HVOF AUSTRALIA PTY LTD
ACN 057 636 692

FINANCIAL REPORT

FOR THE YEAR ENDED
30 JUNE 2004

HVOF AUSTRALIA PTY LTD
ACN 057 636 692

FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2004

INDEX

HVOF AUSTRALIA PTY LTD
ACN 057 636 692

DIRECTORS REPORT

Your Directors submit the financial accounts of the Company for the year ended 30 June 2004.

The names of the Directors that held office during the year are:

Wayne Hooper
Diane Hooper
Lillian Hooper
Rex Hooper
Greg Hooper

All directors held office for the entire year unless otherwise stated.

The principal activity of the Company during the financial year was that of laser technology.

The net profit after providing for income tax amounted to $296,246.

No matters or circumstances have arisen since the end of the financial year which significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future financial years except those noted below.

Dividends of $126,022 were paid during the year (2003: $56,010).

No legal proceedings have been bought against the company to the date of this report.

The company expects to continue to be profitable in the laser industry in the next 12 months.

No options in the Company have been granted during the financial year and there were no options outstanding at the end of the financial year.

No Director has received or become entitled to receive, during or since the financial year, a benefit because of a Contract made by the Company, controlled entity or a related body corporate with a Director, a firm of which a Director is a member or an entity in which a Director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by Directors shown in the Company's accounts, or the fixed salary of a full-time employee of the Company, controlled entity or related body corporate.

No environmental regulations have effect on the operations of the company.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 can be found on page 11 and forms part of this report.

HVOF AUSTRALIA PTY LTD
ACN 057 636 692

The Company has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of the Company or a related body corporate:

- indemnified or made any relevant agreement for indemnifying against a liability, including costs and expenses in successfully defending legal proceedings; or
- paid or agreed to pay a premium in respect of a contract insuring against a liability for the costs or expenses to defending legal proceedings.

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

Director..

Dated this 26th day of March 2007

HVOF AUSTRALIA PTY LTD
ACN 057 636 692

STATEMENT OF FINANCIAL PERFORMANCE
FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004 $	2003 $
Sales revenue		2,702,532	2,641,337
Opening stock		135,517	95,625
Purchases		183,689	293,490
		319,206	389,115
Less: Closing stock		99,895	135,517
Cost of sales		219,311	253,598
Gross Profit		2,483,221	2,387,739
Other revenues from ordinary activities		20,794	8,187
Selling expenses		(61,657)	(70,693)
Administration expenses		(1,030,457)	(962,122)
Finance lease expense		(254,699)	(166,885)
Management fees		(197,818)	(243,727)
Repairs and maintenance		(178,800)	(209,521)
Borrowing costs expense		(11,251)	(12,974)
Other expenses from ordinary activities		(81,988)	(151,373)
Profit from ordinary activities before income tax expense		645,757	578,631
Income tax expense relating to ordinary activities	13	(349,511)	(91,273)
Net profit from ordinary activities after income tax expense attributable to members of the company		296,246	487,358
Total changes in equity other than those resulting from transactions with owners as owners		296,246	487,358

The accompanying notes form part of these financial statements.

HVOF AUSTRALIA PTY LTD
ACN 057 636 692

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2004

	Notes	2004 $	2003 $
CURRENT ASSETS			
Cash		406,389	249,878
Receivables	2	673,187	509,224
Inventories	3	99,894	135,517
Prepayments		21,583	88,833
TOTAL CURRENT ASSETS		1,201,053	983,452
NON-CURRENT ASSETS			
Plant and equipment	4	229,013	243,262
Intangible Assets	5	3,543	3,543
Future income tax benefit		8,049	-
TOTAL NON-CURRENT ASSETS		240,605	246,805
TOTAL ASSETS		1,441,658	1,230,257
CURRENT LIABILITIES			
Lease liability		75,577	103,761
Trade creditors		77,477	112,302
Other accruals		22,491	48,016
Tax liabilities		105,630	-
TOTAL CURRENT LIABILITIES		281,175	264,079
NON-CURRENT LIABILITIES			
Lease liability			
Loan — unsecured	6	35,966	30,410
Provision		18,525	-
TOTAL NON-CURRENT LIABILITIES		54,491	30,410
TOTAL LIABILITIES		335,666	294,489
NET ASSETS		1,105,992	935,768
EQUITY			
Issued capital	7	12	12
Retained profits	8	1,105,980	935,756
TOTAL EQUITY		1,105,992	935,7568

The accompanying notes form part of these financial statements.

