Revetec Holdings Limited

and its controlled entities

A.C.N 115 621 317

Annual report

30 June 2008

Contents

Revetec Holdings Limited and its controlled entities
Directors' report
For the year ended 30 June 2008

The directors present their report together with the financial report of Revetec Holdings Limited ('the Company') and of the Group, being the Company and its controlled entities, for the financial year ended 30 June 2008 and the auditor's report thereon.

Revetec Holdings Limited and its controlled entities
Directors' report (continued)
For the year ended 30 June 2008

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

Name and position	***Appointed***	***Experience, special responsibilities and other directorships***
Bradley David Howell-Smith Executive Director, Chairperson, and Company Secretary	4 August 2005	Inventor of the CCE concept, designer and builder of the first prototype engine 18 years experience in the automotive industry Automotive Mechanical Engineering certificate
Charles Chok Kwong Chan Executive Director and Managing Director	4 August 2005 Resigned 7 September 2007	Director and solicitor for the Revetec group of companies since the inception of the CCE design Principal of Chan Lawyers Director of Adcom Strategies Pty Ltd Legal practitioner since 1976 and has extensive experience in Corporate; Commercial Law; Intellectual Property; and Technology Law
Paul Rudolf Moitzi Executive Director	4 August 2005	20 years experience in the Toolmaking Industry Operated own business in design and manufacturing of Press Tools and special purpose machines for all types of industries Extensive experience in implementation of new technology in the toolmaking industry
Lan Wai Lee Director	7 September 2007	8 years experience in accountancy Associate member of CPA Australia

2. Company secretary
Bradley David Howell-Smith was appointed to the position of Company Secretary in September 2007. 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:

Director	Board Meetings	
	A	**B**
Bradley David Howell-Smith	7	7
Charles Chok Kwong Chan	2	2
Paul Rudolf Moitzi	7	7
Lan Wai Lee	4	5

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

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 Group, 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 Group.

Compensation levels for key management personnel of the Company, and relevant key management personnel of the Group 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. Fixed compensation is the only compensation provided to key management personnel of the Company and Group and no directors are party to service contracts. Key management personnel do not receive compensation by means of bonuses or other performance-based compensation, share-based payments or other benefits.

Compensation levels are reviewed annually by the board through a process that considers individual, segment and overall performance of the Group. 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. The review process is intended to assess whether the Company's long-term strategic objectives are being achieved and the achievement of individual performance objectives.

Consequences of performance on shareholders wealth

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

	2008	2007	2006
Loss attributable to equity holders of the parent	($420,138)	($765,231)	($385,596)
Dividends paid	-	-	-
Change in share price	($0.015)	($0.01)	($0.34)

Revetec Holdings Limited and its controlled entities
Directors' report (continued)
For the year ended 30 June 2008

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	Other long term		Share-based payments			
		Salary & fees $	STI cash bonus $	Non-monetary benefits $	Total $	Super-annuation benefits $	$	Termination benefits $	Options and rights $	Total $	S300A (1)(e)(i) Proportion of remuneration performance related %	S300A (1)(e)(vi) Proportion of remuneration performance related %
Executives / Directors												
Bradley David Howell-Smith, Chairperson and Company Secretary	*2008*	*159,536*	-	-	*159,536*	-	-	-	-	*159,536*	-	-
	2007	*138,456*	-	-	*138,456*	-	-	-	-	*138,456*	-	-
Paul Rudolf Moitzi Executive Director	*2008*	*136,136*	-	-	*136,136*	-	-	-	-	*136,136*	-	-
	2007	*114,347*	-	-	*114,347*	-	-	-	-	*114,347*	-	-
Lan Wai Lee Director (appointed 7 September 2007)	*2008*	*44,028*	-	-	*44,028*	-	-	-	-	*44,028*	-	-
	2007	-	-	-	-	-	-	-	-	-	-	-
Former												
Charles Chok Kwong Chan, Managing Director (resigned 7 September 2007)	*2008*	*28,880*	-	-	*28,880*	-	-	-	-	*28,880*	-	-
	2007	*130,146*	-	-	*130,146*	-	-	-	-	*130,146*	-	-

Revetec Holdings Limited and its controlled entities
Directors' report (continued)
For the year ended 30 June 2008

5. Principal activities

The Group's principal activities are the research, design and development of combustion engines, known as the CCE design technology.

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

- Designing, producing, modifying and in-house testing the latest Prototype engine.
- Arranging and performing independent testing of the engine.
- Building stronger relationships in commercial markets in China, Europe and the United States and the rest of the world
- The evaluation of further strategies for continued expansion in the Company's product development plans including an increase in capital

The Company designed and built the X4v2 engine prototype in the first half of the financial year. We performed in-house fuel efficiency and performance testing of the engine in November 2007. We retrofitted the GTM trike with the engine in the final part of 2007, and carried out a on-road test day with the Hudson Group Directors, which proved above normal performance and acceleration provided by the flat torque curve.

