100,156	3,446,684	2,500,762
Other revenue from ordinary activities		167,092	890,823	137,562	890,823
Total revenue	2	3,613,892	3,990,979	3,584,246	3,391,585
Raw materials and other direct costs		(2,910,540)	(1,684,187)	(2,910,540)	(1,409,769)
Employee expenses		(1,317,723)	(2,744,657)	(1,317,723)	(2,213,919)
Depreciation and amortisation expenses	3a	(1,401,449)	(1,032,989)	(530,030)	(315,992)
Writedown of non current assets	3b	(3,038,612)	-	(739,614)	-
Provision for diminution in controlled entity	3a	-	-	(3,149,936)	(1,240,362)
Overseas marketing & development expenses		(170,683)	(310,076)	(170,683)	(225,819)
Borrowing costs	3a	(14,691)	(52,280)	(9,876)	(25,221)
Occupancy expenses		(203,089)	(206,431)	(203,089)	(177,342)
Provision for Doubtful Debts		(85,186)	-	(85,186)	-
Insurances		(76,641)	(197,422)	(76,641)	(106,491)
Other expenses from ordinary activities		(490,042)	(604,761)	(485,692)	(518,494)
Share of net losses of associates accounted for using the equity method	9	-	(30,010)	-	(30,010)
Loss from ordinary activities before related income tax expense		(6,094,764)	(2,871,834)	(6,094,764)	(2,871,834)
Income tax relating to ordinary activities	4	-	-	-	-
Net loss attributable to members of the Company	17	(6,094,764)	(2,871,834)	(6,094,764)	(2,871,834)

	NOTE	Cents	Cents
Basic earnings per share	23	(2.90)	(2.07)
Diluted earnings per share	23	(2.90)	(2.07)

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 22 to 38

QED OCCTECH LIMITED AND ITS CONTROLLED ENTITIES

STATEMENTS OF FINANCIAL POSITION

As at 30 June 2004

	NOTES	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
CURRENT ASSETS					
Cash assets	5	229,802	1,200,127	219,480	1,085,230
Receivables	6	451,549	915,196	451,549	909,133
Inventories	7	33,647	26,387	33,647	26,387
Other assets	8	-	62,136	-	62,136
TOTAL CURRENT ASSETS		714,998	2,203,846	704,676	2,082,886
NON-CURRENT ASSETS					
Receivables	6	-	-	2,134,250	2,266,836
Investments	9	-	242,816	851,660	4,244,414
Plant and equipment	10	1,183,984	1,648,296	1,014,096	1,325,520
Intangibles assets	11	2,805,700	5,628,073	-	228,805
Other assets	12	-	562,638	-	137,208
TOTAL NON-CURRENT ASSETS		3,989,684	8,081,823	4,000,006	8,202,783
TOTAL ASSETS		4,704,682	10,285,669	4,704,682	10,285,669
CURRENT LIABILITIES					
Payables	13	531,562	1,014,364	531,562	1,014,364
Interest bearing liabilities	14	21,850	122,229	21,850	122,229
Provisions	15	149,269	268,083	149,269	268,083
TOTAL CURRENT LIABILITIES		702,681	1,404,676	702,681	1,404,676
NON CURRENT LIABILITIES					
Payables	13	285,000	304,525	285,000	304,525
Interest bearing liabilities	14	32,351	125,710	32,351	125,710
TOTAL NON CURRENT LIABILITIES		317,351	430,235	317,351	430,235
TOTAL LIABILITIES		1,020,032	1,834,911	1,020,032	1,834,911
NET ASSETS		3,684,650	8,450,758	3,684,650	8,450,758
EQUITY					
Contributed equity	16	16,489,477	15,160,821	16,489,477	15,160,821
Accumulated losses	17	(12,804,827)	(6,710,063)	(12,804,827)	(6,710,063)
TOTAL EQUITY		3,684,650	8,450,758	3,684,650	8,450,758

The statements of financial performance are to be read in conjunction with the notes to the financial statements set out on pages 22 to 38

STATEMENTS OF CASH FLOWS

For the year ended 30 June 2004

	NOTES	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Cash flows from operating activities					
Receipts from Customers		3,830,183	3,677,451	3,801,360	2,587,266
Interest received		19,520	100,587	19,372	100,587
Interest paid		(14,691)	(50,644)	(9,876)	(23,585)
Payments to suppliers and employees		(5,205,391)	(6,135,445)	(5,207,102)	(4,070,431)
Net cash used in operating activities	24(a)	(1,370,379)	(2,408,051)	(1,396,246)	(1,406,163)
Cash flows from investing activities					
Payments for plant and equipment		(743,722)	(674,266)	(743,722)	(670,211)
Receipts from sale of plant and equipment		124,644	87,587	122,500	87,587
Costs relating to purchase of controlled entity		-	(81,960)	-	(81,960)
Payments for purchase of controlled entity (net of cash acquired)		-	(663,759)	-	-
Payments for research and development		(115,786)	(197,249)	(115,786)	(115,012)
Net cash used in investing activities		(734,864)	(1,529,647)	(737,008)	(779,596)
Cash flows from financing activities					
Loan made/repaid to controlled entity		-	(400,000)	132,586	(2,266,836)
Repayment of loan from Director		-	(31,151)	-	(31,151)
Proceeds from the issue of shares		1,404,000	1,845,230	1,404,000	1,845,230
Transaction costs on the issue of shares		(75,344)	(171,470)	(75,344)	(171,470)
Finance lease repayments		(193,738)	(189,426)	(193,738)	(189,426)
Net cash provided by financing activities		1,134,918	1,053,183	1,267,504	(813,653)
Net increase in cash held		(970,325)	(2,884,515)	(865,750)	(2,999,412)
Cash at the beginning of the financial year		1,200,127	4,084,642	1,085,230	4,084,642
Cash at the end of the financial year	5	229,802	1,200,127	219,480	1,085,230

