

SOLAR ENERGY SYSTEMS LTD

ABN 27 084 656 691



Annual Report 2002



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Corporate Directory

DIRECTORS



Richard Beresford
Non-Executive Chairman



Anthony Maslin
Managing Director



Gregory Allen
Executive Director



Peter Maloney
Non-Executive Director



Christopher Middleton
Company Secretary

REGISTERED OFFICE

Unit 3
81 Guthrie Street
Osborne Park WA 6017
Telephone: (08) 9204 1521
Facsimile: (08) 9204 1519
Website: www.sesltd.com.au
Email: info@sesltd.com.au

SHARE REGISTRY

Computershare Registry services Pty Limited
45 St Georges Terrace
Perth WA 6000
Telephone: (08) 9323 2000
Facsimile: (08) 9323 2033

SOLICITORS TO THE COMPANY

Blakiston & Crabb
1202 Hay Street
West Perth WA 6005

Solomon Brothers
Level 40, Exchange Plaza
2 The Esplanade
Perth WA 6000

CORPORATE ADVISORS TO THE COMPANY

Mooney & Partners Pty Ltd
Suite 4
6 Richardson Street
West Perth WA 6005

AUDITORS

KPMG
Central Park
152-158 St Georges Terrace
Perth WA 6000

PATENT ATTORNEYS

Wray & Associates
239 Adelaide Terrace
Perth WA 6000

Mission Statement:

*“To provide sustainable water and power **solutions** to the world, in so doing, providing wealth to shareholders enabling sustainable **company growth**.”*





Chairman's Report

The last year has been one of significant achievement for the Company.

We have increased the sales of our core product, the Sun Mill, by 132% over the previous year largely through the expansion of our distribution network across all the mainland States. Developing this network, including the training of our distributors, has required the commitment of substantial marketing and technical resources to build our brand. We expect to see this commitment reward us with an increasing net contribution of Sun Mill to the Company during 2002/3.

Prospects for the Sun Mill in the emerging salinity market are bright, although long lead times can be expected from government-funded programs. The Sun Mill is particularly suited for pumping saline water as it is made from non-corrodible materials.

We are starting to see strong overseas interest in the Sun Mill where its simplicity of maintenance in the field makes it highly attractive against competing products. Various means of serving overseas markets are being explored, including direct sales, agencies and manufacturing licences.

In Australia, the current Sun Mill range is limited to about half of the potential solar water pumping market. We are investigating how our range can be extended in three ways - efficiency improvements to the existing product, selling bought-in larger pumps through our existing distribution network and, over the next 12-18 months, developing our own larger systems.

Further progress can also be expected from reducing our production costs. Examples include longer term purchase contracts for PV modules, refined assembly procedures and minimum production runs. Streamlining our enquiry-to-delivery systems will reap cost benefits and increase customer satisfaction.

While Remote Area Power Supply and Grid Feed have not been our main focus over the last year, we have made profitable sales and are now well positioned to take advantage of significant new RAPS subsidy programs.

Our R&D team continues to find new ways of improving our products and processes.

We are planning to capitalise on this expertise by offering consultancy and project management services to customers seeking renewable energy and water supply solutions on a fee-paying basis. This will be a profitable new business line in its own right as well as creating potential flow-on sales for Sun Mill, Solarflow and other products.

It is disappointing to report an increased loss for the 2001/2 year. However, the company now has a clear strategy to achieve profitability by capitalising on our products, our reputation, our distribution channels and our technical capability. We thank our shareholders for their continued support of the Company in a difficult market environment. All of us involved with the Company are dedicated to rewarding this support.

Finally, I would like to thank the staff of SES for their outstanding efforts this year. It is a privilege to be associated with such a talented and dedicated group of people. Thanks also to our distributors - we look forward to even higher sales in 2002/3!

Richard Beresford
Chairman

Sales & Marketing



SUN MILLS

Domestic Market

SES's core product, the SUN MILL, has continued to contribute the majority of revenue over the 2001 - 2002 financial year, with sales growing to \$1,575,667 compared to the previous years figure of \$678,394. A significant focus on restructuring the national distribution network over the past 12 months has seen the number of dealers grow from 20 to 65, most of whom are pump specialists. This has included a distribution arrangement with Hugall and Hoile, an Australian Stock Exchange listed company specialising in Irrigation products.

This investment in distribution has been a one off, capital-intensive process absorbing a high level of human and financial resources. The results have already been reflected in sales, however the true benefits from this investment will be evident over the 2002 - 2003 financial year and beyond.

The Renewable Energy Pumping Subsidy (REPS) program has contributed to significant sales opportunities in Queensland and Western Australia with limited opportunities also coming from the Northern Territory. Encouragingly, the most promising market has emerged in New South Wales, where we have experienced steady sales growth despite the absence of rebate funding. This re-emphasises that solar pumping is the most life cycle efficient solution for water pumping where the electric grid is not present, regardless of the presence of subsidies.



review of operations

Sales & Marketing (continued)

International Market

Limited international sales have been received for the year, with modest sales received in East Timor, Fiji, Sri Lanka and the Philippines. However, intensive market assessment activity has occurred throughout Asia, North and South America and the Pacific Islands. We are confident the 2002 - 2003 financial year will see a steady increase in revenue from these markets.



Solarflow

As a result of the focus on the SUN MILL product, no significant developments have been pursued in relation to the Solarflow for the 2001 - 2002 financial year. This being the case, we have decided to write the asset value down. We remain confident that the asset is of strategic value however, and with distribution channels currently being investigated we envisage significant returns over the next 12 months.



(Left and above) Installation of Munti Gunung – Bali system, funded by Rotary International.

RAPS

RAPS Systems have not been a primary focus of SES over the financial year. This is reflected in the level of business represented, with no significant projects undertaken. However, the introduction of subsidies into this market in recent times means that we have re-assessed our position in it, meaning we are likely to devote more resources towards RAPS in the coming 12 months.

Grid Feed

Solar Grid Feed systems have been a secondary focus of the company over the year. Despite this, SES has delivered 3 Grid Feed systems into a slow Western Australian market.

This market presents considerable uncertainty, as it is very dependent on subsidies. Hence, only minimal resources have been devoted to this area.

Projects

SES has focused a high level of attention to the Salinity market over the final quarter of 2002 financial year. This has resulted in SES being well positioned for a number of saline water pumping projects in Western Australia and the Eastern States. SES expects developments in this area to flow into significant sales revenue in the 2002 -2003 financial year.

Business planning investigations into opportunities in this area will result in an increased focus on projects for the coming year. Given the in-house skills SES has developed, this represents an exciting opportunity for the company, as it can utilise existing overheads to potentially generate high value sales in a capital efficient manner.

Operations

Manufacturing

Production streamlining strategies have seen considerable improvements in Cost of Sales of the SUN MILL product over the past 12 months. These improvements have been in relation to reduction of the material and labour component of Cost of Sales, resulting from the introduction of more production line based manufacturing, inventory management systems and batching of system and component assemblies.

