

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

Annual report  
30 June 2007

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## Contents

|   | <i>Page</i> |
|---|-------------|
| • Directors' report (including remuneration report) | 3           |
| • Income statements                                 | 10          |
| • Statements of recognised income and expense       | 11          |
| • Balance sheets                                    | 12          |
| • Statements of cash flows                          | 13          |
| • Notes to the consolidated financial statements    | 14          |
| • Directors' declaration                            | 36          |
| • Auditor's report                                  | 37          |
| • Lead auditor's independence declaration           | 39          |
| • NSX additional information                        | 40          |

**Revetec Holdings Limited and its controlled entities**  
**Directors' report**  
**For the year ended 30 June 2007**

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 2007 and the auditor's report thereon.

| <b>Contents of directors' report</b>                   | <b>Page</b> |
|--|-------------|
| Directors  | 4           |
| Company secretary                                      | 4           |
| Directors' meetings                                    | 4           |
| Remuneration report                                    | 5           |
| Principal activities                                   | 7           |
| Operating and financial review                         | 7           |
| Dividends  | 8           |
| Events subsequent to reporting date                    | 8           |
| Likely developments                                    | 8           |
| Directors' interests                                   | 8           |
| Indemnification and insurance of officers and auditors | 8           |
| Non-audit services                                     | 9           |
| Lead auditor's independence declaration                | 9           |

**Revetec Holdings Limited and its controlled entities**  
**Directors' report (continued)**  
**For the year ended 30 June 2007**

**1. Directors**

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

| <i><b>Name and position</b></i>   | <i><b>Appointed</b></i>                       | <i><b>Experience, special responsibilities and other directorships</b></i>   |
|---|---|--|
| Bradley David Howell-Smith<br>Executive Director, Chairperson,<br>and Company Secretary | 4 August 2005                                 | Inventor of the CCE concept, designer and builder of the first prototype engine<br><br>18 years experience in the automotive industry<br><br>Automotive Mechanical Engineering certificate   |
| Charles Chok Kwong Chan<br>Executive Director and<br>Managing Director                  | 4 August 2005<br>Resigned 7<br>September 2007 | Director and solicitor for the Revetec group of companies since the inception of the CCE design<br><br>Principal of Chan Lawyers<br><br>Director of Adcom Strategies Pty Ltd<br><br>Legal practitioner since 1976 and has extensive experience in Corporate; Commercial Law; Intellectual Property; and Technology Law |
| Paul Rudolf Moitzi<br>Executive Director  | 4 August 2005                                 | 20 years experience in the Toolmaking Industry<br><br>Operated own business in design and manufacturing of Press Tools and special purpose machines for all types of industries<br><br>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 1997. Over the years Bradley has acquired the necessary experience to act as Company Secretary. When appropriate Bradley seeks the advice of the company's solicitors and/or accountants.

**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:

| <b>Director</b>            | <b>Board Meetings</b> |          |
|----------------------------|-----------------------|----------|
|                            | <b>A</b>              | <b>B</b> |
| Bradley David Howell-Smith | 9                     | 9        |
| Charles Chok Kwong Chan    | 9                     | 9        |
| Paul Rudolf Moitzi         | 9                     | 9        |

**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 year ended 30 June 2007**

**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 entities, 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 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 board 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.

|   | 2007        | 2006        |
|---|-------------|-------------|
| Loss attributable to equity holders of the parent | (\$765,231) | (\$385,596) |
| Dividends paid                                    | -           | -           |
| Change in share price                             | (\$0.01)    | (\$0.34)    |

Revetec Holdings Limited and its controlled entities  
 Directors' report (continued)  
 For the year ended 30 June 2007

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 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 benefits | Other long term | Termination benefits | Share-based payments | S300A (1)(e)(i) Proportion of remuneration performance related % | S300A (1)(e)(ii) Proportion of remuneration performance related % |
|--|------|---------------|----------------|-----------------------|---------|--------------------------|-----------------|----------------------|----------------------|--|---|
|  |      | Salary & fees | STI cash bonus | Non-monetary benefits | Total   | Super-annuation benefits |                 |                      | Options and rights   |  |   |
|  |      | \$            | \$             | \$                    | \$      | \$                       | \$              | \$                   | \$                   |  |   |
| <b>Executives / Directors</b>                                      |      |               |                |                       |         |                          |                 |                      |                      |  |   |
|  | 2007 | 138,456       | -              | -                     | 138,456 | -                        | -               | -                    | -                    | -  | -   |
| Bradley David Howell-Smith,<br>Chairperson and Company Secretary   | 2006 | 93,000        | -              | -                     | 93,000  | -                        | -               | -                    | -                    | -  | -   |
| Charles Chok Kwong Chan,<br>Managing Director                      | 2007 | 130,146       | -              | -                     | 130,146 | -                        | -               | -                    | -                    | -  | -   |
|  | 2006 | 98,182        | -              | -                     | 98,182  | -                        | -               | -                    | -                    | -  | -   |
| Paul Rudolf Molitz<br>Executive Director                           | 2007 | 114,347       | -              | -                     | 114,347 | -                        | -               | -                    | -                    | -  | -   |
|  | 2006 | 66,955        | -              | -                     | 66,955  | -                        | -               | -                    | -                    | -  | -   |
| <b>Total compensation: key management personnel (consolidated)</b> |      |               |                |                       |         |                          |                 |                      |                      |  |   |
|  | 2007 | 382,949       | -              | -                     | 382,949 | -                        | -               | -                    | -                    | -  | -   |
|  | 2006 | 258,137       | -              | -                     | 258,137 | -                        | -               | -                    | -                    | -  | -   |
| <b>Total compensation: key management personnel (company)</b>      |      |               |                |                       |         |                          |                 |                      |                      |  |   |
|  | 2007 | 382,949       | -              | -                     | 382,949 | -                        | -               | -                    | -                    | -  | -   |
|  | 2006 | 211,418       | -              | -                     | 211,418 | -                        | -               | -                    | -                    | -  | -   |

# Revetec Holdings Limited and its controlled entities

## Directors' report (continued)

### For the year ended 30 June 2007

#### 5. 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:

- Strengthening its intellectual property and its protection in international and domestic markets
- Building stronger relationships in commercial markets in India, China and the rest of the world
- Using a specialist team of engineers as needed to focus on refinement of the technology and proto type engines
- The evaluation of strategies for continued expansion in the Company's product development plans including an increase in capital

The Company is in the advanced stages of building a prototype of an engine for the light aircraft, which is described as the X4 engine. This engine is planned to be adaptable for the trike and other automobile industries.

#### 6. Operating and financial review

##### Overview of the consolidated entity

The consolidated entity incurred a loss for the year of \$765,231 (2006: \$385,596).

On 4 August 2006, \$350,000 was received under the terms of a convertible note agreement and on 8 August 2006, 7,777,778 ordinary shares were issued under the terms of a convertible note agreement.

On 14 November 2006 Ausindustry approved Revetec Holdings Limited's application for funding under the Commercial Ready Grant scheme. The scheme provides funding representing 50% of eligible expenditure up to a maximum of \$1,020,107. At 30 June 2007 Revetec Holdings Limited had received an amount of \$364,775 representing 50% of the forecast eligible expenses for the period 1 August 2006 to 30 June 2007. At 30 June 2007 \$63,329 of the amount received was recognised as unearned income and the balance of \$301,446 was recognised as income, during the year ended 30 June 2007.