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 22 to 38

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in preparing the financial report of the Company, QED Occtech Limited and its consolidated entities ("consolidated entity") are stated to assist in a general understanding of the financial report. These policies have been consistently applied by the consolidated entity and are consistent with those of the prior year.

(a) Basis of Accounting

The financial report is a general purpose financial report that has been prepared in accordance with applicable Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report has been prepared on the basis of historical costs, except where stated, and does not take into account changing money values or current valuations of non-current assets.

Financial Position

The financial report has been prepared on the going concern basis. For the year ended 30 June 2004 the consolidated entity recorded an operating loss of $6,094,764, and had a working capital position of $12,317. Revenues were adversely effected in 2003/2004 due to delays in securing new jobs for the sale of the consolidated entity's patented products.

The directors reasonably believe that the preparation of the accounts on a going concern basis is appropriate for the following reasons:

- Wisemind Investments Pty Ltd ("Wisemind"), a company associated with the Executive Directors, is providing financial support to the Company prior to the Annual General Meeting, when a proposal to restructure the Company will be voted upon by shareholders. This will result in the assumption of certain current liabilities totalling $171,119 at 30 June 2004 by Wisemind and will significantly reduce the consolidated entity's operating commitments. (refer Note 26 After Balance Date Events).

At the date of this report shareholder approval for the proposed restructure had not been obtained and therefore some uncertainty remains regarding the going concern of the company. Should shareholder approval not be obtained then it is unlikely that the company will be able to continue as a going concern and may have to realise assets and the extinguish its liabilities in the normal course of business and at amounts other than stated in the financial report. The directors are confident that shareholder approval will be obtained and accordingly the directors believe it is appropriate to adopt the going concern assumption in preparing this financial report.

(b) Income Tax

The consolidated entity adopts the income statement liability method of tax effect accounting. Income tax expense is calculated as the operating result adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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

QED OCCTECH LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Non-Current Assets

Depreciable non-current assets, are depreciated/amortised over their expected economic life using the straight line or diminishing value method. Profits and losses on disposal of non-current assets are taken into account in determining the operating loss for the year. The depreciation rate used for each class of assets is as follows:

• Plant and equipment	13 – 40%
• Motor vehicles	15 – 20%
• Intellectual Property/Patents	10%
• Research and Development	10 – 50%

Depreciation rates are reviewed annually for appropriateness.

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount the asset is written down to the lower amount. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

(d) Acquisition of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to acquisition.

When equity investments are issued as consideration, their market price at the date of acquisition is used as fair value, except where the notional price at which they could place in the market is a better indication of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of the proceeds received, otherwise expensed.

(e) Intangibles

Patents and trademarks, preliminary expenditure and intellectual property
Patents, licences, preliminary expenditure and intellectual property are carried at cost and amortised on a straight-line basis over their useful lives, being not more than 10 years.

(f) Other non-current asset

Research and development costs
Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. Where research and development costs are deferred such costs are amortised over future periods on a basis related to expected future benefits. Unamortised costs are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount identified is written off.

Overseas Development Expenditure carried forward
Significant items of carry forward expenditure having a benefit or relationship to more than one period are written off over the periods to which such expenditure relates.

(g) Foreign Currency

Translation of foreign currency transaction
Transactions in foreign currencies are converted to Australian currency at the rate of exchange ruling at the date of the transaction.

All exchange differences arising on settlement or re-statement are brought to account in determining the net profit or loss for the financial year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Receivables and Revenue Recognition

Revenue from the sales of goods is recognised when control of the goods passes to the customer. Revenue received in advance of completing work is deferred.

Research and development grants are recognised as received. Other grants relating to the construction of plant are recognised in proportion to the stage of completion of the contract when it can be reliably measured.

The collectability of debts is assessed at balance date and specific provision is made for any doubtful debts. Trade debtors to be settled within 60 days are carried at amounts due.

Interest income on short term investments is recognised as it accrues.

The gross proceeds of asset sales are included as revenue of the controlled entity at the date control passes to the buyer.

(i) Leased Assets

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 the risks and benefits of ownership of the leased item, are recognised as an expense on a straight line basis, over the term of the lease.

Financial leases
Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the consolidated entity 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 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.

(j) Employee Entitlements

Liabilities for employees' entitlements to wages and salaries, annual leave, and other current employee entitlements are accrued at nominal amounts on the basis of current wage and salary rates.

Liabilities for other employee entitlements, which are not expected to be paid or settled within 12 months of balance date, are accrued, where material, in respect of all employees at the present values of future amounts expected to be paid.