A combination of increased revenues and these margin improvements resulted in a Gross Profit of \$448,762, an increase of 172% on the previous year. It is envisaged that further cost reductions from manufacturing efficiencies will be realised in the 2002 - 2003 financial year.



Finance & Administration

During the course of the year a dedicated customer relationship management package has been implemented. This package enables detailed tracking of client enquiries and product purchase tracking, as well as allowing technical service enquiry data to be compiled and analysed for use in service recommendations. We believe this will have significant effects on the efficiency of the business, meaning cost savings in the form of reduced overheads or improved revenues over the coming year.

Financial control has increased significantly during the year, with a dedicated focus on cash flow continuing for the next financial year. The focus will be on inventory and debtor control and ensuring accurate and timely information for financial reporting.

Research & Development

Significant improvements in the SUN MILL Tall Drive have been made during the year, improving its performance in terms of its life cycle efficiency, cost of production and marketability. The priority of R&D will remain focused on efficiency, reliability and productivity improvements of the SUN MILL product.



review of operations

Operations (continued)



Human Resources

SES has continued to develop our biggest asset - our people. SES now employs a staff of 17. Key appointments for this financial year have included Irene Gianatti as Company Accountant and Jacinto Soares as East Timor Service Technician. Jacinto is our first full time employee in international markets.

Significant changes occurred during the year at board level, with two founding directors, Robert Schlegl and Chris Middleton retiring from the board, along with Chairperson Cathy Zoi. I would like to take the opportunity to thank Robert, Chris and Cathy for their invaluable contributions.

At the same time, I would like to welcome Richard Beresford (Chairman), Peter Maloney (Non Executive Director) and Greg Allen (Executive Director) to the board. I believe the new board represents a significant step forward for the company, and look forward to continuing to work alongside this team.

All SES staff currently hold equity in the company (in the form of shares or options) or are in the process of earning equity. This is a policy that the board of SES is committed to continuing to develop, as we believe it will result in a sense of ownership in the company's fortunes by those most empowered to affect it.

On behalf of SES and its staff, I would like to take the opportunity to thank you for your support. We look forward to providing the triple bottom line returns of environmental, social and economic benefits in the year to come.

Anthony Maslin
Managing Director

SES and the environment – case study

Bodallin Catchment Group, Bodallin WA

Background

Bodallin is located 300km east of Perth on the Great Eastern Highway. There are 20 farming families involved in the catchment, which comprises 134,000ha.

In late 2000 the recorded groundwater levels were between 0.3 and 1.9m below the surface in some areas. The water, as saline as seawater, had already affected large areas of agricultural land and further threatened farm infrastructure.

Project Objectives

To demonstrate the use of ground water pumping and evaporation basins as a means to move the immediate threat of land degradation by rising saline groundwater in the valley floor and protect areas of remnant vegetation, farmland and roads from salinisation.

Solutions

An integrated Catchment Management project commenced, assisted with \$124,000 of funding from the State Salinity Council. The Catchment Group worked with the Agriculture Department of WA, the Water & Rivers Commission and the local Shire in formulating the plan. This included the planting of hundreds of thousands of trees, contour banks and grassed waterways. A combination of surface water management and ground water management techniques were used.

Due to the flat gradient of the land across the catchment there was a preference for ground water pumping over drainage. Pumping was also seen as a more cost effective and environmentally friendly solution, as the saline water was delivered to evaporation ponds and not down existing waterways.

Pump Selection

Project co-ordinator, Derek Carew-Hopkins reviewed a number of pumps before opting for the Solar Energy Systems Sun Mill solar and AC pumps. The pumps are a poly piston design with no metal parts, so are longer lasting in the high acid, salt and iron environment. The pumps are proving to be low maintenance, blending in well with the farming landscape. The larger 75 mm diameter pump was used in higher yielding sites with the 50 mm pump used in other sites.

An important aspect of pump selection was to choose a pump that did not agitate or aerate the water to avoid the formation of iron on pump fittings and pipe lines.

The Results

In April 2001 five solar systems and three AC systems were installed. Total annual pumping has been estimated to be 59,000 m³ allowing for reduced pumping capacity in winter. The salinity of the groundwater is around 40,000 ppm, principally Na and Cl. Soluble iron is 1.8 mg/l and the water has a pH of 3.3. Pumping will remove a salt load of over 2 million kg per year. On average, there has been a reduction in the water table of about 1 m at most sites. After 12 months pumping, the area of influence in the paleochannel areas has extended out to between 300 and 400m from pumping sites and in the areas of weathered bedrock and limited paleochannel the area of influence has been smaller, extending 50 to 100 m from pumping sites.

Mr Carew-Hopkins estimated that there had been a real threat of losing up to 400 hectares of agricultural land across the catchment in the next 1-2 years. At a conservative value of \$300 per hectare this represents a potential loss of land valued at \$120,000. With net profits on crops at \$50 per hectare, the total potential loss could have been as high as \$140,000. It could also be expected that the amount of land affected would have increased until the water table's equilibrium was reached.

Mr Carew-Hopkins stated, "Saline pumping was one of the most effective management tools with minimal environmental impact". The higher the value of the land, or the closer the proximity to infrastructure, the greater the requirement is to remove saline groundwater. The potential to harvest the salt and aquaculture opportunities are being investigated.

The Bodallin project highlights the financial significance of pumping solutions. The group is also looking at harvesting the salt in the future which can yield \$100-\$160 per tonne. They also plan to examine Aquaculture opportunities.

The results to date indicate that there is a place in catchment and town planning for pumping to be used in conjunction with drainage, tree planting, salt land pastures and other remedies.



SES in the community – case study

Remote Community, Rembor, Manatuto, East Timor



Sun Mill installation Manatuto, East Timor

System Size: 600 Watt SUN MILL

The Community

Manatuto is an isolated village of one hundred and ninety families (approximately 1000 people) located between two running rivers 60 kilometres east of Dili, the capital of East Timor. During the wet season when the rivers run full, Manatuto finds itself completely secluded, with access to the village impossible.

Manatuto is a village that has experienced its fair share of turmoil and hardship. The village was all but destroyed by fire when militia fighting broke out after the 1999 referendum for independence from Indonesia.

Manatuto was subsequently assisted by aid organisation, Action Contre la Faim (ACF). ACF is concerned primarily with the provision of food and water in developing countries and is constantly working on improving water supply and sanitation in these areas.

Project Key Objectives

- ◆ Provide adequate water to the village
- ◆ Improve hygiene and health standards which would in turn
- ◆ Reduce the spread of disease.

The community (mainly women and children) were forced to walk long distances several times a day in order to obtain water. With the installation of the SUN MILL system, villagers were able to retrieve water at eight tap outlets throughout the village. The system was installed in September 2000, and remains operational today.

Results

The system has now been in operation for 24 months. It has not been entirely problem free. There have been breakdowns due to human error and component failure.

Some interference with the system has resulted in damage to componentry which has impeded the amount of water the pump is able to deliver to the tank but did not stop the flow of water entirely. The majority of these minor problems have been repaired or patched by members of the Water User Group, consisting of unskilled village representatives.

