

SWEPDRI LIMITED
ABN 64 099 851 653

ANNUAL REPORT 2003

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SWEPDRI LIMITED
ABN 64 099 851 653

DIRECTORS' REPORT

The Directors present their report on SwepDri Limited ('SDL') for the period from 13 March 2002 (date of registration) to 30 June 2003.

Directors

The Directors of SwepDri Limited during the financial period and until the date of this report are:

Hans Eberhard Graf (Chairman and Managing Director)
Anne Muriel Jensen (Executive Director and Company Secretary)
Tanvanth Singh Sandhu (Non-Executive Director)

Directors have been in office since the start of the period to the date of this report unless otherwise stated.

Principal Activities

The principal activity of the Company during the financial period since incorporation was the commercialisation and distribution of the Drizoro Product range in Australia using an exclusive Distribution Agreement with SwepDri International Pty Limited now assigned to the Company effective from 1 June 2004.

Results

The Company incurred a pre-tax operating loss of \$208,047.

Dividends

No dividend has been paid during the financial period and no dividend is recommended for the current period.

Review of Operations

Mr. Hans Graf originally set up SwepDri International Pty Limited (SWI) for the purpose of importing and selling Bulk Products to applicators and agents in Australia. Initial sales of the product were through the Hardware and General Group who had three stores in Sydney.

Further outlets were added in Sydney, which eventually led to Hardware House taking on the retail selling of bulk packs. As sales grew SWI was approached by the Bunnings Group to supply retail DIY product packs.

SWI developed a retail DIY pack for Bunnings, however the project was put on hold as Bunnings was in a takeover bid for Hardware House. Sales to Hardware House continued, with further outlets and stores added to the SWI's growing distribution list.

With the growth of sales, SWI required larger premises. As a result, the premises were rented from Hanma Investments Pty Ltd ('Hanma'), a related entity of which Hans Graf is a director and shareholder.

With the development of retail packs, SWI realised it needed an infusion of funds to properly resource the marketing and distribution of sufficient quantities to supply the growing list of stores coming on-line.

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DIRECTORS' REPORT

Continued

A Public Company SwepDri Limited was registered on 13 March 2002 and commenced trading on the 1 July 2002. SWI with the express approval of Drizoro S.A. granted SwepDri Limited an Exclusive License to distribute the entire product range of Drizoro S.A. (expiring April 2014) or such later date if the Exclusive Distribution Agreement is extended.

With the transfer of operations from SWI to SwepDri Limited, SwepDri Limited took over all facilities on a turnkey basis including the acquisition of stock at cost, office and warehousing lease on similar terms to SWI and the rental of a delivery vehicle, Holden station wagon and forklift.

Additional equipment was leased by Hanma and charged to the Company on a rental basis, this included a high lift fork, two cars and a five-ton truck.

Seed capital was raised and used in part to fund the preparation of a prospectus. The prospectus was issued and minimum capital raising received, shares were taken up in most part by trade account customers, some service providers and private investors.

SwepDri Limited took over the existing supply contracts of SWI and the distribution for SWEPCO Products in August 2003.

The Company listed on the Stock Exchange of Newcastle (NSX) on 23rd October 2003.

Since listing the development of the Company's DIY product pack was shown to potential customers with Bunnings signing a contract to supply. The Company in a short time frame has signed contracts to supply the "Handi-pack" range to the following:

- Mitre Ten Group
- Hudsons
- Magnet Mart
- Taubmans/Bristol/Barlowworld
- Danks Supply Group
- Trade Link Plumbing (Crane Distribution)
- Flower Power Stores

These represent a total of approximately 3,000 stores. Negotiations with additional groups are in progress but have yet to reach contractual completion.

The assembling of Handi-Packs has commenced with the first Handi-Packs sold and distributed from February 2004.

To facilitate the roll out to all of the Company's additional outlets, additional funds will be required to fund the purchase of material for packing. This funding will be a combination of equity and a short term rolling debt facility.

An amount of \$150,000 was borrowed over the February/March 2004 period, which was used to order additional stock. The terms of that borrowing were varied and the loan extended to June 2005 by agreement made on 24th June 2004.

The Company has formalised the documentation of all director related corporations in relation to leasing and borrowing.

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DIRECTORS' REPORT
Continued

On 24th June 2004 the Company purchase from the director related entity SWI, the licence from Drizoro S.A. of Spain (Drizoro) effective from 1 June 2004. The purchase included the Company taking the benefit of sale contracts of Drizoro products made by SWI with the consent of Drizoro in Cambodia, the Maldives, Sri Lanka, Vietnam, and the Peoples Republic of China. The Company had the value of the assigned licence and contracts professionally appraised by Bampos Partners and as a result of that assessment in May 2004, is satisfied that the sale price is reasonable and the acquisition to the Company's benefit.

The first of the stock orders had arrived in April 2004. Further stock has been ordered in June 2004.

On 24th June 2004, the Company agreed to borrow further capital to continue ordering from Drizoro, and sale of Drizoro products. The Company has granted a Fixed and Floating Charge of its assets to the lender to secure that loan, and called upon Hanma, a director related entity, to offer a guarantee in support of the borrowing secured by a registered second mortgage of realty owned by that company and being the premises from which the Company conducts its business. In addition the Company entered into a Consultancy Agreement with the lender to raise further borrowings for the Company for the purposes of working capital.