The value of the equity-based compensation scheme is not being recognised as an employee benefits expense.

(k) Cash Flows

For the purpose of the statements of cash flows, cash includes cash on hand and deposits at call which are readily convertible to cash on hand and which are used in the cash management function on a day-to-day basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Principles of Consolidation

Controlled Entities
The financial statements of controlled entities are included in the consolidated financial statements from the date control commences until the date control ceases.

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

Associates
Associates are those entities, other than partnerships, over which the consolidated entity exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements, investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The consolidated entity's equity accounted share of the associates' net profit or loss is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases. Other movements in reserves are recognised directly in consolidated reserves.

Transactions Eliminated on Consolidation
Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates and joint ventures, including those relating to contributions of non-monetary assets on establishment, are eliminated to the extent of the consolidated entity interest. Unrealised gains relating to associates and joint venture entities are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount impairment.

(m) Payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(n) Goods and Services Tax

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

Receivables and payables are stated with the amount of GST included.

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

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

(o) Comparative Amounts

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2004

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
2. REVENUE FROM ORDINARY ACTIVITIES				
Revenue from the sale of goods	3,446,800	3,100,156	3,446,684	2,500,762
Other Revenue				
Interest	19,520	77,044	19,372	77,044
Grant Income	119,199	666,487	90,492	666,487
Gain from the sale of non current assets	15,708	87,587	15,033	87,587
Other revenue	12,665	59,705	12,665	59,705
	167,092	890,823	137,562	890,823
	3,613,892	3,990,979	3,584,246	3,391,585
3. EXPENSES				
a) The loss from ordinary activities before income tax expense has been determined after charging the following items:				
Auditors' remuneration				
Audit and half year review of the Company's Financial statements	26,564	28,500	26,564	28,500
Other services	2,430	1,000	2,430	1,000
Contributions to employees superannuation plans	169,533	234,438	169,533	188,401
Depreciation – Plant and equipment	415,309	238,259	269,124	61,708
- Leased Motor vehicles	31,311	60,825	26,077	59,622
Amortisation				
Intellectual property	720,000	437,778	-	-
Patents and preliminary expenses	114,000	114,000	114,000	114,000
Research and development	21,010	116,127	21,010	14,662
Overseas development expenditure capitalised	99,819	66,000	99,819	66,000
Finance charges - hire purchase agreements	9,348	23,585	9,348	23,585
Other borrowing costs	5,343	28,695	528	1,636
Provision for employee entitlements	50,138	157,213	50,138	157,213
Doubtful debt expense	85,186	3,997	85,186	3,997
Net foreign exchange loss	(1,148)	30,142	(1,148)	30,142
Cost of Sales	2,910,540	2,376,469	2,910,540	1,903,784
b) Significant items:				
Writedown of non-current assets				
- Intellectual Property	1,873,568	-	-	-
- Plant and equipment	381,993	-	381,993	-
- Patents and preliminary expenses	114,805	-	114,805	-
- Equity accounted investments	242,816	-	242,816	-
- Research and development	425,430	-	-	-
	3,083,612	-	739,614	-
Provision for diminution of investment in controlled entity	-	-	3,149,938	1,240,362

4. INCOME TAX

No income tax is payable by the consolidated entity as it has incurred losses for income tax purposes for the year.

(a) Reconciliation of income tax expense

The aggregate amount of income tax attributable to the financial year differs by more than 15% from the prima facie tax benefit on the operating loss.

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
The differences are reconciled as follows:				
Loss from ordinary activities	(6,094,764)	(2,871,834)	(6,094,764)	(2,871,834)
Prima facie tax benefit at 30% (2002: 30%)	1,828,429	861,550	1,828,429	861,550
Tax effect of permanent differences:				
Amortisation/writedowns of intangibles	(846,712)	(34,200)	(68,642)	(34,200)
Share of Associate Net Loss	(72,845)	(9,003)	(72,845)	(9,003)
Other items not allowable	(782)	(15,699)	(782)	(1,471)
Future income tax benefits not brought to account	(908,090)	(802,648)	(1,686,160)	(816,876)
Tax expense attributable to ordinary activities	-	-	-	-

(b) Future income tax benefits not brought to account

The future income tax benefits not brought to account at 30% (2003: 30%) relating to income tax losses and, the benefits of which will only be realised if the conditions for deductibility as set out in Note 1(b) occur, are as follows:

Tax losses and timing differences	2,929,039	1,979,955	1,937,880	1,155,707

The consolidated entity has not entered into a tax consolidated group, and there has been no impact on the tax position as a consequence of the introduction of the revised tax legislation.

5. CASH ASSETS

Cash at bank and on hand	119,802	906,127	109,480	791,230
Bank short term deposits	110,000	294,000	110,000	294,000
	229,802	1,200,127	219,480	1,085,230

The bank short-term deposits mature within 30 days and pay interest at an average rate of 4.05% (2003: 4.0%) at 30 June 2003.

