

Revetec Holdings Limited
and its controlled entities
A.C.N 115 621 317

Annual report
4 August 2005 to 30 June 2006

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Revetec Holdings Limited and its controlled entities

Directors' report

For the period 4 August 2005 to 30 June 2006

The directors present their report together with the financial report of Revetec Holdings Limited ('the Company') and of the consolidated entity, being the Company and its controlled entities, for the financial year ended 30 June 2006 and the auditor's report thereon.

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Revetec Holdings Limited and its controlled entities

Directors' report (continued)

For the period 4 August 2005 to 30 June 2006

1. Directors

The directors of the Company at any time during or since the end of the financial year are:

| <i>Name and position</i> | <i>Appointed</i> | <i>Experience, special responsibilities and other directorships</i> |
|---|-------------------------|--|
| Bradley David Howell-Smith Executive Director, Chairperson, and Company Secretary | 4 August 2005 | Inventor of the CCE concept, designer and builder of the first prototype engine 18 years experience in the automotive industry Automotive Mechanical Engineering certificate |
| Charles Chok Kwong Chan Executive Director and Managing Director | 4 August 2005 | Director and solicitor for the Revetec group of companies since the inception of the CCE design Principal of Chan Lawyers Director of Adcom Strategies Pty Ltd Legal practitioner since 1976 and has extensive experience in Corporate; Commercial Law; Intellectual Property; and Technology Law |
| Paul Rudolf Moitzi Executive Director | 4 August 2005 | 20 years experience in the Toolmaking Industry Operated own business in design and manufacturing of Press Tools and special purpose machines for all types of industries Extensive experience in implementation of new technology in the toolmaking industry |

2. Company secretary

Bradley David Howell-Smith was appointed to the position of company secretary in August 2005. Whilst Bradley does not have formal training as a company secretary, he has sought advice and assistance from the company's accountants and solicitors in performing his duties. Over the years he has acquired the necessary experience to continue as company secretary and he will continue to seek the advice of the company's solicitors and/or accountants where appropriate.

3. Directors' meetings

The number of directors' meetings and number of meetings attended by each of the directors of the Company during the financial year are:

| Director | Board Meetings | |
|----------------------------|----------------|----------|
| | A | B |
| Bradley David Howell-Smith | 12 | 12 |
| Charles Chok Kwong Chan | 12 | 12 |
| Paul Rudolf Moitzi | 12 | 12 |

A – Number of meetings attended

B – Number of meetings held during the time the director held office during the year

Revetec Holdings Limited and its controlled entities

Directors' report (continued)

For the period 4 August 2005 to 30 June 2006

4. Remuneration report

4.1 Principles of compensation - audited

Remuneration is referred to as compensation throughout this report.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the consolidated entity, including directors of the Company and other executives. Key management personnel includes the five most highly remunerated S300A directors and executives for the Company and the consolidated entity.

Compensation levels for key management personnel and secretaries of the Company, and relevant key management personnel of the consolidated entity are competitively set to attract and retain appropriately qualified and experienced directors and executives.

The compensation structures are designed to attract suitably qualified candidates, reward the achievement of strategic objectives, and achieve the broader outcome of creation of value for shareholders.

Fixed compensation

Fixed compensation consists of base compensation (which is calculated on a total cost basis and includes any FBT charges related to employee benefits), as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the remuneration committee through a process that considers individual, segment and overall performance of the consolidated entity. In addition external consultants provide analysis and advice to ensure the directors' and senior executives' compensation is competitive in the market place. A senior executive's compensation is also reviewed on promotion.

Consequences of performance on shareholders wealth

In considering the consolidated entity's performance and benefits for shareholders wealth, the directors have regard to the following indices in respect of the current financial year.

| | 2006 |
|--|-------------|
| Net profit/(loss) attributable to equity holders of the parent | (\$385,596) |
| Dividends paid | - |
| Change in share price (From prospectus issue price of 40 cents to 6 cents) | (\$0.34) |

Revetec Holdings Limited and its controlled entities

Directors' report (continued)

For the period 4 August 2005 to 30 June 2006

4.2 Directors' and executive officers' remuneration (Company and Consolidated) – audited

Details of the nature and amount of each major element of remuneration of each director of the company and each of the three named company executives and relevant group executives who receive the highest remuneration are set out below. There are no specified executives of the company who are not directors.

| | | Short-term | | | | Post-employment | Other long term | Termination benefits \$ | Share-based payments | Total \$ | S300A (1)(e)(i) Proportion of remuneration performance related % | S300A (1)(e)(i) Proportion of remuneration performance related % |
|--|------|---------------------|----------------------|-----------------------------|-------------|--------------------------------|-----------------|----------------------------|--------------------------|-------------|---|---|
| | | Salary & fees \$ | STI cash bonus \$ | Non-monetary benefits \$ | Total \$ | Super-annuation benefits \$ | \$ | | Options and rights \$ | | | |
| Executives / Directors | | | | | | | | | | | | |
| Bradley David Howell-Smith, Chairperson and Company Secretary | 2006 | 93,000 | - | - | 93,000 | - | - | - | - | 93,000 | - | - |
| Charles Chok Kwong Chan, Managing Director | 2006 | 98,182 | - | - | 98,182 | - | - | - | - | 98,182 | - | - |
| Paul Rudolf Moitzi | 2006 | 66,955 | - | - | 66,955 | - | - | - | - | 66,955 | - | - |
| Total compensation: key management personnel (consolidated) | 2006 | 258,137 | - | - | 258,137 | - | - | - | - | 258,137 | - | - |
| Total compensation: key management personnel (company) | 2006 | 211,418 | - | - | 211,418 | - | - | - | - | 211,418 | - | - |

Revetec Holdings Limited and its controlled entities

Directors' report (continued)

For the period 4 August 2005 to 30 June 2006

5. Environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulation under both Commonwealth or State legislation.

6. Principal activities

The consolidated entity's principal activities are the research, design and development of combustion engines for various fuel applications, known as the CCE design technology.

The entity's focus for the period has been on:

- Acquisition of the CCE design technology and all associated patents, copyright and other intellectual property rights
- Conclusion of a fund raising prospectus
- Strengthening its intellectual property and its protection in international and domestic markets
- Building stronger relationships in commercial markets in India, China and the Middle East
- Using a specialist team of engineers as needed to focus on refinement of the technology and proto types engines
- The evaluation of strategies for continued expansion in the Company's product development plans including an increase in capital

7. Operating and financial review

Overview of the consolidated entity

The consolidated entity incurred a loss for the year of \$385,596.

Revetec Holdings Limited was incorporated for the purpose of the restructure of Revetec Limited. On 4 August 2005 the company acquired Revetec Limited as part of a restructure of the ownership of the CCE design technology. On 13 September 2005, Revetec Holdings Limited acquired the CCE design technology and all associated patents, copyright and other intellectual property rights from Revetec Limited. The net acquisition consideration was \$203,000 and included the acquisition of 100% of the issued capital of Revetec International Pty Ltd and Revolution Engine Technologies Pty Ltd.

As outlined in notes 1, 1(d)(i) and 23 the restructure, the acquisition and disposal of Revetec Limited has been treated as a business combination – reverse acquisition, and no gain or loss on the acquisition or disposal have been recorded in the consolidated financial statements. This reflects the requirements of AASB 3 that in situations where a number of existing entities are combined with a new entity, an existing entity shall be deemed to be the acquirer, subject to consideration of factors such as relative fair values of the entities involved in the transaction. This is commonly referred to as a reverse acquisition.

On 9 November 2005 the Company entered into a loan facility under a convertible note arrangement with Douglas John Lomas, as Trustee for the Centre Management Trust. The facility is a maximum of \$2 million, with a term of 3 years from first draw down. There is no interest applicable during this term on amounts drawn down. No amounts were drawn down at 30 June 2006.

The Lender has the option to convert all or part of loan monies drawn down at any point in time into ordinary shares within 3 years from the date of the first draw down at the lower of 20 cents per share or at a 10% discount to the average price of the ordinary shares traded for a period of 5 consecutive trading days on the Newcastle Stock Exchange immediately prior to the date of the exercise of the option. Upon conversion of all or part of the loan, the company's liability to pay that portion of the loan will be discharged.