The Company then booked the engine into Orbital Australia for independent testing of the engine. A three-week delay of test cell availability provided the Company with a window for a further performance and economy update which was carried out then sent to Orbital. Brad Howell-Smith then travelled to Orbital in Perth for the testing.

The engine was tested for fuel efficiency and achieved a Brake Specific Fuel Consumption (BSFC) of 207g/(kW-h) or 39.5% fuel efficiency during testing, with an average of 212g/(kW-h) or 38.6% fuel efficiency.

We prepared marketing materials and distributed the independent testing report to entities that we have had previous dealings in the marketplace, and continued talks with those entities.

The Company also prepared for moving into the marketing stage by seeking out new premises for operations and selling non-required equipment assets.

The Company relocated to new premises early in the 2008 financial year. The new premises were set up as a marketing point of presence for the Company.

It was anticipated that when the X4v2 prototype engine's test results were announced earlier this year, that there would be an immediate positive market reaction, which could have lead to negotiations to commercialise the engine technology. It was subsequently found that the generally accepted tests for thermal losses of engine performance were incorrect. When the existing engine performance calculations was applied to our technology, the resulting calculation deemed the results as unachievable. The Company has further researched and amended the thermal losses calculation. This will require additional validation from independent tests being planned in Germany. The revised and validated calculation is expected to provide greater credibility and acceptance of the Company's technology in the marketplace.

The Company signed an agreement with a Chinese group to fund a further independent testing program with a German institution, and if completed satisfactorily, the Chinese Group is planning to secure manufacturing agreements with two of the top ten automotive manufacturers in China.

The X4v2 engine was stripped down for general inspection and reassembled with a further modification. The engine has now been sent to Germany for further testing and analysis for the Chinese project. Mr Brad Howell-Smith is travelling to Germany in early October 2008 to assist with the testing and analysis.

The Company continued communication with the US military and Australian Government departments during the year. The Company has met with three US military representatives about the technology and the independent testing results. A future strategy is being developed on how to work with the US military. The Company is also pursuing commercial negotiations with other major engine manufacturers.

The Company is also investigating future funding requirements should the next stage of the engine's development into production proceed.

It is also recognised that new Board members should be appointed to take the Company forward, past the research and development stage.

Revetec Holdings Limited and its controlled entities
Directors' report (continued)
For the year ended 30 June 2008

6. Operating and financial review

Overview of the Group

The Group incurred a loss for the year of $420,138 (2007: Loss $765,231).

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. During the period from 14 November 2006 to 30 June 2008 Revetec Holdings Limited had received a total amount of $867,578, under the scheme.

Significant changes in the state of affairs

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

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

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 Group, the results of those operations, or the state of affairs of the Group, in future financial years.

9. Likely developments

Information about likely developments in the operations of the Company and the Group 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 Group.

Revetec Holdings Limited and its controlled entities
Directors' report (continued)
For the year ended 30 June 2008

10. Directors' interests

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

Directors	Ordinary shares
Bradley David Howell-Smith	32,380,987
Paul Rudolph Moitzi	5,879,969
Lan Wai Lee	30,000

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.

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	
	2008 $	2007 $
Audit services:		
Auditors of the Company – KPMG		
Audit and review of the financial reports	22,000	20,000
Other audit services	6,700	8,400
	28,700	28,400
Services other than statutory audit:		
Other services		
Auditors of the Company – KPMG		
Taxation services	-	4,000
	-	4,000

Revetec Holdings Limited and its controlled entities
Directors' report (continued)
For the year ended 30 June 2008

13. Lead auditor's independence declaration

The Lead auditor's independence declaration is set out on page 40 and forms part of the directors' report for the financial year ended 30 June 2008.

This report is made with a resolution of the directors:

BD Howell-Smith
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Bradley David Howell-Smith
Chairperson

Gold Coast
30 September 2008

Revetec Holdings Limited and its controlled entities
Income statements
For the year ended 30 June 2008

	Notes	Consolidated 2008 $	Consolidated 2007 $	The Company 2008 $	The Company 2007 $
Revenue		-	-	-	-
Other income	*6*	364,880	301,446	364,880	301,446
Depreciation expenses		(39,666)	(38,653)	(39,066)	(38,653)
Directors fees		(92,452)	(146,905)	(92,452)	(146,905)
Management fees		(143,709)	(138,482)	(143,709)	(138,482)
Employee benefits		(266,972)	(276,777)	(266,972)	(276,777)
Materials and supplies		(116,881)	(85,478)	(116,881)	(85,478)
Impairment of property, plant and equipment		(10,629)	-	(10,629)	-
Other expenses	*7*	(205,653)	(376,769)	(205,653)	(376,769)
Loss from operating activities		(511,082)	(761,618)	(511,082)	(761,618)
Financial income		2,843	13,716	2,843	13,716
Financial expenses		(269)	(17,329)	(269)	(17,329)
Net finance income / (expense)		2,574	(3,613)	2,574	(3,613)
Loss before tax		(508,508)	(765,231)	(508,508)	(765,231)
Income tax benefit / (expense)	*9*	88,370	-	88,370	-
Loss for the period		(420,138)	(765,231)	(420,138)	(765,231)
Loss per share					
Basic loss per share	*10*	(0.0021)	(0.0038)		
Diluted loss per share	*10*	(0.0021)	(0.0038)		