6. RECEIVABLES

Current				
Trade Debtors	540,732	892,930	540,732	892,928
Less provision for doubtful debts	(89,183)	(3,997)	(89,183)	(3,997)
	451,549	888,933	451,549	888,931
Other Debtors	-	26,263	-	20,202
	451,549	915,196	451,549	909,133
Non Current				
Advance to controlled entity (i)	-	-	2,134,250	2,266,836

(i) this advance is interest free, unsecured and has no set terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

		CONSOLIDATED		PARENT ENTITY	
		2004	2003	2004	2003
		$	$	$	$
7.	**INVENTORIES**				
	Current				
	Finished Goods – at cost	33,647	26,387	33,647	26,387
8.	**OTHER ASSETS**				
	Current				
	Unearned Income	-	62,136	-	62,136
9.	**INVESTMENTS**				
	Non Current				
	Investment in Associate (a)	-	242,816	-	242,816
	Investment in Controlled Entity (b)	-	-	5,241,960	5,241,960
	Less provision for diminution	-	-	(4,390,300)	(1,240,362)
		-	-	851,660	4,001,598
		-	242,816	851,660	4,244,414

Investments in Associates are accounted for using the equity method of accounting

(a) The Investment in Associates is accounted for using the equity method of accounting. It represents QED's 30% (2003 – 30%) interest in BEST Solutions LLC ("BEST"), a North Carolina USA Limited Liability private company, registered on 20 June 2001. The principal activities of BEST are the same as QED in waste water and biomass management industries. The reporting date of BEST is 31 December. The investment has been fully provided against at 30 June 2004.

Carrying Value of Investment in Associates

	CONSOLIDATED 2004	CONSOLIDATED 2003	PARENT ENTITY 2004	PARENT ENTITY 2003
Investment in Associate – opening balance	242,816	272,826	242,816	272,826
Share of Associates losses	-	(30,010)	-	(30,010)
Share of Associates tax expense	-	-	-	-
Writedown of balance	(242,816)	-	(242,816)	-
Investment in Associate – closing balance	-	242,816	-	242,816

(b) Refer Note 18 Investment in Controlled Entities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

10. PLANT AND EQUIPMENT

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Plant held for resale				
At cost	1,512,836	1,031,801	1,512,836	1,031,801
Accumulated depreciation	(571,174)	-	(571,174)	-
	941,662	1,031,801	941,662	1,031,801
Plant and Equipment				
At cost	1,174,724	1,205,029	321,639	339,904
Accumulated depreciation	(947,705)	(739,894)	(260,410)	(188,213)
	227,019	465,135	61,229	151,691
Leased Motor vehicles				
At cost	39,271	249,508	16,005	226,242
Accumulated depreciation	(23,968)	(98,148)	(4,800)	(84,214)
	15,303	151,360	11,205	142,028
	1,183,984	1,648,296	1,014,096	1,325,520

Reconciliation
Reconciliation of the carrying amounts for each class of plant and equipment are set out below:

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Plant held for resale				
Carrying amount at beginning of year	1,031,801	-	1,031,801	-
Additions	481,035	1,031,801	481,035	1,031,801
Writedown	(381,993)	-	(381,993)	-
Depreciation	(189,181)	-	(189,181)	-
Carrying amount at end of year	941,662	1,031,801	941,662	1,031,801
Plant and equipment				
Carrying amount at beginning of year	465,135	222,651	151,691	222,651
Additions	3,770	497,939	3,770	7,944
Disposals	(15,758)	(17,196)	(14,289)	(17,196)
Depreciation	(226,128)	(238,259)	(79,943)	(61,708)
Carrying amount at end of year	227,019	465,135	61,229	151,691
Leased Motor vehicles				
Carrying amount at beginning of year	151,360	243,702	142,028	243,702
Additions	-	51,705	-	41,170
Disposals	(104,746)	(83,222)	(104,746)	(83,222)
Depreciation	(31,311)	(60,825)	(26,077)	(59,622)
Carrying amount at end of year	15,303	151,360	11,205	142,028

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
11. INTANGIBLE ASSETS				
Patents and Preliminary Expenses				
At Cost	1,319,213	1,319,213	1,319,213	1,319,213
Accumulated Amortisation/writedown	(1,319,213)	(1,090,408)	(1,319,213)	(1,090,408)
At recoverable amount	-	228,805	-	228,805
Intellectual Property Acquired				
At Cost	5,837,046	5,837,046	-	-
Accumulated Amortisation/writedown	(3,031,346)	(437,778)	-	-
At recoverable amount	2,805,700	5,399,268	-	-
	2,805,700	5,628,073	-	228,805
12. OTHER NON CURRENT ASSETS				
Overseas Development Expenditure Deferred				
At Cost	785,905	785,905	785,905	785,905
Accumulated Amortisation	(785,905)	(686,086)	(785,905)	(686,086)
	-	99,819	-	99,819
Research and Development				
At Cost	740,747	608,582	197,473	81,687
Less Start Grant Funds received	(132,165)	-	(132,165)	-
Accumulated Amortisation	(608,582)	(145,763)	(65,308)	(44,298)
	-	462,819	-	37,389
	-	562,638	-	137,208
13. PAYABLES				
Current (Unsecured)				
Trade creditors	405,924	874,490	405,924	874,490
Other creditors and accruals	125,638	139,874	125,638	139,874
	531,562	1,014,364	531,562	1,014,364
Non Current (Unsecured)				
Unsecured loan – related party (i)	285,000	304,525	285,000	304,525

(i) Further information relating to amounts owed to Director-related entities is disclosed in Note 19.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
14. INTEREST BEARING LIABILITIES				
Current				
Lease Liabilities (Note 21(a))	21,850	122,229	21,850	122,229
Non-Current				
Lease Liabilities (Note 21(a))	32,351	125,710	32,351	125,710

Finance Lease Facility
The consolidated entity's lease liabilities are secured by the leased assets with a written down value of $43,587 (2003, $151,360), as in the event of the default, the assets revert to the lessor.

