SILEX ANNUAL REPORT 2003

Silex

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.

CONTENTS

CEO'S REPORT

The past year has been one of mixed fortunes for Silex Systems Limited. Whilst the market's attention appeared to be focused on the negative impact of USEC's withdrawal from the uranium project, the Company's attention has been firmly focused on our technology research and development programs. Ironically, despite the market's current perceptions of the Company's value, the year in review has been generally positive in terms of progress achieved in our projects and subsidiaries. We have continued to build a stronger, more diverse foundation for the Company, as it edges closer towards realising the commercial potential of its various technologies.

Development of the Company's core SILEX isotope separation technology continues to gather momentum. In particular, we are on track to demonstrate scaleable silicon enrichment in the first quarter of the 2004 calendar year. Construction of the Silicon Prototype Plant is well advanced at our Lucas Heights laboratories. This effort, in conjunction with the development of enriched silicon wafers by our project partners Sumitomo Mitsubishi Silicon Corporation in Japan, will hopefully generate widespread interest for enriched silicon within the semiconductor industry during 2004.

Development of SILEX technology for uranium enrichment has continued unabated during the year, despite USEC's withdrawal. Technically this project remains promising, and subject to the outcome of the current test program, the Company is optimistic that a new commercial deployment partner will be found at an appropriate time in the future.

The Company has significantly increased its stake in both the Translucent Photonics (USA) and Fiberbyte (Adelaide) subsidiaries, to 73% and 83% respectively, reflecting growing confidence in the prospects for these technologies.

Summaries of these activities are provided below.

As of the date of this report, Silex remains in a very sound financial position, with approximately $38 million in cash reserves and negligible liabilities. This cash is enough to fund our current activities for the foreseeable future. Whilst the Company reported a loss of around $4.2 million for the financial year (largely due to amortisation of Intellectual Property and budgeted expenditure in Translucent and Fiberbyte), the Company's cash reserves only decreased by $1.8 million over the period.

INCREASED EQUITY–TRANSLUCENT AND FIBERBYTE SUBSIDIARIES:

In September, the Company announced an increase in its equity in Translucent Photonics Inc based in Silicon Valley, California. The new arrangements involve Silex moving from 30% to 73% equity, in return for total consideration of approximately A$8.3 million cash and 2.4 million Silex shares. This 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. The status of this project is summarised in the Company Overview.

Also in September, we announced a re-structure of our interest in Adelaide subsidiary Fiberbyte Pty Ltd. Whilst the commencement of sales and marketing activities for Fiberbyte's optical communications technology has been slowed by the telecommunications industry downturn, we

WE HAVE CONTINUED TO BUILD A STRONGER, MORE DIVERSE FOUNDATION FOR THE COMPANY, AS IT EDGES CLOSER TOWARDS REALISING THE COMMERCIAL POTENTIAL OF ITS VARIOUS TECHNOLOGIES.

believe Fiberbyte is on track to generate its first significant orders in FY'04. In order to accelerate funding for sales, marketing and production activities, whilst keeping the risks of this investment to a minimum, the Fiberbyte shareholders have agreed to an equity redistribution, with Silex moving from 51% to around 83%. The Founders can effectively earn back equity to around 42% if Fiberbyte meets revised 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.

HIGHLIGHTS OF THE YEAR IN REVIEW:

October 2002	The initial 'Direct Measurement' uranium enrichment tests were successfully completed, providing a conclusive macroscopic demonstration of the full SILEX enrichment process.
December 2002	Silex signs a Development Collaboration Agreement with Sumitomo Mitsubishi Silicon Corporation (SUMCO), the world's second largest silicon wafer manufacturer, to investigate the commercial potential of Si-28 enriched wafers.
May 2003	USEC announces its withdrawal from the SILEX Uranium Project, despite continuing positive results from the test program. The first batch of enriched silicon-28 was shipped to SUMCO's plant in Japan for fabrication of enriched silicon test wafers later in 2003.
July 2003	Key SILEX Silicon enrichment tests were completed, demonstrating enrichment to ~99.9% silicon-28 (from ~92% natural assay).
September 2003	Silex takes majority ownership in Translucent Photonics, moving to 73% interest, as the project edged closer to the key milestone demonstration.

WE ARE ANTICIPATING OUR FIRST SIGNIFICANT REVENUES IN 2004 THROUGH ADELAIDE SUBSIDIARY, FIBERBYTE.

CONCLUDING REMARKS:

The year in review will be remembered as a difficult one for Silex, with particular events beyond our control causing a level of uncertainty and disquiet. This has become manifest in the equity markets, where the Company's value seems to remain anchored to the uranium project. However, I don't believe Silex will be judged on the merits of only one of its six projects for much longer. In fact, over the past year we have been consolidating our efforts and activities in all three of our business divisions:

i) core SILEX technologies - the uranium and stable isotope projects
ii) wafer-scale technologies - the SUMCO, SIS and Translucent projects
iii) optical communications technologies - the Fiberbyte business

We have made solid advances in all projects, and have now positioned the Company to start realising the commercial potential of its technologies in the near future. We are anticipating our first significant revenues in 2004 through Adelaide subsidiary, Fiberbyte.

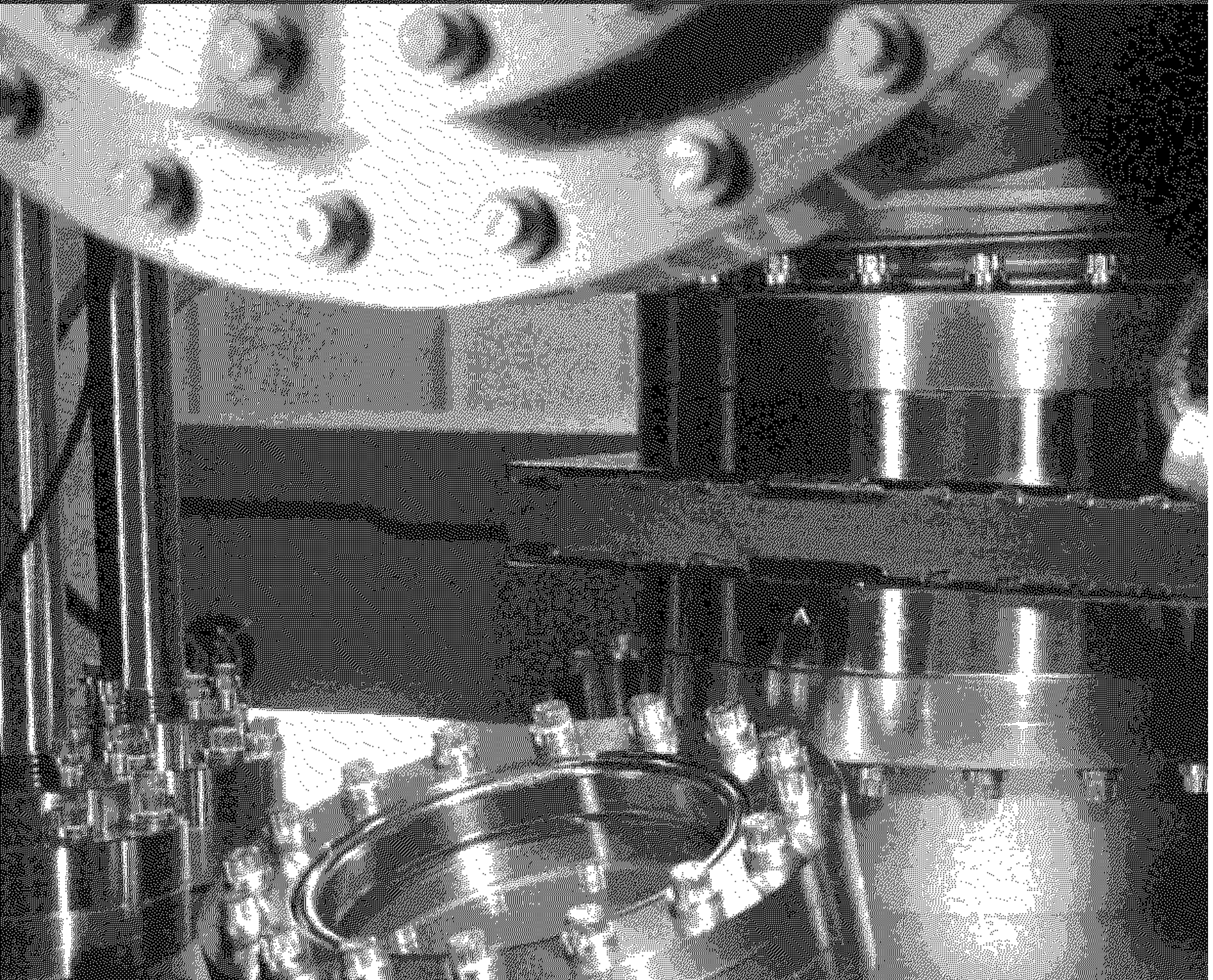
I would also like to take this opportunity to commend our very dedicated workforce. Events of the past year could have easily unsettled and de-focused the staff at Silex. However, the team has 'not missed a beat', and remains intensely focused and motivated to deliver its near term goals. I am gratified by the team's effort and attitude.