More serious breakdowns or where the Water User Group was unsure of how to repair the system have been handled by our East Timor representative Jacinto Soares. Jacinto, when not working on SES business, is actively involved in assisting Bia Hula our partner NNGO (National Non Government Organisation). Repairs are undertaken by Jacinto in the presence of a Water User Group member whenever possible.

By developing a relationship with Bia Hula and providing technical expertise and training through Jacinto, we expect to achieve the long term sustainability of the SUN MILL in East Timor.

Future Applications

As a result of the installation at Rembor we have seen a further three SUN MILLS installed in East Timorese communities which are being monitored by CWSSP (Community Water Supply and Sanitation Program) to determine the SUN MILL's suitability for further communities in East Timor.

We expect the East Timor experience will serve as a stepping stone for SES, providing a model by which we can supply sustainable water and power solutions throughout the developing world.

greenhouse gas emissions

The total number of solar panels sold in our systems to customers over the past year has saved the equivalent of approximately 142 tonnes of CO₂ emissions.

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Financials for the year ended 30 June 2002

The Company's main corporate governance policies and practices are outlined below.

The Board of Directors

The Company's Board of Directors is responsible for corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives, and monitors performance against those objectives.

The goal of the corporate governance process is to:

- increase shareholder value
- ensure a prudential and ethical base to the Company's conduct and activities
- ensure compliance with the Company's legal and regulatory obligations.

Consistent with these goals, the Board assumes the following responsibilities:

- developing initiatives for profit and asset growth
- reviewing the corporate, commercial and financial performance of the Company on a regular basis in social, economic and environmental terms
- acting on behalf of, and being accountable to the shareholders
- identifying business risks and implementing actions to manage those risks
- developing and effecting management and corporate systems to assure quality.

The Company is committed to the circulation of relevant materials to Directors in a timely manner to facilitate Directors' participation in the Board discussions on a fully-informed basis.

Composition of the Board

Election of Board members is substantially the province of the Shareholders in general meeting. However, subject thereto, the Company commits to the following principles:

- the Board to have a majority of non-executive directors and be comprised of directors with a collective blend of skills, experience and attributes appropriate for the Company and its business;
- the principal criterion for the appointment of new directors being their ability to add value to the Company and its business.

No formal nomination committee or procedures have been adopted for the identification, appointment and review of the Board membership, but an informal assessment process, facilitated by the Chairman in consultation with the Company's professional advisers, has been committed to by the Board.

Independent Professional Advice

Subject to the Chairman's approval (not to be unreasonably withheld), the Directors, at the Company's expense, may obtain independent professional advice on issues arising in the course of their duties.

Remuneration Arrangements

The remuneration of an executive director will be decided by the Board, without the affected executive director participating in that decision making process. The maximum remuneration of non-executive directors is the subject of Shareholder resolution in accordance with the Company's Constitution, the Corporations Act 2001 and the ASX Listing Rules, as applicable. The apportionment on non-executive director remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive director. The Board may award additional remuneration to non-executive directors called upon to perform extra services or make special exertions on behalf of the Company.

External Audit

The Company is responsible for the appointment of the external auditors of the Company, and the Board from time to time will review the scope, performance and fees of those external auditors.

The present external auditors were appointed on 27 July 2000. The lead external audit engagement partner will be rotated off the engagement during the 2007 financial year.

Committees of the Board

The Company is not of a relevant size to consider the formation of committees to deal with subjects which the Board currently presides over.

Identification and Management of Risk

The Board's collective experience will enable accurate identification of the principal risks which may affect the Company's business. Key operational risks and their management, will be recurring items for deliberation at Board meetings.

Ethical Standards

The Board is committed to the establishment and maintenance of appropriate ethical standards to underpin the Company's operations and corporate practices.

The directors present their report together with the financial report of Solar Energy Systems Ltd ("SES" or "the Company") for the year ended 30 June 2002, and the auditor's report thereon.

DIRECTORS

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

RICHARD BERESFORD, BSc MSc FAIE GAICD

Non Executive Chairman

Richard has 20 years experience in the international energy industry in the UK, Asia and Australia. He worked for 12 years for British Gas across a range of functions including R&D, operations, strategic planning and business development. From 1992 to 1996 he was inaugural Country Manager for British Gas in Indonesia, with responsibility for all activities from exploration and production to the development of independent power projects. He joined Woodside in 1996 where he became Director of Business Development in 1998 and then Managing Director of Metasource, Woodside's sustainable energy subsidiary, in 2001. He was a Director of Ceramic Fuel Cells Ltd, one of Metasource's investees, from April 2001 to February 2002. Richard left Woodside in September 2001 to set up Clearer Sky Pty Ltd advising start-up and early stage sustainable energy companies. He is also Chairman of BioEnergy Australia Ltd. Appointed as a Director on 22 January 2002.

ANTHONY MASLIN, B.Bus

Managing Director

Anthony has played a key role in expanding the Company's operations and product range to its current levels. Anthony has led the promotion of the Company and been involved in the establishment of its current distribution network. Anthony has been actively involved in a Business Development Role focussed on the application of the SES product range to developing countries. Anthony was also instrumental in the Australian Stock Exchange listing. Prior to joining SES, Anthony spent 5 years as a stockbroker with Hartley Poynton in Perth where he gained considerable experience in corporate marketing and promotion. Anthony is a founding Director, with the Company since its incorporation in 1998.

GREG ALLEN, B.Eng (Mech)

Executive Director/Chief Operating Officer

Greg has a decade of experience in operational management of process equipment companies with a particular emphasis on sales and service. He is a qualified mechanical engineer, who studied at Royal Melbourne Institute of Technology. Greg has been involved in a number of major Australian resource projects in the area of equipment supply and service. These have included projects for Woodside Energy, ABB Alstom, Toshiba, Worsley Alumina, Wesfarmers, Annaconda Nickel and British Petroleum. Appointed as a Director on 11 November 2001.

PETER MALONEY, B.Comm MBA

Non Executive Director

Peter has more than 20 years experience in executive level commercial and financial roles with three major companies (Western Mining, Santos and FH Faulding) in Australia and overseas. He has extensive skills in commodity marketing, project funding and joint venture negotiations, and is a director of Indophil Resources NL, Moveit Pty Ltd, and Southern Health. Appointed as a Director on 22 January 2002.

ROBERT SCHLEGL, B.Bus

Executive Director

With the appointment of a Company Accountant in mid 2001 Robert moved into a New Business Development Role. Robert is a founding Director with the Company since its incorporation in 1998. Retired as a Director on 22 January 2002 and resigned from the Company on 1 July 2002.

CHRISTOPHER MIDDLETON, B.Bus

Executive Director/Company Secretary

Chris is in charge of supporting the Company's operations both domestically and internationally. Chris oversees installations, service, training, logistics and trouble-shooting. Chris has spent a considerable portion of the previous year setting up the East Timor base and training locals in the manufacture, installation and service of the Company's products, as well as actively marketing to the Aid organisations present. In addition, Chris continues to fulfill the role of Company Secretary. Chris is a founding Director with the Company since its incorporation in 1998. Retired as a Director on 22 January 2002.