Financing facilities
At 30 June 2004, the consolidated entity had an overdraft facility of $893,000 secured over Directors personal property with no amount drawn on the facility (2003: Nil). This facility was cancelled subsequent to the end of the financial year, and executive directors have supported the group since this time. In addition to the overdraft facility the financing facilities of the consolidated entity support bank guarantees relating to projects of $140,835 due to be released in the next 12 months.

15. PROVISIONS

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Current				
Employee entitlements	121,269	240,083	121,269	240,083
Warranty	28,000	28,000	28,000	28,000
	149,269	268,083	149,269	268,083
Number of employees at year end	19	31	15	31

16. CONTRIBUTED EQUITY

(a) Ordinary Shares

	2004 $	2003 $
224,639,262 (2003: 184,523,024) ordinary shares	16,489,477	15,160,821

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 amounts paid up on shares held.
Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

(b) Share Movements During the Year

	2004 Number of Shares	2004 $	2003 Number of Shares	2003 $
Beginning of the financial year	184,523,024	15,160,821	87,618,419	8,327,061
New share issues during the year			96,904,605	7,005,230
Conversion of 'A Class' Preference Shares (i)	1,962	-	-	-
Share Placement (ii)	27,500,000	962,500	-	-
Share Purchase Plan (iii)	12,614,276	441,500	-	-
Less expenses related to new shares issued	-	(75,344)	-	(171,470)
	224,639,262	16,489,477	184,523,024	15,160,821

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

16. CONTRIBUTED EQUITY (Continued)

(i) On 15 September 2003, 1,962 shares were issued upon conversion of the 'A Class' shares, relating to the Occtech Purchase in 2002.

(ii) On 3 November 2003 the Company issued 27,500,000 ordinary shares at 3.5 cents/share as an excluded placement to sophisticated investors.

(iii) On 2 December 2003, the Company issued 12,614,276 shares under a Share Purchase Plan at an issue price of 3.5 cents/share.

(c) Options

Listed options
As at 30 June 2004, a total of 26,714,000 (2003: 26,714,000) options exercisable at $0.20 each on or before 31 August 2004 are outstanding in respect of ordinary shares.

Unlisted options
As at 30 June 2004, a total of 4,900,000 (2003: 4,900,000) employee options were on issue under the QED Occtech Employee Option Plan. The unlisted options are exercisable at $0.20 each on or before 26 June 2008, and will be vested at a rate of 25% per annum providing employment conditions are maintained.

(d) Convertible Preference Shares

As at 30 June 2004, a total of 1,962 Class B convertible preference shares were on issue as part consideration for the purchase of Occtech Limited. These will be converted into 1,962 fully paid ordinary shares following completion of the 2004 Audit in the year ending 30 June 2005.

17. ACCUMULATED LOSSES

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
Accumulated losses at the beginning of the year	**6,710,063**	**3,838,229**	**6,710,063**	**3,838,229**
Net loss attributable to members of the Company	**6,094,764**	**2,871,834**	**6,094,764**	**2,871,834**
Accumulated losses at the end of the year	**12,804,827**	**6,710,063**	**12,804,827**	**6,710,063**

18. INVESTMENTS IN CONTROLLED ENTITIES

Ordinary Shares

Name of Entity	Country of Incorporation	Class of Shares	Equity Holding 2004	Equity Holding 2003
QED Environmental Solutions (Florida) LLC (i)	USA	Ordinary	100%	100%
Occtech Limited	Aust	Ordinary	100%	100%
Occtech Technical Services Pty Ltd (ii)	Aust	Ordinary	100%	100%

(i) Company remained dormant throughout the year and has no assets or liabilities.
(ii) Occtech Technical Services Pty Ltd is a wholly owned subsidiary of Occtech Limited.

19. DIRECTORS' AND EXECUTIVES' DISCLOSURES

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

Remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives. The Board obtains independent advice on the appropriateness of remuneration packages, given trends in comparative companies both locally and internationally. Remuneration packages include fixed remuneration with bonuses or equity based remuneration entirely at the discretion of the board based on the performance of the consolidated entity.

Total remuneration for all non-executive directors, last voted upon by shareholders at the 2001 AGM, is not to exceed $150,000 per annum. Directors' base fees are presently $25,000 per annum. Non-executive directors do not receive bonuses nor are they issued options on securities. Directors' fees cover all main board activities and membership of one committee.

The entities Redundancy Scheme stipulate that senior executives receive a termination payout on a sliding scale, up to a maximum of 6 months remuneration.

The following table provides the details of all directors of the Company ("specified directors") and the nature and amount of the elements of their remuneration for the year ended 30 June 2004. There are no "specified executives" that are involved in the strategic direction of the Company, as this role is completed by the three executive directors.