The Company has incurred extraordinary expenses since February, 2004 in professional fees for legal expenses, valuation expenses, management consultancy expenses, accounting services and audit expenses in excess of \$50,000 to date.

Corporate Governance Statement

- The Board of Directors of the Company is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable.
- The following formalises the main corporate governance practices established and in force throughout the financial year to ensure the Board is well equipped to discharge its responsibilities.

Composition of the Board

- The composition of the Board shall be determined in accordance with the following principles and guidelines:
 - The Board shall comprise at least 3 Directors, increasing where additional expertise is considered desirable in certain areas.
 - The majority of the Board members should be Non-Executive Directors.
 - Directors should bring characteristics which allow a mix of qualifications, skills and experience both nationally and internationally.
 - All available information in connection with items to be discussed at a meeting of the Board shall be provided to each Director prior to that meeting.
- The Board will review its composition on an annual basis to ensure that the Board has the appropriate mix of expertise and experience. When a vacancy exists, for whatever reason, or where it is considered that the Board would benefit from the services of a new Director with particular skills, the Board will select appropriate candidates with relevant qualifications, skills and experience. External advisers may be used to assist in such a process. The Board will then appoint the most suitable candidate who must stand for election at the next general meeting of shareholders.

The primary responsibilities of the Board include:

- The establishment of the long term goals of the Company and strategic plans to achieve those goals;

- The review and adoption of annual budgets for the financial performance of the Company and monitoring those results on a monthly basis. This includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
 - Ensuring the Company has implemented adequate systems of internal control together with appropriate monitoring of compliance activities; and
 - The approval of the annual and half-year financial reports.
- The terms and conditions of the appointment and retirement of Directors will be set out in a letter of appointment which covers remuneration, expectations, terms, the procedures for dealing with conflicts of interest and the availability of independent professional advice.
- The performance of all Directors will be reviewed by the Chairman each year. Directors whose performance is unsatisfactory will be asked to retire.

Independent Professional Advice

- Each Director will have the right to seek independent professional advice at the Company's expense. However, prior approval of the Chairman will be required, which will not be unreasonably withheld.

Remuneration

- The Board will review the remuneration packages and policies applicable to the Directors and Senior Executives on an annual basis. Remuneration levels will be competitively set to attract the most qualified and experienced Directors and senior executives. Where necessary the Board will obtain independent advice on the appropriateness of remuneration packages.

Audit Committee

- The Board will maintain an Audit Committee of at least two Directors. Audit Committee meetings may also be attended, by invitation, by the external auditors and the Company Secretary. The role of the Committee will be to provide a direct link between the Board and the external auditors.
- It will also give the Board of Directors additional assurance regarding the quality and reliability of financial information prepared for use by the Board in determining the policies for inclusion in the financial statements.

The responsibilities of the Audit Committee will include:

- monitoring compliance with regulatory requirements;
 - improving the quality of the accounting function;
 - reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified appropriate and prompt remedial action is taken by management;
 - liaising with the external auditors and ensuring that the annual audit and half-year review are conducted in an effective manner.
- The Audit Committee will review the performance of the external auditors on an annual basis. Nomination of auditors will be at the discretion of the Audit Committee.
 -
 - For the year ended 30 June 2003 the Audit Committee's duties were undertaken by the full Board.

Business Risk

- The Board will monitor and receive advice on areas of operational and financial risk, and consider strategies for appropriate risk management arrangements.
- Specific areas of risk identified initially and which will be regularly considered at Board Meetings include risks associated with business and investment, new and rapidly evolving markets, competition, and continuous disclosure obligations.

Ethical Standards

- The Board's policy is for the Directors and management to conduct themselves with the highest ethical standards. All Directors and employees will be expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Company.

Trading in SwebDri Limited Securities

- The Board's policy with regard to trading in the Company's securities is that prior to any transaction, Directors and management must obtain clearance from the Chairman to ensure that no transactions are made where the Director is in possession of price sensitive information.

Authority Limits

- The Board shall annually review the level of authority limits for the Managing Director. This review shall coincide with the approval of the annual budgets.

Confidentiality

- The Board members are required to ensure that all Company business is kept confidential by the Director and staff in his control.

Dealing with Conflicts of Interest

- A potential conflict of interest may arise from time to time. If a conflict or potential conflict of interest arises, full disclosure shall be made to the Board as soon as the Director becomes aware of the conflict or potential conflict. The Board shall manage the conflict in such a way that the interests of the Company as a whole are safeguarded.
- A conflict will arise:
 - When the private or other business interests of Directors and officers conflict directly or indirectly with their obligations to the Company; and
 - When benefits (including gifts or entertainment) are received from a person doing business which could be seen by others as creating an obligation to someone other than the Company.
- Directors and officers shall not act in a way which may cause others to question their loyalty to the Company.

Significant Changes in the State of Affairs

During the financial period there were no significant changes in the Company's state of affairs.

