Silex Systems Limited

ABN 69 003 372 067

Appendix 4D

ASX Half-year information – 31 December 2005

Lodged with the ASX under Listing Rule 4.2A.
This information should be read in conjunction with the 30 June 2005 Annual Report.

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Results for Announcement to the Market

				$
Revenue from ordinary activities	Down	41.9 %	to	388,160
Loss from ordinary activities after tax attributable to members	Down	7.6%	to	(4,852,284)
Net loss for the period attributable to members	Down	7.6%	to	(4,852,284)

Dividends/distributions	Amount per security	Franked amount per security
Final dividend	Nil	Nil
Interim dividend	Nil	Nil

Record date for determining entitlements to the interim dividend — N/A

Explanation of Revenue
The fall in revenue is mainly due to a drop in interest income as a result of a reduction in cash balances.

Explanation of loss from ordinary activities after tax
The decrease in the loss is due to a reduction in expenses which more than offset the reduction in revenue.

Explanation of Net loss
Refer explanation above.

Explanation of Dividends
No dividends have been paid or proposed during the reporting period.

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Silex Systems Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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 half-year ended 31 December 2005.

1. Directors

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

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

2. Dividend

No dividend payment has been recommended or declared by the Board.

3. Review of operations and activities

	6 months to 31 Dec 2005 $	6 months to 31 Dec 2004 $
Revenue from continuing operations	**388,160**	667,923
Loss before tax	**(4,841,415)**	(5,925,763)
Income tax expense	**-**	-
Loss after related income tax expense	**(4,841,415)**	(5,925,763)
Net (profit)/loss attributable to minority interest	**(10,869)**	672,713
Net loss attributable to members of Silex Systems Limited	**(4,852,284)**	(5,253,050)

Total revenue is down on the corresponding period. This is mainly due to a drop in interest income as a result of a reduction in cash balances.

The increase in the loss is due to a reduction in expenses which more than offset the reduction in revenue.

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

Dr M P Goldsworthy
Managing Director
Sydney, 14/3/06

Mr C D Wilks
Director

Auditors' Independence Declaration

As lead auditor for the review of Silex Systems Limited for the half year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Silex Systems Limited and the entities it controlled during the period.

Andrew Sneddon
Partner
PricewaterhouseCoopers

Sydney
14 March 2006

	Six months ended 31/12/2005 $	Six months ended 31/12/2004 $
Revenue from continuing operations	**388,160**	667,923
Other income	**208,247**	73,628
Research and development materials	**(478,751)**	(563,328)
Borrowing cost expense	**(277)**	(3,254)
Depreciation and amortisation expenses	**(961,138)**	(805,021)
Remuneration expenses	**(2,779,547)**	(3,902,780)
Professional fees	**(483,043)**	(588,461)
Printing, postage and stationery	**(48,800)**	(45,363)
Rent	**(173,602)**	(192,387)
Travelling expenses	**(74,988)**	(169,824)
Changes in inventories	**83,485**	9,458
Raw materials and stores used	**(84,805)**	(9,458)
Other expenses from ordinary activities	**(436,356)**	(396,896)
(Loss) before income tax expense	**(4,841,415)**	(5,925,763)
Income tax expense	**-**	-
Net (loss) after related income tax expense	**(4,841,415)**	(5,925,763)
(Profit)/loss attributable to minority interest	**(10,869)**	672,713
Net (loss) attributable to members of Silex Systems Limited	**(4,852,284)**	(5,253,050)

	Cents	Cents
Basic earnings per share	**(3.6)**	(3.9)
Diluted earnings per share	**(3.6)**	(3.9)

The above consolidated income statement should be read in conjunction with the accompanying notes.

	31 December 2005 $	30 June 2005 $
ASSETS		
Current assets		
Cash and cash equivalents	**12,892,127**	16,543,174
Receivables	**249,203**	217,000
Inventories	**141,957**	68,083
Other	**125,737**	87,866
Total Current assets	**13,409,024**	16,916,123
Non-current assets		
Receivables	**408,886**	392,824
Property, plant and equipment	**3,576,706**	4,163,295
Intangible assets	**8,536,989**	8,424,538
Total non-current Assets	**12,522,581**	12,980,657
Total assets	**25,931,605**	29,896,780
LIABILITIES		
Current liabilities		
Payables	**824,004**	1,031,442
Interest bearing liabilities	**-**	29,681
Provisions	**85,207**	75,749
Total current liabilities	**909,211**	1,136,872
Non-current liabilities		
Payables	**260,233**	238,651
Provisions	**227,695**	218,921
Total non-current liabilities	**487,928**	457,572
Total liabilities	**1,397,139**	1,594,444
Net assets	**24,534,466**	28,302,336
EQUITY		
Contributed equity	**47,064,936**	46,694,342
Reserves	**276,584**	(408,555)
Accumulated losses	**(22,861,317)**	(18,009,033)
Parent equity interest	**24,480,203**	28,276,754
Minority interest	**54,263**	25,582
Total equity	**24,534,466**	28,302,336