On 30 November 2006, a special resolution was passed by the members of Revetec Limited (a related entity) resolving that: Revetec Limited realise all assets; settle all liabilities; write-off the existing loan to Revetec Holdings Limited; and all surplus monies be paid to Revetec Holdings Limited leading to the winding up of Revetec Limited as soon as practicable. Consequently, at 30 November 2006 Revetec Holdings Limited derecognised its liability to Revetec Limited and recognised a corresponding increase in shareholder contributions of \$393,490.

On 31 January 2007 and 7 March 2007, the company issued 250,000 and 2,500,000 shares, to consultants in exchange for services provided. The fair value of the share based payments of \$6,250 and \$101,461, respectively, were recognised as an expense in the financial report for the year ended 30 June 2007.

#### Significant changes in the state of affairs

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

**Revetec Holdings Limited and its controlled entities**  
**Directors' report (continued)**  
**For the year ended 30 June 2007**

**7. 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.

**8. Events subsequent to reporting date**

On 27 July 2007, the Company received \$69,970 (GST exclusive) from the Commercial Ready Grant scheme. This grant instalment was partially paid in advance and represents 50% of the forecast eligible expenses for the quarter ending 30 September 2007, adjusted for any overpayments in the previous instalment.

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.

**9. 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.

**10. 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:

| <b>Directors</b>            | <b>Ordinary shares</b> |
|-----------------------------|------------------------|
| 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

**11. 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.



# Revetec Holdings Limited and its controlled entities

## Directors' report (continued)

For the year ended 30 June 2007

### 12. 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 APES 110 Code of Ethics for Professional Accountants, 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.

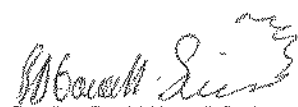
Details of the amounts paid to the auditor of the Company, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

|   | Consolidated  |               |
|---|---------------|---------------|
|   | 2007<br>\$    | 2006<br>\$    |
| <b>Audit services:</b>                      |               |               |
| Auditors of the Company – KPMG              |               |               |
| Audit and review of the financial reports   | 20,000        | 18,000        |
| Other audit services                        | 8,400         | 5,000         |
|   | <u>28,400</u> | <u>23,000</u> |
| <b>Services other than statutory audit:</b> |               |               |
| <b>Other services</b>                       |               |               |
| Auditors of the Company – KPMG              |               |               |
| Transaction services                        | -             | 50,000        |
| Taxation services                           | 4,000         | 8,000         |
|   | <u>4,000</u>  | <u>58,000</u> |

### 13. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 39 and forms part of the directors' report for the financial year ended 30 June 2007.

This report is made with a resolution of the directors:



Bradley David Howell-Smith  
Chairperson

Gold Coast  
11 September 2007

Revetec Holdings Limited and its controlled entities  
Income statements  
For the year ended 30 June 2007

|   | Notes | Consolidated     |                    | The Company      |                  |
|---|-------|------------------|--------------------|------------------|------------------|
|   |       | 2007<br>\$       | 2006<br>\$         | 2007<br>\$       | 2006<br>\$       |
| Other income                                | 6     | 301,446          | 109,783            | 301,446          | -                |
| Marketing expenses                          |       | (1,040)          | (23,811)           | (1,040)          | (19,961)         |
| Depreciation expenses                       |       | (1,047)          | (1,353)            | (1,047)          | (1,186)          |
| Directors fees                              |       | (29,381)         | (68,727)           | (29,381)         | (55,841)         |
| Management fees                             |       | (138,482)        | (113,455)          | (138,482)        | (98,909)         |
| Research and development expenses           | 7     | (631,581)        | (594,910)          | (631,581)        | (459,474)        |
| Impairment of property, plant and equipment |       | -                | (60,057)           | -                | (40,468)         |
| Other expenses                              |       | (261,533)        | (258,986)          | (261,533)        | (78,390)         |
| <b>Loss from operating activities</b>       |       | <b>(761,618)</b> | <b>(1,011,516)</b> | <b>(761,618)</b> | <b>(752,229)</b> |
| Financial income                            |       | 13,716           | 16,777             | 13,716           | 16,465           |
| Financial expenses                          |       | (17,329)         | (28,368)           | (17,329)         | (28,368)         |
| <b>Net financing costs</b>                  |       | <b>(3,613)</b>   | <b>(11,591)</b>    | <b>(3,613)</b>   | <b>(11,903)</b>  |
| <b>Loss before tax</b>                      |       | <b>(765,231)</b> | <b>(1,023,107)</b> | <b>(765,231)</b> | <b>(764,132)</b> |
| Income tax benefit / (expense)              | 9     | -                | 637,511            | -                | 248,648          |
| <b>Loss for the period</b>                  |       | <b>(765,231)</b> | <b>(385,596)</b>   | <b>(765,231)</b> | <b>(515,484)</b> |
| <b>Loss per share</b>                       |       |                  |                    |                  |                  |
| Basic loss per share                        | 10    | (0.0038)         | (0.0020)           |                  |                  |
| Diluted loss per share                      | 10    | (0.0038)         | (0.0020)           |                  |                  |

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  
 For the year ended 30 June 2007

|   | <i>Notes</i> | Consolidated     |                  | The Company      |                  |
|---|--------------|------------------|------------------|------------------|------------------|
|   |              | 2007<br>\$       | 2006<br>\$       | 2007<br>\$       | 2006<br>\$       |
| Loss for the period                                       |              | (765,231)        | (385,596)        | (765,231)        | (515,484)        |
| <b>Total recognised income and expense for the period</b> | <b>15</b>    | <b>(765,231)</b> | <b>(385,596)</b> | <b>(765,231)</b> | <b>(515,484)</b> |

Other movements in equity arising from transactions with owners as owners are set out in note 15.

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 2007

|                                       | Notes | Consolidated   |                 | The Company    |                 |
|---------------------------------------|-------|----------------|-----------------|----------------|-----------------|
|                                       |       | 2007<br>\$     | 2006<br>\$      | 2007<br>\$     | 2006<br>\$      |
| <b>Assets</b>                         |       |                |                 |                |                 |
| Cash and cash equivalents             | 11    | 84,093         | 77,389          | 84,093         | 77,389          |
| Trade and other receivables           |       | 23,760         | 5,141           | 23,760         | 5,141           |
| Income tax receivable                 | 12    | -              | 248,648         | -              | 248,648         |
| <b>Total current assets</b>           |       | <b>107,853</b> | <b>331,178</b>  | <b>107,853</b> | <b>331,178</b>  |
| Investments                           |       | -              | -               | 2              | 2               |
| Property, plant and equipment         | 13    | 115,623        | 75,477          | 115,623        | 75,477          |
| <b>Total non-current assets</b>       |       | <b>115,623</b> | <b>75,477</b>   | <b>115,625</b> | <b>75,479</b>   |
| <b>Total assets</b>                   |       | <b>223,476</b> | <b>406,655</b>  | <b>223,478</b> | <b>406,657</b>  |
| <b>Liabilities</b>                    |       |                |                 |                |                 |
| Trade and other payables              |       | 165,473        | 60,767          | 165,475        | 60,769          |
| Interest-bearing loans and borrowings | 14    | -              | 157,907         | -              | 157,907         |
| <b>Total current liabilities</b>      |       | <b>165,473</b> | <b>218,674</b>  | <b>165,475</b> | <b>218,676</b>  |
| Interest-bearing loans and borrowings | 14    | -              | 215,948         | -              | 215,948         |
| <b>Total non-current liabilities</b>  |       | <b>-</b>       | <b>215,948</b>  | <b>-</b>       | <b>215,948</b>  |
| <b>Total liabilities</b>              |       | <b>165,475</b> | <b>434,622</b>  | <b>165,477</b> | <b>434,624</b>  |
| <b>Net assets / (deficiency)</b>      |       | <b>58,003</b>  | <b>(27,967)</b> | <b>58,003</b>  | <b>(27,967)</b> |
| <b>Equity</b>                         |       |                |                 |                |                 |
| Issued capital                        | 15    | 14,209,498     | 13,358,297      | 1,338,718      | 487,517         |
| Accumulated losses                    | 15    | (14,151,495)   | (13,386,264)    | (1,280,715)    | (515,484)       |
| <b>Total equity / (deficiency)</b>    | 15    | <b>58,003</b>  | <b>(27,967)</b> | <b>58,003</b>  | <b>(27,967)</b> |

