

**Silex Systems Limited
& its controlled entities**
ABN 69 003 372 067

**Financial Statements for
the year ended 30 June 2003**

Company Directory

Directors

Mr B S Patterson — Chairman
Dr M P Goldsworthy — Managing Director
Mr C D Wilks — Director - Corporate
Dr C S Goldschmidt
Mr R P Campbell

Company Secretary

Mr C D Wilks

Registered office and principal place of business

Building 64, Lucas Heights Science & Technology Centre
New Illawarra Road, Lucas Heights, New South Wales 2234, Australia
Ph: 61 2 9532 1331 Fax: 61 2 9532 1332
Postal address: PO Box 75, Menai Central, New South Wales 2234

Website address: www.silex.com.au

Share Registry

Computershare Registry Services Pty Limited
Level 5, 115 Grenfell Street, Adelaide, South Australia 5000, Australia
Ph: 61 8 8236 2300 Fax: 61 8 8236 2305

Stock Exchange

Listed on the Australian Stock Exchange

Auditors

PricewaterhouseCoopers

Solicitors

Allens Arthur Robinson
Perkins Coie (USA)
Sullivan & Cromwell (USA)

Bankers

Australia and New Zealand Banking Group Limited

American Depositary Receipts (ADR) Information

Silex Systems Limited has established a Level 1 ADR Program. Silex ADRs may be purchased on the Over-the-Counter "Pink Sheet" (OTC) market.

Details are as follows:

Ratio: 1 ADR = 5 ordinary shares

Symbol: SILXY

CUSIP: 827046 10 3

Exchange: OTC

Country: Australia

Industry: Technology

IMPORTANT NOTICE:

Forward Looking Statements:

Silex is a research and development company whose assets are its proprietary rights in technologies, including, but not limited to, the SILEX technology, Translucent technology and Fiberbyte technology. Most of the company's technologies are in the development stage and have not been commercially deployed. Accordingly, the statements in this annual report regarding the future of the company's technologies and commercial prospects are forward looking and actual results could be materially different from those expressed or implied by such forward looking statements as a result of various factors. Some factors that could affect future results and prospects include, but are not limited to, results from the uranium enrichment development program and the stable isotopes program, the demand for enriched materials including uranium, silicon, oxygen, zirconium, carbon and others, the outcomes of the company's interests in various semiconductor and photonics technologies, and the development of alternative technologies.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Silex Systems Limited (Silex or the Company) and the entities it controlled at the end of, or during the year ended 30 June 2003.

1. Directors

The following persons were directors of Silex Systems Limited during the whole of the financial year and up to the date of this report:

Mr B S Patterson - Chairman
 Dr M P Goldsworthy - Managing Director
 Mr C D Wilks
 Dr C S Goldschmidt
 Mr R P Campbell

2. Principal Activities

During the year the principal continuing activity of the consolidated entity consisted of research and development of the laser isotope separation technology known as 'SILEX'. In addition, research and development into technologies which are synergistic with SILEX such as the Silicon Isotope Superlattice (SIS) and Silicon Planar Lightwave Circuits (SPLC's) has been undertaken.

As a result of the acquisition of a controlling interest in Fiberbyte Pty Ltd (Fiberbyte) during the year the consolidated entity manufactures and sells equipment in the optical communications/photonics industry.

3. Employee numbers

During the year the consolidated entity employed on average 35 (2002: 27) employees on a full time basis.

4. Dividend

No dividend payments were made during the year. No dividend has been recommended or declared by the Board.

5. Review of operations and activities

Trading Results

A summary of consolidated revenue and results is set out below:

	2003	2002
	\$	\$
Revenue from ordinary activities	<u>5,066,980</u>	<u>6,281,478</u>
Loss before tax	(4,562,372)	(568,627)
Income tax expense	<u>(34,650)</u>	<u>(92,164)</u>
Loss from ordinary activities after related income tax expense	(4,597,022)	(660,791)
Net loss attributable to outside equity interest	<u>395,393</u>	<u>-</u>
Net loss attributable to members of Silex Systems Limited	<u>(4,201,629)</u>	<u>(660,791)</u>

Comments on the operations and the results of those operations are set out below:

The fall in revenue is mainly due to the Uranium Project being in a testing phase this year compared to a construction and testing phase last year. Project funding from USEC has historically been treated as revenue. On 30 April 2003, USEC withdrew from this project and therefore funding in the foreseeable future will be provided from the Company's own resources.

R & D costs incurred during the period on the SILEX Silicon and Carbon Enrichment program have been partly reimbursed by an Ausindustry R&D Start grant.

The share of loss of the US based associate Translucent was \$1,391,963 (2002:\$689,794). Translucent is developing silicon planar lightwave circuit technologies and is still in the research and development stage.

The results also include the operations of Fiberbyte since its acquisition on 24 September 2002. Fiberbyte operates in the optical communications/photonics industry and has been developing its product portfolio during the year. Fiberbyte only commenced selling these products in the final quarter of the year.

Interest income has been used to help fund Silex's contribution to the Company's operations. The majority of funds are invested in bank bills and the remainder as cash or deposits at call with banks.

6. Earnings per share

	2003 Cents	2002 Cents
Basic earnings per share	(3.2)	(0.5)
Diluted earnings per share	(3.2)	(0.5)

7. Significant changes in State of Affairs

The significant changes in the state of affairs of the consolidated entity during the course of the year included the following:

- In September 2002 the Company acquired a 51% controlling interest in Fiberbyte, an innovative optical communications/photonics company based in Adelaide. More recently, Silex has increased its interest in Fiberbyte – refer Events subsequent to Balance Date. Fiberbyte's technologies fall into two categories: fiber optic test equipment and optical communications network technology.
- In April 2003 USEC advised Silex that it had decided to withdraw from the Silex Uranium Enrichment Project. Since then Silex has pushed ahead with this project utilising its own cash resources and has continued to achieve positive results. Negotiations are continuing with USEC to resolve issues connected with the withdrawal.

8. Events subsequent to Balance Date

Since the end of the financial year, Silex has reached agreement to increase its equity in Translucent from 30% to 73% in return for consideration of approximately \$8,300,000 and 2,400,000 Silex shares. The consideration is geared to pre-agreed technical and commercial milestones, and is expected to be paid out fully over the next 2 years. The bulk of the additional funding hinges on meeting not only the original milestone, but also demonstration of early-stage prototype devices with industrial performance criteria. Meeting these new milestones is expected to take Translucent through to positive cashflow without additional investment.

Since balance date Silex has also restructured its interest in Fiberbyte increasing the holding from 51% to around 83%. Under the terms of the restructure, the founders have the right to earn back approximately 32% of the equity if Fiberbyte meets revenue and earnings targets over the next 2 years (in which case Silex would fall back to 51%). In this event, Fiberbyte would have achieved some significant revenue and earnings targets. The total amount of funding, as previously disclosed, does not change under these new arrangements. Whilst the commencement of sales and marketing activities for Fiberbyte's optical communications technology has been slowed by the telecommunications industry down turn, we believe Fiberbyte is on track to generate its first significant orders in the year to 30 June 2004.

Except for the increased equity structures discussed above and the ongoing progress of the Company's research and development activities, the directors are not aware of any matters or circumstances which are not otherwise dealt with in the financial statements that have significantly or may significantly affect the operations of the consolidated entity, the results of its operations or the state of the consolidated entity in subsequent years.

9. Likely developments and expected results of operations

Research and Development Uranium Enrichment Program.

Progress in the SILEX Uranium Project has been maintained at a steady rate, although USEC's withdrawal has caused delays of approximately 6 to 12 months in the completion of the Direct Measurement Program. We now expect this to occur in the early to mid 2004 time-frame, although Silnex needs to obtain resolution on the settlement arrangements with USEC before committing more firmly to a new schedule.

In relation to the Direct Measurement Program testing activities, work has continued in our Lucas Heights Laboratories. We are currently finalising preparations for the commencement of full process efficiency measurements. The results of these measurements would then be used to evaluate process economics for uranium enrichment with SILEX technology.

At the completion of the Direct Measurement Program, we hope to be in a good position to discuss the terms for collaboration with a new commercialisation partner. We remain confident of the potential of SILEX Uranium Enrichment technology, which is presently the only third generation laser-based enrichment process in the world.

Stable Isotope Program

The Stable Isotope Program, which aims to assess the feasibility of using the SILEX Technology to enrich additional elements such as silicon, carbon, zirconium and oxygen, commenced in February 2000. Since then, the program, which has been funded 50% by a Federal Government START Grant and 50% by Silnex, has made significant advances. Tests with the Mini Module Facility have been successful in identifying a suitable compound for silicon isotope separation. Whilst these and other results suggest that SILEX can effectively enrich several of these elements, the economics of the process are yet to be determined for each individual element.

Following the success of the research phase of the silicon project, Silnex has recently commenced a Pilot Plant Program with the objective of demonstrating continuous silicon enrichment of up to 10 grams/hour. This facility will then be upgraded during 2004 in a second phase Pilot Program to a much larger capacity. SILEX Process economics for silicon enrichment will be evaluated at the end of the first phase prior to commencing the upgrade. By late 2004, accurate SILEX Process economics should be known.

The Company is in the process of applying for a START grant to fund 50% of the next stage of the Stable Isotope program.

Silicon Isotope Superlattice (SIS)

In October 2000, Silnex secured the rights to SIS semiconductor technology from Professor Itoh and Keio University in Japan. The SIS utilises isotopically pure silicon in a unique configuration which aims to increase electron mobility, and therefore the speed of semiconductor devices. Production of isotopically pure silicon, a material not commercially available today, is one potential application of the SILEX Technology being developed in the Stable Isotope Program. The SIS development program is progressing in a purpose-built laboratory at Keio University in Tokyo. In August 2002, the group successfully fabricated the world's first SIS structure – a key milestone for the project. The completion of the SIS electron mobility measurements continues to suffer delays due to material impurities. A potential solution to this issue has now been identified, but will take a few months to implement. If this solution is effective, we expect to be able to complete the mobility measurement and feasibility assessment during the first half of 2004.

Translucent Investment

In April 2001, Silnex reached agreement with US based semiconductor start-up Translucent Photonics Inc (Translucent) to fund the development of an invention in the field of photonic semiconductor technology known as Planar Lightwave Circuits (PLC's). Translucent's 3 phase development is now almost complete and the critical issues relating to the core technology have been largely answered. Translucent is hopeful of demonstrating the Milestone results within the next few months (third party verification may take a little longer).

Optical Communications/Photonics

Sales of initial products in Fiberbyte's technology portfolio commenced in the final quarter of the year. We believe the Fiberbyte opportunity will prove to be an important and commercially attractive investment for Silex in the medium term and beyond.

Interest Income

Interest revenue is expected to reduce next year as cash reserves are reduced.

10. Share options***Shares under option***

Unissued ordinary shares of Silex Systems Limited under option at the date of this report are as follows:

Number of options	Issue Price of Shares	Expiry date
135,000	194 cents	16 March 2004
195,000	165 cents	4 June 2005
50,000	321 cents	16 July 2005
50,000	322 cents	27 August 2005
60,000	350 cents	12 November 2005
1,635,000	402 cents	19 April 2006
600,000	73 cents	13 August 2007
455,000	55 cents	11 November 2007
910,000	65 cents	8 September 2008
4,090,000		

The terms and conditions of the options on issue are discussed in Note 36 of the financial statements. No option holder has any right under the option to participate in any other share issue of the Company or of any other entity. Between balance date and the date of this report 910,000 options were granted and these are included above. 165,000 options that had lapsed were cancelled between balance date and the date of this report.