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

	6 months ended 31/12/2005 $	6 months ended 31/12/2004 $
Total equity at the beginning of the half-year	**28,302,336**	39,130,544
Exchange differences on translation of foreign controlled entity	**535,154**	(1,773,855)
Net income/(expense) recognised directly in equity	**535,154**	(1,773,855)
Loss for the half-year	**(4,841,415)**	(5,925,763)
Total recognised income and expense for the half-year	**(4,306,261)**	(7,699,618)
Transactions with equity holders in their capacity as equity holders:		
Contributions of equity, net of transaction costs	**298,500**	918,050
Employee share options	**239,891**	167,750
	538,391	1,085,800
Total equity at the end of the half-year	**24,534,466**	32,516,726
Total recognised income and expense for the half-year is attributable to:		
Members of Silex Systems Limited	**(4,317,130)**	(7,026,905)
Minority interest	**10,869**	(672,713)
	(4,306,261)	(7,699,618)

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

	Six months ended 31/12/2005 $	Six months ended 31/12/2004 $
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**263,275**	30,891
Payments to suppliers and employees (inclusive of goods and services tax)	**(4,571,363)**	(4,572,220)
Interest received	**291,235**	690,629
Interest paid	**(277)**	(3,254)
Net cash (outflow) from operating activities	**(4,017,130)**	(3,853,954)
Cash flows from investing activities		
Payment for purchase of subsidiaries, net of cash acquired	**-**	(23)
Payments for property, plant and equipment	**(177,449)**	(829,008)
Proceeds from sale of property, plant and equipment	**12,727**	-
Net cash (outflow) from investing activities	**(164,722)**	(829,031)
Cash flows from financing activities		
Proceeds from issue of shares	**298,500**	168,050
Repayment of hire purchase liabilities	**(29,681)**	(10,005)
Payment for shares bought back	**-**	(141,207)
Net cash inflow from financing activities	**268,819**	16,838
Net (decrease) in cash held	**(3,913,033)**	(4,666,147)
Cash and cash equivalents at the beginning of the financial year	**16,543,174**	29,428,213
Effects of exchange rate changes on cash and cash equivalents	**261,986**	(325,932)
Cash and cash equivalents at the end of the half -year	12,892,127	24,436,134

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Note 1 Summary of significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 December 2005 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2005 and any public announcements made by Silex Systems Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

(a) Basis of preparation of half-year financial report

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards
This interim financial report is the first Silex Systems Limited interim financial report to be prepared in accordance with AIFRSs. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Silex Systems Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Silex Systems Limited interim financial report for the half year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 7.

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Silex Systems Limited ("Company" or "parent entity") as at 31 December 2005 and the results of all subsidiaries for the half-year then ended. Silex Systems Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Silex Systems Limited's functional and presentation currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Sale of goods

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

(ii) Interest income

Interest revenue is recognised using the effective interest method.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(h) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease income from operating leases is recognised in income on a straight-line basis over the lease term.

(i) Acquisitions of assets

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(p)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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 exchange. The discount rate 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.

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of twelve months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(m) Inventories

(i) Raw materials and stores, work in progress and finished goods

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials on an actual cost basis.

(n) Investments and other financial assets

From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The Group has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 30 June 2005.

Adjustments on transition date: 1 July 2005
The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is inclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 July 2005) changes to carrying amounts are taken to retained earnings or reserves.

From 1 July 2005
The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables
Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet.

(o) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on assets is calculated using the straight line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Leasehold improvements	Unexpired period of the lease or estimated useful life, whichever is the shorter.
- Machinery	3-10 years
- Vehicles	5-7 years
- Furniture, fittings and equipment	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(p) Intangible assets

(i) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment in each country of operation by each primary reporting segment.

(ii) Intellectual property
Intellectual property on acquisition of investment in subsidiaries is amortised on a straight line basis over five years.

(iii) Research and development
Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

(q) Trade and other payables

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

(r) Provisions

Provisions for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(s) Employee benefits

(i) Wages and salaries and annual leave
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by

employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Some employees of the Group are entitled to benefits on retirement, disability or death from the Group's superannuation plan. The Group has a defined contribution plan.