On 19 January 2006 the company issued 2,183,031 shares at 40 cents raising \$873,212. The costs associated with the share issue were \$385,695, which were offset in equity against the proceeds of the share issue.

On 31 January 2006 the company listed on the Newcastle Stock Exchange.

Significant changes in the state of affairs

In the opinion of the directors, other than outlined in the review of operations, there were no significant changes in the state of affairs of the consolidated entity that occurred during the financial year under review.

Revetec Holdings Limited and its controlled entities

Directors' report (continued)

For the period 4 August 2005 to 30 June 2006

8. Dividends

No dividends have been paid or declared by the company since the start of the financial year. No recommendation for payment of dividends has been made.

9. Events subsequent to reporting date

Subsequent to the balance sheet date, the Company amended the convertible note arrangement with Douglas John Lomas, as Trustee for the Centre Management Trust. The amended facility provides funding to a maximum of \$1.95 million with requirements to draw down specified amounts and convert into ordinary shares as follows:

- The sum of \$350,000 shall be drawn no later than 7 August 2006 and such amount shall be immediately converted into ordinary shares at 4.5 cents per share.
- A further sum of \$950,000 shall be drawn down monthly to a maximum of \$20,000 per month to match the Australian Government's dollar for dollar commercial ready grant and as each sum is received the same shall be converted into shares at 4.5 cents per share.
- The balance of the sum of \$650,000 shall be drawn down after the full draw down of the \$950,000 and the Note holder shall have the option to convert the same into ordinary shares at 5 cents a share within two years from 27 July 2006.

The fair value of the share options to be granted, in respect of the first drawdown, are estimated to be \$85,556. At 30 June 2006, there were no options granted as the Company had not drawn any funds against the loan facility. Accordingly no cost or expense had been recorded in the financial statements to 30 June 2006.

Other than the matter discussed above, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in future financial years.

10. Likely developments

Information about likely developments in the operations of the Company and the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the Company and the consolidated entity.

11. Directors' interests

Directors' interests

The relevant interest of each director in the share capital of the Company as at the date of this report is as follows:

| Directors | Ordinary shares |
|-----------------------------|-----------------|
| Charles Chok Kwong Chan (a) | 6,006,399 |
| Bradley David Howell-Smith | 32,380,987 |
| Paul Rudolph Moitzi | 5,879,969 |

(a) Held indirectly through Wincof Pty Ltd

Revetec Holdings Limited and its controlled entities

Directors' report (continued)

For the period 4 August 2005 to 30 June 2006

12. Indemnification and insurance of officers and auditors

Indemnification

The Company has not indemnified or made a relevant agreement for indemnifying against a liability, any person who is or has been an officer of the Company.

The Company has entered into an agreement with its current auditors, KPMG, indemnifying them against claims by third parties arising in certain KPMG engagements, except where the liability arises out of conduct involving a lack of good faith.

Insurance premiums

During the financial period, the company has not paid premiums in respect of directors or executive officers for professional indemnity or other liabilities.

13. Non-audit services

During the year KPMG, the Company's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the board to ensure they do not impact the integrity and objectivity of the auditor; and
- the non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 *Professional independence*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

| | Consolidated 2006 \$ |
|---|-------------------------------------|
| Audit services: | |
| Auditors of the Company – KPMG | |
| Audit and review of the financial reports | 18,000 |
| Other audit services | 5,000 |
| | <u>23,000</u> |
| Services other than statutory audit: | |
| Other services | |
| Auditors of the Company – KPMG | |
| Transaction services | 50,000 |
| Taxation services | 8,000 |
| | <u>58,000</u> |

14. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 37 and forms part of the directors' report for the financial year ended 30 June 2006.

This report is made with a resolution of the directors:

Bradley David Howell-Smith
Chairperson

Gold Coast
2 October 2006

Revetec Holdings Limited and its controlled entities

Income statements

Consolidated for the year ended 30 June 2006

Company for the period 4 August 2005 to 30 June 2006

| | | Consolidated | Consolidated | The Company |
|---|-------|--------------------|--------------------|------------------|
| | Notes | 2006 \$ | 2005 \$ | 2006 \$ |
| Other income | 3 | 109,783 | 4,640 | - |
| Marketing expenses | | (23,811) | - | (19,961) |
| Depreciation and amortisation expenses | | (1,353) | (1,422) | (1,186) |
| Directors fees | | (68,727) | (162,165) | (55,841) |
| Management fees | | (113,455) | (73,577) | (96,909) |
| Research and development expenses | 4 | (594,910) | (958,978) | (459,474) |
| Impairment of property, plant and equipment | | (60,057) | - | (40,468) |
| Other expenses | | (258,986) | (672,486) | (78,390) |
| Loss from operating activities | | (1,011,516) | (1,863,988) | (752,229) |
| Financial income | | 16,777 | 21,428 | 16,465 |
| Financial expenses | | (28,368) | - | (28,368) |
| Net financing costs | | (11,591) | 21,428 | (11,903) |
| Profit (loss) before tax | | (1,023,107) | (1,842,560) | (764,132) |
| Income tax benefit / (expense) | 6 | 637,511 | 280,400 | 248,648 |
| Profit (loss) for the period | | (385,596) | (1,562,160) | (515,484) |
| Earnings/ (loss) per share | | | | |
| Basic earnings/ (loss) per share | 7 | (0.0020) | (0.008) | |
| Diluted earnings/ (loss) per share | 7 | (0.0020) | (0.008) | |

The income statements are to be read in conjunction with the notes of the financial statements.

Revetec Holdings Limited and its controlled entities
 Statements of recognised income and expense
 Consolidated for the year ended 30 June 2006
 Company for the period 4 August 2005 to 30 June 2006

| | Notes | Consolidated 2006 \$ | Consolidated 2005 \$ | The Company 2006 \$ |
|---|-------|----------------------------|----------------------------|---------------------------|
| Loss for the period | | (385,596) | (1,562,160) | (515,484) |
| Total recognised income and expense for the period | 13 | (385,596) | (1,562,160) | (515,484) |

The statements of recognised income and expense are to be read in conjunction with the notes of the financial statements.

Revetec Holdings Limited and its controlled entities

Balance sheets

As at 30 June 2006

| | | Consolidated | Consolidated | The Company |
|--|-------|--------------|--------------|-------------|
| | Notes | 2006 | 2005 | 2006 |
| | | \$ | \$ | \$ |
| Assets | | | | |
| Cash and cash equivalents | 8 | 77,389 | 117,007 | 77,389 |
| Trade and other receivables | | 5,141 | 78,014 | 5,141 |
| Income tax receivable | 9 | 248,648 | - | 248,648 |
| Total current assets | | 331,178 | 195,021 | 331,178 |
| Investments | | - | 102,950 | 2 |
| Property, plant and equipment | 10 | 75,477 | 207,813 | 75,477 |
| Total non-current assets | | 75,477 | 310,763 | 75,479 |
| Total assets | | 406,655 | 505,784 | 406,657 |
| Liabilities | | | | |
| Trade and other payables | | 60,767 | 124,342 | 60,769 |
| Provisions | 11 | - | 32,398 | - |
| Interest-bearing loans and borrowings | 12 | 157,907 | - | 157,907 |
| Total current liabilities | | 218,674 | 156,740 | 218,676 |
| Provisions | | - | 7,740 | - |
| Interest-bearing loans and borrowings | 12 | 215,948 | - | 215,948 |
| Total non-current liabilities | | 215,948 | 7,740 | 215,948 |
| Total liabilities | | 434,622 | 164,480 | 434,624 |
| Net assets / (net liabilities) | | (27,967) | 341,304 | (27,967) |
| Equity | | | | |
| Issued capital | 13 | 13,358,297 | 13,341,972 | 487,517 |
| Retained earnings / (accumulated losses) | 13 | (13,386,264) | (13,000,668) | (515,484) |
| Total equity / (deficiency) | 13 | (27,967) | 341,304 | (27,967) |

The balance sheets are to be read in conjunction with the notes to the financial statements.