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**  
**For the year ended 30 June 2007**

|   |       | Consolidated |           | The Company |           |
|---|-------|--------------|-----------|-------------|-----------|
|   |       | 2007         | 2006      | 2007        | 2006      |
|   | Notes | \$           | \$        | \$          | \$        |
| <b>Cash flows from operating activities</b>         |       |              |           |             |           |
| Commercial Ready Grant funds received               |       | 364,775      | -         | 364,775     | -         |
| Cash paid to suppliers and employees                |       | (896,292)    | (992,330) | (896,292)   | (647,867) |
| Cash receipts from government grants                |       | -            | 55,448    | -           | -         |
| Income tax – R&D concession refund received         |       | 248,648      | 388,863   | 248,648     | -         |
| Interest received                                   |       | 13,716       | 16,445    | 13,716      | 16,445    |
| Interest paid                                       |       | -            | -         | -           | -         |
| <b>Net cash from operating activities</b>           | 20    | (269,153)    | (531,574) | (269,153)   | (631,402) |
| <b>Cash flows from investing activities</b>         |       |              |           |             |           |
| Proceeds from sale of property, plant and equipment |       | -            | 111,027   | -           | 111,027   |
| Acquisition of property, plant and equipment        |       | (78,800)     | (91,227)  | (78,800)    | (263,610) |
| Acquisition of subsidiaries                         |       | -            | -         | -           | 2         |
| Disposal of net assets of Revetec Limited – cash    | 24    | -            | (389,216) | -           | -         |
| <b>Net cash from investing activities</b>           |       | (78,800)     | (369,416) | (78,800)    | (152,581) |
| <b>Cash flows from financing activities</b>         |       |              |           |             |           |
| Proceeds from the issue of share capital            |       | 350,000      | 873,212   | 350,000     | 873,212   |
| Costs of share issue                                |       | -            | (385,695) | -           | (385,695) |
| Loans from related parties                          |       | 2,307        | 373,855   | 2,307       | 373,855   |
| Loans from/(to) directors received                  |       | (8,661)      | 81,500    | (8,661)     | -         |
| Loans (from)/to directors repaid                    |       | 11,011       | (81,500)  | 11,011      | -         |
| <b>Net cash from financing activities</b>           |       | 354,657      | 861,372   | 354,657     | 861,372   |
| Net increase in cash and cash equivalents           |       | 6,704        | (39,618)  | 6,704       | 77,389    |
| Cash and cash equivalents at 1 July                 |       | 77,389       | 117,007   | 77,389      | -         |
| <b>Cash and cash equivalents at 30 June</b>         | 11    | 84,093       | 77,389    | 84,093      | 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. Reporting entity

Revetec Holdings Limited (the "Company") is a company domiciled in Australia. The address of the Company's registered office is Suite 5, 2 Elliot Street Bundall, Queensland, Australia. The consolidated financial report of the Company as at and for the year ended 30 June 2007 comprise the Company and its subsidiaries (together referred to as the "consolidated entity").

As the Company was incorporated during the prior period the comparative amounts comprise the period from 4 August 2005 to 30 June 2006.

### 2. Basis of preparation

#### (a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australia Interpretations) adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001.

At the date of this report the Company is continuing to develop the CCE engine for aircraft applications.

The Company and Consolidated entity's financial report complies with the IFRSs and interpretations adopted by the International Accounting Standards Board.

The consolidated financial report was approved by the directors on 11 September 2007.

#### (b) Basis of measurement

The financial report is prepared on the historical cost basis.

#### (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 2007, the consolidated entity and the company had incurred an operating loss of \$765,231, had net assets of \$58,003 and net working capital liabilities of \$57,620. The consolidated entity and the company had net assets of \$58,003 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 continues to receive funding available under the Commercial Ready Grant scheme; and
- The Company continues to receive funding available under the convertible loan facility, as disclosed in note 15, to enable the ongoing key operations to continue. As at 30 June 2007, \$350,000 had been drawn down using this facility. The company has received confirmation from the convertible note holder that \$450,000 of funds is able to be drawdown over the next 18 months

Accordingly, the Directors are of the opinion that the going concern basis is appropriate for the preparation of the consolidated financial report. If the Company does not receive the funding from the Commercial Ready Grant scheme and from the convertible note facility, 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.

#### (d) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the Group.

#### (e) Use of estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

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 and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 2(c) Going concern.
- Note 3(e)(ii) Share capital - issued shares

## Revetec Holdings Limited and its controlled entities

### Notes to the consolidated financial statements

#### 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by consolidated entities.

The entity has elected to early adopt the following accounting standards and amendments:

- AASB 101 Presentation of Financial Statements (October 2006)
- 2007-4 Amendments to Australian Accounting Standards arising from ED 151 and other amendments.

#### (a) Basis of consolidation

##### (i) Reverse acquisition accounting

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

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

- Revetec Holdings Limited is the legal parent entity of the Consolidated entity; and
- Revetec Limited ("RL"), which is neither the legal parent nor legal acquirer, was deemed to be the accounting parent of the consolidated entity 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 RL were maintained at their book value. The impact of all transactions between entities in the Consolidated entities is eliminated in full.

The impact on equity of treating the formation of the Consolidated entity as a reverse acquisition is discussed in more detail in Note 24. RL was disposed of on 30 September 2006.

##### (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.

#### (b) Property, plant and equipment

##### (i) Recognition and measurement

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

Cost includes expenditures that are directly attributable to the acquisition of the asset.

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.

## Revetec Holdings Limited and its controlled entities

### Notes to the consolidated financial statements

#### 3. Significant accounting policies (continued)

##### (b) Property, plant and equipment (continued)

###### (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 and prior 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.

##### (c) 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 (d)).

##### (d) Impairment

###### (i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.



## Revetec Holdings Limited and its controlled entities

### Notes to the consolidated financial statements

#### 3. Significant accounting policies (continued)

##### (d) Impairment (continued)

##### (ii) Non-financial assets

The carrying amounts of the Consolidated entity's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in 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 the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. 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, if no impairment loss had been recognised.

##### (e) Financial instruments

##### (i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs, except as described below. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Consolidated entity becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Consolidated entity's contractual rights to the cash flows from the financial assets expire or if the Consolidated entity transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Consolidated entity commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Consolidated entity's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances 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.

Accounting for finance income and expense is discussed in note 3(g)(ii).

##### *Other financial instruments*

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

## Revetec Holdings Limited and its controlled entities

### Notes to the consolidated financial statements

#### 3. Significant accounting policies (continued)

##### (e) Financial instruments (continued)

##### (ii) Share capital

###### *Issued capital*

Issued capital includes shareholder based transactions including the derecognition of liabilities relating to the restructure of the company.

###### *Dividends*

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

###### *Transaction costs*

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

###### *Convertible note*

Convertible note arrangements that will be settled by the Company delivering a fixed number of its own equity instruments in exchange for a fixed amount of cash is recognised as an equity instrument. The equity instrument is measured as the amount received under the arrangement. Changes in the fair value of an equity instrument are not recognised in the financial statements.