Shares issued on the exercise of options

A total of 5,000,000 ordinary shares of Silex Systems Limited were issued during the year ended 30 June 2003 following the exercise of options. The exercise price of these options was 5 cents.

Between balance date and the date of this report, no options were exercised.

11. Directors' and executives' emoluments

Executive remuneration and other terms of employment are reviewed annually by the Board having regard to performance against goals set at the start of the year and relevant comparative information. As well as a base salary, remuneration packages include superannuation, performance-related bonuses and fringe benefits. Executives are also eligible to participate in the Silex Employee Share Option Plan.

Remuneration of non-executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

Details for the nature and amount of each element of the emoluments of each Director of Silex Systems Limited are set out in the following tables:

Non-executive Directors of Silex Systems Limited

Name	Directors' fees	Superannuation	Total
	\$	\$	\$
B S Patterson (Chairman)	40,000	3,600	43,600
R P Campbell	40,000	3,600	43,600
C S Goldschmidt	40,000	3,600	43,600

Executive Directors of Silex Systems Limited

Name	Base Salary \$	Value of Options \$	Motor Vehicle \$	Superannuation \$	Total \$
Dr M P Goldsworthy (Managing Director)	378,702	568,696	45,536	10,519	1,003,453
Mr C D Wilks (Director - Corporate)	102,210	372,132	-	9,199	483,541

The amounts disclosed for emoluments of directors in this report include the assessed fair values of options granted to directors at the time of grant. Fair values have been independently determined using an appropriate option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the current price and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option. The bulk of the value of options relates to options that have an exercise price of \$4.02.

No options were issued to Directors during the year. No bonuses were paid to Directors during the year.

Other executives of the consolidated entity

There are no officers, other than the Executive Directors noted above, involved in, concerned in, or taking part in, the management of the commercial affairs of Silex Systems Limited.

12. Information on Directors**a) Directors' profiles**

Mr Barry Patterson

ASMM, MIMM, FAICD

(Chairman) (non-executive)

Mr Patterson has experience as a Director of a number of Australian public companies and is a major shareholder in Silex through his interest in Polly Pty Ltd. Mr Patterson is a mining engineer by trade and has had many years experience in the establishment and management of public mining companies in Australia. He is currently also the Chairman of Sonic Healthcare Limited and a director of National 1 Limited.

Dr Michael Goldsworthy

BSc (Hons), MSc, PhD, FAIP

(Managing Director/CEO) (executive)

Dr Goldsworthy received his PhD in Physics from The University of New South Wales. Prior to starting with Silex Systems Limited in 1988, Dr Goldsworthy was a member of the University's academic staff and was involved in a number of laser-associated research projects. Dr Goldsworthy is the founder of the Company and has been the driving force behind the SILEX project, and the establishment of the consolidated entity's extensive interests in semiconductor and photonics technologies.

Mr Christopher Wilks

BComm, ASA, FCIS, FCIM, FAICD

(Director - Corporate) (executive)

Mr Wilks is responsible for financial oversight and corporate development of Silex. He has held a number of directorial positions with Australian public companies and has a background in investment banking. He is currently also a director of Sonic Healthcare Limited and Scigen Limited.

Dr Colin Goldschmidt

MB BCh, FRCPA, FAICD

(non-executive)

Dr Goldschmidt is the Managing Director of Sonic Healthcare Limited, an Australian Top 100 company, the former parent company of Silex Systems Limited. He has been a non-executive director of Silex since 1993, and became a member of the Silex Audit Committee on 11 September 2002. He is also a non-executive director of Scigen Limited.

Mr Peter Campbell
FCA, FTIA, MAICD
(non-executive)

Mr Campbell is the principal of R.P. Campbell and Associates, Chartered Accountants and also a non-executive director of Sonic Healthcare Limited and Scigen Limited.

- b) Directors' interests in shares and options as at the date of this report:

Director's name	Class of shares	No. of shares	Share options
B S Patterson	Ordinary	4,573,863	-
M P Goldsworthy	Ordinary	6,399,533	900,000
C D Wilks	Ordinary	3,094,021	600,000
C S Goldschmidt	Ordinary	2,825,937	-
R P Campbell	Ordinary	1,354,823	-

13. Meetings

The number of Directors' meetings held during the financial year and the number of meetings attended by each director are set out in the following table:

Director's name	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Number Held	Number Attended	Number Held	Number Attended	Number Held	Number Attended
B S Patterson	11	8	-	-	1	1
M P Goldsworthy	11	11	-	-	-	-
C D Wilks	11	11	2	2	-	-
C S Goldschmidt	11	11	2	1	-	-
R P Campbell	11	11	2	2	1	1

14. Indemnification and Insurance of Directors

The Company has entered into agreements to indemnify the Directors of the Company against all liabilities to persons (other than the Company or related body corporate) which arise out of the performance of their normal duties as Directors or Executive Officers unless the liability relates to conduct involving lack of good faith. The Company has agreed to indemnify the Directors and Executive Officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity.

The Directors' and Officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company) incurred in their position as a Director or Executive Officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage. The insurance policy does not allow disclosure of the nature of the liabilities insured against or the premium paid under the policy.

15. Environmental regulation

The Company is subject to the environment and health and safety regulations applicable to tenants of the Lucas Heights Science and Technology Centre. The Company is also bound by the rules and regulations set out in the Australian Radiation Protection and Nuclear Safety Act, 1998.

To the best of the Directors' knowledge, all environmental and health and safety regulatory requirements have been met and there have been no claims made during the financial year.

16. Auditors

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the Directors.

A handwritten signature in black ink, appearing to be 'M P Goldsworthy', with a large, stylized 'G' and 'P'.

Dr M P Goldsworthy
Managing Director

Sydney, 26/09/03

A handwritten signature in black ink, appearing to be 'C D Wilks', with a long, sweeping horizontal stroke at the top.

Mr C D Wilks
Director

The board of Silex Systems Limited continues to place great importance on the governance of the company, which it believes is vital to its well being and success. There are two elements to the governance of companies: performance and conformance. Both are important but it is critical that focus on conformance does not detract from the principal function of a business, which is to undertake prudent activities to:

- generate rewards for shareholder who invest their capital, and
- provide meaningful employment for employees,

and to do so in a way that contributes positively to the community.

In this framework it is crucial that shareholders have clear visibility of the actions of the company and that they can rely on reported financial information. The Silex board has committed itself to provide relevant, accurate information to shareholders on a timely basis and has adopted policies and procedures designed to ensure that the group's financial reports are true and fair, meet high standards of disclosure integrity and provide all material information necessary to understand the group's financial performance.

Silex's board and management are committed to governance which recognises that all aspects of the group's operations are conducted ethically, responsibly and with the highest standards of integrity. The board has adopted practices and policies designed to achieve these aims.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

1. Board of Directors

(a) Role of the board

The board of directors is accountable to shareholders for the performance of the parent entity and the consolidated group and is responsible for the corporate governance practices of the group.

The board's principal objective is to maintain and increase shareholder value while ensuring that the group's overall activities are properly managed.

Silex's corporate governance practices provide the structure which enables the board's principal objective to be achieved, whilst ensuring that the business and affairs of the group are conducted ethically and in accordance with the law.

The board's overall responsibilities include:

- providing strategic direction and approving corporate strategies;
- monitoring management and financial performance and reporting;
- monitoring and ensuring the maintenance of adequate risk management controls and reporting mechanisms, and
- ensuring the business is conducted ethically and transparently.

The board delegates responsibility for day-to-day management of the business to the Managing Director and Director-Corporate. The Managing Director also oversees the implementation of strategies approved by the board. The board uses a number of committees to support it in matters that require more intensive review and involvement. Details of the board committees are provided below.

As part of its commitment to good corporate governance, the board regularly reviews the practices and standards governing the board's composition, independence and effectiveness, the accountability and compensation of directors and the board's responsibility for the stewardship of the group.

(b) Composition of the Board

The Directors of the Company in office at the date of this statement are:

Name	Age	Position	Expertise
Dr M P Goldsworthy	45	Managing Director/CEO	Physicist and Co-inventor of the SILEX Technology
Mr C D Wilks	45	Director- Corporate	Investment Banking, Finance and Company Management
Dr C S Goldschmidt	49	Non-executive Director	Company Management
Mr B S Patterson	62	Non-executive Director	Company Management
Mr R P Campbell	58	Non-executive Director	Finance and Accounting, Computing and Company Management

All of Silex's non-executive directors, including the Chairman, are considered independent. An independent director cannot be a substantial shareholder (as defined in section 9 of the Corporations Act, 2001). The size and composition of the board is determined by the full board. Silex's Articles of Association requires all directors other than the Managing Director to offer themselves for re-election at an Annual General, such that they do not hold office without re-election for longer than three years.

(c) Board Meetings

The board meets formally at least 9 times a year to consider a broad range of matters, including strategy, financial and project performance reviews, acquisitions and investments. Details of meetings and attendances are set out in the Directors' Report.

(d) Independent Professional Advice and Access to Information

Each director has the right to seek independent professional advice at the company's expense. However, prior approval of the Chairman is required, which is not unreasonably withheld.

All directors have unrestricted access to company records and information and receive detailed financial and operational reports from senior management during the year to enable them to carry out their duties. Directors also liaise with senior management as required, and may consult with other employees and seek additional information on request.

(e) Conflicts of Interest of Directors

The board has guidelines dealing with disclosure of interests by directors and participation and voting at board meetings where any such interests are discussed. In accordance with the Corporations Act 2001, any director with a material personal interest in a matter being considered by the board does not receive the relevant board papers, must not be present when the matter is being considered, and may not vote on the matter.

(f) Directors' Share Trading

Directors are prohibited from buying or selling Silex shares at any time if they are aware of any material price sensitive information that has not been made public. In addition, the Managing Director and Director — Corporate are required to obtain approval from the Chairman before selling any shares. All Silex share dealings by directors are promptly notified to the Australian Stock Exchange (ASX).

2. Board Committees

To assist the board in fulfilling its duties there are currently two board committees whose terms of reference and powers are determined by the board.

(a) Remuneration Committee

The role of the Remuneration Committee is to review and make recommendations to the board on remuneration packages and policies applicable to the Managing Director and Director - Corporate. This role also includes responsibility for share option schemes, incentive performance packages, superannuation entitlements, retirement and termination entitlements and fringe benefits policies. The Remuneration Committee, when deemed necessary, obtains independent advice on the appropriateness of remuneration packages.

The members of the Remuneration Committee during the year were:

Mr B S Patterson (Chairman)
Mr R P Campbell

The current remuneration for each director is \$40,000 per annum.

The Remuneration Committee meets once a year or as required.

Further details of directors' remuneration, superannuation and retirement payments are set out in note 31 to the financial statements.

(b) Audit Committee

The role of the Audit Committee is to advise on the establishment and maintenance of a framework of internal control and give the board of directors additional assurance regarding the quality and reliability of financial information prepared for use by the board in determining policies and strategy, or for inclusion in financial statements.

The members of the Audit Committee are:

Mr R P Campbell (Chairman)
Dr C S Goldschmidt
Mr C D Wilks

The external auditors, and the Managing Director, are invited to Audit Committee meetings at the discretion of the Committee.