Revetec Holdings Limited and its controlled entities

Statements of cash flows

Consolidated for the year ended 30 June 2006

Company for the period 4 August 2005 to 30 June 2006

| | <i>Notes</i> | Consolidated | | The Company |
|---|--------------|--------------|-------------|-------------|
| | | 2006 \$ | 2006 \$ | 2006 \$ |
| Cash flows from operating activities | | | | |
| Cash receipts from government grants | | 55,448 | 1,467 | - |
| Cash paid to suppliers and employees | | (932,809) | (1,700,437) | (619,479) |
| Cash generated from operations | | (908,514) | (1,698,970) | (619,479) |
| Income tax – R&D concession refund received | | - | 280,400 | - |
| Interest received | | 16,445 | 21,428 | 16,445 |
| Interest paid | | (28,368) | - | (28,368) |
| Income tax refund received | | 388,863 | - | - |
| Net cash from operating activities | 18 | (531,574) | (1,397,142) | (631,402) |
| Cash flows from investing activities | | | | |
| Proceeds from sale of property, plant and equipment | | 111,027 | - | 111,027 |
| Acquisition of property, plant and equipment | | (91,227) | (96,165) | (263,610) |
| Acquisition of subsidiaries | | - | - | 2 |
| Disposal of net assets of Revetec Limited – cash | 23 | (389,216) | - | - |
| Net cash from investing activities | | (369,416) | (96,165) | (152,581) |
| Cash flows from financing activities | | | | |
| Proceeds from the issue of share capital | | 873,212 | 1,534,407 | 873,212 |
| Costs of share issue | | (385,695) | (27,720) | (385,695) |
| Loans from related parties | | 373,855 | (156,983) | 373,855 |
| Loans from directors received | | 81,500 | - | - |
| Loans from directors repaid | | (81,500) | - | - |
| Other loans | | - | (25,109) | - |
| Net cash from financing activities | | 861,372 | 1,324,595 | 861,372 |
| Net increase in cash and cash equivalents | | (39,618) | (168,712) | 77,389 |
| Cash and cash equivalents at 1 July | | 117,007 | 285,719 | - |
| Cash and cash equivalents at 30 June | 8 | 77,389 | 117,007 | 77,389 |

The statements of cash flows are to be read in conjunction with the notes to the financial statements.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies

Revetec Holdings Limited (the "Company") is a company domiciled in Australia. The consolidated financial report of the Company comprises:

- the Company for the period 4 August 2005 to 30 June 2006. As the Company was incorporated during the year there are no comparative amounts.
- the company and its subsidiaries (together referred to as the "consolidated entity"). As the consolidated entity has been reported under business combinations as a reverse acquisition (refer notes 1(d)(i) and 23), comparative amounts have been included for the year ended 30 June 2005.

The consolidated financial report was authorised for issue by the directors on 2 October 2006.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. International Financial Reporting Standards ('IFRSs') form the basis of Australian Accounting Standards ('AASBs') adopted by the AASB, and for the purpose of this report are called Australian equivalents to IFRS ('AIFRS') to distinguish from previous Australian GAAP.

This is the consolidated entity's first financial report prepared in accordance with Australian Accounting Standards, being AIFRS and IFRS, and AASB 1 *First-Time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied. An explanation of how the transition to AIFRS has affected the reported financial position, financial performance and cash flows of the consolidated entity and the Company is provided in note 24.

(b) Basis of preparation

The financial report is presented in Australian dollars. The entity has elected to early adopt the following accounting standards and amendments:

- AASB 2004-3 *Amendments to Australian Accounting Standards* (December 2004) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 101 *Presentation of Financial Statements* and AASB 124 *Related Party Disclosures*.
- AASB 2005-1 *Amendments to Australian Accounting Standards* (May 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*.
- AASB 2005-3 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 119 *Employee Benefits* (either July or December 2004).
- AASB 2005-4 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*.
- AASB 2005-5 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* (July 2004), and AASB 139 *Financial Instruments: Recognition and Measurement*.
- AASB 2005-6 *Amendments to Australian Accounting Standards* (June 2005) amending AASB 3 *Business Combinations*.
- AASB 2006-1 *Amendments to Australian Accounting Standards* (January 2006) amending AASB 121 *The Effects of Changes in Foreign Exchange Rates* (July 2004).
- UIG 4 *Determining whether an Arrangement contains a Lease*.
- UIG 5 *Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds*.
- UIG 7 *Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies*.
- UIG 8 *Scope of AASB 2*.

The following standards and amendments were available for early adoption but have not been applied by the consolidated entity in these financial statements:

- AASB 7 *Financial instruments: Disclosure* (August 2005) replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 *Amendments to Australian Accounting Standards* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosures and Presentation*, AASB 101 *Presentation of Financial Statements*, AASB 114 *Segment Reporting*, AASB 117 *Leases*, AASB 133 *Earnings per Share*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 4 *Insurance Contracts*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*, arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The consolidated entity plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(b) Basis of preparation (continued)

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Company and the consolidated entity as the standard and the amendment are concerned only with disclosures.

The initial application of AASB 2005-9 could have an impact on the financial results of the Company and the consolidated entity as the amendment could result in liabilities being recognised for financial guarantee contracts that have been provided by the Company and the consolidated entity. However, the quantification of the impact is not known or reasonably estimable in the current financial year as an exercise to quantify the financial impact has not been undertaken by the Company and the consolidated entity to date.

The financial report is prepared on the historical cost basis.

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. These accounting policies have been consistently applied by each entity in the consolidated entity.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of Australian Accounting Standards that have a significant effect on the financial report and estimates with a significant risk of material adjustment in the next year are discussed in note 1(r).

The accounting policies have been applied consistently by all entities in the consolidated entity.

(c) Going concern

The financial report has been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

At 30 June 2006, the consolidated entity had incurred an operating loss of \$385,596 and the company had incurred an operating loss of \$515,484. The consolidated entity and the company had net liabilities of \$27,967 and had minimal cash reserves.

The company has prepared cash flow projections indicating that over the next 12 months the company can pay its debts as and when they fall due, after consideration of the following:

- The Company's arrangements with external parties are expected to provide assistance with reducing the research and development expenditure in relation to Revetec Holdings' technology.
- The Company is able to utilise funds available under a convertible loan facility, as disclosed in note 11, to enable the ongoing key operations to continue. If such funding is required to be drawn down, the Directors may curtail any operation as they see fit to reduce costs and expenditure. As at 2 October 2006 \$350,000 had been drawn down using this facility.
- The company received the income tax refund of \$248,648 on 28 August 2006.

Accordingly, the Directors are of the opinion that the going concern basis is appropriate for the preparation of the consolidated financial report. If the directors are unable to utilise the funding facility, or arrangements with external parties change, there is no certainty as to whether the consolidated entity may realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in this financial report.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

Significant accounting policies (continued)

1.

(d) Basis of consolidation

(i) Reverse acquisition accounting

Under AIFRS the formation of the Revetec Holdings Limited Group has been accounted as a business combination.

In applying the requirements of AASB 3 "Business Combinations" to the Group:

- Revetec Holdings Limited is the legal parent entity of the Group; and
- Revetec Limited ("RL"), which is neither the legal parent nor legal acquirer, was deemed to be the accounting parent of the Group as a result of the restructure of the RL during the year ended 30 June 2006.

This reflects the requirements of AASB 3 that in situations where a number of existing entities are combined with a new entity, an existing entity shall be deemed to be the acquirer, subject to consideration of factors such as relative fair values of the entities involved in the transaction. This is commonly referred to as a reverse acquisition.

The consolidated financial information for the year ended 30 June 2006 incorporates the assets and liabilities of the entity, Revetec Holdings Limited, deemed to be acquired by RL, and the results of this entity for the period from which this entity is accounted for as being acquired by RL. The assets and liabilities of the entity acquired by RL were recorded at fair value while the assets and liabilities of ABS were maintained at their book value. The impact of all transactions between entities in the Group is eliminated in full.