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

Revetec Holdings Limited and its controlled entities
Statements of recognised income and expense
For the year ended 30 June 2008

	Notes	Consolidated 2008 $	Consolidated 2007 $	The Company 2008 $	The Company 2007 $
Loss for the period		(420,138)	(765,231)	(420,138)	(765,231)
Total recognised income and expense for the period	*14*	(420,138)	(765,231)	(420,138)	(765,231)

Other movements in equity arising from transactions with owners as owners are set out in note 14.

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

Revetec Holdings Limited and its controlled entities
Balance sheets
As at 30 June 2008

	Notes	Consolidated 2008 $	Consolidated 2007 $	The Company 2008 $	The Company 2007 $
Assets					
Cash and cash equivalents	*11*	16,883	84,093	16,883	84,093
Prepayments and deposits		7,989	23,760	7,989	23,760
Total current assets		24,872	107,853	24,872	107,853
Investments		-	-	2	2
Property, plant and equipment	*12*	60,624	115,623	60,624	115,623
Total non-current assets		60,624	115,623	60,626	115,625
Total assets		85,496	223,476	85,498	223,478
Liabilities					
Trade and other payables	*13*	154,616	102,144	154,618	102,146
Deferred income	*6*	202,093	63,329	202,093	63,329
Total current liabilities		356,709	165,473	356,711	165,475
Total liabilities		356,709	165,473	356,711	165,475
Net assets / (deficiency)		(271,213)	58,003	(271,213)	58,003
Equity					
Issued capital	*14*	14,300,420	14,209,498	1,429,640	1,338,718
Accumulated losses	*14*	(14,571,633)	(14,151,495)	(1,700,853)	(1,280,715)
Total equity / (deficiency)	*14*	(271,213)	58,003	(271,213)	58,003

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 2008

		Consolidated		The Company	
		2008	2007	2008	2007
	Notes	$	$	$	$
Cash flows from operating activities					
Commercial Ready Grant funds received		553,083	364,775	553,083	364,775
Cash paid to suppliers and employees		(807,974)	(896,292)	(807,974)	(896,292)
Income tax – R&D concession refund received		88,370	248,648	88,370	248,648
Interest received		2,843	13,716	2,843	13,716
Net cash used in operating activities	*18*	(163,678)	(269,153)	(163,678)	(269,153)
Cash flows from investing activities					
Proceeds from sale of property, plant and equipment		5,546	-	5,546	-
Acquisition of property, plant and equipment		-	(78,800)	-	(78,800)
Loans from/(to) directors received		-	(8,661)	-	(8,661)
Loans (from)/to directors repaid		-	11,011	-	11,011
Net cash from/(used in) investing activities		5,546	(76,450)	5,546	(76,450)
Cash flows from financing activities					
Proceeds from the issue of share capital		-	350,000	-	350,000
Costs of share issue		-	-	-	-
Shareholder contribution	*13*	90,922	-	90,922	-
Loans from related parties		-	2,307	-	2,307
Net cash from financing activities		90,922	352,307	90,922	352,307
Net increase in cash and cash equivalents		(67,210)	6,704	(67,210)	6,704
Cash and cash equivalents at 1 July		84,093	77,389	84.093	77,389
Cash and cash equivalents at 30 June	*11*	16,883	84,093	16,883	84,093

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 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group primarily is involved in the research, design and development of combustion engines for various fuel applications, known as the CCE design technology.

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.

The Company and Group's financial report complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board.

The consolidated financial report was approved by the directors on 30 September 2008.

(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.

For the year ended 30 June 2008, the Group and the Company had incurred an operating loss of $420,138 and had negative cash flows from operations of $163,678. At 30 June 2008 the Group had trade creditors and other payables of $154,616, a net deficiency in assets of $271,213 and had minimal cash reserves. These conditions give rise to a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

The Group is continuing its research and development for the refinement of its technology and prototype engines. The Group's current activities are in the testing phase to enable future commercialisation of the technology.

The Group has prepared cash flow projections indicating that over the next 12 months the Group can pay its debts as and when they fall due, taking into account the following assumptions:

- Deferral of trade and other payables as at 30 June 2008 of $119,500 over the 7-month period to 30 January 2009.
- The Group continues to receive funding approved under the Commercial Ready Grant scheme;
- There are no net costs arising from the planned prototype testing commencing in October 2008 as these costs are being reimbursed by an alliance partner; and
- The Group continues to receive the funding available under the convertible note facility to enable the ongoing key operations to continue. As at 30 June 2008 $350,000 had been drawn down using this facility and converted to equity. The Group has received confirmation from the convertible note holder that $550,000 of funds is able to be drawn down over the next 18 months, with specific terms of receipt including $50,000 each month between November 2008 and March 2009 and between May 2009 and August 2009 inclusive, and $100,000 in November 2009. Subsequent to year end, an amount of $17,964 was received under the convertible note facility resulting in the issue of an additional 399,200 shares to the note holder on 21 July 2008.