HVOF AUSTRALIA PTY LTD
ACN 057 636 692

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2004

	Notes	2004 $
Cash Flow from Operating Activities		
Receipts from customers		2,486,996
Payments to suppliers & employees		(2,145,422)
Interest received		15,461
Interest paid		(37,838)
Net GST paid		1,569
Net Cash Flow		320,766
Cash Flow Investing Activities		
Payments for Property, Plant and Equipment		(43,789)
Net Cash Flow		(43,789)
Cash Flow from Financing Activities		
Dividends Paid		(126,022)
Proceeds from Borrowings		5,556
Net Cash Flow		(120,466)
Net increase/(decrease) in cash held		156,511
Cash at beginning of year		249,878
Cash at the end of year		406,389

NOTES TO THE FINANICAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This financial report is a special purpose financial report prepared in order to satisfy the accounts preparation requirements of the Corporations Act 2001. The directors have determined that the company is not a reporting entity.

The report has been prepared in accordance with the requirements of the Corporations Act 2001, and the following applicable Accounting Standards and other mandatory professional reporting requirements:

AASB 1018:	Statement of Financial Performance
AASB 1025:	Application of the Reporting Entity Concept and Other Amendments
AASB 1031:	Materiality
AASB 1034:	Financial Report Presentation and Disclosure
AASB 1040:	Statement of Financial Position

No other applicable Accounting Standards, or Urgent Issues Group Consensus Views or other authorative pronouncements of the Australian Accounting Standards Board have been applied.

The report is prepared on an accruals basis, and is based on historic costs and does not take into account changing money values or, except where specifically stated, current valuations of non-current assets.

The following specific accounting policies, which are consistent with the previous period unless otherwise stated, have been adopted in the preparation of these statements.

(a) Property, Plant and Equipment

Property, Plant and Equipment are included at cost, independent or Directors' valuation. All assets, excluding freehold land and buildings are depreciated over their useful lives to the Company.

(b) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, were charged as expenses in the periods in which they are incurred.

Leases of fixed assets, where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to the company are classified as finance leases. All lease payments under finance leases are recorded as expenses in the period in which they are incurred. The lease commitments are reflected as operating lease commitments.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis and include direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenses.

NOTE 1: STATEMENT OF ACCOUNTING POLICIES (cont'd)

(d) Investments

Investments are brought to account at cost or Directors' valuation. Dividends are bought to account in the Profit and Loss Account when received. Elastrator (NZ) Ltd is a 100% owned subsidiary of HVOF Australia Pty Ltd. The Directors have not applied AASB 1024 Consolidated Accounts in the preparation of this report.

(e) Comparatives

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

(f) Revenue Recognition

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

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

(g) Intangibles

Expenditure on Patent and Trademarks are held at cost less any accumulated amortisation. Patents and trademarks are not amortised until revenue has been derived from them. Once income is derived, they are amortised over a period of 5 years.

NOTES TO THE FINANICAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

	2004 $	2003 $
NOTE 2: RECEIVABLES		
CURRENT		
Trade debtors	673,187	509,224
NOTE 3: INVENTORIES		
Finished goods	99,894	135,517
NOTE 4: PLANT AND EQUIPMENT		
Plant and equipment at cost	437,686	393,897
Less: accumulated depreciation	(316,869)	(281,425)
	120,817	112,472
Motor vehicles at cost	208,715	208,715
Less: accumulated depreciation	(100,519)	(77,925)
	108,196	130,790
Total plant and equipment	229,013	243,262
NOTE 5: INTANGIBLE ASSETS		
Patents and trademarks	3,542	3,542

NOTE 6: UNSECURED LOANS

This relates to a related party loan that is unsecured and interest free. This loan was repaid in December 2006.

NOTE 7: CONTRIBUTED EQUITY

	2004 $	2003 $
Issued Capital		
12 fully paid ordinary shares (2003: 12)	12	12

The holders of Ordinary shares are entitled to exercise at any meeting of the Company one vote for each share held. The holders are entitled on a winding –up the Company to receive a distribution of all surplus assets remaining after the repayment of the amount paid up on all shares in the capital of the Company.

NOTES TO THE FINANICAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2004

	2004 $	2003 $
NOTE 8: RETAINED PROFITS		
Retained profits (accumulated losses) at the beginning of the financial year	935,756	504,408
Net profit attributable to members of the company	296,246	487,358
Dividends provided for or paid	(126,022)	(56,010)
Retained profits at the end of the financial year	1,105,980	935,756

NOTE 9: LEASE COMMITMENTS

Non-cancellable operating lease commitments not capitalised in the financial statements

	2004 $	2003 $
Payable		
— not later than 1 year	73,500	73,500
	73,500	73,500

NOTE 10: CONTINGENT LIABILITIES

The directors are not aware of any contingent liabilities that would have an effect on these financial statements.

NOTE 11: EVENTS SUBSEQUENT TO BALANCE DATE

No matters or circumstances have arisen since the end of the financial year which significantly affect the operations of the company, the results of those operations or the state of affairs of the company in future financial years except those noted below.