###### *Share based payments*

Goods or services received or acquired in a share-based payment transaction are recognised when the consolidated entity obtains the goods or as the services are received. The consolidated entity recognises a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction, or a liability if the goods or services were acquired in a cash-settled share-based payment transaction.

For equity-settled share-based payment transactions, the consolidated entity measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

##### (f) 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 other income 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

#### 3. Significant accounting policies (continued)

##### (g) 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 and interest receivable on funds invested. 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.

##### (h) 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.

The Company and its wholly owned Australian resident subsidiaries have not elected to form a tax consolidated entity.

## Revetec Holdings Limited and its controlled entities

### Notes to the consolidated financial statements

#### 3. Significant accounting policies (continued)

##### (i) 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.

##### (j) Earnings per share

The Consolidated entity presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

##### (k) Segment reporting

A segment is a distinguishable component of the Consolidated entity that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment) which is subject to risks and rewards that are different from those of other segments. The Consolidated entity's primary format for segment reporting is based on business segments.

##### (l) New standard and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report.

- AASB 7 *Financial Instruments: Disclosures* (August 2005) replaces the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007, and will require additional disclosures with respect to the Consolidated entity's financial instruments and share capital.
- AASB 2005-10 *Amendments to Australian Accounting Standards* (September 2005) makes consequential amendments to AASB 132 *Financial Instruments: Disclosure 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 and is expected to only impact disclosures contained within the financial report.

## Revetec Holdings Limited and its controlled entities

### Notes to the consolidated financial statements

#### 3. Significant accounting policies (continued)

##### (i) New standard and interpretations not yet adopted (continued)

- AASB 8 *Operating Segments* replaces the presentation requirements of segment reporting in AASB 114 *Segment Reporting*. AASB 8 is applicable for annual reporting periods beginning on or after 1 January 2009 and is not expected to have an impact on the financial results of the Company and the Consolidated entity as the standard is only concerned with disclosures.
- AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8 makes amendments to AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, AASB 6 *Exploration for and Evaluation of Mineral Resources*, AASB 102 *Inventories*, AASB 107 *Cash Flow Statements*, AASB 119 *Employee Benefits*, AASB 127 *Consolidated and Separate Financial Statements*, AASB 134 *Interim Financial Reporting*, AASB 136 *Impairment of Assets*, AASB 1023 *General Insurance Contracts* and AASB 1038 *Life Insurance Contracts*. AASB 2007-3 is applicable for annual reporting periods beginning on or after 1 January 2009 and must be adopted in conjunction with AASB 8 *Operating Segments*. This standard is only expected to impact disclosures contained within the financial report.
- Interpretation 10 *Interim Financial Reporting and Impairment* prohibits the reversal of an impairment loss recognised in a previous interim period in respect of goodwill, an investment in an equity instrument or a financial asset carried at cost. Interpretation 10 will become mandatory for the Consolidated entity's 2008 financial statements, and will apply to goodwill, investments in equity instruments, and financial assets carried at cost prospectively from the date that the Consolidated entity first applied the measurement criteria of AASB 136 and AASB 139 respectively. The adoption of Interpretation 10 is not expected to have any impact on the financial report.
- Interpretation 11 AASB 2 *Share-based Payment - Group and Treasury Share Transactions* addresses the classification of a share-based payment transaction (as equity or cash settled), in which equity instruments of the parent or another Consolidated entity are transferred, in the financial statements of the entity receiving the services. Interpretation 11 will become mandatory for the Consolidated entity's 2008 financial report. The potential effect of the Interpretation on the Company's financial report has not yet been determined.
- AASB 2007-1 Amendments to Australian Accounting Standards arising from AASB Interpretation 11 amends AASB 2 *Share-based Payments* to insert the transitional provisions of AASB 2, previously contained in AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*. AASB 2007-1 is applicable for annual reporting periods beginning on or after 1 March 2007 and is not expected to have any impact on the consolidated financial report. The potential impact on the Company has not yet been determined.
- AASB 2007-2 Amendments to Australian Accounting Standards arising from AASB Interpretation 12 makes amendments to AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards*, AASB 117 *Leases*, AASB 118 *Revenue*, AASB 120 *Accounting for Government Grants and Disclosures of Government Assistance*, AASB 121 *The Effects of Changes in Foreign Exchange Rates*, AASB 127 *Consolidated and Separate Financial Statement*, AASB 131 *Interest in Joint Ventures*, and AASB 139 *Financial Instruments: Recognition and Measurement*. AASB 2007-2 is applicable for annual reporting periods beginning on or after 1 January 2008.
- AASB 2007-2 Amendments to Australian Accounting Standards also amends references to "UIG Interpretation" to interpretations. This amending standard is applicable to annual reporting periods ending on or after 28 February 2007.

## Revetec Holdings Limited and its controlled entities

### Notes to the consolidated financial statements

#### 4. Determination of fair values

A number of the Consolidated entity's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

##### (i) Property, plant and equipment

The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

##### (ii) Trade and other receivables

The fair value of trade and other receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

##### (iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

#### 5. 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.

#### 6. Other income

|   | Consolidated   |                | The Company    |            |
|---|----------------|----------------|----------------|------------|
|   | 2007<br>\$     | 2006<br>\$     | 2007<br>\$     | 2006<br>\$ |
| Commercial Ready Grant income                 | 301,446        | -              | 301,446        | -          |
| Other government grants                       | -              | 55,448         | -              | -          |
| Gain on sale of property, plant and equipment | -              | 54,335         | -              | -          |
|   | <u>301,446</u> | <u>109,783</u> | <u>301,446</u> | <u>-</u>   |

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

7. Research and development expense

|                        | Consolidated |            | The Company |            |
|------------------------|--------------|------------|-------------|------------|
|                        | 2007<br>\$   | 2006<br>\$ | 2007<br>\$  | 2006<br>\$ |
| Director's fees        | 117,524      | 189,409    | 117,524     | 155,577    |
| Depreciation           | 37,606       | 46,159     | 37,606      | 35,450     |
| Lease payments         | 26,459       | 46,170     | 26,459      | 31,390     |
| Employee benefits      | 276,777      | 111,947    | 276,777     | 64,349     |
| Materials and supplies | 85,478       | 66,465     | 85,478      | 61,102     |
| Other                  | 87,737       | 134,760    | 87,737      | 111,606    |
|                        | 631,581      | 594,910    | 631,581     | 459,474    |

8. Auditors' remuneration

**Audit services**

Auditors of the Company – KPMG

Audit and review of financial reports

Other services

|  |        |        |        |        |
|--|--------|--------|--------|--------|
|  | 20,000 | 18,000 | 20,000 | 18,000 |
|  | 8,400  | 5,000  | 8,400  | 5,000  |
|  | 28,400 | 23,000 | 28,400 | 23,000 |

**Other services**

Auditors of the Company – KPMG

Transaction services

Taxation services

|  |       |        |       |        |
|--|-------|--------|-------|--------|
|  | -     | 50,000 | -     | 50,000 |
|  | 4,000 | 8,000  | 4,000 | 8,000  |
|  | 4,000 | 58,000 | 4,000 | 58,000 |

9. 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) | - | (248,648) |
|  | - | (637,511) | - | (248,648) |

**Numerical reconciliation between tax expense and pre-tax net loss**

Loss before tax

Income tax using the domestic corporation  
tax rate of 30% (2006: 30%)

Increase in income tax expense due to:

Effect of tax losses and temporary  
differences 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  
loss

|  |           |             |           |           |
|--|-----------|-------------|-----------|-----------|
|  | (765,231) | (1,023,107) | (765,231) | (764,132) |
|  | (229,569) | (306,932)   | (229,569) | (229,240) |
|  | 229,569   | 306,932     | 229,569   | 229,240   |
|  | -         | (637,511)   | -         | (248,648) |
|  | -         | (637,511)   | -         | (248,648) |

**Unrecognised deferred tax assets**

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

Tax losses and deductible temporary differences

|  |         |         |         |         |
|--|---------|---------|---------|---------|
|  | 355,814 | 306,932 | 278,122 | 229,240 |
|  | 355,814 | 306,932 | 278,212 | 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

## 10. Loss per share

### Basic loss per share

The calculation of basic loss per share at 30 June 2007 was based on the loss attributable to ordinary shareholders of \$765,231 (2006: \$385,596) and a weighted average number of ordinary shares outstanding during the financial year ended 30 June 2007 of 200,929,327 (2006: 191,866,983), calculated as follows:

### Loss attributable to ordinary shareholders

|  | Consolidated |           |
|--|--------------|-----------|
|  | 2007         | 2006      |
|  | \$           | \$        |
| Loss attributable to ordinary shareholders | (765,231)    | (385,596) |

### Weighted average number of ordinary shares

|   | Number      | Number      |
|---|-------------|-------------|
| Issued ordinary shares at 1 July                      | 193,070,879 | 190,887,848 |
| Effect of shares issued during the year               | 7,858,448   | 979,135     |
| Weighted average number of ordinary shares at 30 June | 200,929,327 | 191,866,983 |

### Diluted earnings/ (loss) per share

The calculation of diluted earnings/ (loss) per share at 30 June 2007 was based on loss attributable to ordinary shareholders (diluted) of \$765,231 (2006: \$385,596) and a weighted average number of ordinary shares (diluted) outstanding during the financial year ended 30 June 2007 of 200,929,327 (2006: 191,866,983), calculated as follows:

### Loss attributable to ordinary shareholders (diluted)

|  | \$        | \$        |
|--|-----------|-----------|
| Loss attributable to ordinary shareholders (diluted) | (765,231) | (385,596) |

### Weighted average number of ordinary shares (diluted)

|   | Number      | Number      |
|---|-------------|-------------|
| Weighted average number of ordinary shares at 30 June           | 200,929,327 | 191,866,983 |
| Weighted average number of ordinary shares (diluted) at 30 June | 200,929,327 | 191,866,983 |

## 11. Cash and cash equivalents

|  | Consolidated |        | The Company |        |
|--|--------------|--------|-------------|--------|
|  | 2007         | 2006   | 2007        | 2006   |
|  | \$           | \$     | \$          | \$     |
| Bank balances and cash on hand                           | 84,093       | 77,389 | 84,093      | 77,389 |
| Cash and cash equivalents in the statement of cash flows | 84,093       | 77,389 | 84,093      | 77,389 |

## 12. Income tax receivable

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



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

13. Property, plant and equipment

|                                    | Consolidated              |                        |                          |                   | The Company |                           |                        |                          |
|------------------------------------|---------------------------|------------------------|--------------------------|-------------------|-------------|---------------------------|------------------------|--------------------------|
|                                    | Leasehold<br>improvements | Plant and<br>equipment | Fixtures<br>and fittings | Motor<br>vehicles | Total       | Leasehold<br>improvements | Plant and<br>equipment | Fixtures<br>and fittings |
|                                    | \$                        | \$                     | \$                       | \$                | \$          | \$                        | \$                     | \$                       |
| Cost                               |                           |                        |                          |                   |             |                           |                        |                          |
| 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     | 7,048                     | 148,151                | 37,414                   |
| Other acquisitions                 | -                         | 40,063                 | -                        | -                 | 40,063      | -                         | 40,063                 | -                        |
| Disposals                          | (6,867)                   | (689,521)              | (103,553)                | (77,587)          | (877,528)   | -                         | (105,368)              | -                        |
| Balance at 30 June 2006            | 7,048                     | 82,846                 | 37,414                   | 34,398            | 161,706     | 7,048                     | 82,846                 | 37,414                   |
|                                    |                           |                        |                          |                   |             |                           |                        |                          |
| Balance at 1 July 2006             | 7,048                     | 82,846                 | 37,414                   | 34,398            | 161,706     | 7,048                     | 82,846                 | 37,414                   |
| Acquisitions                       | -                         | 78,800                 | -                        | -                 | 78,800      | -                         | 78,800                 | -                        |
| Other acquisitions                 | -                         | -                      | -                        | -                 | -           | -                         | -                      | -                        |
| Disposals                          | -                         | -                      | -                        | -                 | -           | -                         | -                      | -                        |
| Balance at 30 June 2007            | 7,048                     | 161,646                | 37,414                   | 34,398            | 240,506     | 7,048                     | 161,646                | 37,414                   |
|                                    |                           |                        |                          |                   |             |                           |                        |                          |
| Depreciation and impairment losses |                           |                        |                          |                   |             |                           |                        |                          |
| 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                    |
| Impairment losses                  | 6,673                     | 16,515                 | 29,956                   | 6,913             | 60,057      | 6,673                     | 16,515                 | 29,956                   |
| Disposals                          | (1,361)                   | (473,653)              | (73,299)                 | (21,262)          | (569,575)   | -                         | (9,890)                | -                        |
| Balance at 30 June 2006            | 7,048                     | 29,369                 | 37,414                   | 12,398            | 86,229      | 7,048                     | 29,369                 | 37,414                   |
|                                    |                           |                        |                          |                   |             |                           |                        |                          |
| Depreciation and impairment losses |                           |                        |                          |                   |             |                           |                        |                          |
| Balance at 1 July 2006             | 7,048                     | 29,369                 | 37,414                   | 12,398            | 86,229      | 7,048                     | 29,369                 | 37,414                   |
| Depreciation charge for the year   | -                         | 33,419                 | -                        | 5,235             | 38,653      | -                         | 33,419                 | -                        |
| Impairment losses                  | -                         | -                      | -                        | -                 | -           | -                         | -                      | -                        |
| Disposals                          | -                         | -                      | -                        | -                 | -           | -                         | -                      | -                        |
| Balance at 30 June 2007            | 7,048                     | 62,788                 | 37,414                   | 17,633            | 124,882     | 7,048                     | 62,788                 | 37,414                   |
|                                    |                           |                        |                          |                   |             |                           |                        |                          |
| Carrying amounts                   |                           |                        |                          |                   |             |                           |                        |                          |
| At 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                 | -                        |
| At 1 July 2006                     | -                         | 53,477                 | -                        | 22,000            | 75,477      | -                         | 53,477                 | -                        |
| At 30 June 2007                    | -                         | 98,858                 | -                        | 16,765            | 115,623     | -                         | 98,858                 | -                        |

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

## 14. Interest bearing liabilities and borrowings

|  | Note | Consolidated |           | The Company |           |
|--|------|--------------|-----------|-------------|-----------|
|  |      | 2007         | 2006      | 2007        | 2006      |
|  |      | \$           | \$        | \$          | \$        |
| <b>Current liabilities</b>                       |      |              |           |             |           |
| Loan from related party                          |      | -            | 157,907   | -           | 157,907   |
|  |      | -            | 157,907   | -           | 157,907   |
| <b>Non-current liabilities</b>                   |      |              |           |             |           |
| Loan from related party                          |      | -            | 215,948   | -           | 215,948   |
|  |      | -            | 215,948   | -           | 215,948   |
| <b>Financing Facilities</b>                      |      |              |           |             |           |
| Loan from related party                          |      | -            | 373,855   | -           | 373,855   |
| Convertible note                                 |      | -            | 1,950,000 | -           | 1,950,000 |
|  |      | -            | 2,323,855 | -           | 2,323,855 |
| <b>Facilities utilised at reporting date</b>     |      |              |           |             |           |
| Loan from related party                          |      | -            | 373,855   | -           | 373,855   |
| Convertible note                                 | 15   | -            | 350,000   | -           | -         |
|  |      | -            | 723,855   | -           | 373,855   |
| <b>Facilities not utilised at reporting date</b> |      |              |           |             |           |
| Loan from related party                          |      | -            | -         | -           | -         |
| Convertible note                                 | 15   | -            | 1,600,000 | -           | 1,600,000 |
|  |      | -            | 1,600,000 | -           | 1,600,000 |

### **Loan from related party**

The loan from related party represents amounts owing to Revetec Limited.