Contributions to the defined contribution fund are recognised as an expense as they become payable.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Silex Systems Limited Employee Option Plan. Ownership-based remuneration is also provided to employees via the Translucent Inc Employee Option Plan.

Shares options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the Silex Systems Limited Employee Option Plan and Translucent Inc Employee Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Binomial 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 share price at grant date 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 fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

(v) Profit-sharing and bonus plans

The Group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(t) Contributed equity

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(u) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit/loss attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the half-year, adjusted for bonus elements in ordinary shares issued during the half-year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(v) Financial instrument transaction costs

The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 2005. The Group has applied previous Australian GAAP (AGAAP) in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the Group was immaterial.

Note 2 Segment information

Primary reporting - business segments

Half-year ended 31/12/2005	Research and development $	Optical and electronics test and measurement $	Inter segment eliminations/ unallocated $	Consolidated $
Total segment revenue	81,222	3,186	(37,310)	47,098
Unallocated – interest income				341,062
Total segment revenue				388,160
Segment result	(4,613,663)	(570,590)	-	(5,184,253)
Unallocated revenue and income - interest income and exchange gain				342,838
(Loss) before tax				(4,841,415)

	Research and development $	Optical and electronics test and measurement $	Consolidated $
Half-year ended 31/12/2004			
Total segment revenue	4,176	450	4,626
Unallocated revenue – interest income			663,297
Total revenue			667,923
Segment result	(6,068,231)	(574,830)	(6,643,061)
Unallocated revenue and income less unallocated expenses			717,298
(Loss) from before related income tax expense			(5,925,763)

Note 3 Contingent liabilities

The consolidated entity is not aware of any contingent liabilities. This situation has not changed since the last annual reporting date.

Note 4 Contingent assets

The consolidated entity is not aware of any contingent assets. This situation has not changed since the last annual reporting date.

Note 5 Events occurring after reporting date

The consolidated entity is 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 other than those referred to in the Project and operational update released to the ASX at the same time as this document.

Note 6 Equity securities issued

	Half-year ended 31/12/2005 Shares	Half-year ended 31/12/2004 Shares	**Half-year ended 31/12/2005 $**	Half-year ended 31/12/2004 $
Issue of ordinary shares during the half-year				
Issue of shares	**490,000**	1,245,000	**298,500**	918,050

	Half–year ended 31/12/2005 Options	Half–year ended 31/12/2004 Options	**Half–year ended 31/12/2005 Exercise price cents**	Half–year ended 31/12/2004 Exercise price cents
Issue of options during the half-year				
Issue of Employee share options	**100,000**	50,000	**177**	88

Note 7 Explanation of transition to Australian equivalents to IFRSs

1. Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

	Note	At the date of transition to AIFRS: 1 July 2004 $	At the end of the last half-year reporting period under previous AGAAP: 31 December 2004 $	At the end of the last reporting period under AGAAP: 30 June 2005 $
Net assets under AGAAP		39,414,478	33,214,152	28,162,705
Increase in cash and cash equivalents	f	24,271,461	10,352,923	14,660,297
Reduction in investments	f	(24,271,461)	(10,352,923)	(14,660,297)
Increase/(decrease) in intangibles	a,b	(283,934)	(697,426)	139,631
Net assets under AIFRS		39,130,544	32,516,726	28,302,336

	Note	$	$	$
Equity under AGAAP		39,414,478	33,214,152	28,162,705
Movement in reserves	a, b,c	2,141,665	1,324,968	1,642,444
Increase in accumulated losses	a,b,c,e	(2,425,599)	(2,022,394)	(1,649,451)
Movement in minority interest	b,e	-	-	146,638
Equity under AIFRS		39,130,544	32,516,726	28,302,336

2. Reconciliation of profit under AGAAP to profit under Australian equivalents to IFRSs (AIFRS)

	Note	Half-year ended 31 December 2004 $	Year ended 30 June 2005 $
Net (loss) attributable to the members of Silex Systems Limited under AGAAP		(5,656,255)	(10,191,959)
Decrease in amortisation of intangible assets	a,b	557,203	1,114,406
Decrease in impairment of intangibles	a	-	131,164
Increase in share based payments expense	b	(167,750)	(345,584)
Decrease in revenue from ordinary activities	d	(73,628)	(581,766)
Increase in other income	d	73,628	581,766
Movement in losses applicable to outside equity interest	b,e	13,752	(123,838)
Net (loss) attributable to the members of Silex Systems Limited under AIFRS		(5,253,050)	(9,415,811)

3. Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRS's has not resulted in any material adjustments to the cash flow statement.