Subsequent Events

1. The Company raised a net amount of \$535,136 in float proceeds prior to listing in October 2003.
2. The Company entered into a factoring agreement with ORIX Australia Corporation Limited ('ORIX') on 17 September 2003. On 18 September 2003 ORIX registered a fixed and floating charge over the Company's assets. SWI, a director related entity, and Mr Hans Graf, a director are guarantors under the factoring agreement.
3. On 5 February 2004 the Stock Exchange of Newcastle placed the Company into a trading halt at the request of the Australian Securities and Investments Commission ('ASIC').
4. The Company borrowed from a third party ('the Lender') an amount of \$150,000 over February and March 2004, repayable before the end of the calendar year 2004 at an interest rate of 7% per annum, payable monthly. Subject to approval of the shareholders and compliance with the Corporations Act 2001 ('the Law') and the Newcastle Stock Exchange Listing Rules ('the Rules'), the Company granted options to the Lender and was prepared to provide the right for the Lender to be issued Convertible Notes in lieu of the Company repaying the loan. On 24th June 2004, the terms of the loan were varied and the loan extended to June 2005 and the rate of interest varied to a rate of 3% per month. The right to Convertible Notes was cancelled and the right to grant options in the Company cancelled prior to the approval of shareholders and compliance with the Law and the Rules.

5. On 24th June 2004, the Company acquired the Head Licence from the director related entity SWI, with the consent of Drizoro, together with an assignment of sales contracts made by SWI in Cambodia, the Maldives, Sri Lanka, Vietnam, and the Peoples Republic of China. The arrangement formally commenced on 1st June 2004.
6. On 24th June 2004, the Company entered into a Consultancy Agreement with the Lender referred to in point 4 above, to offer services to the Company and to assist in the raising of up to \$500,000 for the purposes of working capital for the Company
7. On 24th June 2004, the Company agreed with the Lender referred to in points 4 and 6 above, to borrow up to \$500,000 from him by drawdowns to be made in multiples of \$10,000 upon the giving of 10 days prior written notice of drawdown. The Lender has no further obligation to make available loans after 31 December 2004. Each drawdown is for a period of 12 months from the date of drawdown together with interest payable at the rate of 5% per month paid in arrears on calendar monthly rests. The Company has drawn \$200,000 of that facility as at 24th June 2004.
8. To secure the borrowing in item 7, the Company has entered into a Fixed and Floating Charge over its assets and requested the director related entity, Hanma offer a guarantee to secure the performance of the Company. Hanma has granted a second mortgage of realty it owns and leased to the Company with the consent of the first mortgagee, Westpac Banking Corporation Limited, to secure the performance of the guarantee.
9. On 24th June 2004, a director, Hans Graf, has agreed with the Company that he will seek to have the Constitution of the Company amended at its next Annual General Meeting to cancel his 1 Management Share in the capital of the Company with the attached rights without consideration.

Likely Developments and Results

Information on likely developments is included in the Review of Operations in this Report.

Environmental Issues

The Company complies with specific environmental legislation for each type of product that it sells or distributes. During the reporting period the Company did not fail to meet its obligations pursuant to any environmental legislation.

Information on Directors

(a) Qualifications and Experience

Hans Eberhard Graf,
Chairman, Managing Director

Mr. Graf has a wealth of experience gained over 40 years as a business proprietor in manufacturing and specifically in the building maintenance industry. Hans has developed an extensive knowledge of management and marketing and has successfully set up agencies both in Australia and overseas.

In 1977 Mr. Graf established H Graf Services Pty Ltd to import and distribute roofing materials to a network of regional agents in Australia. In 1990 he established SwepDri international Pty Ltd as an exclusive Australian importer and distributor of the Drizoro Product Range and during the 90's he succeeded in establishing national distribution.

Mr. Graf is a member of the Nomination and Audit Committee. .

Tanvanath Singh Sandhu
Non-Executive Director

Mr. Sandhu is a qualified practicing accountant having spent several years gaining experience with Coopers & Lybrand and in 1983 established his own accounting practice eventually employing 14 staff. Since 1987 Mr. Sandhu has concentrated on international trade and corporate restructuring. He now provides his expertise to those companies seeking to raise capital and obtain stock exchange listing. Mr. Sandhu is a member of the Audit, Remuneration and Nomination Committee.

Anne Jensen
Executive Director and Company Secretary

Mrs. Jensen has extensive secretarial and administrative experience. She has been associated with the Drizoro Product Range for over eight years and is currently Company Secretary / Administration Manager in overall charge of operations.

Mrs. Jensen is a member of the Audit Committee and Remuneration Committee.

(b) Relevant Interests in Ordinary Shares at the Date of this Report

Director	Ordinary Shares		A Class Shares
	Unpaid Allotted	Fully Paid	Fully Paid
H Graf and related entities and family	2,000,000	25,545,000	1
T Sandhu and related entities	-	2,000,000	-
A Jensen	750,000	1,005,000	-
A Jensen - subject to approval of shareholders at an Annual General Meeting	-	25,000	-

(c) Remuneration of Directors and Executive Officers

The Board sets all remuneration packages. The broad remuneration policy is to ensure that each senior staff member's remuneration package properly reflects the person's duties and responsibilities. Current market conditions are also taken into account in determining the appropriate remuneration package.