Accordingly, the Directors are of the opinion that the going concern basis is appropriate for the preparation of the consolidated financial report. If the Group does not receive the funding from the Commercial Ready Grant scheme and/or from the convertible note facility, is unable to obtain full reimbursement of prototype testing costs and/or cannot defer trade and other payables over a 7-month period, there is no certainty as to whether the Group may realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in this financial report.

The financial statements do not include any adjustments relating to the recoverability and classification of the asset carrying amounts or the amount of liabilities that might result should the company be unable to continue as a going concern and meet its debts as and when they fall due.

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

2. Basis of preparation (continued)

(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(d) Impairment

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 Group entities.

(a) Basis of consolidation

(i) Reverse acquisition accounting

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

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

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

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

The opening balance consolidated financial information for the year ended 30 June 2007 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 Group is eliminated in full. RL was disposed of on 30 September 2006.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group 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.

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

3. Significant accounting policies (continued)

(b) Property, plant and equipment (continued)

(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 expenditure that is 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.

(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 reviewed at each reporting date.

(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.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product of process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overheads that are directly attributable to preparing the asset for its intended use. Borrowing costs related to the development of qualifying assets are recognised in profit or loss as incurred. 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 accumulated impairment losses (see accounting policy (d)).

(d) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. 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.

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.

3. Significant accounting policies (continued)

(d) Impairment (continued)

(i) Financial assets (continued)

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.

(ii) Non-financial assets

The carrying amounts of the Group'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.

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. For the purposes of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash generating unit").

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.

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. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group 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 Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group'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 Group'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).

3. Significant accounting policies (continued)

(e) Financial instruments (continued)

(i) Non-derivative financial instruments (continued)

Other financial instruments

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

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Ordinary shares comprise shareholder based transactions including the derecognition of liabilities relating to the restructure of the company. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Dividends

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

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 Group obtains the goods or as the services are received. The Group 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 Group 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 measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed.

(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 Group will comply with the conditions associated with the grant. Grants that compensate the Group 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 Group 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.

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) Finance income and expense

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings. All borrowing costs are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(h) Income tax

Income tax expense 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and 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 is recognised.

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

(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.

3. Significant accounting policies (continued)

(j) Earnings per share

The Group 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 Group 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 Group's primary format for segment reporting is based on business segments.

(l) Capital Management

The Group manages capital by:

- investing funds in interest-bearing accounts;
- regularly reviewing expenditure commitments;
- minimising debt.

(m) 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 2008, but have not been applied in preparing this financial report.

- Revised AASB 3 *Business Combinations* changes the application of acquisition accounting for business combinations and the accounting for non-controlling (minority) interests. Key changes include: the immediate expensing of all transaction costs; measurement of contingent consideration at acquisition date with subsequent changes through the income statement; measurement of non-controlling (minority) interests at full fair value or the proportionate share of the fair value of the underlying net assets; guidance on issues such as reacquired rights and vendor indemnities; and the inclusion of combinations by contract alone and those involving mutuals. The revised standard becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 8 *Operating Segments* introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 6). The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- Revised AASB 101 *Presentation of Financial Statements* introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's disclosures.
- Revised AASB 127 *Consolidated and Separate Financial Statements* changes the accounting for investments in subsidiaries. Key changes include: the remeasurement to fair value of any previous/retained investment when control is obtained/lost, with any resulting gain or loss being recognised in profit or loss; and the treatment of increases in ownership interest after control is obtained as transactions with equity holders in their capacity as equity holders. The revised standard will become mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the revised standard on the Group's financial report.
- AASB 2008-1 *Amendments to Australian Accounting Standard - Share-based Payment: Vesting Conditions and Cancellations* changes the measurement of share-based payments that contain non-vesting conditions. AASB 2008-1 becomes mandatory for the Group's 30 June 2010 financial statements. The Group has not yet determined the potential effect of the amending standard on the Group's financial report.

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4. Determination of fair values

A number of the Group'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 Group comprises one main business segment being engine development. This incorporates the research and design of petrol and diesel application engines.

The Group's business segment operates in Australia.

6. Other income

	Consolidated		The Company	
	2008 $	2007 $	2008 $	2007 $
Commercial Ready Grant income	364,038	301,446	364,038	301,446
Gain on sale of plant and equipment	842	-	842	-
	364,880	301,446	364,880	301,446

Total income received under the Commonwealth Government Commercial Ready Grant during the year ended 30 June 2008 was $502,803 GST exclusive (2007: $364,775 GST exclusive) and total funds received since the inception of the Grant to this date was $867,568 GST exclusive (2007: $364,775 GST exclusive). As at 30 June 2008, eligible expenditure incurred under the Grant was less than the income received. As such, the portion of total income which exceeds the eligible expenditure at year-end was recognised as a deferred income liability of $202,093 GST exclusive (2007: $63,329 GST exclusive).