The main responsibilities of the Audit Committee are to:

- Review the current areas of greatest financial risk and how these are being managed;
- Oversee the periodic financial reporting process implemented by management and review the interim financial statements and annual financial statements to determine whether they are complete, reflect appropriate accounting principles, contain appropriate disclosure, and are consistent with the information known to Committee members;
- Articulate and formalise the Company's policy for the oversight and management of strategic and financial risks;
- Assist the board in reviewing the effectiveness of the organisation's internal control environment;
- Ensure any internal control recommendations made by the external auditors and approved by the Committee have been implemented by management;
- Review the effectiveness of the system for monitoring compliance with corporate laws and regulations;
- Recommend to the board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and the auditor's independence;
- Review the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence; and
- Regularly review with the external auditor any audit problems or difficulties the auditor encountered in the normal course of audit work;

In fulfilling its responsibilities, the Audit Committee receives regular reports from management and the external auditors. It also meets with the external auditors at least twice a year – more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

3. Identifying and managing business risks

The board regularly monitors the operational and financial performance of the group against budget and other key performance measures. The board also reviews and receives advice on areas of operational and financial risks. Appropriate risk management strategies are developed to mitigate all significant identified risks of the business.

4. Ethical standards

An important goal of the Company is to develop and maintain a strong culture built on the expectations that all Directors and employees will act with integrity and honesty at all times. The Company has policies across a range of areas including occupational health and safety, workplace discrimination and harassment, and use of Company resources and assets.

5. The role of shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the group's state of affairs. Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). The board ensures that the annual report includes relevant information about the operations of the group during the year, changes in the state of affairs of the group and details of likely future developments, in addition to the other disclosures required by the Corporations Act 2001;
- The company secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX listing rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.
- Proposed major changes in the group which may impact on share ownership rights are submitted to a vote of shareholders.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting on the appointment of directors.

6. Continuous disclosure

The Company has policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company and its controlled entities that a reasonable person would expect to have a material effect on the price of the Company's securities.

All information disclosed to the ASX is posted on the Company's web site as soon as it is disclosed to the ASX.

7. ASX Principles of Good Corporate Governance and Best Practice Recommendations

The ASX has released 10 principles of corporate governance. Silex is currently in the process of implementing these principles. Below is a listing of each of those principles and recommendations and a comment on Silex's position:

Principle 1. Lay solid foundations for management and oversight.	
Recommendation 1.1 Formalise and disclose the functions reserved to the board and those delegated to management.	Silex's Position The functions reserved to the board and those delegated to management are detailed in Section 1(a) above.
Principle 2. Structure the board to add value. The composition of the Board is detailed in point 1(b) above. The board has been structured to add value to the Company.	
Recommendation 2.1 A majority of the board should be independent directors.	All of the 3 non-executive directors are independent making a majority of the board independent.
Recommendation 2.2 The chairperson should be an independent director.	The chairperson, Mr B S Patterson is an independent director.
Recommendation 2.3 The roles of chairperson and chief executive should not be exercised by the same individual.	Mr B S Patterson is the chairperson and Dr M P Goldsworthy is the chief executive.
Recommendation 2.4 The board should establish a nomination committee.	The board is in the process of establishing a nomination committee.
Recommendation 2.5 Provide the information indicated in Guide to reporting on Principle 2.	This information is provided in this corporate governance statement.
Principle 3. Promote ethical and responsible decision-making. Details on ethical standards are disclosed in point 4 above.	
Recommendation 3.1 Establish a code of conduct.	The Company is in the process of establishing a Code of Conduct.
Recommendation 3.2 Disclose the policy concerning trading in company securities by directors, officers and employees.	Directors' share trading prohibitions are detailed in section 1(f) above. In addition all employees are prohibited from buying and selling Silex shares at any time if they are aware of any material price sensitive information that has not been made available to the public. This however does not restrict employees from exercising options (granted under the Silex Employee Option Plan) over unissued Silex shares. Trading of the subsequently issued shares is however subject to the prohibitions above.
Recommendation 3.3 Provide the information indicated in Guide to reporting on Principle 3.	Details are included above.
Principle 4. Safeguard integrity in financial reporting The Company has a structure of review and authorisation designed to ensure the truthful and factual presentation of the Company's financial position.	

Recommendation 4.1 Require the chief executive officer and 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 aspects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	The chief executive officer and Director — Corporate have complied with this recommendation.
Recommendation 4.2 The board should establish an audit Committee.	The audit committee has been established for a number of years.
Recommendation 4.3 Structure the audit committee so that it consists of: - only non-executive directors - a majority of independent directors - at least 3 members	The audit committee satisfies the second and third criteria. One of the members, Mr C D Wilks is an executive director. The board aims to satisfy the first criteria prior to 1 July 2005.
Recommendation 4.4 The audit committee should have a formal charter.	The role and responsibilities of the audit committee are summarised in section 2 (b) above.
Recommendation 4.5 Guide to reporting on Principle 4.	Details are contained above.
Principle 5. Make timely and balanced disclosure The Company has mechanisms in place to ensure compliance with ASX Listing Rule requirements. Refer section 6 above for more details.	
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 has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company that a reasonable person would expect to have a material effect on the price of the Company's securities.
Recommendation 5.2 Provide the information indicated in Guide to reporting on Principle 5.	A summary of the policies and procedures designed to guide compliance with Listing Rule disclosure requirements is contained in Section 6 above.
Principle 6. Respect the rights of shareholders. The Company respects the rights of its shareholders via effective communication and making it easy for them to participate at general meetings.	
Recommendation 6.1 Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Refer section 5 above for details of Company strategy.
Recommendation 6.2 Request the external auditor to attend the annual general meeting.	Our auditors, PricewaterhouseCoopers are asked to attend the annual general meeting.
Principle 7. Recognise and manage risk. The Company has established a sound system of risk management and internal control.	
Recommendation 7.1 The board or appropriate board committee should establish policies on risk oversight and management.	The board has established risk management policies.

Recommendation 7.2 The chief executive officer and the chief financial officer (or equivalent) should state to the board in writing that: 7.2.1 the statement given in accordance with best practice recommendation 4.1(the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board 7.2.2 the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	A statement has been provided by the chief executive officer and the Director-Corporate.
Recommendation 7.3 Provide the information indicated in Guide to reporting on Principle 7.	More detailed policies are currently being developed.
Principle 8 Encourage enhanced performance. Enhanced board and management effectiveness is actively encouraged.	
Recommendation 8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	The managing director's and Director-Corporate's performance are evaluated against established strategic goals.
Principle 9. Remunerate fairly and responsibly. The remuneration committee adopts policies that attract and maintain talented and motivated directors and employees so as to encourage enhanced performance.	
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 Directors' report contains details of remuneration paid to directors and executives. Where bonuses are paid, details of the reason for the bonus are described.
Recommendation 9.2 the board should establish a remuneration committee.	The role and composition of the remuneration committee is summarised in section 2(a) above.
Recommendation 9.3 Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	Executive and non-executive directors fees is clearly separated in the Directors' report.
Recommendation 9.4 Ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	The Silex Employee Share Option Plan has been approved by shareholders.
Recommendation 9.5 Provide the information indicated in Guide to reporting on Principle 9.	This information is provided in this statement of corporate governance and the Directors' report.
Principle 10. Recognise the legitimate interests of stakeholders. The Company recognises that it has obligations to non-shareholder stakeholders such as employees, customers, research partners and the community as a whole.	
Recommendation 10.1 Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	The Company is in the process of formalising its code of conduct. Compliance with environmental regulations is detailed in the directors' report

Silex Systems Limited

Financial report – 30 June 2003

Contents

	Page
Financial report	
Statements of financial performance	16
Statements of financial position	17
Statements of cash flows	18
Notes to the financial statements	19
Directors' declaration	47
Independent audit report to the members	48

This financial report covers both Silex Systems Limited as an individual entity and the consolidated entity consisting of Silex Systems Limited and its controlled entities.

Silex Systems Limited is a company limited by its shares, incorporated and domiciled in Australia.

Statements of financial performance
For the year ended 30 June 2003

	Notes	Consolidated		Parent entity	
		2003	2002	2003	2002
		\$	\$	\$	\$
Revenue from ordinary activities	2	5,066,980	6,281,478	4,779,203	6,281,478
Research and development materials		(2,108,781)	(1,959,364)	(2,080,671)	(1,959,364)
Borrowing cost expense		(8,890)	(11,327)	(156,420)	(11,327)
Depreciation and amortisation expenses		(717,230)	(101,495)	(104,863)	(101,495)
Employees and Directors remuneration expense		(3,757,591)	(2,887,062)	(3,141,810)	(2,887,062)
Legal and consultancy costs		(110,632)	(330,647)	(92,164)	(330,647)
Printing, postage and stationery		(109,403)	(83,129)	(99,801)	(83,129)
Rent		(270,418)	(192,394)	(212,451)	(192,394)
Travelling expenses		(258,038)	(168,546)	(160,807)	(168,546)
Changes in inventories of finished goods and work in progress		33,841	-	-	-
Raw materials and consumables used		(196,921)	-	-	-
Other expenses from ordinary activities		(733,326)	(426,347)	(558,801)	(426,347)
Share of net (loss) of associate accounted for using the equity method (Translucent Photonics Inc)	34	(1,391,963)	(689,794)	(345,805)	(689,794)
(Loss) from ordinary activities before income tax expense	3	(4,562,372)	(568,627)	(2,174,390)	(568,627)
Income tax expense	4	(34,650)	(92,164)	(34,650)	(92,164)
Net (loss) after related income tax expense		(4,597,022)	(660,791)	(2,209,040)	(660,791)
Loss attributable to outside equity interest		395,393	-	-	-
Net (loss) attributable to members of Silex Systems Limited	20	(4,201,629)	(660,791)	(2,209,040)	(660,791)
Net increase in options reserve	19	112,674	-	112,674	-
Total revenues, expenses and valuation adjustments attributable to members of Silex Systems Limited recognised directly in equity		112,674	-	112,674	-
Total changes in equity other than those resulting from transactions with owners as owners		(4,088,955)	(660,791)	(2,096,366)	(660,791)
		Cents	Cents		
Basic earnings per share	30	(3.2)	(0.5)		
Diluted earnings per share	30	(3.2)	(0.5)		

The above statements of financial performance should be read in conjunction with the accompanying notes.

Statements of financial position

As at 30 June 2003

	Note	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Current Assets					
Cash assets	5,31	8,388,563	3,345,807	8,183,986	3,345,807
Investments (Bank bills)	6,31	30,863,857	37,721,376	30,863,857	37,721,376
Receivables	7	407,849	688,853	385,449	688,853
Inventories	8	92,226	-	-	-
Other	9	34,818	382,942	34,818	382,942
Total Current Assets		39,787,313	42,138,978	39,468,110	42,138,978
Non-current Assets					
Property, plant and equipment	10	329,371	205,650	226,496	205,650
Intangible assets	11	3,221,925	291,323	257,937	291,323
Investments accounted for using the equity method	12	7,861,493	9,253,456	8,907,651	9,253,456
Other financial assets	13	-	750,000	5,147,105	750,000
Deferred tax assets	9	-	220,390	-	220,390
Total Non-current Assets		11,412,789	10,720,819	14,539,189	10,720,819
Total Assets		51,200,102	52,859,797	54,007,299	52,859,797
Current Liabilities					
Payables	14	719,856	357,555	483,531	357,555
Interest bearing liabilities	15	18,967	59,475	1,525,847	59,475
Provisions	17	347,310	360,525	304,497	360,525
Total Current Liabilities		1,086,133	777,555	2,313,875	777,555
Non-current Liabilities					
Payables	14	150,000	-	-	-
Interest bearing liabilities	15	550,055	69,022	1,570,308	69,022
Deferred tax liabilities	16	-	292,079	-	292,079
Provisions	17	409,754	200,078	314,555	200,078
Total Non-current Liabilities		1,109,809	561,179	1,884,863	561,179
Total Liabilities		2,195,942	1,338,734	4,198,738	1,338,734
Net Assets		49,004,160	51,521,063	49,808,561	51,521,063
Shareholders' Equity					
Parent equity interest					
Contributed equity	18	44,712,762	44,328,898	44,712,762	44,328,898
Reserves	19	112,674	-	112,674	-
Retained profits	20	2,990,536	7,192,165	4,983,125	7,192,165
Total parent equity interest		47,815,972	51,521,063	49,808,561	51,521,063
Outside equity interest in controlled entities	21	1,188,188	-	-	-
Total equity	22	49,004,160	51,521,063	49,808,561	51,521,063