The Company employed Executive Officers and Directors, who were involved in, concerned in, and took part in the management of the Company's affairs. Details of the nature and amount of the remuneration of each Director of the Company for the period are set out below:

	Direct salaries \$	Superan- -uation \$	Motor Vehicle \$	Directors Fees \$	Consultancy \$	Share Options Issued \$	Total \$
H Graf	-	-	-	-	-	-	-
T Sandhu	-	-	-	-	-	-	-
A Jensen	54,341	4,891	-	-	-	-	59,232
	<u>54,341</u>	<u>4,891</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,232</u>

(d) Meetings of Directors

The following table sets out the number of meetings of the Company's Directors during the period ended 30 June 2003 and the number of meetings attended by each Director.

Director	Board Meetings	
	Held	Attended
H Graf	5	5
T Sandhu	5	5
A Jensen	5	5

No Nomination, Remuneration or Audit Committee Meetings were held during the period, with all relevant matters being considered by the full Board of Directors.

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DIRECTORS' REPORT
Continued

Directors and Officers Indemnification

The Company has provided for and paid premiums during the year for current Directors' and Officers' liability insurance. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability insurance contracts, as such disclosure is prohibited under the terms of the contract.

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

Hans Graf
Chairman

Tanvanth Sandhu
Non-Executive Director

Anne Jensen
Executive Director

Dated this 29th day of June 2004

SWEPDRI LIMITED
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STATEMENTS OF FINANCIAL PERFORMANCE
FOR THE PERIOD ENDED 30 JUNE 2003

	Notes	2003 \$
Revenues from ordinary activities	2	788,630
Cost of Sales		(321,423)
Selling Expenses		(177,043)
Depreciation and amortisation		(2,832)
Administration		(141,548)
Occupancy Costs		(125,818)
Staff Costs		<u>(228,013)</u>
Profit (Loss) from ordinary activities before income tax expense	3	(208,047)
Income tax (expense) credit	4	<u>-</u>
Net profit (loss) attributable to members of SwepDri Limited	16	<u>(208,047)</u>
Basic earnings per share	24	0.01
Diluted earnings per share	24	0.01

The accompanying notes form an integral part of these financial statements.

SWEPDRI LIMITED
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STATEMENTS OF FINANCIAL POSITION
AS AT 30 JUNE 2003

	Notes	2003 \$
Current Assets		
Cash assets	5	105,767
Receivables	6	279,731
Inventories	7	63,171
Other	8	9,110
Total Current Assets		<u>457,779</u>
Non-Current Assets		
Property, plant and equipment	9	9,852
Intangible assets	10	1,200
Total Non-Current Assets		<u>11,052</u>
Total Assets		<u>468,831</u>
Current Liabilities		
Payables	11	284,690
Interest bearing liabilities	12	60,000
Provisions	13	16,117
Other	14	72,000
Total Current Liabilities		<u>432,807</u>
Total Liabilities		<u>432,807</u>
Net Assets		<u><u>36,024</u></u>
Equity		
Contributed equity	15	244,071
Accumulated losses	16	(208,047)
Total Equity		<u><u>36,024</u></u>

The accompanying notes form an integral part of these financial statements.

SWEPDRI LIMITED
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STATEMENTS OF CASH FLOWS
FOR THE PERIOD ENDED 30 JUNE 2003

	Notes	2003 \$
Cash Flows From Operating Activities		
Receipts from customers		729,321
Payments to suppliers and employees		(902,363)
Interest received		<u>16,260</u>
Net cash inflows (outflows) from operating activities	20(b)	<u>(156,782)</u>
Cash Flows From Investing Activities		
Payments for property, plant and equipment		(12,684)
Payments for intangibles		<u>(1,500)</u>
Net cash inflows (outflows) from investing activities		<u>(14,184)</u>
Cash Flows From Financing Activities		
Proceeds from the issue of shares		316,071
Loans provided		(166,615)
Proceeds from borrowings		<u>127,277</u>
Net cash inflows from financing activities		<u>276,733</u>
Net Increase (Decrease) in Cash Held		105,767
Cash at the Beginning of the financial period		<u>-</u>
Cash at the End of the Financial Period	20(a)	<u><u>105,767</u></u>

The accompanying notes form an integral part of these financial statements.

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001.

It is prepared on an accruals basis and is based on historical cost, except for certain assets which, as noted, are at valuation. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the entity in the preparation of the financial report.

(a) Going Concern

The financial statements have been prepared on a going concern basis.

At balance date the Company had an excess of current assets over current liabilities of \$24,972.

The Company is at a stage of its development where the cash flows generated by its sales do not yet cover the operating costs that are being incurred.

The ability of the Company to continue as a going concern depends upon the generation of additional cash inflows, through the receipt of additional debt or equity funds.

The Company's existing projections show that anticipated cash inflows from current operations, collection of receivables, and ongoing commercial negotiations with customers and financiers will enable the Company to fund its ongoing activities for the twelve months from the date of signing these financial statements. As the Company is in its early start-up stage, there is inherent uncertainty associated with the key assumptions in those cash flow projections.

Any inability to obtain these additional cash inflows may have a material adverse effect on the Company's ability to continue as a going concern.