The impact on equity of treating the formation of the Group as a reverse acquisition is discussed in more detail in Note 23. The consolidated entity comparative amounts have been included based on the consolidated RL results for the year ended 30 June 2005 and financial position at 30 June 2005.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the company's financial statements.

All business combinations are accounted for by applying the purchase method.

(iii) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(e) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation (see below) and impairment losses (see accounting policy (g)).

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment.

The estimated useful lives in the current periods are as follows:

- | | |
|--------------------------|----------|
| • leasehold improvements | 15 years |
| • plant and equipment | 4 years |
| • fixtures and fittings | 4 years |
| • motor vehicles | 5 years |

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

Significant accounting policies (continued)

1.

(f) Intangible assets

(i) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense as incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the consolidated entity has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and impairment losses (see accounting policy (g)).

(g) Impairment

The carrying amounts of the consolidated entity's assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Example Public Company Limited and its controlled entities

Notes to the consolidated financial statements

1. Significant accounting policies (continued)

(g) Impairment (continued)

(i) Calculation of recoverable amount

The recoverable amount of the consolidated receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Impairment testing of significant receivables that are not assessed as impaired individually is performed by placing them into portfolios of significant receivables with similar risk profiles and undertaking a collective assessment of impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance sheet date.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(ii) Reversals of impairment

Impairment losses, other than in respect of goodwill, are reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimate used to determine the recoverable amount.

An impairment loss in respect of goodwill is not reversed.

An impairment loss in respect of receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

Significant accounting policies (continued)

1.

(h) Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses (see accounting policy (g)).

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, short term bills and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(j) Share capital

(i) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(ii) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

(k) Convertible notes

Convertible notes that can be converted to share capital at the option of the holder, where the number of shares issued does not vary with changes in their fair value, are accounted for as compound financial instruments. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds. The equity component of the convertible notes is calculated as the excess of the issue proceeds over the present value of the future interest and principal payments, discounted at the market rate of interest applicable to similar liabilities that do not have a conversion option. The interest expense recognised in the income statement is calculated using the effective interest method.

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(m) Trade and other payables

Trade and other payables are stated at their amortised cost.

(n) Revenue

(i) Goods sold and services rendered

Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the costs incurred or to be incurred cannot be measured reliably, there is a risk of return of goods or there is continuing management involvement with the goods.

(ii) Government grants

Government grants are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the consolidated entity will comply with the conditions attaching to them. Grants that compensate the consolidated entity for expenses incurred are recognised as revenue in the income statement on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the consolidated entity for the cost of an asset are recognised in the income statement as other income on a systematic basis over the useful life of the asset.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

Significant accounting policies (continued)

1.

(o) Expenses

(i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised in the income statement as an integral part of the total lease expense and spread over the lease term.

(ii) Net financing costs

Net financing costs comprise interest payable on borrowings calculated using the effective interest method, dividends on redeemable preference shares, interest receivable on funds invested, dividend income, foreign exchange gains and losses, and gains and losses on hedging instruments that are recognised in the income statement. Borrowing costs are expensed as incurred and included in net financing costs.

Interest income is recognised in the income statement as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established which in the case of quoted securities is ex-dividend date. The interest expense component of finance lease payments is recognised in the income statement using the effective interest method.

(p) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

Significant accounting policies (continued)

1.

(q) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the balance sheet.

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

(r) Accounting estimates and judgements

Management discussed with the Board of Directors the development, selection and disclosure of the consolidated entity's critical accounting policies and estimates and the application of these policies and estimates. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Key sources of judgement and estimates

(i) Share based payments

At 30 June 2006 the Company had entered into a loan agreement (convertible notes) which provides for the granting of options upon funding being provided. An expense in relation to the fair value of the options has not been recorded at balance date as no options have been granted until funds are provided under the loan agreement. Notes 12 and 21 contains further information in respect of the loan agreement and the value of the share based payment.

(ii) Going concern

Refer to note 1(c).

2. Segment reporting

The consolidated entity comprises one main business segment being engine development. This incorporates the research and design of petrol and diesel application engines.

The consolidated entity's business segment operates in Australia.

3. Other income

| | Consolidated | | The Company | |
|---|--------------|------------|-------------|--|
| | 2006 \$ | 2005 \$ | 2006 \$ | |
| Government grants | 55,448 | - | - | |
| Gain on sale of property, plant and equipment | 54,335 | - | - | |
| Other income | - | 4,640 | - | |
| | 109,783 | 4,640 | - | |

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

4. Research and development expense

| | Consolidated | | The Company |
|------------------------|--------------|---------|-------------|
| | 2006 | 2005 | 2006 |
| | \$ | \$ | \$ |
| Director's fees | 189,409 | 55,099 | 155,577 |
| Depreciation | 46,159 | 121,805 | 35,450 |
| Lease payments | 46,170 | 78,724 | 31,390 |
| Employee benefits | 111,947 | 421,808 | 64,349 |
| Materials and supplies | 66,465 | 119,516 | 61,102 |
| Other | 134,760 | 162,026 | 111,606 |
| | 594,910 | 958,978 | 459,474 |

5. Auditors' remuneration

Audit services

Auditors of the Company – KPMG

Audit and review of financial reports

Other services

| | | | |
|--|--------|--------|--------|
| | 18,000 | 26,080 | 18,000 |
| | 5,000 | 5,500 | 5,000 |
| | 23,000 | 31,580 | 23,000 |

Other services

Auditors of the Company – KPMG

Transaction services

Taxation services

| | | | |
|--|--------|--------|--------|
| | 50,000 | 8,000 | 50,000 |
| | 8,000 | 52,400 | 8,000 |
| | 58,000 | 60,400 | 58,000 |

6. Income tax expense/(benefit)

Recognised in the income statement

Current tax expense/ (benefit)

Current year

Total income tax expense/(benefit) in income statement

| | | | |
|--|-----------|-----------|-----------|
| | (637,511) | (280,400) | (248,648) |
| | (637,511) | (280,400) | (248,648) |

Numerical reconciliation between tax expense and pre-tax net profit

Profit/ (loss) before tax

Income tax using the domestic corporation tax rate of 30%

Increase in income tax expense due to:

Effect of tax losses not recognised

Decrease in income tax expense due to:

Tax incentives not recognised in the income statement

Income tax expense/ (benefit) on pre-tax net profit/loss

| | | | |
|--|-----------|-------------|-----------|
| | (764,132) | (1,842,560) | (764,132) |
| | (229,240) | (552,768) | (229,240) |
| | 229,240 | 552,768 | 229,240 |
| | (637,511) | (280,400) | (248,648) |
| | (637,511) | (280,400) | (248,648) |

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

Deductible temporary differences

Tax losses

| | | | |
|--|---------|---------|---------|
| | - | - | - |
| | 229,240 | 633,856 | 229,240 |
| | 229,240 | 633,856 | 229,240 |

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the consolidated entity can utilise the benefits from.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

7. Earnings/ (loss) per share

Basic earnings/ (loss) per share

The calculation of basic earnings/(loss) per share at 30 June 2006 was based on the loss attributable to ordinary shareholders of \$677,430 and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 150,962,444, calculated as follows:

Loss attributable to ordinary shareholders

| | Consolidated 2006 \$ | 2005 |
|--|----------------------------|-------------|
| Loss attributable to ordinary shareholders | (385,596) | (1,562,160) |

Weighted average number of ordinary shares

| | # | | |
|---|-------------|--|-------------|
| Issued ordinary shares at 1 July | 190,887,848 | | 189,516,019 |
| Effect of shares issued during the year | 979,135 | | 1,371,829 |
| Weighted average number of ordinary shares at 30 June | 191,866,983 | | 190,887,848 |

Diluted earnings/ (loss) per share

The calculation of diluted earnings/ (loss) per share at 30 June 2006 was based on loss attributable to ordinary shareholders of \$677,430 and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2006 of 150,962,444, calculated as follows:

Loss attributable to ordinary shareholders (diluted)

| | | |
|--|-----------|-------------|
| Loss attributable to ordinary shareholders (diluted) | (677,430) | (1,562,160) |
|--|-----------|-------------|

Weighted average number of ordinary shares (diluted)

| | # | | |
|---|-------------|--|-------------|
| Issued ordinary shares at 1 July | 190,887,848 | | 189,516,019 |
| Effect of shares issued during the year | 979,135 | | 1,371,829 |
| Weighted average number of ordinary shares (diluted) at 30 June | 191,866,983 | | 190,887,848 |

The ordinary shares on issue for the consolidated entity have been based on shares on issue by the consolidated entity under the business combination – refer notes 1(d)(i) and 23.