On 30 November 2006 a special resolution was passed by the members of Revetec Limited (a related entity) resolving that: Revetec Limited realise all assets, settle all liabilities, write-off the existing loan to Revetec Holding Limited and all surplus monies be paid to Revetec Holdings Limited leading to the winding up of Revetec Limited as soon as is practicable. Consequently, at 30 November 2006, Revetec Holdings Limited derecognised its liability to Revetec Limited and recognised a corresponding increase in shareholder contributions of \$393,490.

### **Convertible note**

On 27 July 2006, the Company amended the convertible note arrangement with Douglas John Lomas as Trustee for Centre Management Trust. The amendment had the effect of changing the classification of the instrument from debt to equity. Refer to note 15 for further details of the amended arrangements.

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

## 15. Capital and reserves

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

|  | Note | Share<br>capital<br>\$ | Accumulated<br>losses<br>\$ | Total<br>\$ |
|--|------|------------------------|-----------------------------|-------------|
| <b>Consolidated</b>                                      |      |                        |                             |             |
| Balance at 1 July 2005 – reverse acquisition adjustments | 24   | 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                                   | 24   | (471,192)              | -                           | (471,192)   |
| Balance at 30 June 2006                                  |      | 13,358,297             | (13,386,264)                | (27,967)    |

|                                     |  |            |              |           |
|-------------------------------------|--|------------|--------------|-----------|
| <b>Consolidated</b>                 |  |            |              |           |
| Balance at 1 July 2006              |  | 13,358,297 | (13,386,264) | (27,967)  |
| Total recognised income and expense |  | -          | (765,231)    | (765,231) |
| Shareholder contribution            |  | 393,490    | -            | 393,490   |
| Shares issued                       |  | 457,711    | -            | 457,711   |
| Balance at 30 June 2007             |  | 14,209,498 | (14,151,495) | 58,003    |

### 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             | 487,517   | (515,484) | (27,967)  |

### The Company

|                                     |           |             |           |
|-------------------------------------|-----------|-------------|-----------|
| Balance at 1 July 2006              | 487,517   | (515,484)   | (27,967)  |
| Total recognised income and expense | -         | (765,231)   | (765,231) |
| Shareholder contribution            | 393,490   | -           | 393,490   |
| Shares issued                       | 457,711   | -           | 457,711   |
| Balance at 30 June 2007             | 1,338,718 | (1,280,715) | 58,003    |

The consolidated entity reflects the business combinations reverse acquisition as outlined in notes 3(a)(i) and 24.

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

## 15. Capital and reserves (continued)

### Share capital

|   | The Company     |           |             |         |
|---|-----------------|-----------|-------------|---------|
|   | Ordinary shares |           |             |         |
|   | 2007            |           | 2006        |         |
|   | Number          | \$        | Number      | \$      |
| On issue 1 July – fully paid  | 193,070,879     | 873,212   | -           | -       |
| Issued upon restructure of Revetec Limited<br>(refer notes 22 and 24) | -               | -         | 190,887,848 | -       |
| Issued for cash at 40 cents under Prospectus                          | -               | -         | 2,183,031   | 873,212 |
| Shareholder contribution  | -               | 393,490   | -           | -       |
| Issued as share-based payments  | 2,750,000       | 107,711   | -           | -       |
| Issued to convertible note holder                                     | 7,777,778       | 350,000   | -           | -       |
| On issue at 30 June – fully paid                                      | 203,598,657     | 1,724,413 | 193,070,879 | 873,212 |

Effective 1 July 1998, the Company Law Review Act abolished the concept of par value shares and the concept of authorised capital. Accordingly, the Company does not have authorised capital or par value in respect of its issued shares.

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.

### Convertible notes

On 27 July 2006, 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.

On 4 August 2006, \$350,000 was received and on 8 August 2006 7,777,778 ordinary shares were issued, under this arrangement. At 4 August 2006 the share price was 3 cents per share.

### Share-based payments

During the year ended 30 June 2007 the Company entered into agreements with two consultants to exchange the provision of their services for shares in the company. The fair value of the share-based payments were measured by reference to the fair value of the shares to be issued and were recognised as an expense, with a corresponding increase in Share capital, over the period the services were rendered.

|                    | Fair value |         |
|--------------------|------------|---------|
|                    | Total      |         |
| Date shares issued | Number     | \$      |
| 7 March 2007       | 2,500,000  | 101,461 |
| 31 January 2007    | 250,000    | 6,250   |
|                    | 2,750,000  | 107,711 |

## Revetec Holdings Limited and its controlled entities

### Notes to the consolidated financial statements

#### 15. Capital and reserves (continued)

##### **Shareholder contribution**

On 30 November 2006 a special resolution was passed by the members of Revetec Limited resolving that: Revetec Limited realise all assets, settle all liabilities, write-off the existing loan to Revetec Holdings Limited and all surplus monies be paid to Revetec Holdings Limited leading to the winding up of Revetec Limited as soon as is practicable. Revetec Limited and Revetec Holdings Limited were part of a group of companies as outlined in note 24. The shareholders of Revetec Limited and Revetec Holdings Limited were substantially the same at November 2006. As the liability was extinguished on 30 November 2006 and the transaction primarily relates to transactions with Revetec Holdings Limited's shareholders, the extinguishment of the liability has been credited directly to equity as a shareholder contribution.

##### **Dividends**

No dividends were paid during the year to 30 June 2007 (2006: \$0) and no dividends are currently proposed.

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

## 16. Financial instruments

Exposure to credit and interest rate risks arises in the normal course of the company and 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 company and 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.