In conclusion, Silex is continuing to build a very solid foundation for what we anticipate will be an exciting future for us all. I would like to thank those shareholders who share our vision, and remain patient and loyal. I trust the wait will be well worth it.

Dr M P Goldsworthy,

Managing Director/CEO

COMPANY OVERVIEW



INVENTION CREATION INNOVATION

MISSION

TO BECOME A WORLD LEADER IN ISOTOPICALLY ENGINEERED MATERIALS AND RELATED WAFER-SCALE SEMICONDUCTOR AND PHOTONICS TECHNOLOGIES.

HISTORICAL BACKGROUND

1988

> Silex Systems Limited (Silex) was established as a research subsidiary of Sonic Healthcare Limited, an Australian Publicly listed company.

1990

> Silex began researching the isotope separation ideas of the co-inventors Dr Michael Goldsworthy and Dr Horst Struve.

1992

> The unique principles of the SILEX (Separation of Isotopes by Laser EXcitation) Process were established.

1994

> 'Proof of Principle' demonstration of the SILEX Process was achieved at the Company's laboratories at Lucas Heights, south of Sydney. SILEX is in principle a generic or core technology, and has a number of potential applications. The largest existing market - Uranium Enrichment (US$3.5 billion per annum) became the initial focus of the Company.

1996

> Silex was divested from Sonic and immediately set out to form an alliance with a participant in the uranium enrichment industry. An agreement for the development and licensing of SILEX Technology (exclusively for uranium), was reached with the United States Enrichment Corporation (USEC, Inc).

1998

> Silex listed on the Australian Stock Exchange on 7 May 1998.

2000

> The first milestone of the uranium enrichment program was successfully achieved, triggering a milestone payment of US$5 million from USEC.

> An Agreement for Co-operation between the United States and Australian Governments was signed, paving the way for continued development of the SILEX Technology for uranium enrichment, and facilitating its future transfer to the US.

> The Stable Isotopes Program was launched to accelerate the development of the SILEX Technology for application to silicon, oxygen and carbon enrichment.

> Silex won the 2000 Australian Technology Award for Excellence in the Manufacturing and Engineering sector.

> Silex secured a START Grant from the Australian Government to fund 50% of the SILEX Stable Isotope Program.

> A research agreement was signed with Westinghouse Electric Company to investigate the application of SILEX Technology to the enrichment of Zirconium. Enriched Zirconium has the potential to improve the economics of nuclear power reactors.

> Silex raised $36 million to assist in funding the development of the Company's technology portfolio.

2001

> Silex acquired the rights to patent applications for Silicon Isotope Superlattice (SIS) technology from Keio University in Tokyo. The technology has the potential to utilise silicon isotopes to enhance the performance of semiconductors.

> Silex moved further into the semiconductor technology field with the acquisition of a 30% interest in California based Translucent Photonics, Inc. Translucent is developing silicon planar lightwave circuit technology for the photonics/optical communications industry.

> The SILEX Technology was officially "Classified" by the US and Australian Governments. The implications of classification relate mainly to security protocols.

2002

> Silex acquired a controlling interest in Fiberbyte Pty Ltd, a laser based optical communications company in Adelaide.

> The SILEX Uranium Enrichment Project achieved a key milestone with the first full demonstration of practical uranium enrichment using the SILEX 'Direct Measurement Facility'.

> Silex signed a Collaboration Agreement with Sumitomo Mitsubishi Silicon Corporation (SUMCO), the world's second largest silicon wafer manufacturer, to test enriched silicon wafers for semiconductor applications.

2003

> USEC announced its withdrawal from the uranium project after funding it for six years, despite continuing positive results.

> The first batch of enriched silicon-28 arrived at SUMCO's wafer plant in Japan, initiating a program to manufacture enriched silicon wafers.

> The SILEX silicon project achieves a key demonstration milestone, with enrichment of silicon-28 to ~99.9% (from ~92% natural assay).

> Silex takes majority ownership in Translucent Photonics, moving to 73% interest (from 30%). Also increases its stake in Fiberbyte to ~83% (from 51%).

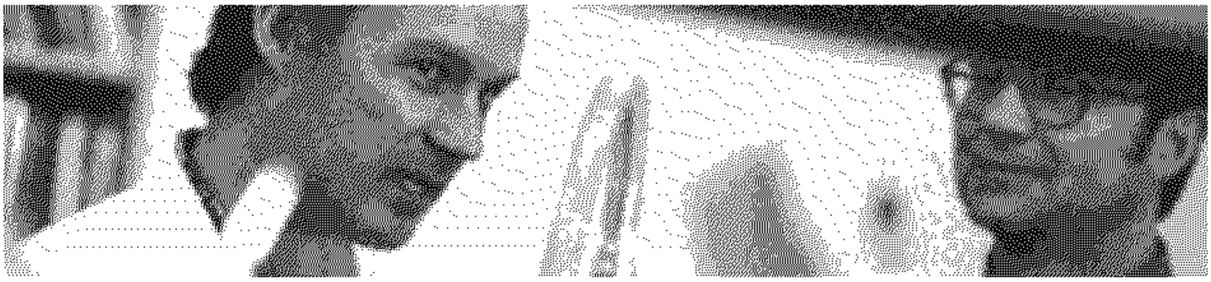
CORPORATE STRATEGY

Silex's corporate strategy is based on the following objectives:

> To develop a diverse range of commercial applications for the Company's core SILEX Technology, with a focus on nuclear, semiconductor and medical diagnostic materials.

> To develop or acquire rights to wafer-scale technologies in the semiconductor/photonics industries which are synergistic with, or add value to the core SILEX Technology.

> Establish strategic alliances with potential users of the Company's technologies in order to reduce development costs and shorten the commercialisation time lines.



THE SILEX TECHNOLOGY

The SILEX Technology is a unique laser-based process which has the potential to efficiently separate the isotopes of various elements. By separating isotopes, materials with a different isotopic composition to the naturally occurring element can be created. These 'new' materials can exhibit unique properties and behaviour, and provide added commercial value. In the case of uranium, the composition of the U-235 isotope is increased from 0.7% in its natural state to around 5% in the enriched state. Enrichment is necessary for the uranium to work effectively in a nuclear power reactor. Similarly, by enriching Silicon, an ultra-pure form of Silicon can be created which has unique properties that can potentially be exploited by the semiconductor industry.

Whilst there are other much less efficient, mechanical methods of enriching materials, the laser-based SILEX Process has a number of advantages, including very low energy requirements, low overall operating costs and significantly lower capital costs compared to centrifuge technology. SILEX Technology is currently the only third generation enrichment technology under development today. Centrifuge, regarded as the 'next best', is a second generation technology.