CATHERINE ZOI,

MSc (Resource Systems & Policy Design), BSc (Hons)(Geology)

Non Executive Chairperson

Cathy has vast experience gained from key appointments as CEO of the Sustainable Energy Development Authority (SEDA) established by the N.S.W. Government in 1996 and as Deputy Director and Chief of Staff - Office of Environmental Policy, at the White House, advising President Clinton and Vice President Gore on development of U.S. environmental and energy policy. Appointed as a director on 29 May 2000. Resigned as a director on 28 March 2002.

DIRECTORS' INTERESTS

As at the date of this report the interests of Directors in the shares and other equity securities of the Company were:

Director	Ordinary Shares	Unlisted Options	Listed Options
R Beresford	200,000	-	-
A Maslin	1,080,001	6,000,000	-
G Allen	-	1,500,000	-
P Maloney	50,000	-	-
R Schlegl	1,400,001	1,666,666	-
C Middleton	1,000,001	1,666,666	-
C Zoi	-	-	500,000

DIRECTORS MEETINGS

Of the 8 directors' meetings held during the financial year ended 30 June 2002 the details of directors attending were as follows:

Director	No. of Meetings Held	No. of Meetings Attended
R Beresford	6	6
A Maslin	8	8
G Allen	7	6
P Maloney	6	6
R Schlegl	2	2
C Middleton	2	2
C Zoi	5	5

In addition a total of 5 circular resolutions were resolved during the year.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year were research and development, manufacture and marketing of solar water pumping equipment in Australia. A manufacturing and distribution base is established in Dili, East Timor. This has been complemented with distributors in the Philippines, Malaysia and Fiji.

There was no substantial change in the nature of the Company's activities during the year.

REVIEW OF OPERATIONS

During the year, the Company continued to increase its domestic distribution network for the Sun Mill solar water pump. This included a distribution agreement with ASX listed company Hugall and Hoile (HUG), as well as independent pump distributors. The overall number of distributors grew from 21 to 65 over the twelve month period.

These efforts were enhanced by the introduction of government rebates for solar water pumping in Queensland, the Northern Territory and Western Australia.

SES is exposed to significant foreign exchange risk relating to the purchase of solar panels. Panel purchases are denominated in Euro, and paid for in Australian dollars

STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company during the financial year.

LIKELY DEVELOPMENTS

The Company continues to focus on expanding the market for the Sun Mill solar pump. It is expected that the company will also begin to focus on developing a consulting and projects management business, which is expected to assist in delivering sales for all existing products.

RESULT OF OPERATIONS

The operating loss after income tax was \$1,499,985 (2001: \$1,003,463).

Key financial results are as follows:

- Total Revenue for the period increased from \$1,043,519 to \$1,846,011 for the year, an increase of 76.9%.
- Revenue from the sale of goods increased from \$866,314 to \$1,659,710, representing a growth in sales of 91.6%.
- Sales Revenue for Sun Mill increased from \$678,794 to \$1,575,667 representing growth in sales of 132.1%.

DIVIDENDS

No dividend has been paid or declared for the financial year ended 30 June 2002.

ENVIRONMENTAL REGULATION

The Company's operations are subject to environmental regulations under relevant Commonwealth and State legislation in relation to its manufacture and distribution of solar energy products.

The Company is committed to achieving a high standard of environmental performance. The Board is responsible for regular monitoring of environmental exposures and compliance with environmental regulations.

EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen any transaction or event of a material nature likely, in the opinion of Directors to significantly affect the nature of the operations of the Company subsequent to the end of the financial year.

DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

The remuneration of an executive director will be decided by the Board, without the affected executive director participating in that decision making process. The maximum remuneration of non-executive directors is the subject of Shareholder resolution in accordance with the Company's Constitution, the Corporation Act 2001 and the ASX Listing Rules, as applicable. The apportionment of non-executive director remuneration within that maximum will be made by the Board having regard to the inputs and value to the Company of the respective contributions by each non-executive director. The Board may award additional remuneration to non-executive directors called upon to perform extra services or make special exertions on behalf of the Company.

Director	Base Emolument \$	Bonuses \$	Options \$	Super Contributions \$	Total \$
R Beresford	16,922	-	-	1,354	18,276
A Maslin	90,000	-	-	7,200	97,200
G Allen	69,992	-	61,950 (a)	5,599	137,541
P Maloney	10,578	-	-	846	11,424
C Middleton	65,000	-	-	5,200	70,200
R Schlegl	73,011	-	-	5,031	78,042
C Zoi	30,288	-	-	2,423	32,711
Executives					
N Fenton	65,000	240	481	5,200	70,921

(a) This amount represents the estimated value of options issued to Mr Greg Allen and on his appointment as a director and is calculated at the date of grant using the Black & Scholes model.

At the date of this report the ordinary shares of the Company under option are:

Expiry Date	Exercise Price	No. Shares
31 December 2004	\$0.30	23,984,996
9 May 2006	\$0.20	290,000
10 December 2004	\$0.25	1,500,000
30 June 2006	\$0.10	247,435

OPTIONS

During the period to the date of this report, the Company granted options over unissued ordinary shares to the following directors as part of their remuneration:

Director	No. options granted	Exercise price	Expiry Date
G Allen	1,500,000	\$0.25	10 Dec 2004

These options do not entitle the holder to participate in any issue of the Company.

All options issued to employees expire on the earlier of the expiry date or termination of the employee's employment.

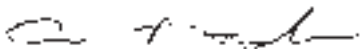
INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

The Company has agreed to indemnify the following current directors of the Company, Mr R J Beresford, Mr A R F Maslin, Mr G J Allen and Mr P J Maloney and former directors Ms C Zoi, Mr R L Schlegl, Mr C C Middleton, Mr G Rose and Mr C Crabb, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their positions as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith.

Since the end of the previous financial year the Company has paid insurance premiums of \$15,781 in respect of Directors & Officers Insurance.

Dated at Perth on this 13th day of September 2002.

Signed in accordance with a resolution of the directors.



A Maslin
Managing Director

Statement of Financial Performance

For the year ended 30 June 2002

	Note	2002 \$	2001 \$
Revenue from sale of goods		1,659,710	866,314
Revenue from rendering of services		52,501	33,165
Other revenues from ordinary activities		133,800	144,040
Total revenue	3	1,846,011	1,043,519
Raw materials and consumables used		(1,589,677)	(887,281)
Change in inventories		236,521	189,157
Purchase of services rendered		(41,777)	(35,145)
Employee expenses		(872,989)	(692,057)
Depreciation and amortisation expenses		(108,500)	(46,262)
Borrowing costs		(5,604)	(3,015)
Research and development expenses		(78,419)	(20,192)
Advertising expenses		(153,465)	(146,206)
Travel and accommodation		(124,247)	(32,636)
Company overheads		(221,999)	(166,375)
Consultants		(112,856)	(153,845)
Write down of intangibles		(145,848)	-
Other expenses from ordinary activities		(127,136)	(53,126)
Loss from ordinary activities before related income tax expense	4	(1,499,985)	(1,003,463)
Income tax expense	6	-	-
Loss from ordinary activities after related income tax expense		(1,499,985)	(1,003,463)
Basic loss per share (cents)	7	(3.63)	(3.17)

The statement of financial performance is to be read in conjunction with the notes to the financial statements set out on pages 18 to 32.