(b) Income Tax

Tax effect accounting procedures are followed whereby the income tax expense in the statements of financial performance is matched with the accounting profit or loss (after allowing for permanent differences). The future tax benefit relating to tax losses is not carried forward as an asset unless the benefit can be regarded as being virtually certain of realisation. Income tax on net cumulative timing differences is set aside to the deferred income tax and future income tax benefit accounts at the rates which are expected to apply when those timing differences reverse.

(c) Acquisitions of Assets

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up at the date of acquisition plus costs incidental to the acquisition.

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property, Plant and Equipment

Property, plant and equipment is depreciated so as to write off the cost of each asset over its expected economic life. Additions during the year are depreciated on a pro-rata basis from the date of acquisition.

The depreciation rates used are as follows:

Plant and equipment	20-25% diminishing value
Office furniture and equipment	40% diminishing value

(e) Intangibles/Formation expenses

Intangibles are amortised on a straight-line basis over five years, being the period during which benefits are expected to arise. The carrying value of the intangibles will be reviewed by directors at least annually to ensure that the carrying value does not exceed its recoverable amount.

(f) Cash assets

For the purpose of the statement of cash flows, cash includes term deposits which are readily convertible to cash on hand and are subject to insignificant risks of changes in value, net of outstanding bank overdrafts.

(g) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the economic entity up to the end of the financial year. The amounts are unsecured and are usually paid within 90 days of recognition.

(h) Receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 90 days from the date of recognition.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

(i) Employee Entitlements

Wages, salaries and annual leave

Liabilities for wages, salaries and annual leave are recognised in respect of employees' services up to balance date, and are measured as the amount unpaid at that date at pay rates expected to apply when the leave is taken.

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Revenue Recognition

Sale of Goods and Disposal of Assets

Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provisions of products and services to entities outside the Company. Sales revenue is recognised when the control of goods and services passes to the customer.

Interest Revenue

Interest income is recognised as it accrues.

(k) Earnings Per Share

Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company by the weighted average number of ordinary shares outstanding during the financial year.

Diluted earnings per share

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

(l) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

2003
\$

2. REVENUE FROM ORDINARY ACTIVITIES

Sale of goods revenue from operating activities	772,370
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Other Revenues:

Revenue from outside the operating activities

Interest received – third parties	241
– related parties	16,019

Total revenue	<u>788,630</u>
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3. OPERATING LOSS FROM ORDINARY ACTIVITIES

The operating loss from ordinary activities before income tax is arrived at after charging (crediting):

(a) Expenses

Cost of sales	<u>321,423</u>
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Depreciation of non-current assets:	
- plant & equipment, fixtures & fittings	<u>2,832</u>

Borrowing costs	
- related parties	6,027
- other people	<u>31</u>

Net expense from movement in provision for:	
- employee entitlements	16,117
- doubtful debts	<u>7,170</u>

Rental expense on operating leases	
- related parties	<u>187,536</u>

Remuneration of auditor	
- audit or review	<u>30,000</u>

These notes form part of the financial statements

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

4. INCOME TAX

(a) Income Tax Expense	2003
	\$

The aggregate amount of income tax attributable to the financial year differs by more than 15% from the amount calculated on the operating loss from ordinary activities before income tax. The difference is reconciled as follows:

Operating loss before income tax	<u>(208,047)</u>
Prima facie income tax benefit at 30% on operating loss	62,414
Income tax losses carried forward not recognised as a benefit	<u>(62,414)</u>
Income tax expense (credit) attributable to operating loss	<u><u>-</u></u>

(b) Future income tax benefit not recognised	<u><u>62,414</u></u>
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The benefit for the above tax losses will only be obtained if:

- (i) the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
- (ii) the Company continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

	Note	2003 \$
5. CASH ASSETS		
Cash at bank and on hand		<u><u>105,767</u></u>
6. RECEIVABLES		
Current		
Trade debtors		120,286
Less: Provision for doubtful debts		(7,170)
Related party loan	18	<u>166,615</u>
		<u><u>279,731</u></u>
7. INVENTORIES		
Finished goods, at cost		<u><u>63,171</u></u>
8. OTHER		
Prepayments		<u><u>9,110</u></u>
9. PROPERTY, PLANT AND EQUIPMENT		
Plant and equipment - at cost		12,684
Less: Accumulated depreciation		<u>(2,832)</u>
		<u><u>9,852</u></u>

Reconciliation

Reconciliation of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are as follows:

	Plant & Equipment \$
Carrying value at start of period	-
Additions	12,684
Disposals	-
Depreciation	<u>(2,832)</u>
Carrying value at end of year	<u><u>9,852</u></u>

These notes form part of the financial statements

SWEPDRI LIMITED
ABN 64 099 851 653

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

	Note	2003 \$
10. INTANGIBLE ASSETS		
Formation Costs		
At cost		1,500
Less: accumulated amortisation		(300)
		<u>1,200</u>
11. PAYABLES		
Current		
Trade creditors and accruals		217,413
Related party loans	18	<u>67,277</u>
		<u>284,690</u>
12. INTEREST BEARING LIABILITIES		
Current		
Unsecured Loan		<u>60,000</u>
13. PROVISIONS		
Current		
Employee leave entitlements		<u>16,117</u>
Number of employees at year end		<u>5</u>
14. OTHER		
Current		
Funds held in trust for future equity raising		<u>72,000</u>

These notes form part of the financial statements

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

15. CONTRIBUTED EQUITY

28,807,000 fully paid ordinary shares	15(a)	244,070
1 fully paid A class share	15(b)	1
		<u>244,071</u>

(a) Ordinary Shares

At the beginning of the reporting period	-
Share issues during the year	280,330
Transaction costs relating to share issues	(36,260)
	<u>244,070</u>

	No.
At the beginning of the reporting period	-
Shares issues during the year:	
- Issue of shares at an issue price of 10 cents each	2,800,000
- Issue of shares at an issue price of 1 cent each	7,000
- Issue of shares at an issue price of 0.001 cents each	26,000,000
	<u>28,807,000</u>

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands, every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote, and upon a poll each share is entitled to one vote.