8.

Cash and cash equivalents

| | Consolidated 2006 \$ | 2005 \$ | The Company 2006 \$ |
|--|----------------------------|------------|---------------------------|
| Bank balances | 77,389 | 117,007 | 77,389 |
| Cash and cash equivalents in the statement of cash flows | 77,389 | 117,007 | 77,389 |

9. Income tax receivables

| | | |
|------------------------------|---------|---------|
| Income tax refund receivable | 248,648 | 248,648 |
|------------------------------|---------|---------|

Revetec Holdings Limited and its controlled entities Notes to the consolidated financial statements

10. Property, Plant and equipment

| | Consolidated 2006 | | | | | The Company | | | | |
|---|------------------------|---------------------|-----------------------|----------------|------------------|------------------------|---------------------|-----------------------|----------------|------------------|
| | Leasehold improvements | Plant and equipment | Fixtures and fittings | Motor vehicles | Total | Leasehold improvements | Plant and equipment | Fixtures and fittings | Motor vehicles | Total |
| Cost | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 1 July 2004 | 6,867 | 506,467 | 102,338 | 44,200 | 659,872 | | | | | |
| Other acquisitions | - | 77,686 | 1,215 | 17,264 | 96,165 | | | | | |
| Disposals | - | - | - | - | - | | | | | |
| Balance at 30 June 2005 | 6,867 | 584,153 | 103,553 | 61,464 | 756,037 | | | | | |
| Balance at 1 July 2005 | 6,867 | 584,153 | 103,553 | 61,464 | 756,037 | - | - | - | - | - |
| Acquisitions | - | - | - | - | - | 7,048 | 148,151 | 37,414 | 50,521 | 243,134 |
| Other acquisitions | - | 40,063 | - | - | 40,063 | - | 40,063 | - | - | 40,063 |
| Disposals | - | (105,368) | - | (16,123) | (121,491) | - | (105,368) | - | (16,123) | (121,491) |
| Balance at 30 June 2006 | 6,867 | 518,848 | 103,553 | 45,341 | 674,609 | 7,048 | 82,846 | 37,414 | 34,398 | 161,706 |
| Depreciation and impairment losses | | | | | | | | | | |
| Balance 1 July 2004 | 929 | 349,493 | 64,110 | 10,349 | 424,881 | | | | | |
| Depreciation charge for the year | 432 | 103,383 | 9,189 | 10,339 | 123,343 | | | | | |
| Disposals | - | - | - | - | - | | | | | |
| Balance at 30 June 2005 | 1,361 | 452,876 | 73,299 | 20,688 | 548,224 | | | | | |
| Balance at 1 July 2005 | 1,361 | 452,876 | 73,299 | 20,688 | 548,224 | - | - | - | - | - |
| Depreciation charge for the year | 375 | 33,631 | 7,458 | 6,059 | 47,523 | 375 | 22,744 | 7,458 | 6,059 | 36,636 |
| Impairment losses | 5,131 | 5,628 | 22,796 | 6,913 | 40,468 | 6,673 | 16,515 | 29,956 | 6,913 | 60,057 |
| Disposals | - | (26,764) | - | (10,319) | (37,083) | - | (9,890) | - | (574) | (10,464) |
| Balance at 30 June 2006 | 6,867 | 465,371 | 103,553 | 23,341 | 599,132 | 7,048 | 29,369 | 37,414 | 12,398 | 86,229 |
| Carrying amounts | | | | | | | | | | |
| 1 July 2005 | 5,506 | 131,277 | 30,254 | 40,776 | 207,813 | | | | | |
| At 30 June 2006 | - | 53,477 | - | 22,000 | 75,477 | - | 53,477 | - | 22,000 | 75,477 |

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

11. Provisions

| | Consolidated | | The Company |
|--|--------------|--------|-------------|
| | 2006 | 2005 | 2006 |
| Current | | | |
| Employee entitlements | - | 32,298 | - |
| Non current | | | |
| Employee entitlements | - | 7,740 | - |
| Provision for employee entitlements | | | |
| Balance at 1 July | 40,038 | 15,055 | - |
| Provisions made during the year | - | 24,983 | - |
| Provisions used during the year | (40,038) | - | - |
| Balance at 30 June | - | 40,038 | - |

12

Interest bearing liabilities and borrowings

| | Consolidated | | The Company |
|--|--------------|------|-------------|
| | 2006 | 2005 | 2006 |
| | \$ | \$ | \$ |
| Current liabilities | | | |
| Loan from related party | 157,907 | - | 157,907 |
| | 157,907 | - | 157,907 |
| Non-current liabilities | | | |
| Loan from related party | 215,948 | - | 215,948 |
| | 215,948 | - | 215,948 |
| Financing Facilities | | | |
| Loan from related party | 373,855 | - | 373,855 |
| Convertible note | 2,000,000 | - | 2,000,000 |
| | 2,373,855 | - | 2,373,855 |
| Facilities utilised at reporting date | | | |
| Loan from related party | 373,855 | - | 373,855 |
| Convertible note | - | - | - |
| | 373,855 | - | 373,855 |
| Facilities not utilised at reporting date | | | |
| Loan from related party | - | - | - |
| Convertible note | 2,000,000 | - | 2,000,000 |
| | 2,000,000 | - | 2,000,000 |

Loan from related party

The loan from related party represents amounts owing to Revetec Limited. Interest is charged monthly at 10% per annum.

Convertible note

The convertible note facility provides funding to a maximum of \$2,000,000 with requirements to drawdown specified amounts.

The Lender has the option to convert all or part of loan monies drawn down at any point in time into ordinary shares within 3 years from the date of the first draw down at the lower of 20 cents per share or at a 10% discount to the average price of the ordinary shares traded for a period of 5 consecutive trading days on the Newcastle Stock Exchange immediately prior to the date of the exercise of the option. Upon conversion of all or part of the loan, the company's liability to pay that portion of the loan will be discharged.

There is no interest applicable during the term on amounts drawn down.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

13. Capital and reserves

Reconciliation of movement in capital and reserves attributable to equity holders of the parent

| Consolidated - 2005 | Not e | Share capital \$ | Retained earnings/ (Accumulated losses) \$ | Total \$ |
|-------------------------------------|----------|------------------------|--|--------------------|
| Balance at 1 July 2004 | | 11,835,285 | (11,438,508) | 396,777 |
| Total recognised income and expense | | | (1,562,160) | (1,562,160) |
| Shares issued | | 1,534,407 | - | 1,534,407 |
| Share issue costs, net of tax | | (27,720) | - | (27,720) |
| Balance at 30 June 2005 | | <u>13,341,972</u> | <u>(13,000,668)</u> | 341,304 |

Consolidated - 2006

| | | | | |
|--|----|-------------------|---------------------|------------------|
| Balance at 1 July 2005 – reverse acquisition adjustments | 22 | 13,341,972 | (13,000,668) | 341,304 |
| Total recognised income and expense | | - | (385,596) | (385,596) |
| Shares issued | | 873,212 | - | 873,212 |
| Share issue costs, net of tax | | (385,695) | - | (385,695) |
| In specie distribution | 22 | (471,192) | | (471,192) |
| Balance at 30 June 2006 | | <u>13,358,297</u> | <u>(13,386,264)</u> | (27,967) |

The Company

| | | | |
|-------------------------------------|----------------|------------------|------------------|
| Balance at 4 August 2005 | - | - | - |
| Total recognised income and expense | - | (515,484) | (515,484) |
| Shares issued | 873,212 | - | 873,212 |
| Share issue costs, net of tax | (385,695) | - | (385,695) |
| Balance at 30 June 2006 | <u>487,517</u> | <u>(515,484)</u> | (27,967) |

The consolidated entity reflects the business combinations reverse acquisition as outlined in notes 1, 1(d)(i) and 23.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

13. Capital and reserves (continued)

Share capital

| | The Company | |
|--|-----------------------------------|----------------|
| | Ordinary shares 2006 Number | \$ |
| Issued upon restructure of Revetec Limited (refer notes 20 and 23) | 190,887,848 | - |
| Issued for cash at 40 cents under Prospectus | 2,183,031 | 873,212 |
| On issue at 30 June – fully paid | <u>193,070,879</u> | <u>873,212</u> |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. In the event of winding up of the consolidated entity, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

Dividends

No dividends were paid during the period 4 August 2005 to 30 June 2006 and no dividends are currently proposed.