NOTE 12: NUMBER OF EMPLOYEES

	2004	2003
Number of employees at year end	13	11

NOTE 13: INCOME TAX EXPENSE

	2004 $	2003 $
Tax expense	349,511	91,273
Franking credits available	490,468	351,732

HVOF AUSTRALIA PTY LTD
ACN 057 636 692

DIRECTORS' DECLARATION

The directors have determined that the company is not a reporting entity and that this special purpose financial report should be prepared in accordance with the accounting policies outlined in Note 1 to the financial statements.

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 3 - 9 present fairly the company's financial position as at 30 June 2004 and its performance for the year ended on that date in accordance with the accounting policies described in Note 1 to the financial statements;

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

This declaration is made in accordance with a resolution of the Board of Directors:

Director

Wayne Hooper
Dated this 26th day of ~~January 2007~~ March 2007

BDO

Chartered Accountants
& Advisers

Level 8, 256 St George's Terrace Perth WA 6000
PO Box 7426 Cloisters Square Perth WA 6850
Tel: (61-8) 9360 4200
Fax: (61-8) 9481 2524
Email: bdo@bdowa.com.au
www.bdo.com.au

27 March 2007

The Directors
HVOF Australia Pty Ltd
945 Wellington Street
WEST PERTH WA 6005

Dear Sirs

DECLARATION OF INDEPENDENCE BY BDO TO THE DIRECTORS OF HVOF AUSTRALIA PTY LTD

To the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully
BDO
Chartered Accountants

M Shafizadeh
Partner

BDO

Chartered Accountants
& Advisers

Level 8, 256 St George's Terrace Perth WA 6000
PO Box 7426 Cloisters Square Perth WA 6850
Tel: (61-8) 9360 4200
Fax: (61-8) 9481 2524
Email: bdo@bdowa.com.au
www.bdo.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF HVOF AUSTRALIA PTY LTD

Scope

We have audited the attached financial report, being a special purpose financial report, of HVOF Australia Pty Ltd comprising the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows and notes and directors' declaration for the year ended 30 June 2004. The company's directors are responsible for the financial report, and have determined that the accounting policies used and described in Note 1 to the financial statements which form part of the financial report are appropriate to meet the needs of the members (and the purpose for which the accounts have been prepared). We have conducted an independent audit of the financial report in order to express an opinion on it to the members of HVOF Australia Pty Ltd. No opinion is expressed as to whether the accounting policies used, and described in Note 1, are appropriate to meet the needs of the members.

The financial report has been prepared HVOF Australia Pty Ltd. We disclaim any assumption of responsibility for any reliance on this report or on the financial report to which it relates to any person other than the members, or for any purpose other than that for which it was prepared.

Our audit has been conducted in accordance with Australian Auditing Standards. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the evaluation of significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with the accounting policies described in Note 1, so as to present a view which is consistent with our understanding of the company's financial position, and performance as represented by the results of its operations (and its cash flows). These policies do not require the application of all Accounting Standards and other mandatory professional reporting requirements.

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

Independence

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

The independence declaration given to the directors in accordance with section 307C would be in the same terms if it had been given at the date of this report.

Qualification

Statement of Cash Flow

The company has not included a Statement of Cash Flow within the financial report for the year ended 30 June 2003 in accordance with the requirements of the Corporations Act 2001.

Prior Year Balances

The HVOF Australia Pty Ltd financial report for the year ended 30 June 2003 has not been audited. BDO were unable to satisfy ourselves as to the accuracy of the balances recorded within the financial report at that date by other audit procedures.

We are therefore not in a position and do not express an opinion on the comparative financial information for 30 June 2003 and the effect, if any, that misstatement of those balances may have on the 30 June 2004 Statement of Financial Position, Statement of Financial Performance and Statement of Cashflows and the notes to the financial report for the year ended 30 June 2004.

Accuracy of Inventory

We did not attend the counting of the physical inventories at the end of the year at 30 June 2004 or satisfy ourselves concerning the inventory quantities by alternative means. Opening and closing inventories enter into the determination of the results of operations. Since this balance could not be verified by any means, we cannot conclude on the effect, if any, that a misstatement of the above balance may have on the Statement of Financial Position, Statement of Financial Performance, Statement of Cash Flows and notes to the financial report as at 30 June 2004.

Qualified Audit Opinion

In our opinion, except for the effects on the financial report of the matters referred to in the qualification paragraph, the financial report of HVOF Australia Pty Limited is in accordance with:

a) the Corporations Act 2001, including:

   (i) giving a true and fair view of the company's financial position as at 30 June 2004 and of its performance for the year ended on that date in accordance with the accounting polices described in Note 1; and

   (ii) complying with Accounting Standards in Australia to the extent described in Note 1 and complying with the Corporations Regulations 2001; and

b) other mandatory professional reporting requirements in Australia to the extent described in Note 1.

BDO

BDO
Chartered Accountants

M Shafizadeh

M Shafizadeh
Partner

Perth, Western Australia
Dated this 27th day of March 2007