SILEX TECHNOLOGY APPLICATIONS AND PROJECT UPDATES:

Nuclear Applications

Uranium

Historically, the Company's primary focus has been on the Uranium Enrichment application of the technology. Uranium Enrichment is the key step in the production of fuel for the global Nuclear Power industry which currently provides approximately 18% of the world's electricity, a figure which is likely to increase with continuing economic development in Asia and the growing environmental problems associated with the use of fossil fuels.

Enrichment is a technically difficult process, which constitutes a major component of nuclear fuel costs (approximately 30% of the total fixed costs). Enrichment involves increasing the concentration of the 'active' U-235 isotope from 0.7% in natural uranium to approximately 5%. The work required to perform enrichment is measured in Separative Work Units (SWUs).

Between November 1996 and May 2003, the SILEX Uranium Project was fully funded by USEC, currently the world's largest supplier of enrichment services. The Silex-USEC development project ended when USEC decided to focus on second generation centrifuge technology, despite continuing positive results in the SILEX project.

In order to facilitate the joint Silex-USEC development program for uranium enrichment, an Agreement for Cooperation between the United States and Australia relating to the SILEX Technology was implemented and came into force in May 2000. In June 2001, the SILEX Technology was officially Classified by the US and Australian Governments, bringing the project formally under the security and regulatory protocols of each country. All these arrangements remain in place, effectively streamlining any future collaboration with potential US commercial deployment partners.

Status of Uranium Enrichment Project:

Progress in the SILEX Uranium Project has been maintained at a steady rate, although as previously disclosed, 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.

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.

Zirconium

In September 2000, Silex signed an agreement with the Westinghouse Electric Company of the US, to investigate the feasibility of separating Zirconium isotopes using the SILEX Process.

Westinghouse is one of the largest producers of "nuclear grade" Zirconium, which is used (in its natural form) to make fuel cladding for nuclear power reactors around the world. Use of enriched Zirconium has the potential to improve overall power reactor economics. As yet, there is no technology available, which can economically enrich Zirconium. At this stage, it is too early to determine the technical and commercial potential of the SILEX Process in this application. However, if the Western world's nuclear grade Zirconium requirements were successfully converted to enriched product, it is estimated that the incremental value of Zirconium enrichment could be in excess of US$100 million per annum.

The Agreement provides for a Feasibility Study which will assess the technical feasibility and economic benefit of using the SILEX Process for Zirconium enrichment. The Study, which involves a series of laboratory tests and process modelling, forms part of the Company's Stable Isotopes Program. If the results of the study are favourable, terms for further development will be negotiated. The Agreement specifically excludes any transfer of Intellectual Property or rights to the SILEX Process and/or Technology.

Westinghouse Electric Company is one of the largest participants in the commercial nuclear power industry, providing fuel, services, technology and equipment to utility and industrial customers worldwide. Approximately 50% of the nuclear power plants in operation today use Westinghouse technology.

Status of the Zirconium Enrichment Project:

The number of zirconium compounds suitable for laser irradiation is limited, and much of the effort in this project to date has focussed on identifying such materials. Specialised equipment has been constructed and installed at our Lucas Heights Laboratories for making and manipulating volatile Zirconium compounds, and examining the effect of laser radiation on these compounds. Initial diagnostic tests resulted in modifications to the equipment being undertaken. These modifications were completed mid year, allowing for a resumption of testing. Process modelling continues in parallel in order to identify the technical avenues that could achieve Zirconium enrichment in a most cost-effective manner.

Semiconductor Applications

Silicon

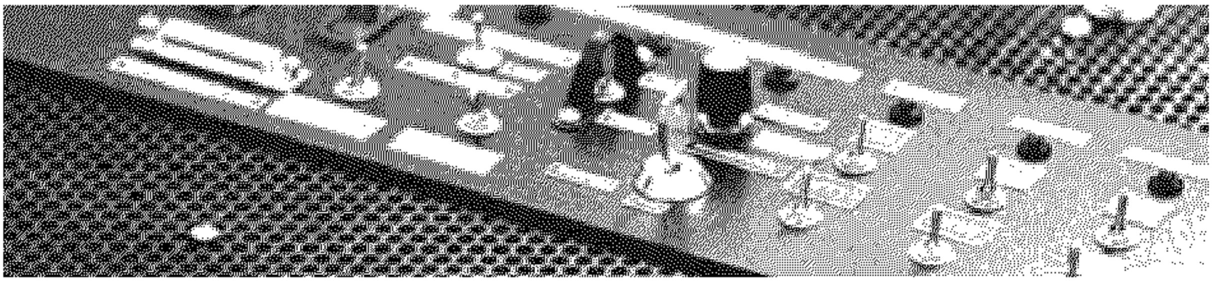
Semiconductor devices, which are integral to all computer and electronic systems, are generally made from Silicon (Si). Today's computer chips and electronic devices are reaching the limits of performance, dictated by technical barriers inherent in natural Silicon material, principally speed limitations and heat build-up. In recent years, increasing interest has been shown in semiconductors which could be made from isotopically enriched Silicon in order to alleviate these problems. The use of isotopically enriched Silicon has been shown to offer potential technical advantages in several areas including the following:

> If silicon wafers used in today's computer chips were made with enriched rather than natural silicon, thermal conductivity could potentially be increased, thereby providing better heat dissipation out of the computer chip and alleviating heat build-up problems. Published results of modelling and laboratory tests report varying levels of increases in the thermal conductivity of enriched Silicon-28 at particular temperatures.

> A recent invention called the "Silicon Isotope Superlattice" (SIS) may have the potential to significantly lift the performance of silicon semiconductors, thereby giving them a new lease of life at a time when the future of natural silicon semiconductors appears to be limited. Specifically, SIS devices (which must be made with highly enriched silicon) could potentially increase microprocessor speeds by a factor of two to three. However, it must be emphasised that this development is in its infancy, and is subject to the usual technical and commercial risks associated with research projects of this kind.

> Looking further into the future, the advent of the "Quantum Computer", which potentially promises unprecedented computer power and performance from extremely small devices, depends for its future development and use on the availability of highly enriched silicon and germanium. Significant Government and University R&D Programs are already underway to develop the Quantum Computer, and these programs alone could create a demand for enriched silicon and germanium, well before the technology could potentially be commercially implemented.

Several research and commercial organisations around the world have been investigating these and other phenomena for a number of years, but without consideration of an economic source of enriched silicon. To date, no economically viable source of enriched silicon has emerged. The SILEX Process may be able to provide this source. One of the major objectives of the Stable Isotopes Program is to determine the technical and commercial feasibility for Silicon enrichment with SILEX Technology.



Status of the Silicon Enrichment Project

Impressive enrichment results have continued to be demonstrated in the SILEX Silicon Project. Optimisation of the process has resulted in the enrichment of Silicon-28 to around 99.9% (from ~92% natural assay). Characterisation of process operating conditions has focused on scalability and engineering issues. The results of this work have been fed directly into the Pilot Plant design effort, discussed below.

Analysis of process costs for Silicon enrichment continues in parallel with these activities, and current indications of that analysis are favourable. Economics and potential market size are now the most important issues for Silicon enrichment, as we have growing confidence in our ability to scale-up the enrichment technology.

The Silicon Pilot Plant Program, which commenced earlier this year, is currently on track with the construction of the Prototype Plant well advanced. Laboratory infrastructure and support facilities are largely complete, and a new high-power laser system has been installed and commissioned. Work is currently focused on the construction of the Prototype Photo-Reactor, and the associated gas feed and product extraction systems. The Prototype Plant is scheduled to be commissioned for operations during February 2004.