14. Financial instruments

Exposure to credit and interest rate risks arises in the normal course of the consolidated entity's business.

Credit risk

At the balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivative financial instruments, in the balance sheet.

Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and liabilities is set out below.

Effective interest rates and repricing analysis

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates at the balance sheet date and the periods in which they reprice.

Consolidated

| Effective interest rate | 2005 | | | | | |
|-------------------------------|-------------|------------------------------|----------------------|--------------------|--------------------|----------------------------|
| | Total \$ | 6 months or less \$ | 6-12 Months \$ | 1-2 Years \$ | 2-5 Years \$ | More than 5 years \$ |
| Cash and cash equivalents* | 3.6% | 116,778 | 116,778 | - | - | - |

Consolidated

| Effective interest rate | 2006 | | | | | |
|-------------------------------|-------------|------------------------------|----------------------|--------------------|--------------------|----------------------------|
| | Total \$ | 6 months or less \$ | 6-12 Months \$ | 1-2 Years \$ | 2-5 Years \$ | More than 5 years \$ |
| Cash and cash equivalents* | 4.0% | 76,689 | 76,689 | - | - | - |
| Loan from related party* | 10.0% | 157,907 | - | 157,907 | - | - |
| Loan from related party* | 8.0% | 215,948 | - | - | - | 215,948 |
| | | <u>450,544</u> | <u>76,689</u> | <u>157,907</u> | <u>-</u> | <u>215,948</u> |

The Company

| Effective interest rate | 2006 | | | | | |
|-------------------------------|-------------|------------------------------|----------------------|--------------------|--------------------|----------------------------|
| | Total \$ | 6 months or less \$ | 6-12 Months \$ | 1-2 Years \$ | 2-5 Years \$ | More than 5 years \$ |
| Cash and cash equivalents* | 4% | 76,689 | 76,689 | - | - | - |
| Loan from related party* | 10% | 157,907 | - | 157,907 | - | - |
| Loan from related party* | 8% | 215,948 | - | - | - | 215,948 |
| | | <u>450,544</u> | <u>76,689</u> | <u>157,907</u> | <u>-</u> | <u>215,948</u> |

* These assets / liabilities bear interest at a fixed rate.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

14. Financial instruments (continued)

Fair values

The net fair values of financial assets and liabilities of the consolidated entity are represented by the carrying amount of these items.

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

Trade and other receivables / payables

For receivables / payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

15. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

| | Consolidated | | The Company |
|----------------------------|--------------|---------|-------------|
| | 2006 | 2005 | 2006 |
| | \$ | \$ | \$ |
| Less than one year | 78,724 | 78,724 | 78,724 |
| Between one and five years | 45,922 | 124,646 | 45,922 |
| More than five years | - | - | - |
| | 124,646 | 203,370 | 124,646 |

The consolidated entity leases business premises under an operating lease.

16. Contingencies

The consolidated entity had no contingent liabilities as at 30 June 2006.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

17. Consolidated entities

| | Country of Incorporation | Ownership interest 2006 |
|---|-----------------------------|----------------------------|
| Parent entity | | |
| Revetec Holdings Limited (Refer to accounting policy note 1(d)(i) and note 23 in respect of the business combination reverse acquisition treatment for the consolidated entity) | Australia | |
| Subsidiaries | | |
| Revetec International Pty Ltd | Australia | 100% |
| Revolution Engine Technologies Pty Ltd | Australia | 100% |

18. Reconciliation of cash flows from operating activities

| | Consolidated 2006 \$ | | The Company 2006 \$ |
|--|----------------------------|-------------|---------------------------|
| Cash flows from operating activities | | | |
| Profit/(loss) for the period after tax | (385,596) | (1,562,160) | (515,484) |
| <i>Adjustments for:</i> | | | |
| Depreciation | 47,512 | 123,343 | 36,636 |
| Provisions | 40,138 | 25,083 | - |
| Interest expense | 28,368 | - | 28,368 |
| Interest income | (16,777) | - | (16,465) |
| Gain on sale of property, plant and equipment | (54,335) | - | - |
| Impairment losses | 60,057 | - | 40,468 |
| Income tax expense/(benefit) | (637,511) | - | (248,648) |
| Operating profit before changes in working capital and provisions | (918,144) | (1,463,900) | (675,125) |
| (Increase)/decrease in trade and other receivables | 72,873 | (27,073) | (5,141) |
| (Decrease)/increase in trade and other payables | (63,575) | 43,665 | 60,767 |
| | (908,846) | (1,397,142) | (619,499) |
| Interest paid | (28,368) | - | (28,368) |
| Interest received | 16,777 | - | 16,465 |
| Income tax refund – R&D concessions received | 388,863 | - | - |
| Net cash from operating activities | (531,574) | (1,397,142) | (631,402) |

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

19. Key management personnel disclosures

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Executive directors

Mr Bradley David Howell-Smith (Chairperson and Company Secretary)

Mr Charles Chok Kwong Chan (Managing Director)

Mr Paul Rudolf Moitzi

Key management personnel compensation

The key management personnel compensation included in 'directors fees' are as follows:

| | Consolidated | | The Company |
|------------------------------|---------------------|----------------|--------------------|
| | 2006 | 2005 | 2006 |
| | \$ | \$ | \$ |
| Short-term employee benefits | 258,137 | 223,528 | 211,418 |
| | <u>258,137</u> | <u>223,528</u> | <u>211,418</u> |

Individual directors and executives compensation disclosures

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

Loans to and from key management personnel and their related parties (consolidated)

A loan totalling \$2,350 was made to Mr BD Howell-Smith during the year. This loan was still outstanding at 30 June 2006.

Details regarding the aggregate of loans made, guaranteed or secured by any entity in the consolidated entity to key management personnel and their related parties, and the number of individuals in each group, are as follows:

| | Opening Balance \$ | Closing Balance \$ | Interest paid and payable in the reporting period \$ | Number in group at 30 June |
|---|-----------------------------------|-----------------------------------|---|---|
| Total for key management personnel 2006 | - | 2,350 | - | 1 |
| Total for other related parties 2006 | - | - | - | - |
| Total for key management personnel and their related parties 2006 | <u>-</u> | <u>2,350</u> | <u>-</u> | <u>1</u> |

During the year the 3 directors of the Company provided loans to Revetec Limited as a subsidiary totalling \$81,500. These loans were all repaid during the year. For all loans to key management persons and their related entities, interest is payable at prevailing market rates, currently 9% p.a. The principal and interest amounts are repayable at any time before 13 September 2006. Interest paid on the loans totalled \$3,667. Interest received on the loans totalled \$0. No amounts have been written down or recorded as allowances, as the balances are considered fully collectable.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

19. Key management personnel disclosures for disclosing entities (continued)

Other key management personnel transactions with the Company or its controlled entities