Statement of Financial Position

As at 30 June 2002

	Note	2002 \$	2001 \$
CURRENT ASSETS			
Cash assets	9	2,163,460	3,866,114
Receivables	10	417,430	290,108
Inventories	11	515,975	302,638
Other	12	64,723	67,174
Total current assets		3,161,588	4,526,034
NON CURRENT ASSETS			
Plant and equipment	13	225,100	165,448
Intangible assets	14	245,354	445,308
Total non-current assets		470,454	610,756
Total assets		3,632,042	5,136,790
CURRENT LIABILITIES			
Payables	15	362,458	341,931
Interest-bearing liabilities	16	23,855	21,963
Provisions	17	58,577	61,921
Total current liabilities		444,890	425,815
NON CURRENT LIABILITIES			
Interest-bearing liabilities	16	35,966	59,804
Total non-current liabilities		35,966	59,804
Total liabilities		480,856	485,619
Net assets		3,151,186	4,651,171
EQUITY			
Contributed equity	18	6,150,054	6,150,054
Accumulated losses	19	(2,998,868)	(1,498,883)
Total equity	20	3,151,186	4,651,171

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 18 to 32.

Statement of Cash Flows

For the year ended 30 June 2002

	Note	2002 \$	2001 \$
Cash flows from operating activities			
Cash receipts in the course of operations		1,583,573	813,186
Cash payments in the course of operations		(3,281,719)	(2,226,563)
Interest received		132,800	135,095
Net cash used in operating activities	23(b)	(1,565,346)	(1,278,282)
Cash flows from investing activities			
Payments for property, plant and equipment		(97,162)	(79,827)
Proceeds on disposal of non-current assets		1,000	-
Payments for intangible assets		-	(100,000)
Net cash used in investing activities		(96,162)	(179,827)
Cash flows from financing activities			
Proceeds from issue of shares		-	5,001,051
Repayment of finance leases		(41,146)	(15,816)
Net cash provided by/(used in) financing activities		(41,146)	4,985,235
Net increase/(decrease) in cash held		(1,702,654)	3,527,126
Cash at the beginning of the financial year		3,866,114	338,988
Cash at the end of the financial year	23(a)	2,163,460	3,866,114

The statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 18 to 32.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

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

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied and, except where there is a change in accounting policy as set out in Note 2, are consistent with those of the previous year.

(b) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchanges of goods or services of the same nature and value without any cash consideration are not recognised as revenues.

Sale of goods

Revenue from the sale of goods is recognised (net of returns, discounts and allowances) when control of the goods passes to the customer.

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Research and development grants

Where a grant is received relating to research and development costs that have been expensed, the grant is recognised as revenue. Where a grant is received relating to research and development costs that have been deferred, the grant is deducted from the carrying amount of the deferred research and development costs.

(c) Goods and services tax

Revenues, 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 statement of financial position.

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.

(d) Foreign currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change.

(e) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

(f) Taxation

The Company adopts the income statement method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statement of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(g) Acquisition of assets**

All assets acquired including property, plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

(h) Receivables

The collectibility of debts is assessed at balance date and specific provision is made for any doubtful accounts.

Trade debtors to be settled within 30 days are carried at amounts due.

(i) Inventories

Inventories are carried at the lower of cost and net realisable value. Inventories are valued using weighted average cost basis.

Cost includes direct materials, and other direct variable costs necessary to bring inventories to their present location and condition, based on normal operating capacity of the production facilities.

(j) Leased assets

Leases under which the Company assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease.

(k) Technology rights

Acquisition cost of technology rights is capitalised to the extent that its recoverability is assured beyond any reasonable doubt.

(l) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed at least annually to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. The write-down is expensed in the reporting period in which it occurs.

In assessing recoverable amounts of non-current assets, the relevant cash flows have not been discounted to their present value.

(m) Depreciation and amortisation

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives. Assets are depreciated or amortised from the date of acquisition. Depreciation and amortisation are expensed.

The depreciation/amortisation rates or useful lives used for each class of asset are as follows:

	2002	2001
Plant and equipment	18-35%	18-35%
Motor vehicles	22.5%	22.5%
Computer equipment	35%	35%
Furniture & fixtures	18-35%	18-35%
Technology rights	10 years	10 years
Patents and trademarks	10 years	10 years

(n) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payable are normally settled within 30 days.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(o) Employee entitlements***Wages, salaries, annual leave and sick leave*

The provisions for employee entitlements to wages, salaries, annual leave and sick leave represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on current wage and salary rates including related on-costs.

Superannuation

The Company contributes to several defined contribution superannuation plans. Contributions are charged against income as they are made.

(p) Provisions

A provision is recognised when a legal or constructive obligation exists as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

Restoration

Provisions are made for estimated costs relating to the restoration of non-current assets as soon as the need is identified.

(q) Research and development

Research and development costs are expensed as incurred.

2. CHANGE IN ACCOUNTING POLICY**(a) Earnings per share**

The Company has applied AASB 1027 Earnings Per Share (issued June 2001) for the first time from 1 July 2001.

Basic earnings per share

Basic EPS earnings are now calculated as net profit or loss, rather than excluding extraordinary items.

Diluted earnings per share

Diluted EPS earnings are now calculated by only adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares, rather than including the notional earnings on the funds that would have been received by the entity had the potential ordinary shares been converted.

The diluted EPS weighted average number of shares now includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares, rather than the total number of dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

The identification of dilutive potential ordinary shares is now based on net profit or loss from continuing ordinary operations, not net profit or loss before extraordinary items and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

3. REVENUE FROM ORDINARY ACTIVITIES

	2002 \$	2001 \$
Revenue from ordinary activities		
- Sale of goods revenue from operating activities	1,659,710	866,314
- Rendering of services revenue from operating activities	52,501	33,165
	1,712,211	899,479
Other revenues from operating activities:		
- Interest	132,800	135,095
- Gross proceeds from sale of non-current assets	1,000	-
- Other	-	8,945
Total revenue from ordinary activities	1,846,011	1,043,519

4. LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

	2002	2001
	\$	\$
Individually significant expenses included in loss from ordinary activities before income tax expense:		
Write down of intangibles	145,848	-
Loss from ordinary activities before income tax expense has been arrived at after charging the following items:		
Cost of sales	1,353,156	698,124
Depreciation of:		
- Plant and equipment	8,055	1,128
- Furniture and fixtures	3,310	1,752
- Computer and office equipment	16,985	6,003
- Demonstration equipment	4,847	-
	<u>33,197</u>	<u>8,883</u>
Amortisation of:		
- Intangibles	54,106	32,626
- Lease motor vehicles	21,197	4,753
	<u>75,303</u>	<u>37,379</u>
Total depreciation and amortisation	<u>108,500</u>	<u>46,262</u>
Doubtful debts expense including movements in provision for doubtful debts	(5,760)	15,996
Net expense from movements in provision for:		
- Employee entitlements	(3,344)	61,921
Operating lease rental expense	40,429	36,540
Net loss on disposal of non-current assets	1,316	-
Write down in value of inventories	23,184	-
Research and development expenditure:		
- Expensed as incurred	78,419	20,192
Borrowing costs	5,604	3,015