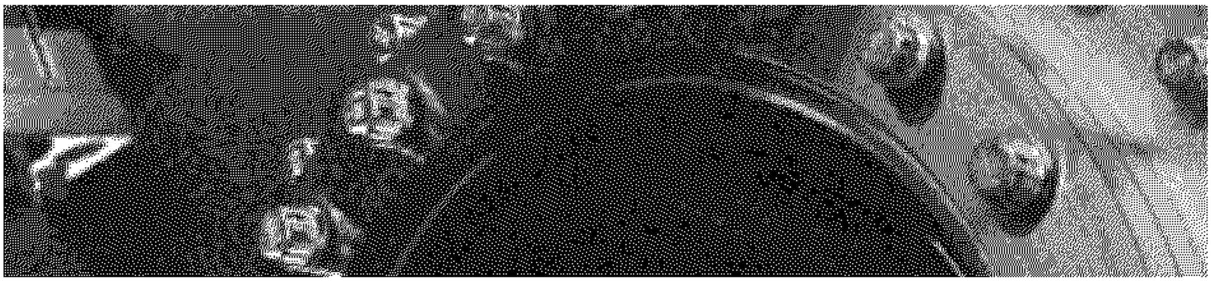
The objective of the Phase One Prototype is to demonstrate continuous Silicon enrichment at a modest production rate by the middle of 2004. After completion of this phase of the program, we will evaluate whether to proceed with an upgrade of the facility during the remainder of 2004, in the second phase of the pilot program. This would provide for a much larger semi-commercial production capacity.

Status of the Sumitomo Mitsubishi Silicon-28 Wafer Project

Good progress has been maintained in our collaboration project with Sumitomo Mitsubishi Silicon Corporation (SUMCO), one of the largest Silicon wafer manufacturers in the world. The first shipment of enriched Silicon-28 (sourced from Russia) was shipped in May 2003 to SUMCO's plant in Saga, Japan. SUMCO is currently preparing this material and the required processing equipment to fabricate enriched Silicon-28 test wafers. These test wafers will then be utilised by semiconductor device manufacturers to build 'live' devices onto the enriched silicon epi-layer, and to ultimately evaluate the semiconductor devices for improved performance. At least one device manufacturer has already committed to take part in the build and evaluation activities.

Depending on the outcome of those tests, we anticipate that similar wafers will be manufactured in the second half of 2004 using SILEX derived Silicon-28, and results from equivalent device tests compared to earlier results. The tests will focus on potential improvements in heat dissipation and electrical performance, which are yet to be quantified and remain subject to speculation.

Should the technical benefits prove attractive, we are hopeful that this project will lead to a new enriched Silicon wafer market, with superior products compared to today's natural Silicon wafers. The Silicon wafer industry is currently worth approximately US$6 billion per annum. We believe that the SILEX technology could for the first time, enable the widespread availability of affordable enriched Silicon-28 for the semiconductor industry.



Carbon

Synthetic diamond heat spreaders and heat sinks, made today from natural carbon, are used extensively in the semiconductor industry. Published research results report that synthetic diamond made from enriched carbon (>99.9% C-12) exhibits significantly improved thermal conductivity. The potential for SILEX Technology to produce enriched C-12 is also being investigated. The 'by-product' from this application (Carbon-13) is already used extensively in medical diagnostic applications (see below), and could therefore add value to a SILEX carbon isotope separation venture if successfully undertaken. Due to existing market conditions, this application is currently not a high priority for Silex.

Medical Diagnostic Applications

The isotopes of primary commercial interest for medical diagnostics are Oxygen and Carbon. These and other isotopes form the basic materials used for bio-medical and in-vivo diagnostic procedures, including detection of cancer and organ disease. For example, modest sized markets already exist for Carbon-13 ('urea breath test') and Oxygen-18 (raw material for PET medical imagers used in hospitals), but there is consensus within industry that these markets could increase if a more economic source of production could be implemented. These isotopes are currently produced via relatively expensive conventional cryogenic distillation technology.

The feasibility of producing Oxygen-18 with SILEX Technology is now a major focus of the Stable Isotope Program. The world market for Oxygen-18 is currently estimated to be more than US$25M per annum, although Silex believes there is considerable potential for expansion.

Status of the Oxygen Enrichment Project

The construction of a laboratory diagnostic facility to investigate Oxygen enrichment with the SILEX Process has been completed, and is now in full operation undertaking spectroscopic measurements. The results to date are encouraging, although it is still early days with this test program.

This facility will enable Silex to undertake a technical and economic feasibility study during the second half of 2003. A decision will then be made whether to proceed with a Pilot Plant, which may be capable of producing a significant portion of the world's current annual requirements for the Oxygen-18 isotope.

SILEX'S RECENTLY ANNOUNCED STRATEGIC RELATIONSHIP WITH SUMCO IS THE FIRST STEP IN ENTERING THE US$140 BILLION MAINSTREAM MICROELECTRONICS MARKET.

SEMICONDUCTOR AND PHOTONICS TECHNOLOGIES

Silicon Isotope Superlattice

In October 2000, Silex secured the rights to Patent applications for the Silicon Isotope Superlattice (SIS) technology being developed at Keio University in Tokyo. This technology aims to improve the performance of semiconductors by increasing the electron speed in specially fabricated layers of enriched silicon. Although this research project remains highly speculative, modelling suggests increases in processor speeds of two to three times might be possible if successful. Silex makes a small contribution to the project which is largely funded by Japanese Government research grants.

Status of Silicon Isotope Superlattice (SIS)

The completion of the SIS electron mobility measurements (step four in table below) continued to suffer delays due to material impurities during the review period. A potential solution to this issue was recently identified, and was being implemented at the time of this report. If this solution is effective, we expect to be able to complete the mobility measurements and feasibility assessment during the first half of 2004.

STATUS OF SILICON ISOTOPE SUPERLATTICE (SIS)

The SIS Feasibility Project being conducted by Silex and Professor Itoh's group at Keio University can be described by five key steps. These steps, and the current status of each are summarised below:

One	Fabrication of initial SIS structures – completed.
Two	Identification of practical SIS fabrication techniques – completed.
Three	Measurement of zone-folded Raman Phonon spectra – completed.
Four	Measurement of enhanced electron mobility 'Hall Effect' - delayed.
Five	Preliminary Cost/Benefit assessment – in progress.

WITH PC SPEEDS AND COMMUNICATIONS DATA RATES GROWING EVER FASTER, SILEX ANTICIPATES STRONG ACCEPTANCE OF THE TRANSLUCENT TECHNOLOGY.

Translucent Photonics

In April 2001, Silex 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 (PLCs). The initial agreement involved the funding of a US$5 million development program in return for a 30% interest in Translucent. Silex recently announced it had reached agreement with Translucent to take majority control, moving to 73% in return for ~A$8.3 million cash and 2.4 million Silex shares. (Refer to CEO's report).

The Translucent PLC has significant commercial potential because it aims to push low-cost silicon into the photonics arena (optical communications technology) for the first time, delivering significant cost and performance benefits. If successful, Translucent PLCs are initially expected to have broad application in the photonics semiconductor market, currently worth several US billion dollars per annum.

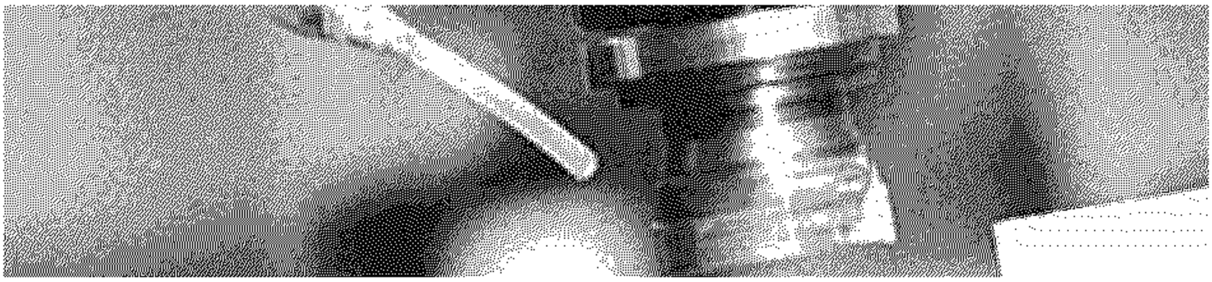
The combination of Translucent's optical technologies and Silex's isotopic Silicon technologies could enable significant increases in the speed, and reduction of the heat-load, of electronics processors (i.e. integrated circuits (ICs) of the type used in the personal computer (PC) and telecommunications industries).