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of cash flows
For the year ended 30 June 2003

	Note	Consolidated		Parent entity	
		2003	2002	2003	2002
		\$	\$	\$	\$
Cash Flows from Operating Activities					
Receipts from customers (inclusive of goods and services tax)		3,384,842	4,682,185	3,012,116	4,682,185
Payments to suppliers and employees (inclusive of goods and services tax)		(7,143,261)	(6,162,557)	(5,742,308)	(6,162,557)
Interest received		2,018,413	1,906,788	2,012,322	1,906,788
Interest and other costs of finance paid		(8,890)	(11,327)	(8,890)	(11,327)
Income tax (refund)/paid		303,123	(48,747)	(82,140)	(48,747)
Net cash (outflows)/inflows from operating activities	31	(1,445,773)	366,342	(808,900)	366,342
Cash Flows from Investing Activities					
Payment for purchase of controlled entity, net of cash acquired	35	(227,386)	-	(2,060,000)	-
Payments for investments		-	(750,000)	-	(750,000)
Proceeds from redemption of investments		-	-	750,000	-
Payments for property, plant and equipment		(110,008)	(19,873)	(95,056)	(19,873)
Proceeds from sale of property, plant and equipment		27,801	-	4,091	-
Net cash (outflows) from investing activities		(309,593)	(769,873)	(1,400,965)	(769,873)
Cash Flows from Financing Activities					
Proceeds from issue of shares		250,000	127,100	250,000	127,100
Repayment of loans		(249,922)	-	-	-
Repayment of hire purchase liabilities		(17,657)	(7,507)	(17,657)	(7,507)
Principal repayments under finance leases		(41,818)	(36,578)	(41,818)	(36,578)
Net cash inflows/(outflows) from financing activities		(59,397)	83,015	190,525	83,015
Net (decrease) in cash held		(1,814,763)	(320,516)	(2,019,340)	(320,516)
Cash at the beginning of the financial year		41,067,183	41,387,699	41,067,183	41,387,699
Cash at the End of the Financial Year	31	39,252,420	41,067,183	39,047,843	41,067,183
Non-cash finance and investing activities	31	207,502	94,186	207,502	94,186

The above statements of cash flows should be read in conjunction with the accompanying notes.

Note	Contents	Page
1	Summary of significant accounting policies	20
2	Revenue	24
3	Operating profit/(loss)	24
4	Income tax	25
	Assets	
5	Cash	25
6	Investments	25
7	Receivables	26
8	Inventories	26
9	Other	26
10	Property, plant and equipment	26
11	Intangibles	27
12	Investments accounted for using the equity method	27
13	Other financial assets	27
	Liabilities	
14	Payables	28
15	Interest bearing liabilities	28
16	Tax liabilities	28
17	Provisions	29
	Total equity	
18	Contributed equity	29
19	Reserves	29
20	Retained profits	30
21	Outside equity interest in controlled entities	30
22	Equity	30
23	Franking account balance	30
24	Commitments for expenditure	31
25	Remuneration of directors	32
26	Remuneration of executives	33
27	Related parties	33
28	Remuneration of auditors	34
29	Segment information	35
30	Earnings per share	37
31	Statement of cash flows	38
32	Amounts receivable and payable denominated in foreign currency	39
33	Financial instruments	39
34	Investments in associates	41
35	Investment in controlled entities	42
36	Employee entitlements	43
37	Economic dependency	45
38	Financing arrangements	45
39	Secured liabilities	46
40	Events occurring after reporting date	46

Note 1 Summary of significant accounting policies

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

It is prepared in accordance with the historical cost convention, except for certain assets, which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

(a) Principles of consolidation

On 24 September 2002, Silex Systems Limited acquired a 51% controlling interest in Fiberbyte Pty Ltd. The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Silex Systems Limited ("Company" or "parent entity") as at 30 June 2003 and the results of all controlled entities for the year then ended. Silex Systems Limited and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.

Investments in associates are accounted for in the consolidated financial statements using the equity method. Under this method, the consolidated entity's share of the post acquisition profits or losses of associates (Translucent) is recognised in the consolidated statement of financial performance, and its share of post-acquisition movements in reserves is recognised in consolidated revenues. The cumulative post-acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the consolidated entity exercises significant influence, but not control.

(b) Income tax

Tax effect accounting procedures are followed whereby the income tax expense in the statement of financial performance is matched with the accounting profit after allowing for permanent differences. The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit is virtually certain of realisation. Income tax on cumulative timing differences is set aside to the deferred income tax or future income tax benefit accounts at the rates, which are expected to apply when those timing differences reverse. At 30 June 2003 the directors do not believe that the future tax benefit or deferred income tax is virtually certain of realisation and as a consequence the deferred tax balances have been written off.

(c) Foreign currency

Foreign currency transactions are initially translated into Australian currency at the rate of exchange at the date of the transactions. At balance date, amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange current at that date. Resulting exchange differences are recognised in determining the profit and loss for the year.

(d) Acquisitions of assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date, unless the notional price at which they could be placed in the market is a better indicator of fair value. Transactions costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of acquisition. The discount used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(e) **Revenue recognition**

Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

i. **Sale of goods**

A sale is recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks have passed to the carrier or customer

ii. **Interest income**

Interest revenue is recognised on an accruals basis.

iii. **Recoverable project costs**

Revenue is recognised for reimbursement of research and development costs at the time those costs are incurred.

iv. **START grant**

Revenue is recognised for reimbursement of research and development costs at the time those costs are incurred.

(f) **Receivables**

All trade debtors are recognised at the amounts receivable, as they are due for settlement no more than 60 days from the date of recognition. Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised when some doubt as to collection exists and in any event when the debt is more than 60 days overdue.

(g) **Inventories**

Raw materials and finished goods are stated at the lower of costs and net realisable value. Cost comprises direct materials on an actual cost basis.

(h) **Trade and other creditors**

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 45 days of recognition.

(i) **Recoverable amount of non-current assets**

The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs. The expected net cash flows included in determining recoverable amounts of non-current assets are not discounted.

(j) **Employee entitlements**

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

Liabilities arising in respect of wages and salaries, annual leave and any other employee entitlements expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled and are at their nominal amounts.

All other employee entitlement liabilities are measured at the present value of the estimated future cash outflows, including on costs, to be made in respect of services provided by employees up to the reporting date.

(k) **Superannuation commitment**

The consolidated entity contributes to employee defined contribution superannuation funds. Employee contributions are based on a percentage of their gross salary. Employees are entitled to benefits on retirement, disability or death. The contributions are charged to the statement of financial performance when incurred.

(l) **Cash**

For purposes of the statement of cash flows, cash includes deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts. Bank bills are included as cash as these are integral to the cash management function of the Company. They generally have a maturity date of three months or less and are subject to insignificant changes in value.

(m) **Depreciation of property, plant and equipment**

Property, plant and equipment are depreciated over their estimated useful lives, being between three and ten years, using the straight line method.

Pursuant to the Company's agreement with USEC (up until 30 April 2003 when USEC withdrew from the project), the cost of property, plant and equipment used by the Company in connection with the Uranium project was paid for by USEC. The cost of such equipment is not reflected in the statement of financial position.

(n) **Leased assets**

Where property, plant and equipment is acquired by means of finance leases or hire purchase, which effectively transfer to the consolidated entity substantially all the risks and benefits incidental to ownership, the present value of the minimum lease payments, including any guaranteed residual values, is recognised as an asset at the beginning of the lease term and amortised on a straight line basis over the expected useful life of the leased asset. A corresponding liability is also established and each lease payment is allocated between the liability and finance charge.

Operating lease payments, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are included in the determination of the operating profit in equal instalments over the lease term.

(o) **Research and development costs**

Research and development costs incurred by Silex for the development of the SILEX Technology to uranium enrichment were reimbursed by USEC to the end of April 2003 in accordance with the Company's agreement. Accordingly, the research and development costs and reimbursements received were charged to the operating profit before income tax. Given the current stage of development of the Company, all research and development costs are expensed as incurred.

(p) **Investments**

i. **Bank bills**

Bank Bills have been acquired at a discount to face value. The bills are carried at cost and the discount is recognised as interest received in each period at the rate that is implicit in the transaction.

ii. **Investments in associates**

Investments in associates are accounted for in the financial statements using the equity method until 24 September 2002 (when Fiberbyte was acquired) after which date the investments in associates are accounted for in the consolidated financial statements (refer Note 1(a)). Under this method, the Company's share of the post acquisition profits or losses of associates is recognised in the statement of financial performance when material, and its share of post acquisition movements in reserves is recognised in reserves. The Company's

share of the post acquisition profits or losses of overseas associates are translated at the average of rates ruling during the year. The cumulative post acquisition movements are adjusted against the cost of the investment. Associates are those entities over which the entity exercises significant influence, but not control.

iii. **Other investments**

Interests in unlisted securities, other than controlled entities and associates are brought to account at cost and dividend income is recognised in the statement of financial performance when receivable.

(q) **Earnings per share**

Basic earnings per share is determined by dividing the operating profit after tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share by taking into account any reductions in earnings per share that will probably arise from the exercise of options outstanding during the financial year.

(r) **Share issue expenses**

Share issue expenses are written off directly against the equity instruments to which the costs relate.

(s) **Intangibles**

Where an entity or operation is acquired, the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired, including any liability for restructuring costs, is brought to account as goodwill and amortised on a straight line basis over the period during which the benefits are expected to arise. The cost of acquisition is discounted as described in note 1 (d), where settlement of any part of cash consideration is deferred.

Certain Patent acquisition costs have been deferred to future periods to the extent that they are expected to be recoverable beyond any reasonable doubt. These deferred costs are being amortised on a straight line basis over a period of between 10 and 20 years.

Intellectual property on acquisition of investment in controlled entities is amortised on a straight line basis over 5 years.

(t) **Borrowing costs**

Borrowing costs are recognised as expenses in the period in which they are incurred. Borrowing costs include finance lease charges and hire purchase charges.

(u) **Ownership-based remuneration schemes**

Ownership-based remuneration is provided to employees via the Silex Systems Limited Employee Option Plan. No accounting entries are made in relation to the Silex Systems Limited Employee Option Plan until options are exercised, at which time the amounts received from employees are recognised in the statement of financial position as share capital. An exception to this relates to the issue of options to Fiberbyte staff as part of the acquisition. When such options are issued an entry is made to debit the investment and credit the Options reserve. The calculation is used using a Black and Scholes method.

(v) **Interest bearing liabilities**

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due.

(w) **Reclassification of employee provisions**

Annual leave expected to be paid out within the next 12 months is classified as a current liability and annual leave not expected to be paid within the next 12 months is classified as a non-current liability. In the prior year accounts all of the annual leave was classified as a current liability. In the current year accounts, the prior year provision been reclassified has into current and non-current liabilities.