These notes form part of the financial statements

SWEPDRI LIMITED
ABN 64 099 851 653

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

15. CONTRIBUTED EQUITY cont.

	2003 \$
(b) A Class Share	
At the beginning of the reporting period	-
Share issues during the year	1
Transaction costs relating to share issues	-
	<u>1</u>
	<u><u>1</u></u>
	No.
At the beginning of the reporting period	-
Shares issues during the year:	
- Issue of shares at an issue price of 1 dollar each	1
	<u>1</u>
	<u><u>1</u></u>

A Class shares do not entitle the holder to participate in dividends. A Class shares entitle the holder to proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

In the case of a resolution other than a special resolution, on a show of hands the holder of the A Class share present at a meeting in person or by proxy is entitled to one vote, and on every poll to a number of votes equal to 51% of the total of all votes able to be cast by the holders of shares of all classes in respect of the resolution.

In the case of a special resolution on a show of hands the holder of the A Class share present at a meeting in person or by proxy is entitled to one vote, and on every poll to a number of votes equal to 76% of the total of all votes able to be cast by the holders of shares of all classes in respect of the resolution.

SWEPDRI LIMITED
ABN 64 099 851 653

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

2003
\$

16. ACCUMULATED LOSSES

Opening balance	-
Net loss for period	(208,047)
	<hr/>
Closing balance	(208,047)
	<hr/>

17. REMUNERATION OF DIRECTORS AND EXECUTIVES

(a) Directors Remuneration

Income paid or payable to all directors by the Company and any related parties.	59,232
	<hr/>

The number of Directors of the Company included in these figures is shown below in their relevant income bands:

<i>Income of:</i>	2003 Number
\$Nil to \$9,999	2
\$10,000 to \$19,999	-
\$20,000 to \$29,999	-
\$30,000 to \$39,999	-
\$40,000 to \$49,999	-
\$50,000 to \$59,999	1
	<hr/>

The names of persons who were Directors of SwepDri Limited at any time during the financial period are:

Hans Eberhard Graf
Tanvanth Singh Sandhu
Anne Muriel Jensen

(b) Retirement Superannuation Payments

No retirement benefits were paid to Directors during the year.

SWEPDRI LIMITED
ABN 64 099 851 653

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

18. RELATED PARTY TRANSACTIONS	Note	2003 \$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
1) Director Related Entities		
Stock purchased from Swepdri International Pty Limited, a director related entity.		<u>317,436</u>
Rental paid for premises located at Unit 1, 10-14 Lilian Fowler Place, Marrickville NSW, to Hanma Investments Pty Limited, a director related entity.	3	<u>117,400</u>
Rental paid for machinery and office equipment to Hanma Investments Pty Limited, a director related entity.	3	<u>14,880</u>
Rental paid for vehicles, plant & equipment to Hanma Investments Pty Limited, a director related entity.	3	<u>39,056</u>
Rental paid for vehicles, plant & equipment to Swepdri International Pty Limited, a director related entity.	3	<u>16,200</u>
Short term unsecured loan advanced to Swepdri International Pty Limited, a director related entity, outstanding at year end, with interest charged at the rate of 12% p.a. This loan is to be repaid prior to 30 June 2004.	6	<u>166,615</u>
Interest charged on loan advanced to Swepdri International Pty Limited, a director related entity.	2	<u>16,019</u>
Short term unsecured loan advanced from Hanma Investments Pty Limited, a director related entity, outstanding at year end, with interest charged at the rate of 12% p.a. The loan is to be repaid prior to 30 June 2004.	11	<u>28,615</u>
Interest paid on loan advanced from Hanma Investments Pty Limited, a director related entity.	3	<u>2,365</u>
2) Directors		
Short term unsecured loan advanced from Mr Tanvanth Santhu, a director, outstanding at year end, with interest charged at the rate of 12% p.a.	11	<u>38,662</u>
Interest paid on loan advanced from Mr Tanvanth Santhu, a director.	3	<u>3,662</u>

These notes form part of the financial statements

SWEPDRI LIMITED
ABN 64 099 851 653

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

18. RELATED PARTY TRANSACTIONS cont. **2003**
\$

3) Share Transactions of Directors

Directors and director-related entities hold directly, indirectly or beneficially as at the reporting date the following equity interests in the Company:

- ordinary shares	310
- A class share	1
	<u>311</u>

Directors and their related entities acquired 26,007,000 ordinary shares in the Company under the issues described in 15(a) to the financial report and on the following issue prices:

	No.
- Issue of shares at an issue price of 0.001 cents each	26,000,000
- Issue of shares at an issue price of 1 cents each	5,000

Directors and their related entities acquired 1 A Class share in the Company under the issues described in 15(b) to the financial report and at the following issue price:

	No.
- Issue of share at an issue price of 1 dollar each	1

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

19. SEGMENT INFORMATION

Business Segments

The Company operates in the supply and distribution of building products exclusively in Australia and New Zealand.