4. Notes to the reconciliations

(a). Business combinations and intangible assets
Goodwill impairment

Under AASB 3 Business Combinations, amortisation of goodwill is prohibited, and is replaced by annual impairment testing focusing on the cash flows of the related cash generating unit.

This has resulted in a change to the previous accounting policy, under which goodwill was amortised on a straight line basis over the period during which the benefits are expected to arise and not exceeding 20 years.

The effect is:
(i) At 1 July 2004
There is no effect.

(ii) At 31 December 2004
For the Group there has been an increase in intangible assets of $520,200 and a decrease in accumulated losses of $520,200.

(iii) As at 30 June 2005
For the Group there has been an increase in intangible assets of $1,040,400 and a decrease in accumulated losses of $1,040,400.

(iv) For the half-year ended 31 December 2004
For the Group amortisation expense has decreased by $520,200.

(v) For the year ended 30 June 2005
For the Group amortisation expense has decreased by $1,040,400.

Goodwill foreign currency translation
Under AIFRS goodwill arising on consolidation is required to be calculated in the functional currency of the controlled entity and translated to Australian dollars using the closing exchange rate.

The effect is:
(i) At 1 July 2004
For the Group there has been an increase in intangible assets of $69,178 and a decrease in accumulated losses of $69,178.

(ii) At 31 December 2004
For the Group there has been a decrease in intangible assets of $901,517, a decrease in accumulated losses of $69,178 and a debit to the foreign currency translation reserve of $970,695.

(iii) As at 30 June 2005
For the Group there has been a decrease in intangible assets of $752,827, a decrease in accumulated losses of $69,178 and a debit to the foreign currency translation reserve of $822,005.

(iv) For the half-year ended 31 December 2004
There is no effect.

(v) For the year ended 30 June 2005
There is no effect.

Intellectual property – Silex (including Silicon Isotope Superlattice)

Under AASB 138 Intangible Assets this Intellectual Property no longer meets the recognition criteria for assets.

The effect is:
(i) At 1 July 2004
For the Group there has been a decrease in intangibles of $224,551 and an increase in accumulated losses of $224,551.

(ii) At 31 December 2004
For the Group there has been a decrease in intangibles of $207,858 and an increase in accumulated losses of $207,058.

(iii) As at 30 June 2005
For the Group there has been a decrease in intangibles of $60,001 and an increase in accumulated losses of $60,001.

(iv) For the half-year ended 31 December 2004
For the Group there has been a decrease in amortisation expense of $16,693.

(v) For the year ended 30 June 2005
For the Group there has been a decrease in impairment of intellectual property of $131,164 and a decrease in amortisation of intangibles of $33,386.

(b) Equity-based compensation benefits
Under AASB 2 *Share-based Payment,* from 1 July 2004 the group is required to recognise an expense for those options that were issued to employees after 7 November 2002 but not vested by 1 January 2005.

This has resulted in a change to the previous accounting policy under which no expense was recognised for equity-based compensation. Certain options issued as part of the deferred consideration for investment in controlled entity are now expensed rather than treated as part of the cost of the investment in the controlled entity.

The effect is:
(i) At 1 July 2004
For the Group, there has been an increase in accumulated losses of $53,915, a reduction in intangibles of $128,561and a reduction in reserves of $74,646.

(ii) At 31 December 2004
For the Group there has been an decrease in intangibles of $108,251, a decrease in reserves of $79,352 and an increase in accumulated losses of $187,603.

(iii) At 30 June 2005
For the Group, there has been an increase in accumulated losses of $358,879, an increase in reserves of $248,138, a decrease in intangibles of $87,941 and an increase in minority interest of $22,800.

(iv) For the half-year ended 31 December 2004
For the Group there has been a decrease in amortisation of $20,310, an increase in remuneration expenses of $167,750, and an increase in loss attributable to minority interest of $13,752

(v) For the year ended 30 June 2005
For the Group there has been an increase in remuneration expenses of $345,584 and a decrease in amortisation of $40,620.

(c) Foreign currency translation reserve: cumulative translation differences

The Group has elected to apply the exemption in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* relating to the balance of the foreign currency translation reserve. The cumulative translation differences for all foreign operating represented in the foreign currency translation reserve are deemed to be zero at the date of transition to AIFRS. The effect is:

(i) At 1 July 2004
For the Group there has been a credit to reserves of $2,216,311 and an increase in accumulated losses of $2,216,311.

(ii) At 31 December 2004
For the Group there has been a credit to reserves of $2,216,311 and an increase in accumulated losses of $2,216,311.