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Note 2 Revenue				
Revenue from operating activities				
Recoverable project costs	1,715,178	3,161,681	1,715,178	3,161,681
START Grant	1,123,781	866,600	1,123,781	866,600
Sale of goods	224,022	-	-	-
Other Project income	-	66,163	-	66,163
	3,062,981	4,094,444	2,838,959	4,094,444
Revenue from outside operating activities				
Interest revenue	1,942,244	1,892,372	1,936,153	1,892,372
Foreign currency exchange gains (net)	-	293,472	-	293,472
Proceeds from sale of non current assets	27,801	-	4,091	-
Other income	33,954	1,190	-	1,190
	2,003,999	2,187,034	1,940,244	2,187,034
Total Revenue	5,066,980	6,281,478	4,779,203	6,281,478

Note 3 Operating profit/(loss)**Net gains and expenses**

The operating (loss) before income tax includes the following specific net gains and expenses:

Net gains:

Net foreign exchange gain	-	293,472	-	293,472
Profit on sale of property, plant and equipment	1,358	-	1,358	-

Expenses:

Cost of goods sold	163,080	-	-	-
Amortisation of intellectual property	604,128	33,386	33,386	33,386
Amortisation of plant and equipment under lease	12,767	22,428	12,767	22,428
Interest and finance charges paid/payable on finance leases	2,769	11,327	2,769	11,327
Interest and finance charges paid/payable on hire purchase	5,650	5,644	5,650	5,644
Borrowing costs on deferred consideration for investment in controlled entity	-	-	147,530	-
Depreciation of plant and equipment	100,335	45,681	58,710	45,681
Rental expenses relating to operating leases	270,418	192,394	212,451	192,394
Provision for employee entitlements	47,982	31,050	58,449	31,050
Research and development expenditure	4,637,138	4,022,201	4,325,528	4,022,201
Net foreign exchange loss	27,621	-	27,296	-
Loss on disposal of property plant and equipment	-	2,652	-	2,652

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$	\$	\$	\$

Note 4 Income tax

(a) The income tax expense for the financial year differs from the amount calculated on the loss. The differences are reconciled as follows:

(Loss) before income tax expense	(4,562,372)	(568,627)	(2,174,390)	(568,627)
Income tax calculated @ 30%	(1,368,712)	(170,588)	(652,317)	(170,588)
Tax effect of permanent differences				
Non deductible legal fees	3,398	69,493	3,398	69,493
Interest on deferred consideration - investment in controlled entity	-	-	44,259	-
Amortisation of intangibles	173,623	-	2,400	-
Share of loss of associate	417,589	206,938	103,742	206,938
Sundry items	16,086	19,607	15,090	19,607
Income tax adjusted for permanent differences	(758,016)	125,450	(483,428)	125,450
Future income tax benefit and deferred tax liability not recognised	881,891	-	607,303	-
Adjustment to write off of opening future income tax benefit and deferred tax liability	(71,689)	-	(71,689)	-
(Over) provided tax paid for previous year	(17,536)	(33,286)	(17,536)	(33,286)
Income tax expense	34,650	92,164	34,650	92,164

(b) Future income tax benefit

The future income tax benefit has been written off as the directors do not believe that it can be regarded as virtually certain of realisation. No part of the future tax benefit shown in Note 9 is attributable to tax losses. The directors' estimate that the potential future income tax benefit at 30 June 2003 in respect of tax losses not brought to account is

779,539	163,594	137,059	-
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The benefit will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised,
- (ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iii) no changes in tax legislation adversely affect the associate in realising the benefit from the deductions for the losses.

Note 5 Cash

Cash at bank and on hand	597,186	904,430	392,609	904,430
Deposits at call	7,791,377	2,441,377	7,791,377	2,441,377
	8,388,563	3,345,807	8,183,986	3,345,807

Note 6 Investments (Current)

Bank bills	30,863,857	37,721,376	30,863,857	37,721,376
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(i) Significant terms & conditions

Bank bill investments with a face value of \$31,000,000 (2002: \$38,000,000) mature at various dates over the 1 month (2002: 2 months) following balance date. The weighted average interest rate is 4.81% (2002: 4.83%). Income not received at year end is brought to account as accrued income.

(ii) Net fair values

The investment in the bank bills is valued at cost. The directors consider that the net fair value of the investments at year end to be \$30,863,857 (2002: \$37,721,376) based on their assessment of its estimated realisable value.

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Note 7 Receivables				
Trade debtors	22,400	-	-	-
Other debtors	39,535	220,678	39,535	220,678
Accrued income	345,914	468,175	345,914	468,175
	<u>407,849</u>	<u>688,853</u>	<u>385,449</u>	<u>688,853</u>

(i) Other debtors

In 2002 other debtors included \$174,432 owing by USEC (2003: nil). The remainder are amounts generally arising from transactions outside the usual operating activities of the consolidated entity.

(ii) Net fair value

The Directors consider the carrying amount of receivables approximate their net fair value.

Note 8 Inventories

Raw materials and stores - at cost	88,877	-	-	-
Finished goods - at cost	16,849	-	-	-
	<u>105,726</u>	<u>-</u>	<u>-</u>	<u>-</u>
Less: Provision for obsolescence for finished goods	(13,500)	-	-	-
	<u>92,226</u>	<u>-</u>	<u>-</u>	<u>-</u>

Note 9 Other Assets**Current**

Prepayments	34,818	21,942	34,818	21,942
Other	-	361,000	-	361,000
	<u>34,818</u>	<u>382,942</u>	<u>34,818</u>	<u>382,942</u>

Non-current

Future income tax benefit	-	220,390	-	220,390
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Note 10 Property, plant and equipment**Plant and equipment**

At cost	961,996	687,213	724,409	687,213
Less accumulated depreciation	(632,625)	(522,187)	(497,913)	(522,187)
	<u>329,371</u>	<u>165,026</u>	<u>226,496</u>	<u>165,026</u>
Plant and equipment under lease				
At cost	-	69,640	-	69,640
Less accumulated amortisation	-	(29,016)	-	(29,016)
	<u>-</u>	<u>40,624</u>	<u>-</u>	<u>40,624</u>
	<u>329,371</u>	<u>205,650</u>	<u>226,496</u>	<u>205,650</u>

Reconciliations of the carrying value of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:

Notes to the financial statements
30 June 2003
(continued)

Consolidated	Plant & equipment \$	Leased plant & equipment \$	Total \$
Carrying amount at 1 July 2002	165,026	40,624	205,650
Transfers at cost	27,857	(27,857)	-
Additions	110,008	-	110,008
Additions through acquisition of entity	153,258	-	153,258
Disposals	(26,443)	-	(26,443)
Depreciation/amortisation expense (note 1(m))	(100,335)	(12,767)	(113,102)
Carrying amount at 30 June 2003	329,371	-	329,371

Parent entity	Plant & equipment \$	Leased plant & equipment \$	Total \$
Carrying amount at 1 July 2002	165,026	40,624	205,650
Transfers at cost	27,857	(27,857)	-
Additions	95,056	-	95,056
Disposals	(2,733)	-	(2,733)
Depreciation/amortisation expense (note 1(m))	(58,710)	(12,767)	(71,477)
Carrying amount at 30 June 2003	226,496	-	226,496

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Note 11 Intangibles				
Intellectual property on consolidation	3,498,888	-	-	-
Less accumulated amortisation	(534,900)	-	-	-
	2,963,988	-	-	-
Intellectual property	413,864	413,864	413,864	413,864
Less accumulated amortisation	(155,927)	(122,541)	(155,927)	(122,541)
	257,937	291,323	257,937	291,323
	3,221,925	291,323	257,937	291,323

Note 12 Investments accounted for using the equity method

Shares in associate (note 34)	7,861,493	9,253,456	8,907,651	9,253,456
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Note 13 Other financial assets

Investment in other corporations - at cost	-	750,000	-	750,000
Shares in controlled entities (note 35)	-	-	5,147,105	-
	-	750,000	5,147,105	750,000

The investment in other corporations at cost relates to Fiberbyte Pty Ltd.

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Note 14 Payables				
Current - unsecured				
Trade creditors	569,856	248,255	483,531	248,255
Other creditors	-	109,300	-	109,300
	569,856	357,555	483,531	357,555
Current - secured				
Other loans	150,000	-	-	-
	719,856	357,555	483,531	357,555
Non current - secured				
Other loans	150,000	-	-	-

Net fair value

The directors consider that the carrying value of trade creditors and other creditors approximate their net fair value.

Other loans

The other loans relates to a loan to Fiberbyte secured by a registered charge over the assets of Fiberbyte. The loan amounts are interest free provided payment is made by the due dates.

Note 15 Interest bearing liabilities**Current**

Hire purchase liabilities (note 24)	18,967	17,657	18,967	17,657
Deferred consideration - investment in controlled entity (note 24)	-	-	1,506,880	-
Lease liabilities (note 24)	-	41,818	-	41,818
	18,967	59,475	1,525,847	59,475

Non-current liabilities

Hire purchase liabilities (note 24)	50,055	69,022	50,055	69,022
Deferred consideration - investment in controlled entity (note 24)	-	-	1,520,253	-
Other loans - secured	500,000	-	-	-
	550,055	69,022	1,570,308	69,022

Net fair value

The Directors consider that the carrying amounts of lease liabilities and hire purchase liabilities approximate their net fair values.

Lease liabilities and hire purchase liabilities are effectively secured as the right to the leased asset reverts to the lessor in the event of default.

Other loans

The other loans relates to a loan to Fiberbyte secured by a registered charge over the assets of Fiberbyte.

Note 16 Tax liabilities**Non-current**

Deferred income tax liability	-	292,079	-	292,079
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	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Note 17 Provisions				
Current				
Provision for employee entitlements	347,310	360,525	304,497	360,525
Non-current				
Provision for employee entitlements	409,754	200,078	314,555	200,078
	Parent entity 2003 shares	2002 shares	Parent entity 2003 \$	2002 \$
Note 18 Contributed equity				
Ordinary shares				
Fully paid	132,329,629	127,086,240	44,712,762	44,328,898

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. 172,414 shares were issued on 24 September 2002 as part of the consideration for acquisition of the Company's interest in Fiberbyte. These shares are subject to a voluntary escrow for a 12 month period ending 24 September 2003. During this 12 month period the shareholder is not allowed to dispose of the shares.

Movements in ordinary share capital

Date	Details	Number of shares	Issue price \$	\$
30 June 2001	Balance	124,821,240		44,201,798
25 July 2001	Options exercised	5,000	1.94	9,700
13 September 2001	Options exercised	10,000	0.49	4,900
19 September 2001	Options exercised	1,250,000	0.05	62,500
27 February 2002	Options exercised	1,000,000	0.05	50,000
30 June 2002		127,086,240		44,328,898
24 September 2002	Issue of shares	172,414	0.55	94,828
29 October 2002	Issue of shares	70,975	0.55	39,036
28 January 2003	Options exercised	5,000,000	0.05	250,000
30 June 2003		132,329,629		44,712,762

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Note 19 Reserves				
Options reserve	112,674	-	112,674	-
Movements				
Balance 1 July 2002	-	-	-	-
Increment on issue of options as part consideration for investment in controlled entity	112,674	-	112,674	-
Balance 30 June 2003	112,674	-	112,674	-

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Note 20 Retained profits				
Retained profits at the beginning of the financial year	7,192,165	7,852,956	7,192,165	7,852,956
Net (loss) attributable to members of Silex Systems Limited	(4,201,629)	(660,791)	(2,209,040)	(660,791)
Retained profits at the end of the financial year	2,990,536	7,192,165	4,983,125	7,192,165

	Consolidated 2003 \$	2002 \$
Note 21 Outside equity interest in controlled entities		
Interest in:		
Share capital	2,297,906	-
Retained profits/(accumulated losses)	(1,109,718)	-
	1,188,188	-

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Note 22 Equity				
Total equity at the start of the financial year	51,521,063	52,054,754	51,521,063	52,054,754
Total changes in equity recognised in the statement of financial performance	(4,088,955)	(660,791)	(2,096,366)	(660,791)
Transactions with owners as owners:				
Contributions of equity, net of transaction costs	383,864	127,100	383,864	127,100
Total changes in outside equity interest	1,188,188	-	-	-
Total equity at the end of the financial year	49,004,160	51,521,063	49,808,561	51,521,063

Note 23 Franking account balance

Franking credits available for the subsequent financial year at 30%	4,911,891	4,793,051	4,899,390	4,793,051
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The above amount represents the balance of the franking accounts at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and
- (d) franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends

Under legislation that took effect on 1 July 2002, the amount recorded in the franking account is the amount of Australian income tax paid, rather than franking credits based on after tax profits, and amounts debited to that account in respect of dividends paid after 30 June 2002 are the franking credits attaching to those dividends rather than the gross amount of the dividends. In accordance with this legislation, the franking

credits available at 30 June 2002 of \$11,183,786 based on after tax profits, was converted so that the opening balances on 1 July 2002 reflected tax paid amounts of \$4,793,051 which is shown as a comparative amount above.