5. AUDITORS' REMUNERATION

	2002	2001
	\$	\$
Audit services: Auditors of the Company - KPMG	20,000	21,000
Other services: Auditors of the Company - KPMG	2,500	-
	<u>22,500</u>	<u>21,000</u>

6. INCOME TAX

	2002	2001
	\$	\$
(a) Income tax benefit		
Prima facie tax benefit calculated at 30% (2001: 34%) on the loss from ordinary activities	449,996	341,177
Decrease in income tax benefit due to:		
Non assessable / non deductible items		
- Legal Fees	(5,184)	(14,933)
- Amortisation of intangibles	(16,232)	(11,093)
- Write down of intangibles	(43,754)	-
- Future income tax benefit not taken into account	(384,826)	(315,151)
Income tax expense	<u>-</u>	<u>-</u>
(b) Future income tax benefit not taken into account		
The directors estimate that at 30 June 2002 the potential future income tax benefit in respect of tax losses not taken into account at 30% (2001: 30%) is	<u>810,974</u>	<u>471,787</u>

The potential future income tax benefit will only be obtained if:

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

7. LOSS PER SHARE

Classification of securities as potential ordinary shares

The following securities have not been classified as potential ordinary shares and are excluded in diluted earnings per share as they are not dilutive:

(a) options outstanding under the Employee Share Option Plan

(b) executive options

	2002	2001
	\$	\$
Basic loss	(1,499,985)	(1,003,463)
Diluted loss	(1,499,985)	(1,003,463)

	Number	Number
Weighted average number of ordinary shares used as the denominator:		
- Number for basic earnings per share	41,274,170	31,679,649
- Number for diluted earnings per share	41,274,170	31,679,649

8. SEGMENT REPORTING

The Company operated in the renewable energy manufacturing industry predominately in Australia at all times during the year.

9. CASH ASSETS

	2002	2001
	\$	\$
Cash at Bank and on hand	15,368	256,614
Term Deposits	2,148,092	3,609,500
	<u>2,163,460</u>	<u>3,866,114</u>

The term deposits mature within 60 days and pay interest at a weighted average interest rate of 4.81% (2001: 4.55%) at 30 June 2002

10. RECEIVABLES

	2002	2001
	\$	\$
Trade debtors	427,666	306,104
Less: Provision for doubtful trade debtors	(10,236)	(15,996)
	<u>417,430</u>	<u>290,108</u>

11. INVENTORIES

	2002	2001
	\$	\$
Raw materials - at cost	403,069	250,902
- at net realisable value	23,184	-
Work in progress - at cost	89,722	51,736
	<u>515,975</u>	<u>302,638</u>

12. OTHER CURRENT ASSETS

	2002	2001
	\$	\$
Prepayments	34,108	23,176
Other	3,393	20,533
GST receivable	27,222	23,465
	<u>64,723</u>	<u>67,174</u>

13. PLANT & EQUIPMENT

	2002	2001
	\$	\$
Plant and equipment at cost	56,287	27,272
Accumulated depreciation	(10,441)	(2,385)
	<u>45,846</u>	<u>24,887</u>
Furniture and fixtures at cost	23,360	17,722
Accumulated depreciation	(5,832)	(2,522)
	<u>17,528</u>	<u>15,200</u>
Leased Motor vehicles at cost	107,347	93,147
Accumulated depreciation	(25,718)	(7,205)
	<u>81,629</u>	<u>85,942</u>
Computers and office equipment at cost	76,114	49,630
Accumulated depreciation	(27,196)	(10,211)
	<u>48,918</u>	<u>39,419</u>
Demonstration equipment at cost	36,026	-
Accumulated depreciation	(4,847)	-
	<u>31,179</u>	<u>-</u>
Total plant and equipment net book value	<u>225,100</u>	<u>165,448</u>

13. PLANT & EQUIPMENT (continued)

	2002 \$	2001 \$
RECONCILIATIONS		
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:		
Plant and equipment		
Carrying amount at beginning of year	24,887	6,787
Additions	29,014	19,228
Disposals	-	-
Depreciation	(8,055)	(1,128)
Carrying amount at end of year	<u>45,846</u>	<u>24,887</u>
Furniture and fixtures		
Carrying amount at beginning of year	15,200	5,101
Additions	5,638	11,851
Disposals	-	-
Depreciation	(3,310)	(1,752)
Carrying amount at end of year	<u>17,528</u>	<u>15,200</u>
Leased Motor vehicles		
Carrying amount at beginning of year	85,942	23,537
Additions	19,200	67,158
Disposals	(2,316)	-
Depreciation	(21,197)	(4,753)
Carrying amount at end of year	<u>81,629</u>	<u>85,942</u>
Computers and office equipment		
Carrying amount at beginning of year	39,419	6,148
Additions	26,484	39,274
Disposals	-	-
Depreciation	(16,985)	(6,003)
Carrying amount at end of year	<u>48,918</u>	<u>39,419</u>
Demonstration equipment		
Carrying amount at beginning of year	-	-
Additions	36,026	-
Disposals	-	-
Depreciation	(4,847)	-
Carrying amount at end of year	<u>31,179</u>	<u>-</u>

14. INTANGIBLES

	2002	2001
	\$	\$
Technology rights - at cost	470,000	470,000
Accumulated amortisation	(94,303)	(42,411)
Write down to recoverable amount	(145,848)	-
	<u>229,849</u>	<u>427,589</u>
Patents and trademarks - at cost	22,149	22,149
Accumulated amortisation	(6,644)	(4,430)
	<u>15,505</u>	<u>17,719</u>
	<u>245,354</u>	<u>445,308</u>

15. PAYABLES

	2002	2001
	\$	\$
Trade Creditors	174,744	98,748
Other creditors and accruals	187,714	243,183
	<u>362,458</u>	<u>341,931</u>

16. INTEREST BEARING LIABILITIES

	2002	2001
	\$	\$
Current		
- Lease liabilities (Note22)	23,855	21,963
Non - current		
- Lease liabilities (Note 22)	35,966	59,804
	<u>59,821</u>	<u>81,767</u>

17. PROVISIONS

	2002	2001
	\$	\$
Current		
- Employee entitlements	58,577	61,921
	<u>58,577</u>	<u>61,921</u>

18. CONTRIBUTED EQUITY

	2002	2001
	\$	\$
Share capital		
- 41,274,170 (2001: 41,274,170) ordinary shares, fully paid	6,150,054	6,150,054
Ordinary shares		
Balance at beginning of year	6,150,054	899,003
Shares issued:		
- Nil (2001: 20,000,000) shares issued for cash	-	5,000,000
- Nil (2001: 1,000,000) shares issued as consideration for acquisitions or services provided to the Company	-	250,000
- Nil (2001: 1,000,000) shares issued for cash	-	160,000
Less share issue expenses	-	(158,949)
Balance at end of year	6,150,054	6,150,054