Primary Reporting – Business Segments

	2003
	\$
Sales to external customers	772,370
Total sales revenue	772,370
Other revenue	16,260
Total segment revenue	788,630
Segment result	(208,047)
Unallocated revenue less unallocated expenses	-
Loss from ordinary activities before income tax expense	(208,047)
Income tax expense	-
Net loss	(208,047)
Segment assets	468,831
Unallocated assets	-
Total assets	468,831
Segment liabilities	432,807
Unallocated liabilities	-
Total liabilities	432,807
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	14,184
Depreciation and amortisation expense	3,132
Other non-cash expenses	23,287

These notes form part of the financial statements

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

19. SEGMENT INFORMATION (cont.)

Secondary Reporting – Geographical Segments

The Company operates in one geographical segment, being Australia and New Zealand.

Segment information is prepared in conformity with the accounting policies of the Company as disclosed in Note 1 and the revised segment-reporting standard, AASB 1005 Segment Reporting.

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and intellectual property, net of related provisions. Segment liabilities consist primarily of trade and other creditors, and employee entitlements. Segment assets and liabilities do not include income taxes.

2003
\$

20. CASH FLOW INFORMATION

(a) Reconciliation of Cash

Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash at bank	105,523
Cash on hand	244
	<hr/> 105,767 <hr/>

(b) Reconciliation of cash flow from operations with operating profit after income tax

Operating profit after income tax	(208,047)
Non-cash flows in profit from operating activities	
- Amortisation	300
- Depreciation	2,832
Changes in assets and liabilities	
- Decrease (increase) in receivables	(120,286)
- Decrease (increase) in inventories	(63,171)
- Decrease (increase) in other assets	(9,110)
- Increase (decrease) in payables	217,413
- Increase (decrease) in provisions	23,287
	<hr/> (156,782) <hr/>

Net cash inflows (outflows) from operating activities

21. CONTINGENT LIABILITIES

Since the financial period ended 30 June 2003, the Company breached a number of NSX Listing Rules. The financial impact of these breaches on the Company cannot be quantified at this time, if any.

During and since the financial period ended 30 June 2003 the Company has breached provisions of the Corporations Act 2001. Where possible the Company has acted and remedied the breaches.

These notes form part of the financial statements

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

22. COMMITMENTS FOR EXPENDITURE	2003
	\$
Operating Leases (Premises)	
Non cancellable operating leases contracted for but not capitalised in the financial statements	
Payable	
- not later than 1 year	117,400
- later than 1 year but not later than 5 years	469,600
- later than 5 years	469,600
	<hr/>
	1,056,600
	<hr/> <hr/>
The property lease is a non cancellable lease with a 10 year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by CPI per annum. Two consecutive options exists to renew the lease at the end of the 10 year term for additional period of 5 years each.	
Operating Leases (Plant, equipment & vehicles)	
Non cancellable operating leases contracted for but not capitalised in the financial statements	
Payable	
- not later than 1 year	70,135
- later than 1 year but not later than 5 years	70,135
- later than 5 years	-
	<hr/>
	140,270
	<hr/> <hr/>
The leases are non cancellable leases with a 3 year term, with rent payable monthly in advance.	

These notes form part of the financial statements

SWEPDRI LIMITED
ABN 64 099 851 653

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

23. FINANCIAL INSTRUMENT DISCLOSURES

(a) Interest Rate Risk

The Company's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing		Non- interest Bearing	Total
	%	\$	Within 1 year \$	Over 1 year \$	\$	\$
2003						
FINANCIAL ASSETS						
Cash assets	0.75	105,767	-	-	-	105,767
Related party loan	12.00	-	166,615	-	-	166,615
Receivables		-	-	-	113,116	113,116
		<u>105,767</u>	<u>166,615</u>	<u>-</u>	<u>113,116</u>	<u>385,498</u>
FINANCIAL LIABILITIES						
Interest bearing liabilities	10.0	60,000	-	-	-	60,000
Payables		-	-	-	217,413	217,413
Related party loans	12.00	-	67,277	-	-	67,277
Provisions		-	-	-	16,117	16,117
		<u>60,000</u>	<u>67,277</u>	<u>-</u>	<u>233,530</u>	<u>360,807</u>
NET FINANCIAL ASSETS (LIABILITIES)		<u>45,767</u>	<u>99,338</u>	<u>-</u>	<u>(120,414)</u>	<u>24,691</u>

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security in respect of recognised financial assets, is the carrying amount as disclosed in the statements of financial position and notes to the financial statements.

(c) Net Fair Values

The net fair values of the financial assets and financial liabilities approximate their carrying values.

No financial assets and financial liabilities are readily traded on organised markets.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the statements of financial position and in the notes to the financial statements.