With PC speeds and communications data rates growing ever faster, Silex anticipates strong acceptance of this new technology. The worldwide processor market exceeds US$140 billion, with over US$70 billion in high-speed processors split approximately evenly between telecommunications chips and PC chips. Silex's recently announced strategic relationship with SUMCO is the first step in entering that US$140 billion mainstream microprocessor market. With success in the Translucent Project, we anticipate additional strategic partnerships with major semiconductor/photonics manufacturers.

Status of Translucent Photonics Project:

Earlier this year we reported that the Translucent Project was moving steadily towards the final milestone for the core technology. Positive progress to this end has been maintained, albeit a little slower than anticipated. This is mainly due to the extra effort required to undertake preliminary assessment of potential spin-off technologies discussed above. We continue to be optimistic about prospects for these spin-off technologies, and have accordingly submitted Patent applications with additional Patents being drafted.

Translucent's 3-phase development is now almost completed, with the final series of wafers undergoing assessment at the time of writing this report. The critical issues relating to the core technology have been largely answered. Translucent is hopeful of demonstrating the Milestone results well before the end of 2003 calendar year. (Third party verification is also required).



Fiberbyte

In September 2002, the company exercised an option to acquire a 51% in Fiberbyte Pty Ltd, an innovative Adelaide-based optical communications/photonics company. In September 2003, Silex announced it was moving to ~83% interest in Fiberbyte, in a restructure which will permit accelerated funding upon achievement of various performance milestones (see CEO's Report). The total amount being invested in Fiberbyte does not change under the new arrangements.

Fiberbyte's technology, for which Patent applications have be filed, involves the development of a new class of Fiber Optic Test Equipment (FOTE). In summary, Fiberbyte's FOTE systems combine novel semiconductor laser technology with a revolutionary USB-based computer backplane architecture to provide a new platform for industrial FOTE systems. This new platform offers levels of technical superiority and enormous flexibility compared to the relatively inflexible systems currently used.

FOTE systems are an essential component of the global fiber optic communications industry, and are used routinely by fiber optic technology developers, equipment installers, and optical network telecom operators. The current market size for FOTE equipment is currently in the order of US$500 million p.a, approximately half its value in 2000, prior to the market downturn.

The initial product lines currently being marketed by Fiberbyte target the DWDM network test equipment sector. Additional products which are under development will have the potential to target other sectors of this substantial market.

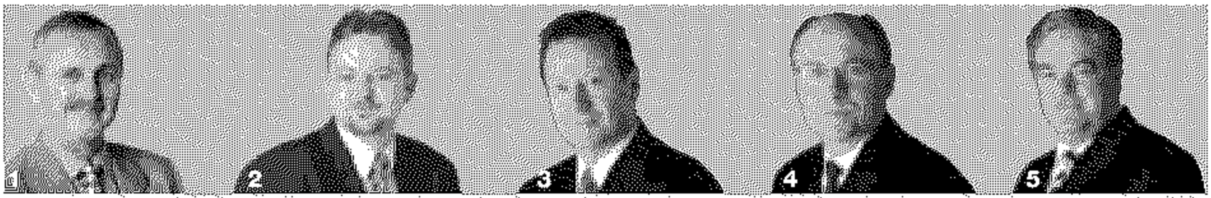
Status of Fiberbyte Activities:

Over the past year, Fiberbyte has focused on developing its technology in line with market needs and expectations, resulting in a series of modifications to its initial products and business strategy. Additionally, whilst market conditions in the optical communications industry remained depressed, Fiberbyte has succeeded in adapting its technology for potential application to other markets in the electronics and aviation industries. Products for some of these applications, generally involving a higher level of customisation, have been developed and marketed to several key potential customers.

Meanwhile, after demonstrating its 'standard' range of DWDM products at the Optical Fibre Communications Convention (OFC 2003) in Atlanta in March, the Fiberbyte sales team has been following up on leads and building contacts with potential future customers in this key sector of the optical communications market. Apart from these leads, some smaller initial sales have been completed in both the US and Japan, resulting in distributor contracts being signed with key sales channels in both countries. Given the difficult market conditions, Silex is generally happy with the progress at Fiberbyte, and remains hopeful that significant sales can be generated in FY'04.

DIRECTORS' REPORT

INVENTION CREATION INNOVATION



INFORMATION ON DIRECTORS

Directors' profiles

1 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.

2 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.

3 Mr Christopher Wilks
BComm, ASA, FCIS, FCIM, FAICD
(Director-Corporate) (executive)

Mr Wilks is responsible for the 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 non-executive director of Scigen Limited.

4 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.

5 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 and Scigen Limited.

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

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 two 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 two 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 Silex 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 Silex, 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, Silex 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, Silex 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, Silex 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 three 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 five 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 $	Super-annuation $	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 $	Super-annuation $	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.

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	-

12. 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:

	Directors' Meetings		Audit Committee Meetings		Remuneration Committee	
Director's name	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

13. 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 breech 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.

14. 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.

15. 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.

Dr M P Goldsworthy, Managing Director	Mr C D Wilks, Director

Sydney, 26/09/03

CORPORATE GOVERNANCE STATEMENT

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 nine 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 nine 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 fulfiling 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 be 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 fulfiling 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. Silex is developing a Corporate Governance section for its website (www.silex.com.au) which will set out the information required by the Recommendations plus other relevant information. 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	Silex's Position
Formalise and disclose the functions reserved to the board and those delegated to management.	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	Silex's Position
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	Silex's Position
The chairperson should be an independent director.	The chairperson, Mr B S Patterson is an independent director.

Recommendation 2.3	Silex's Position
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	Silex's Position
The board should establish a nomination committee.	The board is in the process of considering the establishment of a nomination committee.

Recommendation 2.5	Silex's Position
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	Silex's Position
Establish a Code of Conduct.	The Company is in the process of establishing a Code of Conduct.

Principle 3. Promote ethical and responsible decision-making (continued)

Recommendation 3.2	Silex's Position
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	Silex's Position
Provide the information indicated in Guide to reporting on Principle 3.	Details are outlined 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	Silex's Position
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	Silex's Position
The board should establish an audit Committee.	The audit committee has been established for a number of years.

Recommendation 4.3	Silex's Position
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	Silex's Position
The audit committee should have a formal charter	The role and responsibilities of the audit committee are summarised in section 2 (b) page 28.

Recommendation 4.5	Silex's Position
Guide to reporting on Principle 4.	Details are outlined 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	Silex's Position
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	Silex's Position
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.

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	Silex's Position
Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	Refer to Section 5 for details of Company strategy.

Recommendation 6.2	Silex's Position
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	Silex's Position
The board or appropriate board committee should establish policies on risk oversight and management.	The board has established risk management policies.

Principle 7. Recognise and manage risk (continued)

Recommendation	Silex's Position
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.	**Silex's Position** 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.	**Silex's Position** More detailed policies are currently being developed.

Principle 8 Encourage enhanced performance

Enhanced board and management effectiveness is actively encouraged.

Recommendation	Silex's Position
Recommendation 8.1 Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	**Silex's Position** 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	Silex's Position
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.	**Silex's Position** 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.	**Silex's Position** The role and composition of the remuneration committee is summarised in section 2(a) above.

Principle 9. Remunerate fairly and responsibly (continued)

Recommendation 9.3	Silex's Position
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	Silex's Position
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.