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

| Key management persons | Transaction | Note | Consolidated | | The Company |
|------------------------|--|-------|--------------|---------|-------------|
| | | | 2006 | 2005 | 2006 |
| | | | \$ | \$ | \$ |
| Mr CCK Chan | Bookkeeping, legal, professional and administrative fees | # | | 279,066 | |
| | Legal fees | (i) | 47,000 | | 47,000 |
| | Bookkeeping and administration services | (ii) | 96,909 | | 96,909 |
| | Professional services | (iii) | 39,137 | | 39,137 |
| | Equipment and professional services | (iv) | 7,184 | | 7,184 |
| BD Howell-Smith | Employee services | | - | 8,533 | - |
| # | In the 2005 year the services and transaction of entities associated by Mr CCK Chan were not allocated into individual transaction categories. | | | | |
| (i) | Chan Lawyers received fees of \$47,000 for the period for consulting fees in respect of the prospectus. Mr. Charles Chan, a director, is the principal of Chan Lawyers. | | | | |
| (ii) | During the period, amounts totalling \$96,909 were paid to Wincof Pty Ltd, a director-related entity, for the provision of bookkeeping and administration services of Revetec Holdings Limited. Mr Charles Chan is a director and shareholder of Wincof Pty Ltd. | | | | |
| (iii) | Professional services totalling \$39,137 were paid to Adcom Advertising Pty Ltd during the year. Mr. Charles Chan is a director of Adcom Advertising Pty Ltd. | | | | |
| (iv) | Equipment and professional services totalling \$7,184 were paid to DataFX Online Pty Ltd during the year. The Company has an investment in DataFX Online Pty Ltd at 30 June 2006. | | | | |

There were no amounts receivable from and payable to other key management personnel at reporting date.

The movement during the reporting period in the number of ordinary shares in Revetec Holdings Limited held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

| | Held at 4 August 2005 | Purchases (b) | Received on exercise of options | Sales | Held at 30 June 2006 |
|--------------------|--------------------------|------------------|---------------------------------------|-------|----------------------------|
| Directors | | | | | |
| Mr BD Howell-Smith | - | 32,380,987 | - | - | 32,380,987 |
| Mr CCK Chan (a) | - | 6,006,399 | - | - | 6,006,399 |
| Mr PR Moitzi | - | 5,879,969 | - | - | 5,879,969 |

No shares were granted to key management personnel during the reporting period as compensation.

a) Held indirectly through Wincof Pty Ltd

b) Issued through deed of company arrangement.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

20. Non-key management personnel disclosures

Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 16) and with its key management personnel (see note 18).

Other related party transactions

Acquisition of assets and certain liabilities of related parties

Revetec Holdings Limited was incorporated for the purpose of restructuring Revetec Limited. As part of the restructure:

- On 4 August 2005 the Company entered into an agreement to acquire 100% of the share capital of Revetec Limited and the Company issued 190,887,848 ordinary shares to the shareholders of Revetec Limited.
 - On 13 September 2005, the Company entered into a contract for Revetec Limited to acquire the CCE design and all associated patents, copyright and other intellectual property rights ('the technology') from Revetec Limited. The directors of the Company were directors of Revetec Limited at the date of the agreement. The consideration paid to acquire the technology was \$203,000 which was satisfied by a vendor loan of \$203,000. The consideration represented fair market value of the acquired assets and liabilities as determined by the Directors based on an independent valuation. The vendor loan is subject to a commercial interest rate of 8% per annum and is repayable within 10 years. The acquisition included plant and equipment, intangible assets and certain liabilities of Revetec Limited as summarised below:
- | | |
|---|-----------------|
| | \$ |
| Investment – Revetec International Pty Ltd | 1 |
| Investment – Revolution Engine Technologies Pty Ltd | 1 |
| Property, plant and equipment | 243,135 |
| Provision for employee entitlements | <u>(40,137)</u> |
| Purchase consideration | <u>203,000</u> |
- On 30 September 2006 Revetec Limited was subsequently transferred to the shareholders of Revetec Holdings Limited. On consolidation this has been reflected as a return of capital based on the fair value of the net assets of \$471,192

At balance date Revetec Holdings Limited had a loan due to Revetec Limited of \$215,948 which is disclosed as an interest bearing non-current liability (note 12).

Upon acquisition of Revetec Limited on 4 August 2005 the fair value of the net assets acquired were \$633,138. Upon disposal of Revetec Limited on 30 September 2006, the fair value of the net assets of Revetec Limited were \$471,191.

As outlined in notes 1(d)(i) and 23 the restructure, the acquisition and disposal of Revetec Limited has been treated as a business combination – reverse acquisition, and no gain or loss on the acquisition or disposal have been recorded in the consolidated financial statements.

Settlement of liabilities by related party on behalf of Revetec Holdings Limited

During the period Revetec Limited settled amounts payable to creditors of Revetec Holdings Limited totalling \$302,297. At 30 June 2006 the balance of this related party loan to Revetec Limited was \$157,907. Interest has been charged monthly at 10% per annum on amounts payable to related parties.

Revetec Holdings Limited and its controlled entities

Notes to the consolidated financial statements

21. Subsequent events

Subsequent to the balance sheet date, the Company amended the convertible note arrangement with Douglas John Lomas as Trustee for the Centre Management Trust. The amended facility provides funding to a maximum of \$1.95 million with requirements to draw down specified amounts and convert into ordinary shares as follows:

- The sum of \$350,000 shall be drawn no later than 7 August 2006 and such amount shall be immediately converted into ordinary shares at 4.5 cents per share.
- A further sum of \$950,000 shall be drawn down monthly to a maximum of \$20,000 per month to match the Australian Government's dollar for dollar commercial ready grant and as each sum is received the same shall be converted into shares at 4.5 cents per share.
- The balance of the sum of \$650,000 shall be drawn down after the full draw down of the \$950,000 and the Note holder shall have the option to convert the same into ordinary shares at 5 cents a share within two years from 27 July 2006.

The estimated fair value of the share options to be granted are estimated to be \$85,556. At 30 June 2006, there were no options granted as the Company had not drawn any funds against the loan facility. Accordingly no cost or expense had been recorded in the financial statements to 30 June 2006.

22 Personnel expenses

| | Consolidated | | The Company |
|---|---------------|----------------|---------------|
| | 2006 | 2005 | 2006 |
| Wages and salaries | 110,043 | 386,980 | 59,036 |
| Payments to defined contribution plans | 9,904 | 34,828 | 5,313 |
| Increase/(reduction) in liability for annual and long service leave | (40,038) | 24,983 | (27,705) |
| | <u>79,909</u> | <u>446,791</u> | <u>36,644</u> |

23 Business combination – reverse acquisition

On 4 August 2005, Revetec Holdings Limited acquired all the shares in Revetec Limited as part of the restructure approved at the Extraordinary General Meeting of shareholders of Revetec Limited. The restructure provided for the shareholders of Revetec Limited to be issued with 190,887,848 ordinary shares in Revetec Holdings Limited.

Due to the circumstances surrounding this acquisition, AASB 3 Business Combinations requires that this acquisition be treated as a reverse acquisition whereby Revetec Limited is deemed to have acquired Revetec Holdings Limited, for accounting purposes.

The subsequent in-specie distribution on 30 September 2005 by Revetec Holdings Limited of the shares in Revetec Limited to the shareholders of Revetec Holdings Limited, has been treated as a return of capital to shareholders.

The acquisition had the following effect on the consolidated entity's assets and liabilities.

Acquiree's (Revetec Holdings Limited) net assets at the acquisition date

| | Recognised values | Fair value adjustments | Carrying amounts |
|---|-------------------|------------------------|------------------|
| | \$ | \$ | \$ |
| Cash and cash equivalents | 1 | - | 1 |
| Net identifiable assets and liabilities | <u>1</u> | <u>-</u> | <u>1</u> |
| Discount on acquisition | <u>1</u> | | |
| Consideration paid | <u>-</u> | | |

Revetec Limited and its controlled entities

Notes to the consolidated financial statements

Distribution by Revetec Holdings Limited of net assets (Revetec Limited)

| | Fair values |
|--------------------------------------|-----------------|
| | \$ |
| Cash and cash equivalents | 389,216 |
| Loan to Revetec Holdings Limited | 199,644 |
| Loans from Directors | (81,500) |
| Net other assets and liabilities | <u>(36,168)</u> |
| Fair value of in specie distribution | <u>471,192</u> |

Had the reverse acquisition occurred on 1 July 2005, there would have been no change to the consolidated revenues or net profit for the year ended 30 June 2006.