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7. Other expenses

	Consolidated		The Company	
	2008 $	2007 $	2008 $	2007 $
Lease payments	28,640	26,459	28,640	26,459
Fees and charges	24,927	26,400	24,927	26,400
Patents and trade mark	50,254	28,135	50,254	28,135
Repairs and maintenance	11,003	6,670	11,003	6,670
Consultants fees	1,570	131,701	1,570	131,701
Other	89,259	157,404	89,259	157,404
	205,653	376,769	205,653	376,769

8. Auditors' remuneration

Audit services				
Auditors of the Company – KPMG				
Audit and review of financial reports	22,000	20,000	22,000	20,000
Other services	6,700	8,400	6,700	8,400
	28,700	28,400	28,700	28,400
Other services				
Auditors of the Company – KPMG				
Taxation services	-	4,000	-	4,000
	-	4,000	-	4,000

9. Income tax expense/(benefit)

Recognised in the income statement				
Current tax expense/(benefit)				
Current year	(88,370)	-	(88,370)	-
Total income tax expense/(benefit) in income statement	(88,370)	-	(88,370)	-

Numerical reconciliation between tax expense and pre-tax net loss

Loss before tax	(420,138)	(765,231)	(420,138)	(765,231)
Income tax using the domestic corporation tax rate of 30% (2007: 30%)	(126,041)	(229,569)	(126,041)	(229,569)
Increase in income tax expense due to:				
Effect of tax losses and temporary differences not recognised	126,041	229,569	126,041	229,569
Decrease in income tax expense due to:				
Research and development tax concession received	(88,370)	-	(88,370)	-
Income tax expense/ (benefit) on pre-tax net loss	(88,370)	-	(88,370)	-

Unrecognised deferred tax assets

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

Tax losses	900,152	887,211	900,152	887,211
Deductible temporary differences	81,786	58,916	81,786	58,916
	981,938	946,127	981,938	946,127

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 Group can utilise the benefits from.

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10. Loss per share

Basic loss per share

The calculation of basic loss per share at 30 June 2008 was based on the loss attributable to ordinary shareholders of $420,138 (2007: $765,231) and a weighted average number of ordinary shares outstanding of 203,598,657 (2007: 200,929,327), calculated as follows:

Loss attributable to ordinary shareholders

	Consolidated	
	2008 **$**	**2007** **$**
Loss attributable to ordinary shareholders	(420,138)	(765,231)

Weighted average number of ordinary shares

	Number	**Number**
Issued ordinary shares at 1 July	203,598,657	193,070,879
Effect of shares issued during the year	-	7,858,448
Weighted average number of ordinary shares at 30 June	203,598,657	200,929,327

Diluted earnings/ (loss) per share

The calculation of diluted earnings/ (loss) per share at 30 June 2008 was based on loss attributable to ordinary shareholders (diluted) of $420,138 (2007: $765,231) and a weighted average number of ordinary shares (diluted) outstanding during the financial year ended 30 June 2008 of 203,598,657 (2007: 200,929,327), calculated as follows:

Loss attributable to ordinary shareholders (diluted)

	$	**$**
Loss attributable to ordinary shareholders (diluted)	(420,138)	(765,231)

Weighted average number of ordinary shares (diluted)

	Number	**Number**
Weighted average number of ordinary shares at 30 June	203,598,657	200,929,327
Weighted average number of ordinary shares (diluted) at 30 June	203,598,657	200,929,327

11. Cash and cash equivalents

	Consolidated		The Company	
	2008 **$**	**2007** **$**	**2008** **$**	**2007** **$**
Bank balances and cash on hand	16,883	84,093	16,883	84,093
Cash and cash equivalents in the statement of cash flows	16,883	84,093	16,883	84,093

The Group's exposure to interest rate risk is disclosed in Note 15.