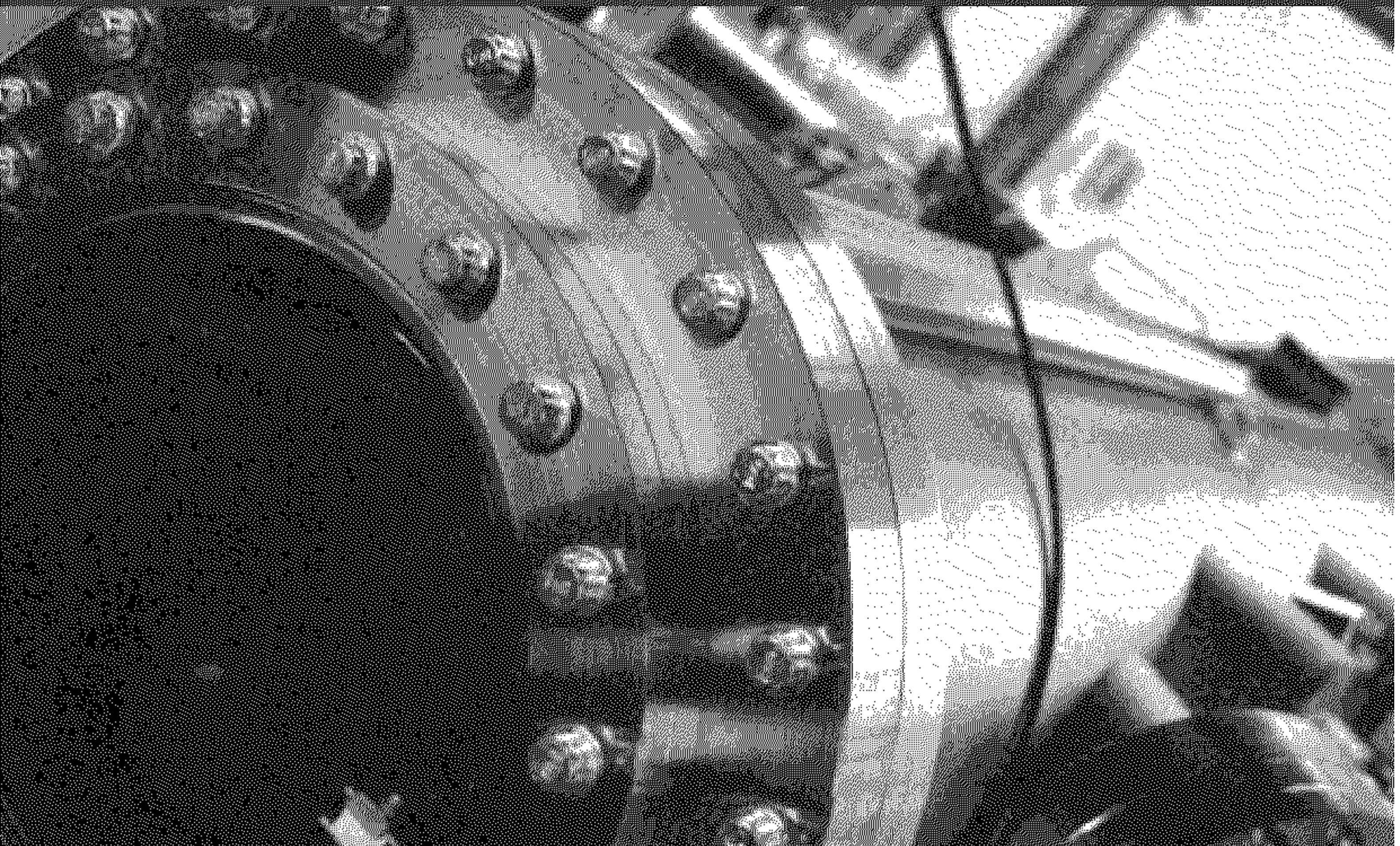
Recommendation 9.5	Silex's Position
Provide the information indicated in Guide to reporting on Principle 9.	This information is provided in this statement of corporate governance and the Directors' report.

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	Silex's Position
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.

FINANCIAL STATEMENTS



INVENTION CREATION INNOVATION

SILEX SYSTEMS LIMITED

FINANCIAL REPORT – 30 JUNE 2003

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.

		Consolidated		Parent entity	
		2003	2002	**2003**	2002
	Notes	**$**	$	**$**	$
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.

		Consolidated		Parent entity	
		2003	2002	**2003**	2002
	Notes	**$**	$	**$**	$
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.

	Notes	Consolidated 2003 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 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 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.

(d) Acquisitions of assets (continued)

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 dispatched 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 realizable 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 installments 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.

Note 2 Revenue

	Consolidated		Parent entity	
	2003	2002	**2003**	2002
	$	$	**$**	$
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:

	Consolidated		Parent entity	
	2003	2002	**2003**	2002
	$	$	**$**	$
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**	–

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

	Consolidated 2003 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 2002 $
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)

	Consolidated 2003 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 2002 $
Bank bills	**30,863,857**	37,721,376	**30,863,857**	37,721,376

(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 realizable value.

Note 7 Receivables

	Consolidated 2003 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 2002 $
Trade debtors	**22,400**	–	–	–
Other debtors	**39,535**	220,678	**39,535**	220,678
Accrued income	**345,914**	468,175	**345,914**	468,175
	407,849	688,853	**385,449**	688,853

(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.

	Consolidated		Parent entity	
	2003	2002	**2003**	2002
	$	$	**$**	$

Note 8 Inventories

Raw materials and stores – at cost	**88,877**	–	–	–
Finished goods – at cost	**16,849**	–	–	–
	105,726	–	–	–
Less: Provision for obsolescence for finished goods	**(13,500)**	–	–	–
	92,226	–	–	–

Note 9 Other Assets

Current				
Prepayments	**34,818**	21,942	**34,818**	21,942
Other	–	361,000	–	361,000
	34,818	382,942	**34,818**	382,942
Non-current				
Future income tax benefit	–	220,390	–	220,390

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)
	329,371	165,026	**226,496**	165,026
Plant and equipment under lease				
At cost	–	69,640	–	69,640
Less accumulated amortisation	–	(29,016)	–	(29,016)
	–	40,624	–	40,624
	329,371	205,650	**226,496**	205,650

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:

	Plant & equipment $	Leased plant & equipment $	Total $
Consolidated			
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			
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

Note 11 Intangibles

	Consolidated		Parent entity	
	2003 $	2002 $	**2003** $	2002 $
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

	Consolidated 2003 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 2002 $
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
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 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 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.

	Consolidated		Parent entity	
	2003	2002	**2003**	2002
	$	$	$	$

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 relate 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

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	Parent entity 2002 shares	Parent entity 2003 $	Parent entity 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		Parent entity	
	2003	2002	**2003**	2002
	$	$	**$**	$
Note 19 Reserves				
Options reserve	**112,674**	–	**112,674**	–
Movements				
Balance at the beginning of the financial year	**–**	–	**–**	–
Increment on issue of options as part consideration for investment in controlled entity	**112,674**	–	**112,674**	–
Balance at the end of the financial year	**112,674**	–	**112,674**	–
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		Parent entity	
	2003	2002	**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

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		Parent entity	
	2003	2002	**2003**	2002
	$	$	**$**	$

Note 24. Commitments for expenditure

Finance leases

	2003	2002	**2003**	2002
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

	2003	2002	**2003**	2002
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

	2003	2002	**2003**	2002
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		Parent entity	
	2003	2002	**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

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 28 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

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**	–

Note 28 Remuneration of auditors

	Consolidated		Parent entity	
	2003	2002	**2003**	2002
	$	$	**$**	$
During the year the auditor of the company earned the following remuneration:				
Audit or review of financial reports of the company	**46,426**	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	**53,026**	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	**84,115**	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/photonics

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

	Research and development $	Optical communications/ photonics $	Inter segment eliminations/ unallocated $	Consolidated $
2003				
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

	Research and development $	Optical communications/ photonics $	Inter segment eliminations/ unallocated $	Consolidated $
2002				
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	**–**	–
	3,124,736	4,095,634	**43,318,649**	43,385,951	**3,762,154**	864,059

	Consolidated	
	2003	2002

Note 30 Earnings per share

	2003	2002
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
Weighted average number of ordinary shares on issue used in the calculation of diluted earning per share:	**129,561,174**	131,196,407
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	**(4,201,629)**	(660,791)

	2003 Shares	2002 Shares
Reconciliation of denominator used in calculating basic earnings per share		
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		Parent entity	
	2003	2002	**2003**	2002
	$	$	**$**	$
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
(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.