Specified Directors	Base Remuneration $	Other Benefits (non cash) $	Superannuation $	Retirement Benefits $	Consulting Fees $
Douglas H Miller	126,217	4,371	10,684	-	-
Ivan Bristow	134,759	-	9,644	-	-
Peter Macintosh	133,718	-	10,685	-	-
Anthony Fane (i)	18,750	-	1,688	-	-
Ian P Middlemas	25,000	-	2,250	-	-

(i) Mr Fane resigned from the board on 31 December 2003.

There were no loans made to any directors at 30 June 2004.

b) **Other Transactions with Directors of the Company and their Director-Related Entities**

The following transactions with Directors and Director-related entities occurred during the year on normal commercial terms and conditions:

(i) Fees of $16,228 (2003 - $49,018) for corporate design and printing services were paid to a company in which Mr. Miller is associated with as a Director and shareholder. No amounts were owed to this company at balance date for the current or previous year.

(ii) An amount of $19,525 (2003: $31,151) was repaid to Mr. Miller by way of transfer of Company assets as part repayment of an unsecured interest free loan. At the balance date, an amount of $285,000 still owed with repayment due by 8 July 2005. (2002 - $304,525). The repayment has been agreed to be converted into ordinary shares following shareholder approval. If shareholder approval is not obtained, the debt will not be recalled for 12 months.

(iii) At 30 June 2003 there was an amount of $2,134,250 (2003 - $2,266,836) owing from controlled entities. The amount is unsecured, repayable on demand, and is interest free.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2004

c) **Directors' Share and Optionholdings**

The aggregate numbers of shares and options of the Company held directly, indirectly or beneficially by Directors of the Company or their Director-related entities at balance date is as follows:

Director	Fully Paid Ordinary Shares				Listed Options	
	1 July 2003	Purchases	Sales	30 June 2004	30 June 2003	30 June 2004
Douglas H Miller	40,066,072	-	-	40,066,072	200,000	200,000
Ivan Bristow (i)	23,920,871	631,295	-	24,552,166	-	-
Peter Macintosh (ii)	36,528,616	286,961	465,128	36,350,449	-	-
Ian P Middlemas (iii)	4,125,000	2,875,000	-	7,250,000	500,000	3,000,000

(i) Mr Bristow also held 203 'B Class' Convertible Preference Shares at 30 June 2004 (2003 – 203), and 203 'A Class' Convertible Preference Shares were converted into 203 fully paid ordinary shares.
(ii) Mr Macintosh also held 1247 'B Class' Convertible Preference Shares at 30 June 2004 (2003 – 1247), and 1247 'A Class' Convertible Preference Shares were converted into 1247 fully paid ordinary shares.
(iii) Mr Middlemas purchased 2,500,000 Options during the year (no sales were made).

20. RELATED PARTY TRANSACTIONS

The only related parties to QED Occtech are its wholly owned subsidiaries (refer note 18).

QED Occtech Limited (the parent entity) has made a loan to Occtech Limited of $2,134,250 (2003: $2,266,836) (refer note 6 for further details).

There were no other related party transactions during the year.

21. EXPENDITURE COMMITMENTS

(a) Finance Lease Commitments

	CONSOLIDATED 2004 $	CONSOLIDATED 2003 $	PARENT ENTITY 2004 $	PARENT ENTITY 2003 $
Commitments in relation to finance lease contracts are payable as follows:				
Not later than one year	**25,065**	**135,067**	**25,065**	**135,067**
One to five years	**35,175**	**137,392**	**35,175**	**137,392**
Unexpired finance lease charges	**(6,039)**	**(24,520)**	**(6,039)**	**(24,520)**
Total finance lease liability	**54,201**	**247,939**	**54,201**	**247,939**
Representing finance lease liabilities				
Current (Note 14)	**21,850**	**122,229**	**21,850**	**122,229**
Non Current (Note 14)	**32,351**	**125,710**	**32,351**	**125,710**
	54,201	**247,939**	**54,201**	**247,939**

Finance lease commitments are secured over plant and equipment and have normal terms and conditions.

22. SEGMENT INFORMATION

The Company operates predominantly in one industry, the waste water solutions industry, and in one geographic location, namely Australia.

23. EARNINGS/(LOSS) PER SHARE

	2004	2003
	Cents per share	
Basic earnings/(loss) per share	(2.90)	(2.07)

	2004	2003
	Number of Shares	
Weighted average number of fully paid ordinary shares on issue during the year used in the calculation of basic earnings/(loss) per share	210,008,765	137,840,832

The company has on issue 26,714,000 listed options and 4,900,000 unlisted employee options over ordinary shares that have not been included in the calculation of diluted EPS as they are not considered dilutive. Accordingly, diluted earnings/(loss) per share is the same as the basic earnings/(loss) per share.