24. Explanation of transition to AIFRS

As stated in note 1(a), these are the consolidated entity's first consolidated financial statements for part of the period covered by the first AIFRS annual consolidated financial statements prepared in accordance with Australian Accounting Standards - AIFRS.

The accounting policies in Note 1 have been applied in preparing the consolidated financial statements for the year ended 30 June 2006, the comparative information for the year ended 30 June 2005, and the preparation of an opening AIFRS balance sheet at 1 July 2004 (the consolidated entity's date of transition).

In preparing its opening consolidated AIFRS balance sheet and comparative information for the year ended 30 June 2005, the consolidated entity has no material adjustments to amounts reported previously in financial statements prepared in accordance with its old basis of accounting (previous GAAP).

Change to AIFRS since 31 December 2005

In the company's consolidated interim financial report for the period 4 August 2005 to 31 December 2005, the directors considered the impact of AIFRS on the 31 December 2005 report and the comparative information.

The interim financial report was based on the management's interpretation of mandatory financial reporting requirements regarding AASB 3 Business combinations and the treatment of the business combination in acquiring the CCE design technology previously controlled by Revetec Limited.

In preparing the 30 June 2006 financial statements, management determined after further consideration of AASB 3 Business combinations that the restructure of Revetec Limited resulted in a reverse acquisition, as outlined in notes 1(d)(i) and 23.

Accordingly, management has corrected the impact in the 30 June 2006 financial statements by including the business combination restructure as a reverse acquisition.

The impact of the change at 31 December 2005 half year report, if the business combination was recognised as a reverse acquisition in that report, would have been the inclusion of comparative amounts and:

- no change in the net liabilities reported, and
- the consolidated loss would have reduced by \$129,888 as a result of the recognition of the net profit of Revetec Limited in the period it formed part of the consolidated group.

Directors' declaration

- 1 In the opinion of the directors of Revetec Holdings Limited ('the Company'):
 - (a) the financial statements and notes and the remuneration disclosures that are contained in sections 4.1 and 4.2 of the Remuneration report in the Directors' report, set out on pages 5 and 6, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company and the consolidated entity as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) the remuneration disclosures that are contained in sections 4.1 and 4.2 of the Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- 2 The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2006.

Gold Coast
2 October 2006.

Signed in accordance with a resolution of the directors:

Charles Chan
Director



Independent Audit Report to the members of Revetec Holdings Limited

Scope

We have audited the financial report of Revetec Holdings Limited ('the Company') for the financial year ended 30 June 2006, consisting of the income statements, statements of recognised income and expense, balance sheets, statements of cash flows, accompanying notes 1 to 24, and the directors' declaration set out on pages 10 to 35. The financial report includes the consolidated financial statements of the consolidated entity, comprising the Company and the entities it controlled at the end of the year or from time to time during the financial year. We have audited information disclosed by the company, as permitted by the Corporations Regulations 2001, about the remuneration of directors and executives ("remuneration disclosures"), required by Australian Accounting Standard AASB 124 Related Party Disclosures, under the heading "Remuneration report" in sections 4.1 and 4.2, of the directors' report and not in the financial report. The Company's directors are responsible for the financial report and the remuneration disclosures. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*. We have conducted an independent audit of the financial report in order to express an opinion on them to the members of the Company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement and that the remuneration disclosures comply with AASB 124. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report and the remuneration disclosures, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Australian Accounting Standards and other mandatory professional reporting requirements in Australia and statutory requirements so as to present a view which is consistent with our understanding of the Company's and the consolidated entity's financial position, and performance as represented by the results of their operations and their cash flows and whether the remuneration disclosures comply with Australian Accounting Standard AASB 124.

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

Audit opinion

1. In our opinion, the financial report of Revetec Holdings Limited is in accordance with:
 - (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date, and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) other mandatory professional reporting requirements in Australia.
2. The remuneration disclosures that are contained in sections 4.1 and 4.2 of Remuneration report in the Directors' report comply with Australian Accounting Standard AASB 124 *Related Party Disclosures*.

Inherent uncertainty regarding going concern

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

KPMG

P G Steer
Gold Coast
2 October 2006



Lead auditor's independence declaration under Section 307C of the Corporations Act 2001

To: the directors of Revetec Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

P G Steer
Partner

Gold Coast

2 October 2006

NSX Additional information

Additional information required by the Newcastle Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

Shareholdings (as at 30 June 2006)

Substantial shareholders

The number of shares held by substantial shareholders and their associates are set out below:

| Shareholder | Number | % |
|----------------------------|------------|-------|
| Bradley David Howell-Smith | 32,380,987 | 16.77 |

Voting rights

Ordinary shares

Every ordinary share ranks equally on voting. Every shareholder present in person or by proxy has one vote on a show of hands and on a poll has one vote for each share held.

Distribution of security holders

NUMBER OF SECURITY HOLDERS

| Category (No. of Shareholders) | No. of Ordinary Shares | % of Ordinary Shares |
|-----------------------------------|---------------------------|----------------------------|
| 1-1,000 | 10,494,134 | 5.44 |
| 1,001-5,000 | 182,576,745 | 94.56 |
| All Ranges | 193,070,879 | 100 |

The number of shareholders holding less than a marketable parcel of ordinary shares is 517.

NUMBER OF SECURITIES

| Category (No. of Ordinary Shares) | No. of Ordinary Shareholders | % of Ordinary Shareholders |
|--------------------------------------|---------------------------------|----------------------------------|
| 1-1,000 | 22 | 1.47 |
| 1,001-5,000 | 317 | 21.13 |
| 5001-10,000 | 311 | 20.73 |
| 10,001-100,000 | 670 | 44.67 |
| 100,001 and over | 180 | 12.00 |
| All Ranges | 1,500 | 100 |

NSX Additional information (continued)

Twenty largest shareholders

| Name | Number of ordinary shares held | Percentage of capital held |
|---|--------------------------------|----------------------------|
| Bradley David Howell-Smith | 32,380,987 | 16.77% |
| Kingswood Pty Ltd Atf Tually Family Trust | 6,382,293 | 3.31% |
| Brian Robert Clarke & Michelle Amanda Koch | 6,031,367 | 3.12% |
| Wincof Pty Ltd | 6,006,399 | 3.11% |
| Paul Rudolf Moitzi Atf Moitzi Family Trust | 5,879,969 | 3.05% |
| Pan Enterprises P/L Atf Pan Discretionary Family Trust | 5,500,000 | 2.85% |
| Peter Koch | 4,517,000 | 2.34% |
| Brian Douglas Andrews | 3,183,000 | 1.65% |
| Christopher Leo Drenkhahn | 3,010,001 | 1.56% |
| Murray John Andrew | 3,000,000 | 1.55% |
| Peter John Corbett | 3,000,000 | 1.55% |
| Graham Mark Drever & Alison Louise Drever | 2,953,570 | 1.53% |
| Reginald Ainsworth Howell-Smith & Patricia Howell-Smith | 2,912,000 | 1.51% |
| Stuart Richard Lee Martin | 2,900,000 | 1.50% |
| Graham Mark Drever Atf M & A J Drever | 2,870,530 | 1.49% |
| Michael Anthony O'mara & Lynette O'mara | 2,608,850 | 1.35% |
| John Robinson | 2,419,824 | 1.25% |
| Hartaz Pty Ltd | 2,123,888 | 1.10% |
| Steven Valtas & Helen Nina Valtas | 1,893,777 | 0.98% |
| John Phillip Cantell | 1,840,000 | 0.95% |

Offices and officers

Company Secretary

Bradley David Howell-Smith Inventor of the CCE concept, designer and builder of the CCE prototype engines

Principal Registered Office

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 Facsimile: (07) 5531 6997
 Email: admin@revetec.com
 Website: www.revetec.com

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