	Consolidated		Parent entity	
	2003	2002	**2003**	2002
	$	$	**$**	$

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:

Sell US dollars	Buy Australian dollars		Average exchange rate	
	2003	2002	**2003**	2002
	$	$	**$**	$
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

	Note	Floating interest rate $	1 Year or Less $	1 to 5 Years $	Non-interest Bearing $	Total $
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
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 unrealized 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 2003 %	Ownership interest 2002 %	Carrying amount 2003 $	Carrying amount 2002 $
Translucent Photonics Inc. (Incorporated in USA)	Planar Lightwave Circuits	**30%**	30%	**7,861,493**	9,253,456

	Consolidated 2003 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 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 36 Investment in controlled entities

Name of entity	Country of incorporation	Class of shares	Equity holding 2003 %	Equity holding 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/photonics 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**	–

	Consolidated		Parent entity	
	2003	2002	**2003**	2002
	$	$	**$**	$
Note 30 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 on the following page are summaries of options granted under the plan.

Note 36 Employee entitlements (continued)

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						
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
			2,145,000	–	15,000	2,130,000

	Consolidated		Parent entity	
	2003	2002	**2003**	2002
Options vested at reporting date	**2,130,000**	330,000	**2,130,000**	330,000

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	5,000,000	–	5,000,000	–
			5,000,000	–	5,000,000	–
Consolidated and parent entity – 2002						
4 March 1997	3 March 2002	5	1,000,000	–	1,000,000	–
29 January 1998	28 January 2003	5	6,250,000	–	1,250,000	5,000,000
			7,250,000	–	2,250,000	5,000,000

	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

Unrestricted access was available at balance date to the following lines of credit:

	Consolidated 2003	Consolidated 2002	Parent entity 2003	Parent entity 2002
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
	1,282,439	1,110,000	**1,282,439**	1,110,000
Used at balance date				
Lease finance – revolving facility	**–**	41,818	**–**	41,818
Documentary credit facility (overseas)	**–**	–	**–**	–
Visa facility	**–**	–	**–**	–
	–	41,818	**–**	41,818
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
	1,282,439	1,068,182	**1,282,439**	1,068,182
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	**1,282,439**	1,068,182	**1,282,439**	1,068,182

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

Note 39 Secured liabilities

	Note	Consolidated 2003 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 2002 $
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:

	Note	Consolidated 2003 $	Consolidated 2002 $	Parent entity 2003 $	Parent entity 2002 $
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 increased 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.

DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 37 to 75:

(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

Mr C D Wilks
Director

Sydney, 26/09/03

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

Pricewaterhouse Coopers

DS Wiadrowski

DS Wiadrowski

Partner

Sydney, 26/09/03

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

GLOSSARY AND FURTHER TECHNICAL INFORMATION

Isotopes

Most chemical elements found in nature consist of two or more "isotopes" of the element. The chemical properties of all isotopes of a given element are essentially identical, but there are differences in their physical properties – namely their mass, or more specifically, the number of neutrons in the nucleus.

These differences are significant and can have technical and/or commercial applications, where the nuclear properties of the element come into play. For instance, illuminated "Exit" signs use tritium, a heavy isotope of hydrogen – however the lightest and most common hydrogen isotope does not have those properties that enable tritium to be used in this way.

Another example is silicon, which occurs naturally with three isotopes: 92% silicon-28, 5% silicon-29 and 3% silicon-30. By enriching or separating the silicon-28 isotope to say, 99.9%, a super pure form of silicon can be created which exhibits better performance characteristics in some semiconductor applications, such as increased thermal conductivity (ie, the ability to remove heat).

Stable vs Unstable Isotopes

Isotopes are found naturally in two forms: stable – which do not change over time; and unstable – which because of imbalances in nuclear structure, decay over time to form a different atomic species. Uranium and Thorium are the two main examples of naturally occurring unstable isotopes. Other unstable isotopes not occurring naturally can be made artificially in nuclear physics laboratories. Unstable isotopes are also known as radioactive or radio-isotopes. In practical terms, isotopes other than Uranium and Thorium are known as stable isotopes, including those of Silicon, Carbon, Nitrogen, Zirconium and others.

Lasers and Isotope Separation

Lasers can produce monochromatic (i.e. single frequency) light. Depending on the particular type of laser, this light may occur either in the visible or the non-visible (ultra-violet and infra-red) regions of the spectrum. When combined with the ability of certain chemical elements and compounds to be receptive to specific visible or non-visible light (i.e. particular frequencies of electromagnetic radiation), it has been found possible to cause certain physical (and chemical) reactions to take place, and hence to create selective effects on particular target species.

In laser isotope separation processes such as SILEX, special tunable lasers are developed which are capable of producing highly monochromatic radiation which can be absorbed by only one of the isotope species, leaving the other isotopes relatively unaffected. The absorption of the laser radiation causes physical or chemical changes to take place, rendering a new state or compound of the target isotope which can now be separated from the unaffected isotope species. The changed or affected isotope species becomes enriched in the desired isotope (the 'product stream') and the unaffected species therefore becomes depleted in that isotope (the 'tails stream').

Semiconductors

A material whose electrical conductivity is midway between an insulator and a conductor is called a semiconductor. Because of this property, it is possible to manipulate and control small electrical currents in micro-scale semiconductor devices by creating slight changes in the properties of the semiconductor material (such as 'carrier doping'). Silicon and Germanium are the most widely used semiconductors, with Silicon dominating today's semiconductor industry because of its low cost and ease of handling.

Semiconductor materials are used to build solid state electronic components, the most basic being the diode, which is the 'building block' for more complex components such as the transistor – a fully functional electronic 'switch'. With modern fabrication techniques, it is possible to build a complex electronic subassembly in which many components are fabricated on a single semiconductor substrate or 'chip' (usually made of silicon). This complex subassembly is called an integrated circuit, which in its most advanced form, using ultra large scale integration (ULSI) technology, is the basis of the modern microprocessor, or computer chip.

Most of today's computer chip structures are dominated by a variety of doped silicon and insulating (oxide) materials and lithographically etched aluminium/metal connectors. However, silicon/metal technology is reaching the limits of performance, and for some years now, there has been a trend towards the use of more expensive compound semiconductor materials such as gallium arsenide (GaAs) and indium phosphide (InP). Compound semiconductors have much faster electrical conductivity or mobility, and can furthermore be utilised to fabricate photo-diodes which can absorb or emit light. The use of light (optical) signals instead of electrical signals can provide a quantum leap in semiconductor performance, however, the conversion from conventional electronic to opto-electronic semiconductor systems is still in its infancy. Today, only long haul and metro networks use optical communications technology, based on fibre optic links. Access (user) networks and mass market consumer semiconductor products such as PCs are still all based on conventional silicon chips and copper wire communications.

Uranium

Uranium minerals are abundant in the earth's crust and may be found in many parts of the world. Commercially exploitable deposits, however, are less widely distributed, with Australia and Canada possessing many such uranium deposits, amounting to over 40 per cent of the world's known low-cost reserves.

The mined product is traded as yellowcake, which is around 98 per cent pure uranium oxide (U3O8), processed from mineral concentrates at the mine site.

What is uranium enrichment and how is it used?

Most of the world's nuclear power stations use uranium in the enriched form, which involves physical processing to change the relative concentration of the isotopes found in the natural uranium mineral. The two principal isotopes are uranium-235 (or U-235) and U-238; in nature these occur as 0.7 per cent and 99.3 per cent respectively of the total uranium element present.