### Fair values

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

### 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.

|                           | 2007                    |          |                     |                |              |              |                      | 2006                    |           |                     |                |              |              |                      |
|---------------------------|-------------------------|----------|---------------------|----------------|--------------|--------------|----------------------|-------------------------|-----------|---------------------|----------------|--------------|--------------|----------------------|
|                           | Effective interest rate | Total \$ | 6 months or less \$ | 6-12 Months \$ | 1-2 Years \$ | 2-5 Years \$ | More than 5 years \$ | Effective interest rate | Total \$  | 6 months or less \$ | 6-12 Months \$ | 1-2 Years \$ | 2-5 Years \$ | More than 5 years \$ |
| Cash and cash equivalents | 5.5%                    | 84,093   | 84,093              | -              | -            | -            | -                    | 4%                      | 76,689    | 76,689              | -              | -            | -            | -                    |
| Loan from related party*  | n/a                     | -        | -                   | -              | -            | -            | -                    | 10%                     | (157,907) | -                   | (157,907)      | -            | -            | -                    |
| Loan from related party*  | n/a                     | -        | -                   | -              | -            | -            | -                    | 8%                      | (215,948) | -                   | -              | -            | -            | (215,948)            |
|                           |                         | 84,093   | 84,093              | -              | -            | -            | -                    |                         | (297,166) | 76,689              | (157,907)      | -            | -            | (215,948)            |
| <b>The Company</b>        |                         |          |                     |                |              |              |                      |                         |           |                     |                |              |              |                      |
| Cash and cash equivalents | 5.5%                    | 84,093   | 84,093              | -              | -            | -            | -                    | 4%                      | 76,689    | 76,689              | -              | -            | -            | -                    |
| Loan from related party*  | n/a                     | -        | -                   | -              | -            | -            | -                    | 10%                     | (157,907) | -                   | (157,907)      | -            | -            | -                    |
| Loan from related party*  | n/a                     | -        | -                   | -              | -            | -            | -                    | 8%                      | (215,948) | -                   | -              | -            | -            | (215,948)            |
|                           |                         | 84,093   | 84,093              | -              | -            | -            | -                    |                         | (297,166) | 76,689              | (157,907)      | -            | -            | (215,948)            |

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

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

## 17. Operating leases

### Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

|                            | Consolidated |        | The Company |        |
|----------------------------|--------------|--------|-------------|--------|
|                            | 2007         | 2006   | 2007        | 2006   |
|                            | \$           | \$     | \$          | \$     |
| Less than one year         | 18,640       | 27,960 | 18,640      | 27,960 |
| Between one and five years | -            | 18,640 | -           | 18,640 |
| More than five years       | -            | -      | -           | -      |
|                            | 18,640       | 46,600 | 18,640      | 46,600 |

The consolidated entity leases business premises under an operating lease.

During the year ended 30 June 2007 \$26,459 was recognised as an expense in the income statement in respect of operating leases (2006: \$18,970).

## 18. Contingencies

At 30 June 2007 the company has agreed to provide financial support to a related company, Revetec Limited. At 30 June 2007 Revetec Limited had net liabilities of \$2,639. At 30 June 2007, the maximum liability arising from this commitment is estimated to be \$2,639.

## 19. Consolidated entities

|  | Country of<br>Incorporation | Ownership interest |      |
|--|-----------------------------|--------------------|------|
|  |                             | 2007               | 2006 |
| Parent entity                          |                             |                    |      |
| Revetec Holdings Limited               | Australia                   |                    |      |
| Subsidiaries                           |                             |                    |      |
| Revetec International Pty Ltd          | Australia                   | 100%               | 100% |
| Revolution Engine Technologies Pty Ltd | Australia                   | 100%               | 100% |

## 20. Reconciliation of cash flows from operating activities

|  | Consolidated     |                  | The Company      |                  |
|--|------------------|------------------|------------------|------------------|
|  | 2007             | 2006             | 2007             | 2006             |
|  | \$               | \$               | \$               | \$               |
| Cash flows from operating activities                                     |                  |                  |                  |                  |
| Profit/(loss) for the period after tax                                   | (785,231)        | (385,596)        | (785,231)        | (515,484)        |
| Adjustments for:   |                  |                  |                  |                  |
| Depreciation   | 38,653           | 47,512           | 38,653           | 36,636           |
| Provisions   | -                | 40,138           | -                | -                |
| Share based payment for consulting                                       | 107,711          | -                | 107,711          | -                |
| Interest expense   | 17,329           | 28,368           | 17,329           | 28,368           |
| Interest income  | (13,716)         | (16,777)         | (13,716)         | (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)        |
| <b>Operating profit before changes in working capital and provisions</b> | <b>(615,254)</b> | <b>(918,144)</b> | <b>(615,254)</b> | <b>(675,125)</b> |
| (Increase)/decrease in trade and other receivables                       | 227,677          | 72,873           | 227,677          | (5,141)          |
| (Decrease)/increase in trade and other payables                          | 104,708          | (91,943)         | 104,708          | 32,399           |
|  | (282,869)        | (937,214)        | (282,869)        | (647,867)        |
| Interest received  | 13,716           | 16,777           | 13,716           | 16,465           |
| Income tax refund – R&D concessions received                             | -                | 388,863          | -                | -                |
| <b>Net cash from operating activities</b>                                | <b>(269,153)</b> | <b>(531,574)</b> | <b>(269,153)</b> | <b>(631,402)</b> |

## Revetec Holdings Limited and its controlled entities

### Notes to the consolidated financial statements

#### 21. 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 |         |
|------------------------------|--------------|---------|-------------|---------|
|                              | 2007         | 2006    | 2007        | 2006    |
|                              | \$           | \$      | \$          | \$      |
| Short-term employee benefits | 382,949      | 258,137 | 382,949     | 211,418 |
|                              | 382,949      | 258,137 | 382,949     | 211,418 |

##### **Individual directors and executives compensation disclosures**

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

The Directors on 7 September 2007, Mr Bradley David Howell-Smith, Mr Paul Rudolf Moitzi and Mr Charles Chok Kwong Chan (resigned 7 September 2007) have agreed to provide financial support to the company over the coming 12 months.

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 \$11,010 was made to Mr BD Howell-Smith during the year (2006: \$2,350). This loan was repaid on 22 June 2007. No interest was charged on this loan.

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<br>Balance<br>\$ | Closing<br>Balance<br>\$ | Interest paid and<br>payable in the<br>reporting period<br>\$ | Number in<br>group at<br>30 June |
|---|--------------------------|--------------------------|---|----------------------------------|
| <b>2006</b>   |                          |                          |   |                                  |
| Total for key management personnel – 2006                           | -                        | 2,350                    | -   | 1                                |
| Total for key management personnel and their related parties – 2006 | -                        | 2,350                    | -   | 1                                |
| <b>2007</b>   |                          |                          |   |                                  |
| Total for key management personnel - 2007                           | 2,350                    | -                        | -   | 1                                |
| Total for key management personnel and their related parties – 2007 | 2,350                    | -                        | -   | 1                                |



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

## 21. Key management personnel disclosures (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:

|                        |   | Note  | Consolidated |            | The Company |            |
|------------------------|---|-------|--------------|------------|-------------|------------|
|                        |   |       | 2007<br>\$   | 2006<br>\$ | 2007<br>\$  | 2006<br>\$ |
| Key management persons | Transaction                             |       |              |            |             |            |
| Mr CCK Chan            | Legal fees                              | (i)   | 1,590        | 47,000     | 1,590       | 47,000     |
|                        | Bookkeeping and administration services | (ii)  | 138,482      | 96,909     | 138,482     | 96,909     |
|                        | Professional services                   | (iii) | -            | 39,137     | -           | 39,137     |

- (i) Chan Lawyers received fees of \$1,590 (2006: \$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 \$138,482 (2006: \$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 \$0 (2006: \$39,137) were paid to Adcom Advertising Pty Ltd during the year. Mr. Charles Chan is a director of Adcom Advertising Pty Ltd.

There were no amounts receivable from and payable to other key management personnel at reporting date (2006: nil).

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:

|                    | 2007<br>Number         |           |       |                         |
|--------------------|------------------------|-----------|-------|-------------------------|
|                    | Held at<br>1 July 2006 | Purchases | Sales | Held at<br>30 June 2007 |
| <b>Directors</b>   |                        |           |       |                         |
| 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               |

|                    | 2006<br>Number           |                  |       |                         |
|--------------------|--------------------------|------------------|-------|-------------------------|
|                    | Held at<br>4 August 2005 | Purchases<br>(b) | Sales | Held at<br>30 June 2006 |
| 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

#### 22. Non-key management personnel disclosures

##### Identity of related parties

The consolidated entity has a related party relationship with its subsidiaries (see note 19) and with its key management personnel (see note 21).