12. Property, plant and equipment

	Consolidated					The Company				
	Leasehold improvements	Plant and equipment	Fixtures and fittings	Motor vehicles	Total	Leasehold improvements	Plant and equipment	Fixtures and fittings	Motor vehicles	Total
Cost	$	$	$	$	$	$	$	$	$	$
Balance at 1 July 2006	7,048	82,846	37,414	34,398	161,706	7,048	82,846	37,414	34,398	161,706
Acquisitions	-	78,800	-	-	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	34,398	240,506
Balance at 1 July 2007	7,048	161,646	37,414	34,398	240,506	7,048	161,646	37,414	34,398	240,506
Acquisitions	-	-	-	-	-	-	-	-	-	-
Other acquisitions	-	-	-	-	-	-	-	-	-	-
Disposals	-	(9,860)	-	-	(9,860)	-	(9,860)	-	-	(9,860)
Balance at 30 June 2008	7,048	151,786	37,414	34,398	230,646	7,048	151,786	37,414	34,398	230,646
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	12,398	86,229
Depreciation charge for the year	-	33,419	-	5,235	38,654	-	33,419	-	5,235	38,654
Impairment losses	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-	-	-
Balance at 30 June 2007	7,048	62,788	37,414	17,633	124,883	7,048	62,788	37,414	17,633	124,883
Depreciation and impairment losses										
Balance at 1 July 2007	7,048	62,788	37,414	17,633	124,883	7,048	62,788	37,414	17,633	124,883
Depreciation charge for the year	-	34,432	-	5,234	39,666	-	34,432	-	5,234	39,666
Impairment losses	-	6,663	-	3,966	10,629	-	6,663	-	3,966	10,629
Disposals	-	(5,156)	-	-	(5,156)	-	(5,156)	-	-	(5,156)
Balance at 30 June 2008	7,048	98,727	37,414	26,833	170,022	7,048	98,727	37,414	26,833	170,022
Carrying amounts										
At 1 July 2006	-	53,477	-	22,000	75,477	-	53,477	-	22,000	75,477
At 30 June 2007	-	98,858	-	16,765	115,623	-	98,858	-	16,765	115,623
At 1 July 2007	-	98,858	-	16,765	115,623	-	98,858	-	16,765	115,623
At 30 June 2008	-	53,059	-	7,565	60,624	-	53,059	-	7,565	60,624

12. Property, plant and equipment (continued)

During the year ended 30 June 2008, impairment testing of all property, plant and equipment held by the Group was undertaken. A total impairment loss equal to $10,629 was identified and recognised against plant and equipment and motor vehicle assets.

13. Trade and other payables

	Consolidated		Company	
	2008	2007	2008	2007
Trade and other creditors	21,435	15,879	21,437	15,881
Other accruals	20,000	20,000	20,000	20,000
Superannuation payable	15,457	7,003	15,457	7,003
PAYG payable	17,056	23,244	17,056	23,244
GST payable	80,668	36,018	80,668	36,018
	154,616	102,144	154,618	102,146

14. Capital and reserves

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

Consolidated	Share capital $	Accumulated losses $	Total $
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
Balance at 1 July 2007	14,209,498	(14,151,495)	58,003
Total recognised income and expense	-	(420,138)	(420,138)
Shareholder contribution	90,922	-	90,922
Shares issued	-	-	-
Balance at 30 June 2008	14,300,420	(14,571,633)	(271,213)

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
Balance at 1 July 2007	1,338,718	(1,280,715)	58,003
Total recognised income and expense	-	(420,138)	(420,138)
Shareholder contribution	90,922	-	90,922
Shares issued	-	-	-
Balance at 30 June 2008	1,429,640	(1,700,853)	(271,213)

The Group reflects the business combinations reverse acquisition as outlined in note 3(a)(i).

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14. Capital and reserves (continued)

Share capital

	The Company	
	Ordinary shares	
	2008	2007
	Number	Number
On issue 1 July – fully paid	203,598,657	193,070,879
Shareholder contribution		-
Issued as share-based payments		2,750,000
Issued to convertible note holder		7,777,778
On issue at 30 June – fully paid	203,598,657	203,598,657

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 Group, 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.

Subsequent to year end, on 17 July 2008, $17,964 was received and on 21 August 2008, 399,200 shares were issued under this arrangement.

Agreement for issue of shares

On 12 June 2008, the Company entered into an agreement with Edwin Yu (the Applicant) to issue shares to the total value of $350,000 at the rate of $0.01 per share, being 35,000,000 ordinary shares, conditional upon the Applicant’s assurance that two of China’s largest car companies will enter into an agreement with the Company to undertake joint development for a production engine. The Applicant’s ability to uphold assurance of the arrangements with China’s car companies is contingent on the satisfactory testing of the Company’s engine in accordance with a testing and development agreement with the University of Munich, (entered 27 August 2008). As a result, the Company agreed that funds obtained under this share issue agreement must only be utilised for expenses related to the Munich test.

Subsequent to year end, on both 1 August 2008 and 5 August 2008, the Applicant remitted $10,000 (total $20,000) to the Company. To date, there has been no issue of shares to the Applicant.

14. Capital and reserves (continued)

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.

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

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. 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.

During the year ended 30 June 2008, Revetec Limited signed and executed an agreement for the sale of Revetec Limited's shares held in General Communications Business Pty Ltd (formerly Data FX) to KAM Management Group. Pursuant to the special resolution, the $90,922 cash received for the sale was paid to Revetec Holdings Limited by way of a shareholder contribution.

Dividends

No dividends were paid during the year to 30 June 2008 (2007: $0) and no dividends are currently proposed.

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15. Financial Instruments

(i) Financial risk management

Overview

The Company and Group have exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, their objectives and policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout this financial report.

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through their training, management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company and Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's exposure to credit risk relates to holdings of cash and cash equivalents.

Liquidity risk

Liquidity risk is the risk that the Company and Group will not be able to meet its financial obligations as they fall due. The Company and Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company or Group's reputation.