(iii) At 30 June 2005
For the Group there has been a credit to reserves of $2,216,311 and an increase in accumulated losses of $2,216,311.

(iv) For the half-year ended 31 December 2004
There is no effect on the Group.

(v) For the year ended 30 June 2005
There is no effect on the Group.

(d) Reclassification of other income

Under AIFRS, foreign exchange gains, government grants and gains on debt defeasance are classified as other income. This is in contrast to the previous Australian GAAP treatment under which such items are classified as revenue. The effect is:

(i) At 1 July 2004
There is no effect on the Group.

(ii) At 31 December 2004
There is no effect on the Group.

(iii) At 30 June 2005
There is no effect on the Group.

(iv) For the half-year ended 31 December 2004
For the Group there has been a decrease in revenue of $73,626 and an increase in other income of $73,626.

(v) For the year ended 30 June 2005
For the Group there has been a decrease in revenue of $581,766 and an increase in other income of $581,766.

(e) Losses applicable to the minority

Under AASB 127 Consolidated and Separate Financial Statements the excess of accumulated losses over equity attributable to minority interest is to be adjusted against the parent ownership group's interest unless the minority has a binding obligation to, and is able to, make good the losses. The effect is:

(i) At 1 July 2004
There is no effect on the Group.

(ii) At 31 December 2004
There is no effect on the Group.

(iii) At 30 June 2005
For the Group there has been an increase in minority interest of $123,838 and an increase in accumulated losses of $123,838.

(iv) For the half-year ended 31 December 2004
There is no effect on the Group.

(v) For the year ended 30 June 2005
For the Group there has been a reduction in losses attributable to minority interest of $123,838.

(f) Reclassification of bank deposits
Under AASB 107, Cash Flow Statements certain deposits with banks which are readily convertible to a known amount of cash and are subject to an insignificant change in value meet the definition of cash and cash equivalents. The effect is:

(i) At 1 July 2004
Cash and cash equivalents are $24,271,461 higher and investments are $24,271,461 lower.

(ii) At 31 December 2004
Cash and cash equivalents are $10,352,923 higher and investments are $10,352,923 lower.

(iii) At 30 June 2005
Cash and cash equivalents are $14,660,297 higher and investments are $14,660,297 lower.

(iv) For the half-year ended 31 December 2004
There is no effect on the Group.

(v) For the year ended 30 June 2005
There is no effect on the Group.

(g) Financial instruments
The Group has taken advantage of the exemption available under AASB 1 to apply AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement only from 1 July 2005. This has allowed Silex to apply previous Australian generally accepted accounting principles (Australian GAAP) to the comparative information of financial instruments within the scope of AASB 132 and AASB 139 for the 31 December 2005 half-year financial report.

As a result of the application of the exemption, there would have been no adjustment to classification or measurement of cash flow hedges from the application of AIFRS during the half-year ended 31 December 2005. Changes in classification and measurement will be recognised from 1 July 2005 as a result of the exemption, however no material changes are expected.

(h) Income tax
Under AASB 112 Income Taxes, deferred tax balances are determined using the balance sheet method which calculates temporary differences based on the carrying amounts of an entity's assets and liabilities in the statement of financial position and their associated tax bases. In addition, current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

This has resulted in a change to the previous accounting policy, under which deferred tax balances are determined using the income statement method, items are only tax-effected if they are included in the determination of pre-tax accounting profit or loss and/or taxable income or loss and current and deferred taxes cannot be recognised directly in equity. There is no significant effect as at balance sheet date and for the half-year ended 31 December 2005.

In the directors' opinion:

(a) the financial statements and notes set out on pages 6 to 23 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2005 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the half-year year ended on that date: and

(b) there are reasonable grounds to believe that Silex Systems Limited will be able to pay its debts as and when they become due and payable.

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

Dr M P Goldsworthy
Managing Director

C D Wilks
Director

Sydney
14 March 2006

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Independent review report to the members of Silex Systems Limited

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Silex Systems Limited.

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Silex Systems Group (defined below) as at 31 December 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the Silex Systems Group (the consolidated entity), for the half-year ended 31 December 2005. The consolidated entity comprises both Silex Systems Limited (the company) and the entities it controlled during that half-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.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations, changes in equity and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel and
- analytical procedures applied to financial data.

Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

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

Independence

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Andrew Sneddon

Andrew Sneddon
Partner

Sydney
14 March 2006

NTA Backing

	31 December 2005	31 December 2004
Net tangible asset backing per ordinary share	11.8 cents	17.8 cents

Additional dividend/distributions information

No dividends/distributions were declared or paid during or subsequent to the half-year ended 31 December 2005.