24. NOTES TO THE STATEMENTS OF CASH FLOWS

(a) Reconciliation of the loss from ordinary activities after income tax to the net cash flows used in operating activities

	CONSOLIDATED		PARENT ENTITY	
	2004	2003	2004	2003
	$	$	$	$
Loss from ordinary activities after income tax	(6,094,764)	(2,871,834)	(6,094,764)	(2,871,834)
Fixed assets (investing) used in operating activities	-	17,016	-	17,016
Non-cash items:				
Depreciation and amortisation	4,440,064	1,032,989	1,269,645	315,992
Profit on Sale of non current assets	(15,706)	(2,642)	(15,032)	(2,642)
Provision for diminution in controlled entity	-	-	3,149,938	1,240,362
Provision for Doubtful debts	85,186	-	85,186	-
Share of Associate losses	-	30,010	-	30,010
Repayment of Directors Loan	(12,667)	-	(12,667)	-
Change in operating assets and liabilities:				
Decrease (Increase) in receivables	490,606	(157,436)	484,361	(671,324)
Decrease (Increase) in Inventory	(7,260)	28,236	(7,260)	(26,387)
Decrease (Increase) in prepayments	-	42,433	-	42,433
Increase (Decrease) in other assets	62,136	(152,044)	62,136	(62,136)
Increase (Decrease) in payables	(199,160)	(376,353)	(198,975)	393,137
Increase (Decrease) in employee entitlements	(118,814)	(1,966)	(118,814)	157,213
Increase in other provisions	-	3,540	-	31,997
Net cash outflows used in operating activities	(1,370,379)	(2,408,051)	(1,396,246)	(1,406,163)

(b) Non Cash financing and investing activities

There were no material non cash items during the financial year.

25. FINANCIAL INSTRUMENTS

(a) Interest Rate Risk

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

2004

	Note	Weighted Average Effective Interest %	Floating Interest Rate $	Fixed Interest Rate Maturing 12 - 60 months $	Non Interest Bearing $	Total $
Financial Assets						
Cash assets	5	4.0%	229,802	-	-	229,802
Receivables	6	-	-	-	451,549	451,549
Total Financial Assets			229,802	-	451,549	681,351
Financial Liabilities						
Payables	13	-	-	-	531,562	531,562
Unsecured loans	13	-	-	-	285,000	285,000
Finance lease liabilities	14	6-8%	-	54,201	-	54,201
Employment entitlements	15	-	-	-	121,269	121,269
Total Financial Liabilities			-	54,201	937,831	992,032
Net Financial Assets/(Liabilities)			229,802	(54,201)	(486,282)	(310,681)

2003

	Note	Weighted Average Effective Interest %	Floating Interest Rate $	Fixed Interest Rate Maturing 12 - 60 months $	Non Interest Bearing $	Total $
Financial Assets						
Cash assets	5	3.7%	1,200,127	-	-	1,200,127
Receivables	6	-	-	-	915,196	915,196
Total Financial Assets			1,200,127	-	915,196	2,115,323
Financial Liabilities						
Payables	13	-	-	-	1,014,364	1,014,364
Unsecured loans	13	-	-	-	304,525	304,525
Finance lease liabilities	14	6-8%	-	247,939	-	247,939
Employment entitlements	15	-	-	-	240,083	240,083
Total Financial Liabilities			-	247,939	1,558,972	1,806,911
Net Financial Assets/(Liabilities)			1,200,127	(247,939)	(643,776)	308,412

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2004

25. FINANCIAL INSTRUMENTS (Continued)

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date, to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the statements of financial position and in the notes to the financial statements.

The company does not have any material credit risk exposure to any single debtor or group of debtors, under financial instruments entered into by it.

(c) Net Fair Values

For assets and other liabilities, the net fair value approximates their carrying value. No financial assets and financial liabilities are readily traded on organised markets in standardised form. The company has no financial assets where the carrying amount exceeds net fair values at balance date.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statement of financial position and in the notes to the financial statements.

26. AFTER BALANCE DATE EVENTS

(i) Outsourcing Proposal

On 30 June 2004 the Company advised that it was planning to outsource the further commercialisation of its proprietary technologies to the current QED Senior Management team. This proposal, subject to shareholder approval, will see QED retain ownership of its proprietary technologies and licence them out, earning royalties from successful commercialisation.

Under the terms of the proposal the three executive directors, via Wisemind Investments Pty Ltd will be provided with an exclusive global licence to commercialise QED's proprietary technologies. They will also purchase Occtech Limited and QED Environmental Solutions LLC (Florida) along with various assets and all contract works in hand. Total consideration for the transaction will be the cancellation of ordinary shareholdings totalling 100,843,687.

Occtech Limited will assume all QED Occtech's operational liabilities along with all ongoing operational and maintenance obligations in respect of all current QED Occtech Plants. This will leave the Company with sufficient assets and resources to continue its operating activities, holding its current waste water technologies, and allowing it to pursue other potential acquisitions that will complement its existing portfolio of assets.

(ii) International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) 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). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as an exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value,
- goodwill and intangible assets with indefinite useful lives will be tested for impairment annually and will not be amortised,
- impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired,

- equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services,
- changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effects.

At this stage the Company has not commenced its conversion and implementation of IFRS. The outcome of the outsourcing proposal set out in Note 28(a) above will significantly impact the financial position of the Company. Accordingly the impact of IFRS will be considered at the conclusion of this proposal.

27. SUPERANNUATION COMMITMENTS

The Company contributes to individual employee superannuation plans at the statutory rate of the employee's wages and salaries, in accordance with statutory requirements, to provide benefits to employees on retirement, death or disability.