##### 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 Holdings 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 2005 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.

Upon acquisition of Revetec Limited on 4 August 2005 the fair value of the net assets acquired were \$633,136. Upon disposal of Revetec Limited on 30 September 2005, the fair value of the net assets of Revetec Limited were \$471,191.

As outlined in notes 3(a)(i) and 24 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.

##### Loans from related party

During 2006 Revetec Limited (a related entity) provided two loans to Revetec Holdings Limited. At 30 June 2006 these loans including interest and principal amounted to \$157,907 and \$215,948. Interest was payable at rates of 10% and 8%, respectively.

On 30 November 2006 a special resolution was passed by the members of Revetec Limited resolving that: Revetec Limited realise all assets; settle all liabilities; write-off the existing loan to Revetec Holdings Limited; and all surplus monies be paid to Revetec Holdings Limited leading to the winding up of Revetec Limited as soon as practicable. Consequently, at 30 November 2006 Revetec Holdings Limited derecognised its liability to Revetec Limited of \$393,490 and recognised a corresponding increase in shareholder contributions.

## Revetec Holdings Limited and its controlled entities

### Notes to the consolidated financial statements

#### 23. Subsequent events

On 27 July 2007, the Company received \$69,970 (GST exclusive) from the Commercial Ready Grant scheme. This grant instalment was partially paid in advance and represents 50% of the forecast eligible expenses for the quarter ending 30 September 2007, adjusted for any overpayments in the previous instalment.

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.

#### 24. 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<br>values | Fair value<br>adjustments | Carrying<br>amounts |
|---|----------------------|---------------------------|---------------------|
|   | \$                   | \$                        | \$                  |
| Cash and cash equivalents               | 1                    | -                         | 1                   |
| Net identifiable assets and liabilities | 1                    | -                         | 1                   |
| Discount on acquisition                 | 1                    |                           |                     |
| Consideration paid                      | -                    |                           |                     |

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     | (36,168)    |
| Fair value of in specie distribution | 471,192     |

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.

## 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 10 and 35, 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 2007 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;
  - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a);
  - (c) 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*; and
  - (d) 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 for the financial year ended 30 June 2007.

Gold Coast  
11 September 2007

Signed in accordance with a resolution of the directors:



Bradley David Howell-Smith  
Chairperson

## **Independent auditor's report to the members of Revetec Holdings Limited**

### **Report on the financial report**

We have audited the accompanying financial report of Revetec Holdings Limited (the Company), which comprises the balance sheets as at 30 June 2007, and the income statements, statements of recognised income and expense and cash flow statements for the year ended on that date, a description of significant accounting policies and other explanatory notes 1 to 24 and the directors' declaration set out on pages 10 to 36 of the Consolidated entity comprising the disclosing entity and the entities it controlled at the year's end or from time to time during the financial year.

As permitted by the Corporations Regulations 2001, the Company has disclosed information 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. We have audited these remuneration disclosures.

### *Directors' responsibility for the financial report and the AASB 124 remuneration disclosures in the Directors' report*

The directors of the disclosing entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial report of the Company and Consolidated entity, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the Company are also responsible for the remuneration disclosures contained in the Directors' report.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards (including the Australia Accounting Interpretations), a view which is consistent with our understanding of the Company's and the consolidated entity's financial position and of their performance and whether the remuneration disclosures are in accordance with Australian Accounting Standard AASB 124.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Auditor's opinion on the financial report*

In our opinion:

(a) the financial report of Revetec Holdings Limited is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's and the Consolidated entity's financial position as at 30 June 2007 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

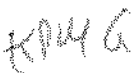
(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

*Auditor's opinion on AASB 124 remuneration disclosures contained in directors' report*

In our opinion, the remuneration disclosures that are contained in sections 4.1 and 4.2 of Remuneration report in the Directors' report comply with Australian Accounting Standards 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



Paul G Steer  
Partner

Gold Coast

11 September 2007



**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 2007 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.

A handwritten signature in dark ink, appearing to read 'KPMG'.

KPMG

A handwritten signature in dark ink, appearing to read 'P G Steer'.

P G Steer  
Partner

Gold Coast

11 September 2007

## NSX Additional information

Additional information required by the National Stock Exchange of Australia Limited ("NSX") Listing Rules and not disclosed elsewhere in this report is set out below.

## Shareholdings (as at 30 June 2007)

### 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 | 15.90 |

### 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 equity security holders

| Number of equity security holders |                 |
|-----------------------------------|-----------------|
| Category                          | Ordinary Shares |
| 1-1,000                           | 24              |
| 1,001- 5,000                      | 316             |
| 5,001 - 10,000                    | 304             |
| 10,001 - 100,000                  | 708             |
| 100,001 and over                  | 206             |
|                                   | <u>1,558</u>    |

### Securities Exchange

The Company is listed on the National Stock Exchange of Australia.

### Other information

Revetec Holdings Limited, incorporated and domiciled in Australia, is a publicly listed company limited by shares.



## NSX Additional information (continued)

### Twenty largest shareholders

| Name   | Number of ordinary shares held | Percentage of capital held |
|--|--------------------------------|----------------------------|
| Bradley David Howell-Smith                             | 32,380,987                     | 15.90%                     |
| Douglas John Lomas                                     | 6,777,778                      | 3.33%                      |
| Wincof Pty Ltd   | 6,006,399                      | 2.95%                      |
| Paul Rudolf Moitzi Atf Moitzi Family Trust             | 5,879,969                      | 2.89%                      |
| Brian Robert Clarke & Michelle Amanda Koch             | 4,578,995                      | 2.25%                      |
| Peter Koch   | 4,517,000                      | 2.22%                      |
| John Robinson  | 4,006,175                      | 1.97%                      |
| Pan Enterprises P/L Atf Pan Discretionary Family Trust | 3,516,005                      | 1.73%                      |
| Brian Douglas Andrews                                  | 3,093,000                      | 1.52%                      |
| Christopher Leo Drenkhahn                              | 3,010,001                      | 1.48%                      |
| Murray John Andrew                                     | 3,000,000                      | 1.47%                      |
| Graham Mark Drever & Alison Louise Drever              | 2,953,570                      | 1.45%                      |
| Stuart Richard Lee Martin                              | 2,900,000                      | 1.42%                      |
| Graham Mark Drever                                     | 2,870,530                      | 1.41%                      |
| Reginald Ainsworth                                     | 2,802,000                      | 1.38%                      |
| Michael Anthony O'Mara & Lynette O'Mara                | 2,608,850                      | 1.28%                      |
| Evadon Corporate Pty Ltd                               | 2,500,000                      | 1.23%                      |
| Hartaz Pty Ltd   | 2,123,888                      | 1.04%                      |
| Kingswood Pty Ltd                                      | 2,000,003                      | 0.98%                      |
| Steven Valtas & Helen Nina Valtas                      | 1,893,777                      | 0.93%                      |

## 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

Unit 5, 2 Elliott Street  
 Bundall QLD 4217  
 Telephone: (07) 5531 6059  
 Facsimile: (07) 5531 6997  
 Email: [admin@revetec.com](mailto:admin@revetec.com)  
 Website: [www.revetec.com](http://www.revetec.com)

### Share Registry

Computershare Investor Services Pty Ltd  
 Level 27 Central Plaza One  
 345 Queen Street  
 Brisbane QLD 4000  
 Telephone: (07) 3237 2127  
 Facsimile: (07) 3229 9860