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Note 24 Commitments for expenditure				
Finance leases				
Commitments in relation to finance leases are as follows:				
Not later than one year	-	44,587	-	44,587
Minimum lease payments	-	44,587	-	44,587
Deduct future finance charges not provided for in the financial statements	-	(2,769)	-	(2,769)
Total lease liability	-	41,818	-	41,818
Consisting of: Current (note 15)	-	41,818	-	41,818
	-	41,818	-	41,818

The weighted average interest rate implicit in the lease was 8.87% in 2002.

Hire Purchase liabilities

Commitments in relation to hire purchases payable are as follows:

Not later than one year	23,304	23,304	23,304	23,304
Later than one year but not later than five years	53,173	76,477	53,173	76,477
Minimum hire purchase payments	76,477	99,781	76,477	99,781
Deduct future finance charges not provided for in the financial statements:	(7,455)	(13,102)	(7,455)	(13,102)
Total hire purchase liability	69,022	86,679	69,022	86,679
Consisting of : Current (note 15)	18,967	17,657	18,967	17,657
Non-current (note 15)	50,055	69,022	50,055	69,022
	69,022	86,679	69,022	86,679

The weighted average interest rate is 7.18% (2002: 7.18%).

Operating leases

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Not later than one year	288,353	170,719	200,353	170,719
Later than one year but not later than five years	63,241	29,950	63,241	29,950
	351,594	200,669	263,594	200,669

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
Investment in controlled entity				
Commitments in relation to investment in controlled entity are as follows:				
Not later than one year	-	-	1,540,000	-
Later than one year but not later than five years	-	-	1,650,000	-
Minimum payments	-	-	3,190,000	-
Deduct future finance charges not provided for in the financial statements:	-	-	(162,867)	-
Total liability	-	-	3,027,133	-
Consisting of : Current (note 15)	-	-	1,506,880	-
Non-current (note 15)	-	-	1,520,253	-
	-	-	3,027,133	-

Directors of parent entity	
2003	2002
\$	\$

Note 25 Remuneration of directors

Income paid or payable, or otherwise made available to the Directors by entities in the consolidated entity and related parties in connection with the management of affairs of the parent entity or its controlled entities.

676,966	637,429
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The numbers of parent entity directors whose total income from the parent entity or related parties was within the specified bands are as follows:

	2003 number	2002 number
\$40,000 - \$49,999	3	3
\$90,000 - \$99,999	-	1
\$400,000 - \$409,999	-	1
\$110,000 - \$119,999	1	-
\$430,000 - \$439,999	1	-

Mr Chris Wilks has a beneficial interest in a company (Evinlow Pty Ltd) which provided managerial and administrative services to the Company in the previous year. The charges were levied on a commercial basis. The charges are included in the Directors' remuneration detailed above.

Total directors' remuneration and the remuneration banding does not include amounts in relation to the grant of options. The options are not included as they were issued at no cost to the entity.

No options were granted to Directors during the year. Details of options exercised by Directors are set out in Note 27.

Directors' remuneration excludes insurance premiums paid by the Company in respect of directors' and officers' liability insurance as the contracts do not specify premiums paid in respect of individual directors and officers. Information relating to the insurance contracts is set out in the Directors' report.

	Executive officers of the consolidated entity		Executive officers of the parent entity	
	2003	2002	2003	2002
	\$	\$	\$	\$

Note 26 Remuneration of executives

Remuneration received, or due and receivable, from entities in the consolidated entity and related parties by Australian - based executive officers (including directors) whose remuneration was at least \$100,000

Executive officers of the parent entity	546,166	408,660	546,166	408,660
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Options are granted to executive officers under the Silex Systems Limited Employee Share Option Plan, details of which are set out in Note 36. A summary of the numbers of options granted to, exercised and held by Australian-based executive officers (with income of at least \$100,000) during the year ended 30 June 2003 is set out below.

	Outstanding 30 June 2002	Granted	Exercised	Outstanding 30 June 2003
Australian-based executive officers of the parent entity	5,250,000	-	3,750,000	1,500,000

The numbers of executive officers (including Directors) whose remuneration from the entities in the consolidated entity and related parties was within the specified bands are as follows:

	Executive officers of the consolidated entity		Executive officers of the parent entity	
	2003	2002	2003	2002
\$110,000 - \$119,999	1	-	1	-
\$400,000 - \$409,999	-	1	-	1
\$430,000 - \$439,999	1	-	1	-

Total executives' remuneration and the remuneration banding does not include amounts in relation to the grant of options. The options are not included as they were issued at no cost to the entity.

Note 27 Related parties

(i) Directors

The names of persons who were directors of Silex Systems Limited at any time during the financial year are as follows: B S Patterson; M P Goldsworthy; C S Goldschmidt; C D Wilks and R P Campbell. All of these persons were also directors during the year ended 30 June 2002.

Directors' remuneration during the year has been disclosed in Note 25.

(ii) Share options transactions with Directors and their related entities

The aggregate number of shares and share options held by Directors of the Company and their Director-related entities at 30 June 2003 were:

Directors	Options Issued during the Year Ended 30 June 2003	Total Number of Options Held (over Ordinary Shares)	Fully paid Ordinary Shares Held
Mr B S Patterson or related entity	-	-	4,573,863
Dr M P Goldsworthy or related entity	-	900,000	6,399,533
Dr C S Goldschmidt or related entity	-	-	2,825,937
Mr C D Wilks or related entity	-	600,000	3,094,021
Mr R P Campbell or related entity	-	-	1,354,823

The aggregate number of shares of Silex Systems Limited disposed of by Directors of the Company or their Director-related entities during the financial year was nil (2002: 1,533,345).

Directors	Shares Sold	Options Exercised	Shares Acquired
Mr B S Patterson	-	-	-
Dr M P Goldsworthy	-	2,500,000	2,500,000
Dr C S Goldschmidt	-	-	-
Mr C D Wilks	-	1,250,000	1,250,000
Mr R P Campbell	-	-	-

(iii) Transactions with controlled entities

	Parent entity 2003 \$	2002 \$
Interest paid/payable to controlled entity (Fiberbyte Pty Ltd) on deferred consideration	147,530	-

(iv) Amounts owed to controlled entities

Deferred consideration payable to controlled entity (Fiberbyte Pty Ltd)

Current	1,506,880	-
Non current	1,520,253	-
Total	3,027,133	-

Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
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Note 28 Remuneration of auditors

During the year the auditor of the company earned the following remuneration:

Audit or review of financial reports of the company	42,426	31,290	46,426	31,290
Other audit-related work	1,100	1,000	1,100	1,000
Other assurance services	5,500	5,000	5,500	5,000
Total audit and other assurance services	49,026	37,290	53,026	37,290
Corporate finance	4,500	12,000	4,500	12,000
Taxation	26,589	15,773	26,589	15,773
Total remuneration	80,115	65,063	84,115	65,063

It is Silex's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with Silex are important; these assignments are principally tax advice and assurance related, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is Silex's policy to seek competitive quotes for all major consulting projects.

Note 29 Industry and geographical segments

Primary reporting- business segments

The consolidated entity is organised into the following divisions by product and service type.

Research and development

Research and development principally of the Silex process in New South Wales and the operations of the associate, Translucent in the United States of America.

Optical communications/photronics

Manufacture and sale of optical communications/photronics products based in South Australia.

2003	Research and development \$	Optical communications/ photronics \$	Inter segment eliminations/ unallocated \$	Consolidated \$
Sales to external customers	-	224,022	-	224,022
Recoverable project costs	1,715,178	-	-	1,715,178
START Grant	1,123,781	-	-	1,123,781
Other revenue	4,091	57,664	-	61,755
Total segment revenue	2,843,050	281,686	-	3,124,736
Unallocated - Interest income				1,942,244
Total revenue				5,066,980
Segment result	(5,009,171)	(1,495,445)	-	(6,504,616)
Unallocated revenue - interest income				1,942,244
(Loss) before tax				(4,562,372)
Income tax expense				(34,650)
Net (loss)				(4,597,022)
Segment assets	884,740	3,181,489	39,252,420	43,318,649
Unallocated assets				7,881,453
Total assets				51,200,102
Segment liabilities	1,102,583	224,337	-	1,326,920
Unallocated liabilities				869,022
Total liabilities				2,195,942
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	95,056	3,667,098	-	3,762,154
Depreciation and amortisation expense	104,863	612,367	-	717,230

Other non-cash expenses	58,449	(10,467)	-	47,982
Share of net loss of associate	1,391,963	-	-	1,391,963
Investment in associate	7,861,493	-	-	7,861,493
2002	Research and development	Optical communications/ photonics	Inter segment eliminations/ unallocated	Consolidated
	\$	\$	\$	\$
Recoverable project costs	3,161,681	-	-	3,161,681
START Grant	866,600	-	-	866,600
Other project income	66,163	-	-	66,163
Other revenue	1,190	-	-	1,190
Total segment revenue	4,095,634	-	-	4,095,634
Unallocated - interest income				1,892,372
Unallocated - exchange gain				293,472
Total revenue				6,281,478
Segment result	(2,754,471)	-	-	(2,754,471)
Unallocated revenue - interest income				1,892,372
Unallocated revenue - exchange gain				293,472
(Loss) before tax				(568,627)
Income tax expense				(92,164)
Net (loss)				(660,791)
Segment assets	2,318,768	-	41,067,183	43,385,951
Unallocated assets				9,473,846
Total assets				52,859,797
Segment liabilities	918,158	-	-	918,158
Unallocated liabilities				420,576
Total liabilities				1,338,734
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	864,059	-	-	864,059
Depreciation and amortisation expense	101,495	-	-	101,495
Other non-cash expenses	31,050	-	-	31,050
Share of net loss of associate	689,794	-	-	689,794
Investment in associate	9,253,456	-	-	9,253,456

Secondary reporting – geographical segments

Segment revenue is based on the geographical area of the consolidated entity's customers. Segment assets is based on the location of the assets.

United States of America

Included in this segment is revenue from USEC and sales from Fiberbyte Pty Ltd to customers in United States of America.

Australia

Includes Start grant funding from Australian government and sales of Fiberyte Pty Ltd to Australian customers.