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

OPTIONS

At the date of this report the ordinary shares of the Company under option were:

23,984,996 options exercisable at 30c up to 31/12/04

290,000 employee options exercisable at 20c up to 09/05/06

1,500,000 executive options exercisable at 25c up to 10/12/04

247,435 employee options exercisable at 10c up to 30/06/06

19. ACCUMULATED LOSSES

	2002	2001
	\$	\$
Accumulated losses at beginning of year	(1,498,883)	(495,420)
Loss from ordinary activities after income tax	(1,499,985)	(1,003,463)
Accumulated losses at end of year	(2,998,868)	(1,498,883)

20. TOTAL EQUITY RECONCILIATION

	2002	2001
	\$	\$
Total equity at beginning of year	4,651,171	403,583
Total changes recognised in statement of financial performance	(1,499,985)	(1,003,463)
Contributions of equity	-	5,251,051
Total equity at end of year	3,151,186	4,651,171

21. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE**(a) Interest rate risk exposures**

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

2002	Weighted average interest rate	Floating interest rate \$	Fixed interest maturing in 1 year or less \$	Fixed interest maturing in 1 to 5 years \$	Non-interest bearing \$	Total \$
Financial assets						
Cash assets	4.69%	15,368	2,148,092	-	-	2,163,460
Receivables	-	-	-	-	417,430	417,430
		15,368	2,148,092	-	417,430	2,580,890
Financial liabilities						
Payables	-	-	-	-	362,458	362,458
Lease liabilities	7.90%	-	23,855	35,966	-	59,821
Employee entitlements	-	-	-	-	58,577	58,577
		-	23,855	35,966	421,035	480,856
Net financial assets		15,368	2,124,237	(35,966)	(3,605)	2,100,034

Reconciliation of net financial assets to net assets:

	\$
Net financial assets from above	2,100,034
Non financial assets & liabilities	
- Inventory	515,975
- Other current assets	64,723
- Property plant & equipment	225,100
- Intangibles	245,354
Net assets reconciled per statement of financial position	3,151,186

21. ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

2001	Weighted average interest rate	Floating interest rate \$	Fixed interest maturing in 1 year or less \$	1 to 5 years \$	Non-interest bearing \$	Total \$
Financial assets						
Cash assets	4.86%	256,614	3,609,500	-	-	3,866,114
Receivables	-	-	-	-	290,108	290,108
		256,614	3,609,500	-	290,108	4,156,222
Financial liabilities						
Payables	-	-	-	-	341,931	341,931
Lease liabilities	7.88%	-	21,963	59,804	-	81,767
Employee entitlements	-	-	-	-	61,921	61,921
		-	21,963	59,804	403,852	485,619
Net financial assets		256,614	3,587,537	(59,804)	(113,744)	3,670,603

Reconciliation of net financial assets to net assets:

	\$
Net financial assets from above	3,670,603
Non financial assets & liabilities	
- Inventory	302,638
- Other current assets	67,174
- Property plant & equipment	165,448
- Intangibles	445,308
Net assets reconciled per statement of financial position	4,651,171

(b) Credit risk exposures*Recognised financial instruments*

Credit risk refers to the risk that a counterpart will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of only dealing with credit worthy counterparts and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company does not have any significant credit risk exposure to any single counterpart or any group of counterparts having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk.

(c) Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities equal their estimated net fair value.

22. COMMITMENTS

	2002	2001
	\$	\$
(a) Finance lease payment commitments		
Finance lease commitments are payable:		
- Within one year	27,551	27,567
- One year or later and no later than five years	38,233	65,767
	65,784	93,334
Less future lease finance charges	(5,963)	(11,567)
	59,821	81,767
Lease liabilities provided for in the financial statements:		
Current (Note 16)	23,855	21,963
Non-current (Note 16)	35,966	59,804
Total lease liabilities	59,821	81,767
(b) Operating lease payment commitments		
Future operating lease rentals not provided for in the financial statements and payable:		
- Within one year	42,032	38,979
- One year or later and no later than five years	-	-
	42,032	38,979

23. NOTES TO THE STATEMENTS OF CASH FLOWS**(a) Reconciliation of cash**

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statements of financial position as follows:

	2002	2001
	\$	\$
Cash at bank (Note 9)	15,368	256,614
Term deposits (Note 9)	2,148,092	3,609,500
	2,163,460	3,866,114
(b) Reconciliation of loss from ordinary activities after income tax to net cash provided by/(used in) operating activities		
Loss from ordinary activities after income tax	(1,499,985)	(1,003,463)
Add/(less) items classified as investing/financing activities:		
- (Profit)/loss on sale of non-current assets	1,316	-
Add/(less) non cash items:		
- Depreciation	33,197	8,883
- Amortisation	75,303	37,379
- Write down of intangibles	145,848	-
- Write down in value of inventories	23,184	-
- Provision for doubtful debts	(5,760)	15,996
Net cash provided by operating activities before change in assets and liabilities	(1,226,897)	(941,204)
Change in assets and liabilities:		
- (Increase) in trade debtors	(121,562)	(85,819)
- (Increase) in inventories	(236,521)	(189,157)
- (Increase)/decrease in other current assets	2,451	(56,231)
- (Decrease)/increase in accounts payable	20,527	(67,792)
- (Decrease)/increase in provisions	(3,344)	61,921
Net cash provided by/(used in) operating activities	(1,565,346)	(1,278,282)

23. NOTES TO THE STATEMENTS OF CASH FLOWS (continued)

	2002 \$	2001 \$
--	------------	------------

(c) Non-cash investing and financing activities

During the year the Company has issued nil (2001: 1,000,000) ordinary shares at nil (2001: 25 cents) each to acquire the Solar Flow technology. The Company acquired plant and equipment by way of finance leases for an aggregate value of \$19,200 (2001: \$67,158).

24. EMPLOYEE ENTITLEMENTS

	2002 \$	2001 \$
Aggregate liability for employee entitlements, including on-costs		
Current	58,577	61,921
Number of employees at year end	17	17

Employee share option plan

The Company has an Employee Share Option Plan ("the Plan") approved at the Annual General Meeting of the Company on 30 November 2000. Each option under the Plan is convertible to one ordinary share. There are no voting rights attached to the unissued ordinary shares under option. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. The exercise price of the options is determined in accordance with the rules of the Plan, and is determined by the Board with regard to the market value of the shares when it resolves to offer the options. All options expire on the earlier of their expiry or termination of the employee's employment.

Unissued ordinary shares of the Company under option under the Plan are:

Issue Date	Expiry Date	Exercise Price	Options Issued	Options Expired	Options Available 30 June 2002
7 May 2001	9 May 2006	\$0.20	290,000	40,000	250,000
30 June 2002	30 June 2006	\$0.10	247,435	-	247,435

The market value of shares under these options at 30 June 2002 was \$41,513.