For use in Nuclear Power Reactors a U-235 concentration of approximately 5 per cent is required, and this is achieved through physical separation or enrichment on a commercial scale. There are only two enrichment processes in use overseas at present; these are the diffusion and centrifuge processes. In both cases the feedstock is another chemical form of uranium, the compound uranium hexafluoride (UF6).

The initial chemical processing which changes U3O8 into gaseous UF6 takes place in a conversion plant.

Enrichment plants have two output streams, the enriched uranium product itself, and depleted uranium, commonly known as tails. In both cases the uranium remains in the chemical form of UF6. The work performed by an enrichment plant in changing the concentrations of the isotopes is measured by a factor called the Separative Work Unit (SWU). The SWU is explained below.

The enriched uranium thereafter undergoes further chemical processing until it becomes ceramic grade UO2 pellets for incorporation into the reactor fuel.

The Separative Work Unit (SWU)

The production capacity of enrichment plants cannot be conveniently measured in terms of the "throughput" of Uranium, due to several variable and interrelated factors such as the degree of separation or enrichment (product assay) and the extent of depletion (tails assay). For this reason, enrichment plant capacity is measured in "separative work units" , which combines all these factors to provide a measure of the work being performed by the enrichment plant as the Uranium passes through it.

SWUs are expressed in either kilogram or ton units. About 120,000 kg SWU are required to enrich the annual fuel loading for a typical large (1000MWe) nuclear reactor – (equivalent to a typical coal fired power station). The capacity of a typical large gaseous diffusion plant is around 10 million SWU/year, while gas centrifugal plants may be built in modules ranging from 200,000–1,000,000 SWU/year. World-wide Uranium demand and Nuclear Reactor fuel requirements translate into a requirement for uranium enrichment separative work services in the range 35-38 million SWU/year over the next 10 years.

Silicon Isotope Superlattice (SIS)

With the development of sophisticated growth techniques such as molecular beam epitaxy (MBE), and metallo-organic chemical vapour deposition (MOCVD), it is now possible to fabricate synthetic semiconductor structures called superlattices, in which the semiconductor properties can be delicately controlled to produce superior capabilities in tiny "nano structures", compared to conventional bulk semiconductor structures. Superlattices provide artificial periodic structure consisting of alternate layers of two dissimilar semiconductor materials, with layer thicknesses the order of nanometres, that is, only a few atomic layers thick. Superlattices are now used routinely in many semiconductor devices, particularly for photonic structures which can emit, process or absorb light signals, and are generally made of expensive compound semiconductor materials such as GaAs, InP, InGaAs, AlAs etc.

The Silicon Isotope Superlattice structure differs in two major ways to typical photonic superlattice structures. First, SIS as the name suggests, is made entirely of the one element – silicon. The structure consists of alternating layers of isotopically pure silicon 28 and silicon 30. The thickness and number of layers determines the performance of the SIS structure. Second, the SIS structure aims to improve electronic activity in silicon, rather than tailoring photonic activity, although this might be a possibility in the future. The primary aim of SIS is to increase the electron mobility in silicon, thereby improving the speed of silicon-based devices significantly. In technical terms, the silicon isotope superlattice provides a periodic structure which minimises phonon scattering of electrons. Whilst the basic effect has been observed in germanium isotope superlattice structures by the Keio University Advanced Semiconductor Materials Group, the effect is still to be demonstrated in silicon. This is the aim of the current program being conducted by Silex and Keio University.

Planar Lightwave Circuits (PLCs)

PLCs are the basic building blocks of optical semiconductor devices, that is, the telecommunications equivalent of integrated circuits in electronics. PLCs have application as both passive (photonic function only), and active (photonic and electronic functions combined) components in optical telecommunications, and are the basis of today's "optical processors".

PLCs and photonic devices are made today with compound semiconductor materials such as GaAs and InP. Silicon cannot be used for photonic applications in its natural state. The very high costs associated with using compound semiconductors for photonics and optical communications equipment (there is no large scale integrated fabrication technology such as that which exists for silicon electronic devices), result in them being too expensive to be used in consumer mass market products. This is the reason why our PC's and modems operate with copper wire links and silicon based processors at very slow communication rates (small bandwidth). Only the long haul fibre optic and metro network systems can afford the high costs of photonic and optical communication equipment. The Translucent Planar Lightwave Circuit has very significant implications for optical telecommunications technology because it aims to push low cost silicon into the photonics arena in a unique way, delivering significant cost and performance benefits.

Translucent's PLCs could have broad application in the growing photonics semiconductor markets, currently worth several billion US dollars per annum. Photonic or optical semiconductor components are used principally in optical telecommunications equipment, providing the link between broadband (high speed) fibre optic networks and metro/local area electronic networks, which in turn deliver information to and from consumer electronic equipment, such as personal computers/modems, currently at much slower speeds. Translucent's PLCs could overcome these limitations.

Fibre optic connections to the home, the so-called "last mile" of broadband optical telecommunications, will only occur when optical equipment costs are comparable to those of consumer electronics. With Translucent's PLCs, the ability to integrate complex optical paths in an automated fabrication process would dramatically lower the cost of optical components (by at least a factor of ten) enabling the expansion of optical telecommunications into the price-driven consumer market. Typical consumer products that could use the new Translucent silicon PLC technology include personal computers, fibre optic modems and cable TV.

Company Directory

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Mr C D Wilks – Director – Corporate

Dr C S Goldschmidt

Mr R P Campbell

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Solicitors

Allens Arthur Robinson

Perkins Coie (USA)

Sullivan & Cromwell (USA)

Bankers

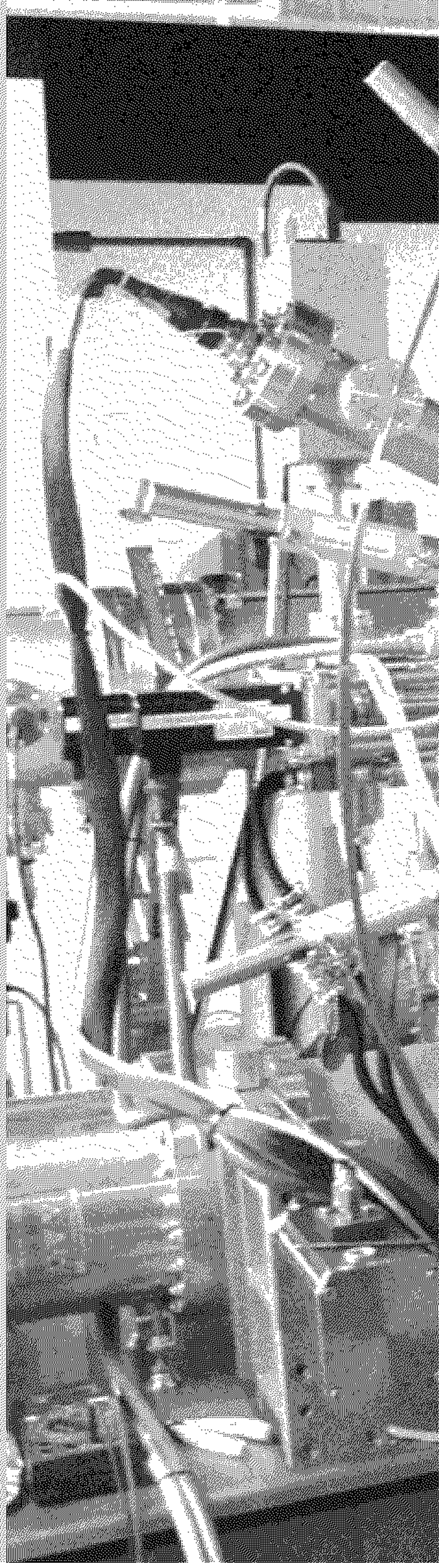
Australia and New Zealand Banking Group Limited

American Depository 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



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