	Segment revenues from external customers		Segment assets		Acquisitions of property, plant and equipment, intangibles and other non current segment assets	
	2003	2002	2003	2002	2003	2002
	\$	\$	\$	\$	\$	\$
United States of America	1,723,637	3,227,844	5,634	481,705	-	-
Australia	1,401,099	867,790	43,131,079	42,696,924	3,762,154	864,059
Other countries	-	-	181,936	207,322	-	-
	<u>3,124,736</u>	<u>4,095,634</u>	<u>43,318,649</u>	<u>43,385,951</u>	<u>3,762,154</u>	<u>864,059</u>

	Consolidated	
	2003	2002
Note 30 Earnings per share		
Basic earnings per share (cents per share)	(3.2)	(0.5)
Diluted earnings per share (cents per share)	(3.2)	(0.5)

Weighted average number of ordinary shares on issue used in the calculation of basic earning per share:	129,361,366	126,143,432
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Weighted average number of ordinary shares on issue used in the calculation of diluted earning per share:	129,561,174	131,196,407
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	Consolidated	
	2003	2002
	\$	\$

Reconciliation of earnings used in calculating earnings per share

Basic and diluted earnings per share

Net (loss)	(4,597,022)	(660,791)
Net loss attributable to outside equity interest	395,393	-
Earnings used in calculating basic and diluted earnings per share	<u>(4,201,629)</u>	<u>(660,791)</u>

Reconciliation of denominator used in calculating basic earnings per share

	2003 Shares	2002 Shares
Shares used in calculating basic earnings per share	129,361,366	126,143,432
Adjustment for options	199,808	5,052,975
Shares used in calculating diluted earnings per share	129,561,174	131,196,407

Options granted are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details of options are disclosed in Note 36.

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
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Note 31 Statement of cash flows

(i) Cash

Cash at bank and on hand	8,388,563	3,345,807	8,183,986	3,345,807
Investments (Bank bills)	30,863,857	37,721,376	30,863,857	37,721,376
	39,252,420	41,067,183	39,047,843	41,067,183

(ii) Reconciliation of net cash provided by operating activities to operating (loss) after income tax

Operating (loss) after income tax	(4,597,022)	(660,791)	(2,209,040)	(660,791)
Depreciation	100,335	45,681	58,710	45,681
(Profit)/loss on sale of plant and equipment	(1,358)	2,652	(1,358)	2,652
Amortisation of intangibles	604,128	33,386	33,386	33,386
Amortisation of leased assets	12,767	22,428	12,767	22,428
Share of loss of associate	1,391,963	689,794	345,805	689,794
Expenses funded by issue of shares	39,036	-	39,036	-
Interest on Fiberbyte	-	-	147,530	-
(Increase) in prepayments and other current assets	348,124	(367,761)	348,124	(367,761)
Decrease/(increase) in trade and other debtors	226,451	(128,869)	156,944	(128,869)
Decrease in accrued income	122,261	624,936	122,261	624,936
(Increase) in inventories	(33,841)	-	-	-
(Increase)/decrease in future income tax benefit	220,390	(90,473)	220,390	(90,473)
Increase/(decrease) in provision for income tax	-	(59,541)	24,199	(59,541)
Decrease/(increase) in income tax refund	409,462	(44,159)	-	(44,159)
Increase/(decrease) in deferred income tax liability	(292,079)	237,590	(292,079)	237,590
Increase/(decrease) in trade and other creditors	(44,372)	30,419	125,976	30,419
Increase in provision for employee entitlements	47,982	31,050	58,449	31,050
Net cash inflow/(outflow) from operating activities	(1,445,773)	366,342	(808,900)	366,342

	Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$
(iii) Non-cash Financing and Investing Activities				
Part consideration for acquisition of interest in controlled entity by issue of shares	94,828	-	94,828	-
Part consideration for acquisition of interest in controlled entity by issue of options	112,674	-	112,674	-
Acquisition of plant and equipment by means of hire purchase	-	94,186	-	94,186
	207,502	94,186	207,502	94,186

These acquisitions are not reflected in the statements of cash flows.

Note 32 Amounts receivable and payable denominated in foreign currency (Australian dollar equivalents)

Current US dollars receivable not effectively hedged	5,634	147,728	-	147,728
Current US dollars payable not effectively hedged	202,957	773	175,510	773
Current Euro payable not effectively hedged	2,804	-	-	-
Current Swiss francs payable not effectively hedged	-	26,870	-	26,870

Note 33 Financial instruments disclosure

(i) Off-balance sheet derivative instruments

The consolidated entity is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates.

Forward exchange contracts

The majority of the revenue from operating activities is derived in US dollars. In order to protect against exchange rate movements, the consolidated entity enters into forward exchange contracts to sell US dollars. The contracts are taken out when large value invoices are processed and are timed to mature when payment is received.

At balance date, the details of outstanding contracts are:

	Buy Australian dollars 2003 \$	2002 \$	Average exchange rate 2003	2002
Sell US dollars				
Maturity 0-6 months	-	26,705	N/A	0.5617

(ii) Interest rate risk

The consolidated entity's exposure to interest rate risk, and the effective interest rates on financial instruments at balance date are:

		Fixed Interest Rate Maturities				Total
		Floating	1 Year or	1 to 5	Non-interest	
		interest rate	Less	Years	Bearing	
Note		\$	\$	\$	\$	\$
30 June 2003						
Assets						
Cash	5	8,388,563	-	-	-	8,388,563
Investments (Bank bills)	6	-	30,863,857	-	-	30,863,857
Receivables	7	-	-	-	407,849	407,849
Total financial assets		8,388,563	30,863,857	-	407,849	39,660,269
Weighted average interest rate		4.59%	4.81%			
Liabilities						
Payables	14	-	-	-	869,856	869,856
Hire purchase liabilities	15	-	18,967	50,055	-	69,022
Other loans	15	-	-	500,000	-	500,000
Total financial liabilities		-	18,967	550,055	869,856	1,438,878
Weighted average interest rate			7.18%	6.11%		
Net financial assets/(liabilities)		8,388,563	30,844,890	(550,055)	(462,007)	38,221,391

		Fixed Interest Rate Maturities				Total
		Floating	1 Year or	1 to 5	Non-interest	
		interest rate	Less	Years	Bearing	
Note		\$	\$	\$	\$	\$
30 June 2002						
Assets						
Cash	5	3,345,807	-	-	-	3,345,807
Investments (Bank bills)	6	-	37,721,376	-	-	37,721,376
Receivables	7	-	-	-	688,853	688,853
Total financial assets		3,345,807	37,721,376	-	688,853	41,756,036
Weighted average interest rate		4.50%	4.83%			
Liabilities						
Payables	14	-	-	-	357,555	357,555
Lease and hire purchase liabilities	15	-	59,475	69,022	-	128,497
Total financial liabilities		-	59,475	69,022	357,555	486,052
Weighted average interest rate			8.37%	7.18%		
Net financial assets/(liabilities)		3,345,807	37,661,901	(69,022)	331,298	41,269,984

(iii) Credit risk exposure

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, other than investments in shares is generally at the carrying amount, net of any provisions for doubtful debts.

(iv) Net fair value of financial assets and liabilities

The carrying amounts and net fair values of financial assets and liabilities at balance date are:

	Carrying amount 2003 \$	Net fair value 2003 \$	Carrying amount 2002 \$	Net fair value 2002 \$
On balance sheet financial instruments				
Financial assets				
Cash	8,388,563	8,388,563	3,345,807	3,345,807
Investments (bank bills)	30,863,857	30,863,857	37,721,376	37,721,376
Receivables	407,849	407,849	688,853	688,853
Non traded financial assets	39,660,269	39,660,269	41,756,036	41,756,036
Payables				
Trade and other creditors	869,856	869,856	357,555	357,555
Lease and hire purchase liabilities	69,022	69,022	128,497	128,497
Other loans	500,000	500,000	-	-
Non traded financial liabilities	1,438,878	1,438,878	486,052	486,052
Off balance sheet financial instruments				
Financial assets				
Forward exchange contracts (a)	-	-	61	61

Net fair value is exclusive of costs which would be incurred on realisation of an asset, and inclusive of costs which would be incurred on settlement of a liability.

(a) The carrying amounts are unrealised gains or losses which have been included in the on balance sheet financial assets and liabilities disclosed above.

Note 34 Investments in associates

Investments in associates are accounted for in the financial statements using the equity method of accounting.

Name of company	Principal activity	Ownership interest		Carrying amount	
		2003	2002	2003	2002
		%	%	\$	\$
Translucent Photonics Inc. (Incorporated in USA)	Planar Lightwave Circuits	30%	30%	7,861,493	9,253,456
		Consolidated 2003 \$	2002 \$	Parent entity 2003 \$	2002 \$

Movements in carrying amounts of investments in associates

Carrying amount at the beginning of the financial year	9,253,456	9,943,250	9,253,456	9,943,250
Share of (losses) from ordinary activities after income tax	(1,391,963)	(689,794)	(345,805)	(689,794)
Carrying amount at the end of the financial year	7,861,493	9,253,456	8,907,651	9,253,456

	2003	2002
	\$	\$
Result attributable to associates		
(Loss) from ordinary activities before income tax	(1,391,963)	(689,794)
Income tax expense	-	-
(Loss) from ordinary activities after income tax	(1,391,963)	(689,794)
Retained losses attributable to associates at the beginning of the financial year	(689,794)	-
Retained losses attributable to associates at the end of the financial year	(2,081,757)	(689,794)

Summary of the performance and financial position of associates

The aggregate losses, assets and liabilities of associates are:

Losses from ordinary activities after income tax expense	2,489,211	2,299,313
Assets	3,631,717	6,863,762
Liabilities	166,428	225,598

Note 35 Investment in controlled entities

Name of entity	Country of incorporation	Class of shares	Equity holding	
			2003	2002
			%	%
Fiberbyte Pty Ltd	Australia	Ordinary	0%	-
		Preference	100%	-
		Total	51%	-

On 24 September 2002 the parent entity acquired 51% of the issued share capital of Fiberbyte Pty Ltd for an initial cash consideration of \$1,600,000 plus the issue of 172,414 fully paid Silex shares. In addition, Silex will grant (over three years) up to 1,500,000 options to Fiberbyte staff out of the Employee Share Option Plan. \$3,650,000 additional cash was to be paid over the next two and a half years provided certain performance milestones were achieved. At 30 June 2003, \$460,000 of this additional \$3,650,000 had been paid.

At the date of acquisition, the acquired entity was involved in the optical communications/photronics industry. Details of the acquisition are as follows:

	\$
Fair value of identifiable net assets of controlled entity acquired	
Cash	22,614
Receivables	91,907
Income tax receivable	385,263
Inventories	58,385
Plant and equipment	153,258
Intangibles	35,842
Trade creditors	(256,673)
Provisions for employee entitlements	(148,479)
Loans and other creditors	(1,799,922)
	(1,457,805)

Add fair value of cash to be received	4,689,603
	3,231,798
Less outside equity interest	(1,583,581)
	1,648,217
Intellectual property on consolidation	3,498,888
Total cost of acquisition	5,147,105

	Consolidated		Parent entity	
	2003	2002	2003	2002
	\$	\$	\$	\$
Outflow of cash to acquire controlled entity, net of cash acquired				
Cash consideration	2,060,000	-	2,060,000	-
Less cash acquired	(1,832,614)	-	-	-
Outflow of cash	227,386	-	2,060,000	-

Note 36 Employee entitlements

Employee entitlement liabilities

Provision for employee entitlements

Current (note 17)	347,310	360,525	304,497	360,525
Non current (note 17)	409,754	200,078	314,555	200,078
Aggregate employee entitlement liabilities	757,064	560,603	619,052	560,603

Silex Systems Limited Employee Option Plan

All full time staff of the consolidated entity and executive directors of the consolidated entity are eligible to participate in the plan. At 30 June 2003, 39 employees and 2 executive directors were eligible to participate in the plan.