28. EMPLOYEE SHARE INCENTIVE SCHEME

OED Occtech established the QED Occtech Employee Share Option Plan ("Plan") at a meeting of shareholders on 3 October 2002. The Plan allows the board to grant up to 5% of the issued capital in the company in options over unissued shares to directors, executives and members of staff of the consolidated entity. The options, issued for $Nil consideration may be issued for periods up to 5 years, at issue prices to be determined by the board in accordance with ASX listing rules. The options cannot be transferred, and will not be quoted on the ASX.

On 26 June 2003 the board issued 4,900,000 options for $Nil consideration under the Plan to 25 executives and staff with each option having an exercise price of 20 cents, and a term of 5 years (allowing them to be exercised at any time (subject to the terms of the Plan) prior to 26 June 2008). A total of 25% (1,225,000) of the options issued are able to be exercised immediately, with a further 25% (1,225,000) able to be exercised after 26 June 2004, 26 June 2005 and 26 June 2006 subject to employment conditions being maintained.

At 30 June 2004, none of the options had been exercised.

DIRECTORS' DECLARATION

1. In the opinion of the directors of QED Occtech Limited ("the Company"):

a) the financial statements and notes, set out on pages 19 to 38 are in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

b) there are reasonable grounds to believe that 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 Directors.

Signed at Perth this 31st August 2004

Douglas H. Miller

DH Miller
Chairman

KPMG

Independent audit report to members of QED Occtech 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 QED Occtech Limited (the "Company") and the Consolidated Entity, for the year ended 30 June 2004. The Consolidated Entity comprises both the company and the entities it controlled during 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*, Australian 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

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

KPMG

Audit opinion

In our opinion, the financial report of QED Occtech 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 2004 and of their performance for the financial year ended on that date; and

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

b) other mandatory professional reporting requirements in Australia.

Emphasis of matter

Inherent uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 1(a), there is significant uncertainty whether the Company and the Consolidated Entity will be able to continue as a going concern and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

KPMG

KPMG

B C FULLARTON
Partner

Perth
31 August 2004

SHAREHOLDER INFORMATION

Pursuant to the Listing Requirements of the Australian Stock Exchange Limited, the shareholder information set out below was applicable as at 31 August 2004.

A. *Distribution of Equity Securities*

Analysis of numbers of shareholders and optionholders by size of holding:

Distribution	**Ordinary Shares**	
	Number of Shareholders	**Number of Shares**
1 - 1,000	15	3,363
1,001 - 5,000	43	122,593
5,001 - 10,000	88	819,970
10,0001 - 100,000	336	15,133,907
More than 100,000	209	208,559,429
Totals	**691**	**224,639,262**

There were 319 holders of less than a marketable parcel of ordinary shares.

B. *Twenty Largest Shareholders*

The names of the twenty largest holders of shares are listed below:

Name	**Ordinary Shares in which Interest Held**	
	Number	**Percentage**
Mr Peter Douglas Macintosh <The Fidelity A/C>	29,672,517	13.21
Colibri Nominees Pty Ltd	22,989,934	10.23
Mr Douglas Henry Miller	19,795,537	8.81
Mrs Doris Brunilda Miller	19,795,535	8.81
Renewable Energy Corporation Ltd	10,250,000	4.56
Arredo Pty Ltd	7,250,000	3.23
Mr Robert Eric Macintosh	6,677,932	2.97
Orsol Pty Ltd	5,005,263	2.23
Clodene Pty Ltd	3,722,631	1.66
Russell Nominees Pty Ltd <Tieleman Family A/C>	3,109,320	1.38
I E Properties Pty Ltd	3,007,793	1.34
Seaspin Pty Ltd <Aphrodite A/C>	2,250,000	1.00
Invia Custodian Pty Ltd <CMS A/C>	2,000,000	0.89
Mrs Lois Elizabeth Macintosh	2,000,000	0.89
Remac Pty Ltd	2,000,000	0.89
Mr Craig Ian Burton <The Burton Superfund A/C>	1,800,000	0.80
Mr Trevor Neil Hay	1,530,013	0.68
Argonaut Capital Ltd	1,499,924	0.67
Topsfield Pty Ltd	1,428,571	0.64
Mr William Walker	1,300,104	0.58
	147,085,074	**65.47%**

C. Substantial Shareholders

An extract of the Company's Register of Substantial Shareholders (who hold 5% or more of the issued capital) is set out below:

Name	**Ordinary Shares in which Interest Held**	
	Number	**Percentage**
Mr D H Miller & Associates	40,066,072	21.71%
Mr P D Macintosh & Associates	36,528,616	19.79%
Colibri Nominees & Associates	23,920,871	12.96%

D. Restricted Securities

Name	**Ordinary Shares**	
	Number	**Escrow Expiry Date**
Mr Peter D Macintosh	29,528,616	8 October 2004
Colibri Nominees Pty Ltd	18,277,197	8 October 2004
Mr Robert E Macintosh	6,677,932	8 October 2004
	54,483,745	

E. Voting Rights

In accordance with the Company's Constitution, voting rights in respect of fully paid ordinary shares are on a show of hands whereby each member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

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