Typically the Company and Group ensures that it has sufficient cash on demand to meet expected operational expenses as they fall due; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Company and Group has access to bank credit card facilities of $4,000 and convertible note equity contributions of $1,950,000; the amount of these facilities unused at balance date is $2,600 and $1,600,000 respectively.

Market risk

The Company and Group's exposure to market risk relates to holdings of cash and cash equivalents.

Currency risk

The Group has no exposure to foreign currency risk.

15. Financial Instruments (continued)

(ii) Financial instruments disclosures

Credit risk

Exposure to credit risk

The carrying amount of the Company's and Group's financial assets represents the maximum credit exposure. The Company's and Group's maximum exposure to credit risk at the reporting date was:

	CONSOLIDATED Carrying Amount		COMPANY Carrying Amount	
	2008	2007	2008	2007
	$	$	$	$
Cash and cash equivalents	16,883	84,093	16,883	84,093
	16,883	84,093	16,883	84,093

Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting arrangements:

Consolidated - 30 June 2008

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	6 mths or less	6 to 12 mths	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	(154,616)	(154,616)	(154,616)	-	-	-	-
	(154,616)	(154,616)	(154,616)	-	-	-	-

Consolidated - 30 June 2007

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	6 mths or less	6 to 12 mths	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	(102,144)	(102,144)	(102,144)	-	-	-	-
	(102,144)	(102,144)	(102,144)				

Revetec Holdings Limited and its controlled entities
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15. Financial Instruments (continued)

(ii) Financial instruments disclosures (continued)

Company – 30 June 2008

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	6 mths or less	6 to 12 mths	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	(154,618)	(154,618)	(154,618)	-	-	-	-
	(154,618)	(154,618)	(154,618)	-	-	-	-

Company – 30 June 2007

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	6 mths or less	6 to 12 mths	1 to 2 years	2 to 5 years	More than 5 years
Trade and other payables	(102,146)	(102,146)	(102,146)	-	-	-	-
	(102,146)	(102,146)	(102,146)	-	-	-	-

Interest Rate Risk

At the reporting date the interest rate profile of the Company's and the Group's interest-bearing financial instruments was:

	CONSOLIDATED Carrying amount		THE COMPANY Carrying amount	
	2008 $	2007 $	2008 $	2007 $
Variable rate instruments				
Financial assets	16,883	84,093	16,883	84,093
	16,883	84,093	16,883	84,093

Cash flow sensitivity analysis for variable rate instruments

A change of 150 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2007.

15. Financial Instruments (continued)

(ii) Financial instruments disclosures (continued)

	CONSOLIDATED		THE COMPANY	
	Profit or loss		Profit or loss	
	150 bp increase $	150 bp decrease $	150 bp increase $	150 bp decrease $
30 June 2008				
Variable rate instruments	669	(669)	669	(669)
Cash flow sensitivity	669	(669)	669	(669)
30 June 2007				
Variable rate instruments	757	(757)	757	(757)
Cash flow sensitivity	757	(757)	757	(757)

Fair values

Fair values versus carrying amounts

The Directors consider that the fair value of financial assets and liabilities of the Group are represented by their carrying amount.

16. Operating leases

Leases as lessee

Non-cancellable operating lease rentals are payable as follows:

	Consolidated		The Company	
	2008 $	2007 $	2008 $	2007 $
Less than one year	-	18,640	-	18,640
Between one and five years	-	-	-	-
More than five years	-	-	-	-
	-	18,640	-	18,640

The Group leases business premises under an operating lease. As at 30 June 2008, no lease agreement was in place for continuing rental of existing premises and rent was consequently on a month-to-month basis. Subsequent to year end, the Group signed and entered a new lease agreement at Olsen Ave, Ashmore.

During the year ended 30 June 2008 $28,640 was recognised as an expense in the income statement in respect of operating leases (2007: $26,459).

Revetec Holdings Limited and its controlled entities
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17. Group entities

	Country of Incorporation	Ownership interest 2008	Ownership interest 2007
Parent entity			
Revetec Holdings Limited	Australia		
Subsidiaries			
Revetec International Pty Ltd	Australia	100%	100%
Revolution Engine Technologies Pty Ltd	Australia	100%	100%

18. Reconciliation of cash flows from operating activities

	Consolidated		The Company	
	2008 $	2007 $	2008 $	2007 $
Cash flows from operating activities				
Profit/(loss) for the period after tax	(420,138)	(765,231)	(420,138)	(765,231)
Adjustments for:				
Depreciation	39,666	38,653	39,666	38,653
Impairment of property, plant and equipment	10,629	-	10,629	-
Share based payment for consulting	-	107,711	-	107,711
Interest expense	269	17,329	269	17,329
Interest income	(2,843)	(13,716)	(2,843)	(13,716)
Income tax expense/(benefit)	(88,370)	-	(88,370)	-
Operating profit before changes in working capital	(460,787)	(615,254)	(460,787)	(615,254)
(Increase)/decrease in trade and other receivables	15,771	227,677	15,771	227,677
(Decrease)/increase in trade and other payables	190,125	104,708	190,125	104,708
	(254,891)	(282,869)	(254,891)	(282,869)
Interest received	2,843	13,716	2,843	13,716
Income tax refund – R&D concessions received	88,370	-	88,370	-
Net cash from operating activities	(163,678)	(269,153)	(163,678)	(269,153)