Options are granted under the plan for no consideration. Options are granted for a five year period and become exercisable after two years of the date of the grant. The options lapse if the holder ceases to be an eligible employee other than by reason of death or permanent disablement, unless the Board determines otherwise in its absolute discretion. Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the five trading days before the options are granted plus five cents. Amounts received on the exercise of options are recognised as share capital.

Set out below are summaries of options granted under the plan.

Grant Date	Expiry date	Exercise price cents	Balance at start of year	Issued during the year	Exercised during the year	Balance at end of the year
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Consolidated and parent entity - 2003

17 March 1999	16 March 2004	194	135,000	-	-	135,000
5 June 2000	4 June 2005	165	195,000	-	-	195,000
17 July 2000	16 July 2005	321	50,000	-	-	50,000
28 August 2000	27 August 2005	322	50,000	-	-	50,000
3 October 2000	2 October 2005	323	10,000	-	-	10,000
20 April 2001	19 April 2006	402	1,690,000	-	-	1,690,000
14 August 2002	13 August 2007	73	-	610,000	-	610,000
12 November 2002	11 November 2007	55	-	345,000	-	345,000
			2,130,000	955,000	-	3,085,000

Consolidated and parent entity – 2002

10 June 1998	9 June 2003	49	10,000	-	10,000	-
17 March 1999	16 March 2004	194	140,000	-	5,000	135,000
5 June 2000	4 June 2005	165	195,000	-	-	195,000
17 July 2000	16 July 2005	321	50,000	-	-	50,000
28 August 2000	27 August 2005	322	50,000	-	-	50,000
3 October 2000	2 October 2005	323	10,000	-	-	10,000
20 April 2001	19 April 2006	402	1,690,000	-	-	1,690,000
			<u>2,145,000</u>	-	<u>15,000</u>	<u>2,130,000</u>

Consolidated 2003	2002	Parent entity 2003	2002
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Options vested at reporting date	<u>2,130,000</u>	<u>330,000</u>	<u>2,130,000</u>	<u>330,000</u>
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The market price of shares under option at 30 June 2003 was \$0.39 (2002: \$0.80).

The directors believe that the derivation of an exact value of share options issued is indeterminable. The value of the options is a function of the future prospects of the consolidated entity and the conditions of the options which include continuity of employment.

	2003 \$	2002 \$
Aggregate proceeds received from employees on the exercise of options and recognised as issued capital	-	14,600
Market value of shares issued to employees on the exercise of options at their issue date	-	42,000

Other options to employees and directors

These options were issued prior to the Employee Share Option Plan being established. The exercise price was based on an independent valuation on Silex. Options are granted for a five year period and become exercisable after two years of the date of the grant. The options lapse if the holder ceases to be an eligible employee other than by reason of death or permanent disablement, unless the Board determines otherwise in its absolute discretion. The options carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share. Amounts received on the exercise are recognised as share capital.

Grant Date	Expiry date	Exercise price cents	Balance at start of year	Issued during the year	Exercised during the year	Balance at end of the year
Consolidated and parent entity – 2003						

29 January 1998	28 January 2003	5	<u>5,000,000</u>	-	<u>5,000,000</u>	-
			<u>5,000,000</u>	-	<u>5,000,000</u>	-

**Consolidated and parent entity
– 2002**

4 March 1997	3 March 2002	5	<u>1,000,000</u>	-	<u>1,000,000</u>	-
29 January 1998	28 January 2003	5	<u>6,250,000</u>	-	<u>1,250,000</u>	<u>5,000,000</u>
			<u>7,250,000</u>	-	<u>2,250,000</u>	<u>5,000,000</u>

	2003 \$	2002 \$
Aggregate proceeds received from employees and directors on the exercise of options and recognised as issued capital	250,000	112,500
Market value of shares issued to employees and directors on the exercise of options at their issue date	7,000,000	6,332,500

Note 37 Economic dependency

The consolidated entity has been dependent for a significant volume of revenue from USEC. During the year ended 30 June 2003, approximately 34% (2002: 53%) of the consolidated entity's revenue was sourced from USEC. With USEC's withdrawal from the Uranium project, a higher proportion of the total revenue next year is expected to be derived from sales of goods from Fiberbyte Pty Ltd.

Note 38 Financing arrangements

	Consolidated		Parent entity	
	2003	2002	2003	2002
Unrestricted access was available at balance date to the following lines of credit:				
Credit standby arrangements				
Total facilities				
Lease finance — revolving facility	400,000	400,000	400,000	400,000
Documentary credit facility (overseas)	802,439	660,000	802,439	660,000
Visa facility	80,000	50,000	80,000	50,000
	<u>1,282,439</u>	<u>1,110,000</u>	<u>1,282,439</u>	<u>1,110,000</u>
Used at balance date				
Lease finance — revolving facility	-	41,818	-	41,818
Documentary credit facility (overseas)	-	-	-	-
Visa facility	-	-	-	-
	<u>-</u>	<u>41,818</u>	<u>-</u>	<u>41,818</u>
Unused at balance date				
Lease finance — revolving facility	400,000	358,182	400,000	358,182
Documentary credit facility (overseas)	802,439	660,000	802,439	660,000
Visa facility	80,000	50,000	80,000	50,000
	<u>1,282,439</u>	<u>1,068,182</u>	<u>1,282,439</u>	<u>1,068,182</u>
Bank loan facilities				
Total facilities	1,282,439	1,110,000	1,282,439	1,110,000
Used at balance date	-	(41,818)	-	(41,818)
Unused at balance date	<u>1,282,439</u>	<u>1,068,182</u>	<u>1,282,439</u>	<u>1,068,182</u>

The interest rate on the lease facility was 8.87% for the 2002 financial year.

		Consolidated		Parent entity	
		2003	2002	2003	2002
Note		\$	\$	\$	\$
Note 39 Secured liabilities					
Total secured liabilities (current and non-current) are:					
Lease liabilities	15	-	41,818	-	41,818
Hire purchase liabilities	15	69,022	86,679	69,022	86,679
Other loans - current	14	150,000	-	-	-
Other loans - non-current	14	150,000	-	-	-
Interest bearing loans - non-current	15	500,000	-	-	-
Total secured liabilities		869,022	128,497	69,022	128,497

Lease liabilities and hire purchase liabilities are effectively secured as the rights to the leased and hire purchase assets recognised in the financial statements revert to the lessor in the event of default. The other loans are secured against the assets of the controlled entity.

The carrying amounts of non-current assets pledged as security are:

		Consolidated		Parent entity	
		2003	2002	2003	2002
Note		\$	\$	\$	\$
Finance lease					
Plant and equipment under finance lease	10	-	40,624	-	40,624
Hire purchase					
Plant and equipment under hire purchase		62,413	78,990	62,413	78,990
Other loans					
Plant and equipment		102,875	-	-	-
Total non-current assets pledged as security		165,288	119,614	62,413	119,614

Note 40 Events occurring after reporting date

Since the end of the financial year, Silex has reached agreement to increase its equity in Translucent from 30% to 73% in return for consideration of approximately \$8,300,000 in cash and 2,400,000 Silex shares. The consideration is geared to pre-agreed technical and commercial milestones, and is expected to be paid out fully over the next 2 years. The bulk of the additional funding hinges on meeting not only the original milestone, but also demonstration of early-stage prototype devices with industrial performance criteria. Meeting these new milestones is expected to take Translucent through to positive cash flow without additional investment.

Since balance date Silex has also restructured its interest in Fiberbyte increasing the holding from 51% to around 83%. Under the terms of the restructure, the founders have the right to earn back approximately 32% of the equity if Fiberbyte meets revenue and earnings targets over the next 2 years (in which case Silex would fall back to 51%). In this event, Fiberbyte would have achieved some significant revenue and earnings targets. The total amount of funding, as previously disclosed, does not change under these new arrangements. Whilst the commencement of sales and marketing activities for Fiberbyte's optical communications technology has been slowed by the telecommunications industry down turn, we believe Fiberbyte is on track to generate its first significant orders in the year to 30 June 2004.

Except for the increased equity structures discussed above, the directors are not aware of any matters or circumstances which are not otherwise dealt with in the financial statements that have significantly or may significantly affect the operations of the consolidated entity, the results of its operations or the state of the consolidated entity in subsequent years.

The directors declare that the financial statements and notes set out on pages 15 to 46:

- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors.



Dr M P Goldsworthy
Managing Director



C D Wilks
Director

Dated in Sydney 26 September 2003

Independent audit report to the members of Silex Systems Limited

Audit opinion

In our opinion, the financial report of Silex Systems Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Silex Systems Limited and the Silex Systems Group (defined below) as at 30 June 2003, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

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 Silex Systems Limited (the company) and the Silex Systems Group (the consolidated entity), for the year ended 30 June 2003. 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*, 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.

When this audit report is included in an Annual Report, our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

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



PricewaterhouseCoopers



DS Wiadrowski
Partner

Sydney
26 September 2003

Shareholders' information

1. Information relating to shareholders as at 19 September 2003**a. Distribution schedule**

1 - 1,000	1,429
1,001 - 5,000	2,494
5,001 - 10,000	792
10,001 - 100,000	772
100,001 and over	101
Total number of holders of each class of security	5,588

Voting rights - on a show of hands

- on a poll

Percentage of total holding held by the largest 20 holders 62.06%

Number of total holding less than a marketable parcel of shares 829

Substantial shareholders	Ordinary shares
National Australia Trustees Limited	34,463,095
AMP Limited and its related bodies corporate	14,898,003

b. Names of Twenty Largest Holders of each Security as at 19 September 2003

Name	Number of Securities	Percentage Held
National Australia Trustees Limited	34,463,095	26.04%
Majenta Holdings Pty Ltd	6,253,923	4.73%
Polly Pty Ltd	4,573,863	3.46%
AMP Life Limited	3,970,863	3.00%
Mr Horst Struve	3,745,000	2.83%
National Nominees Limited	3,564,325	2.69%
AMP Nominees Pty Limited	3,515,989	2.66%
J P Morgan Nominees Australia Limited	3,145,296	2.38%
Throvena Pty Ltd	2,799,800	2.12%
Mr Christopher David Wilks	2,505,070	1.89%
Westpac Custodian Nominees Limited	2,386,156	1.80%
Hamlac Pty Ltd	2,325,937	1.76%
Quintal Pty Ltd	2,000,000	1.51%
Quadrangle Nominees Limited	1,887,150	1.43%
Mithena Holdings Pty Limited	1,029,187	0.78%
Citicorp Nominees Pty Ltd	942,228	0.71%
Hapday Holdings Pty Limited	805,620	0.61%
UBS Private Clients Australia Nominees Pty Ltd	788,667	0.60%
Commonwealth Custodial Services Limited	713,862	0.54%
Dr Andrew Yang Ooi Tan	701,788	0.53%
	82,117,819	62.06%

2. Vendor securities as at 19 September 2003

There are no vendor securities.

3. Interest of directors in securities as at 19 September 2003

	Ordinary shares	Interest held
Mr B S Patterson	4,573,863	Beneficially
Dr M P Goldsworthy	6,399,533	Personally/Beneficially
Mr C D Wilks	3,094,021	Personally/Beneficially
Dr C S Goldschmidt	2,825,937	Beneficially
Mr R P Campbell	1,354,823	Beneficially

4. Securities subject to voluntary escrow as at 19 September 2003

	Number on issue	Date escrow period ends
As at 19 September 2003 the following securities were subject to voluntary escrow:		
Ordinary shares	172,414	24 September 2003

5. Unquoted equity securities as at 19 September 2003

	Number on issue	Number of holders
Options issued under the Silex Systems Limited Employee Share Option Plan to take up ordinary shares	3,830,000	41
Other options issued to take up ordinary shares	260,000	2