SWEPDRI LIMITED
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NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

2003
Cents

24. EARNINGS PER SHARE

Basic earnings per share	(0.01)
Diluted earnings per share	(0.01)

Number

Weighted average number of shares used as the denominator

Weighted average number of ordinary shares used as the denominator in calculating basis earnings per share and alternative basis earnings per share

28,807,000

\$

Reconciliation of earnings used in calculating earnings per share

Basic and alternative basic earnings per share

Earnings used in calculating basic and diluted earnings per share

(208,047)

25. OTHER INFORMATION

SwepeDri Limited is a public Company limited by shares, registered and domiciled in Australia.

The registered office is at Unit 1, 10-14 Lilian Fowler Place, Marrickville, NSW, 2204.

The principal place of business is Units 1 and 2, 10-14 Lilian Fowler Place, Marrickville, NSW, 2204.

26. SUBSEQUENT EVENTS

1. The Company raised a net amount of \$535,136 in float proceeds prior to listing in October 2003.
2. The Company entered into a factoring agreement with ORIX Australia Corporation Limited ('ORIX') on 17 September 2003. On 18 September 2003 ORIX registered a fixed and floating charge over the Company's assets. SWI, a director related entity, and Mr Hans Graf, a director are guarantors under the factoring agreement.
3. On 5 February 2004 the Stock Exchange of Newcastle placed the Company into a trading halt at the request of the Australian Securities and Investments Commission ('ASIC').
4. The Company borrowed from a third party ('the Lender') an amount of \$150,000 over February and March 2004, repayable before the end of the calendar year 2004 at an interest rate of 7% per annum, payable monthly. Subject to approval of the shareholders and compliance with the Corporations Act 2001 ('the Law') and the Newcastle Stock Exchange Listing Rules ('the Rules'), the Company granted options to the Lender and was prepared to provide the right for the Lender to be issued Convertible Notes in lieu of the Company repaying the loan. On 24th June 2004, the terms of the loan were varied and the loan extended to June 2005 and the rate of interest varied to a rate of 3% per month. The right to Convertible Notes was cancelled and the right to grant options in the Company cancelled prior to the approval of shareholders and compliance with the Law and the Rules.

These notes form part of the financial statements

SWEPDRI LIMITED
ABN 64 099 851 653

NOTES TO THE FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 30 JUNE 2003

26. SUBSEQUENT EVENTS cont.

5. On 24th June 2004, the Company acquired the Head Licence from the director related entity SWI, with the consent of Drizoro, together with an assignment of sales contracts made by SWI in Cambodia, the Maldives, Sri Lanka, Vietnam, and the Peoples Republic of China. The arrangement formally commenced on 1st June 2004.
6. On 24th June 2004, the Company entered into a Consultancy Agreement with the Lender referred to in point 4 above, to offer services to the Company and to assist in the raising of up to \$500,000 for the purposes of working capital for the Company.
7. On 24th June 2004, the Company agreed with the Lender referred to in points 4 and 6 above, to borrow up to \$500,000 from him by drawdowns to be made in multiples of \$10,000 upon the giving of 10 days prior written notice of drawdown. The Lender has no further obligation to make available loans after 31 December 2004. Each drawdown is for a period of 12 months from the date of drawdown together with interest payable at the rate of 5% per month paid in arrears on calendar monthly rests. The Company has drawn \$200,000 of that facility as at 24th June 2004.
8. To secure the borrowing in item 7, the Company has entered into a Fixed and Floating Charge over its assets and requested the director related entity, Hanma offer a guarantee to secure the performance of the Company. Hanma has granted a second mortgage of realty it owns and leased to the Company with the consent of the first mortgagee, Westpac Banking Corporation Limited, to secure the performance of the guarantee.
9. On 24th June 2004, a director, Hans Graf, has agreed with the Company that he will seek to have the Constitution of the Company amended at its next Annual General Meeting to cancel his 1 Management Share in the capital of the Company with the attached rights without consideration.

These notes form part of the financial statements

SWEPDRI LIMITED
ABN 64 099 851 653

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 11 to 31:

- (a) comply with Accounting Standards, the Corporations Regulations and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's financial position as at 30 June 2003 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable. Those grounds are discussed in Note 1(a) of the financial statements. As stated in Note 1(a), there is uncertainty associated with the key assumptions in the cash flow projections considered by the directors in the directors' positive solvency statement.

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

Hans Graf
Chairman

Tanvanth Sandhu
Non-Executive Director

Anne Jensen
Executive Director

Dated this 29th day of June 2004

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF SWEPDRI LIMITED

Scope

We have audited the financial report of SwepDri Limited for the financial period from 13th March, 2002 (date of registration) to 30 June 2003 as set out on pages 11 to 32. The Company's Directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the Members of the Company.

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

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

Audit Opinion

In our opinion, the financial report of SwepDri Limited is in accordance with:

- a. the Corporations Act 2001, including:
 - i. giving a true and fair view of the Company's financial position as at 30 June 2003 and of its performance for the period ended on that date ; and
 - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b. other mandatory professional reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matters. As a result of the issues described in Notes 1(a) and 21, there is significant uncertainty whether SwepDri Limited will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

BKR WALKER WAYLAND**(NSW PARTNERSHIP)**

Chartered Accountants

A S ROGER**Partner**

Dated this the 29th day of June 2004