Revetec Holdings Limited and its controlled entities
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19. Key management personnel disclosures

Key management personnel compensation

The key management personnel compensation included in 'directors fees', 'employee benefits' and 'management fees' are as follows:

	Consolidated		The Company	
	2008	2007	2008	2007
	$	$	$	$
Short-term employee benefits	368,580	382,949	368,580	382,949
	368,580	382,949	368,580	382,949

Individual directors and executives compensation disclosures

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

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group 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)

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

	Opening Balance $	Closing Balance $	Interest paid and payable in the reporting period $	Highest balance in period $	Number in group at 30 June
2008					
Total for key management personnel	-	-	269	(10,000)	0
Total for key management personnel and their related parties	-	-	269	(10,000)	0
2007					
Total for key management personnel	2,350	-	-	5,511	0
Total for key management personnel and their related parties	2,350	-	-	5,511	0

Revetec Holdings Limited and its controlled entities
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19. 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:

			Consolidated		The Company	
		Note	2008 $	2007 $	2008 $	2007 $
Key management persons	**Transaction**					
Mr CCK Chan (resigned 7 September 2007)	Legal fees	(i)	1,570	1,590	1,570	1,590
	Bookkeeping and administration services	(ii)	143,709	138,482	143.709	138,482

(i) Chan Lawyers received fees of $1,570 (2007: $1,590) for the period. Mr Charles Chan, a director (resigned 7 September 2007), is the principal of Chan Lawyers.

(ii) During the period, amounts totalling $143,709 (2007: $138,482) were paid to Wincof Pty Ltd, a director-related entity, for the provision of bookkeeping and administration services of Revetec Holdings Limited. Close family members of Mr Charles Chan are directors of Wincof Pty Ltd.

There were no amounts receivable from and payable to other key management personnel at reporting date (2007: 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:

	2008 Number			
	Held at 1 July 2007	Purchases	Sales	Held at 30 June 2008
Directors				
Mr BD Howell-Smith	32,380,987	-	-	32,380,987
Mr PR Moitzi	5,879,969	-	-	5,879,969
Mr LW Lee (appointed 7 September 2007)	30,000	-	-	30,000

	2007 Number			
	Held at 1 July 2006	Purchases	Sales	Held at 30 June 2007
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. On 7 September 2007, Charles Chan resigned as a director and from that date was no longer a key management person.

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

20. Non-key management personnel disclosures

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 17) and with its key management personnel (see note 19).

Other related party transactions

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.

During the year ended 30 June 2008, Revetec Limited signed and executed an agreement for the sale of Revetec Limited's shares held in General Communications Business Pty Ltd (formerly Data FX) to KAM Management Group. Pursuant to the special resolution, the $90,922 cash received for the sale was paid to Revetec Holdings Limited by way of a shareholder contribution.

21. Subsequent events

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 Group, the results of those operations, or the state of affairs of the Group, in future financial years.

Directors' declaration

1 In the opinion of the directors of Revetec Holdings Limited ('the Company'):

(a) the financial statements and notes and set out on pages 11 to 36, and the Remuneration report in the Directors' report, set out on pages 5 to 6, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2008 and of their performance, for the financial 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);

(c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations required by section 295A of the Corporations Act 2001 from the chief executive officer for the financial year ended 30 June 2008.

Gold Coast
30 September 2008

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 2008, 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 21 and the directors' declaration set out on pages 11 to 37 of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company 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 Group, comprising the financial statements and notes, complies with International Financial Reporting Standards.

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 Group's financial position and of their performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

Whilst we draw attention to the significant uncertainty discussed below, 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 Group's financial position as at 30 June 2008 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).

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(c) in the financial report which indicates that the Group incurred a net loss of $420,138 during the year ended 30 June 2008 and, as of that date, the Group's total liabilities exceeded its total assets by $271,213. These conditions, along with other matters as set forth in Note 2(c), indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in pages 5 to 6 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Revetec Holdings Limited for the year ended 30 June 2008, complies with Section 300A of the Corporations Act 2001.

KPMG

KPMG

P Steer

Paul G Steer
Partner

Gold Coast

30 September 2008

KPMG

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 2008 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

- no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

P Steer

Paul G Steer
Partner

Gold Coast

30 September 2008

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 2008)

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	305
10,001 - 100,000	708
100,001 and over	216
	1,569

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%
Peter Koch	4,517,000	2.22%
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	2,702,000	1.33%
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%
John Cantell	1,740,000	0.85
Russell Post	1,728,770	0.85

Offices and officers

Company Secretary

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

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