25. DIRECTORS' REMUNERATION

The number of directors of the Company whose income from the Company or any related party falls within the following bands:

\$	2002 No.	2001 No.
0 - 9,999	-	1
10,000 - 19,999	2	-
30,000 - 39,999	1	-
40,000 - 49,999	-	1
70,000 - 79,999	3	-
80,000 - 89,999	-	1
90,000 - 99,999	1	1
140,000 - 149,999	-	1

The remuneration bands are not consistent with the emoluments disclosed in the Directors' Report as the basis of calculation differs due to the differing requirements of the Corporations Act 2001 and the Accounting Standards.

	\$	\$
Total income paid or payable, or otherwise made available, to all directors of the Company and from the Company or any related party.	383,444	363,153

26. EXECUTIVES' REMUNERATION

The number of executive officers of the Company, whose income from the Company or related parties was greater than \$100,000 falls within the following bands:

\$	2002 No.	2001 No.
140,000 - 149,999	-	1
Total income paid or payable, or otherwise made available, to executives of the Company whose income was greater than \$100,000.	-	141,727

27. RELATED PARTY TRANSACTIONS

DIRECTORS

The names of each person holding the position of director of Solar Energy Systems Ltd during the financial year are:

A Maslin, C Middleton (resigned 22/1/02), R Schlegl (resigned 22/1/02), C Zoi (resigned 31/3/02), G Allen, P Maloney and R Beresford

Details of directors' remuneration is set out in Note 25.

DIRECTORS' HOLDINGS OF SHARES AND SHARE OPTIONS

The interests of directors of the Company in shares and share options at year-end are:

	2002 No.	2001 No.
Ordinary shares	3,730,003	3,480,003
Options over ordinary shares	11,333,332	9,933,332

DIRECTORS' TRANSACTIONS WITH THE COMPANY

A director of the Company, Catherine Zoi, held a position in Next Energy Pty Ltd, that performed consultancy services for the Company during the year for amounts totalling \$6,976 (2001: \$40,243).

The terms and conditions of the transactions with Catherine Zoi and Next Energy 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.

Directors' Declaration

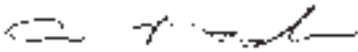
For the year ended 30 June 2002

In the opinion of the directors of Solar Energy Systems Ltd ("the Company"):

- (a) the financial statements and notes, set out on pages 15 to 32, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Company as at 30 June 2002 and of its performance, as represented by the results of its operations and its cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 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.

Dated at Perth this 13th day of September 2002.

Signed in accordance with a resolution of the directors.



A Maslin
Manging Director



Independent audit report to the members of Solar Energy Systems Ltd

Scope

We have audited the financial report of Solar Energy Systems Ltd for the financial year ended 30 June 2002, consisting of the statement of financial performance, statement of financial position, statement of cash flows, accompanying notes 1 to 27 and the directors' declaration. The Company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the Company.

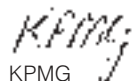
Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial 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 Solar Energy Systems Ltd 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 2002 and of its performance for the financial year 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.


KPMG



T R HART
Partner

Perth

13 September 2002



Additional Information

For the year ended 30 June 2002

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below. This information has been provided based on share registry information processed up to 13 September 2002.

DISTRIBUTION OF EQUITY SECURITY HOLDERS

Category	Number of equity security holders	
	Ordinary Shares	Options
1 - 1,000	8	2
1,001 - 5,000	99	396
5,001 - 10,000	294	39
10,001 - 100,000	274	56
100,001 and over	8	24
	683	517

The number of shareholders holding less than a marketable parcel of ordinary shares is 112.

UNQUOTED EQUITY SECURITIES

Employee options expiring 9 May 2006 exercisable at \$0.20 each - 290,000

Executive options expiring 10 December 2004 exercisable at \$0.25 each - 1,500,000

Employee options expiring 30 June 2006 exercisable at \$0.10 each - 247,435

RESTRICTED SECURITIES

Class	No.	Restriction ceases
Restricted shares fully paid	6,480,000	15 December 2002
Restricted options 31 December 2004	11,439,998	15 December 2002

SUBSTANTIAL SHAREHOLDERS

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

National Nominees Limited holding 12,165,529 shares (29.47%) of the issued capital.

VOTING RIGHTS

Ordinary shares

At a general meeting, each member may vote in person or by proxy or representative: and, on a show of hands every member present has one vote, and on a poll every person present in person or by proxy or by representative has one vote for every ordinary share held.

Options

Options for ordinary shares do not carry any voting rights.

Twenty Largest Holders of Each Class of Quoted Equity Securities

For the year ended 30 June 2002

ORDINARY FULLY PAID SHARES:

Name	Number of ordinary shares held	Percentage of capital held
National Nominees Limited	12,165,529	29.47
Mr Bruno Wittwer	2,000,000	4.85
Cogent Nominees Pty Limited	1,622,100	3.93
Mr Robert Lothar Schlegl	1,400,001	3.39
Mr Harry John Riley	1,320,000	3.20
Mr Graham Peter Rose	1,176,000	2.85
Mr Anthony Robert Frederick Maslin	1,080,001	2.62
Mr Christopher Charles Middleton	1,000,001	2.42
Orchid Capital Limited	960,000	2.33
GP & GF Hill Pty Ltd	925,500	2.24
Tao Yuan Limited	670,166	1.62
Eikofin BVBA	606,533	1.47
ANZ Nominees Limited	499,800	1.21
Strawhill Pty Ltd	473,000	1.15
Allenby Investments Pty Ltd	375,000	0.91
Mr Donald Norman Coultas	300,000	0.73
Delfield Pty Ltd	250,000	0.61
Tower Trust Limited	248,000	0.60
Mr Robert Slade Forbes	240,000	0.58
Mr Darryl James Smalley	240,000	0.58
	27,551,631	66.76

OPTIONS EXPIRING 31 DECEMBER 2004:

Name	Number of ordinary options held	Percentage held of issued quoted options
Mr Anthony Robert Frederick Maslin	6,000,000	25.02
Mr Christopher Charles Middleton	1,666,666	6.95
Mr Robert Lothar Schlegl	1,666,666	6.95
Solart GMBH	1,666,666	6.95
Mr Timothy Dale Webber & Mrs Elaine Webber	1,500,000	6.25
National Nominees Limited	1,322,665	5.51
Clodene Pty Ltd	772,466	3.22
Mrs Karen Barbara Martin	700,000	2.92
Mr Harry John Riley	520,000	2.17
Mr Graham Peter Rose	500,000	2.08
Catherine Radford Zoi	500,000	2.08
Commodore Pty Ltd	450,000	1.88
Cogent Nominees Pty Limited	400,000	1.67
Commodore Pty Ltd	400,000	1.67
R S F Holdings Pty Ltd	400,000	1.67
Stichting Stroeve Global Custody	375,000	1.56
Commodore Pty Ltd	333,333	1.39
Clodene Pty Ltd	262,500	1.09
INXS Pty Limited	250,000	1.04
Mr Jeb Clive Grist	233,333	0.97
	19,919,295	83.04



