

Silex Systems Limited
& its controlled entities
ABN 69 003 372 067

**Financial Statements for
the year ended 30 June 2008**

Company Directory

Directors

Mr B S Patterson – Chairman
Dr M P Goldsworthy – Managing Director/CEO
Mr C D Wilks
Dr C S Goldschmidt
Mr R P Campbell

Audit Committee

Mr R P Campbell - Chairman
Dr C S Goldschmidt
Mr B S Patterson

Remuneration Committee

Mr B S Patterson – Chairman
Mr R P Campbell

Company Secretary

Mr B J Spillane

Registered office and principal place of business

Building 64, Lucas Heights Science & Technology Centre
New Illawarra Road, Lucas Heights, New South Wales 2234, Australia
Ph: 61 2 9532 1331 Fax: 61 2 9532 1332
Postal address: PO Box 75, Menai Central, New South Wales 2234

Website address: www.silex.com.au

Share Registry

Computershare Registry Services Pty Limited
Level 5, 115 Grenfell Street, Adelaide, South Australia 5000, Australia
GPO Box 1903 Adelaide SA 5001, Australia
Enquiries within Australia: 1300 556 161
Email: web.queries@computershare.com.au

Enquiries outside Australia: 61 3 9415 4000
Website: www.computershare.com.au

Stock Exchange

Listed on the Australian Stock Exchange

Auditors

PricewaterhouseCoopers

Solicitors

Minter Ellison Lawyers

Sullivan and Cromwell (USA)

Bankers

Australia and New Zealand Banking Group Limited

American Depository Receipts (ADR) Information

Silex Systems Limited has established a Level 1 ADR Program. Silex ADRs may be purchased on the Over-the-Counter "Pink Sheet" (OTC) market.

Details are as follows:

Ratio: 1 ADR = 5 ordinary shares

Symbol: SILXY

CUSIP: 827046 10 3

Exchange: OTC

Country: Australia

IMPORTANT NOTICE:

Forward Looking Statements and Business Risks:

Silex is a research and development company whose assets are its proprietary rights in technologies, including, but not limited to, the SILEX technology, Translucent technology and ChronoLogic technology. In general, the Company's technologies are in the development stage and have not been commercially deployed, and therefore are high risk. Accordingly, the statements in this report regarding the future of the Company's technologies and commercial prospects are forward looking and actual results could be materially different from those expressed or implied by such forward looking statements as a result of various risk factors. Some risk factors that could affect future results and commercial prospects include, but are not limited to, results from the uranium enrichment development program and the stable isotopes program, the demand for enriched materials including uranium, silicon, oxygen, carbon and others, the outcomes of the Company's interests in the development of various semiconductor, photonic and alternative energy technologies, the time taken to develop various technologies, the development of competing technologies, the potential for third party claims against the Company's ownership of Intellectual Property associated with its numerous technologies, the potential impact of government regulations or policies, and the outcomes of various commercialisation strategies undertaken by the Company.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Silex Systems Limited (Silex or the Company) and the entities it controlled at the end of, or during the year ended 30 June 2008.

1. Directors

The following persons were directors of Silex Systems Limited during the whole of the financial year and up to the date of this report:

Mr B S Patterson - Chairman
 Dr M P Goldsworthy - Managing Director
 Mr C D Wilks
 Dr C S Goldschmidt
 Mr R P Campbell

2. Principal Activities

During the year the principal continuing activity of the consolidated entity consisted of research and development of the laser isotope separation technology known as 'SILEX'. Silex also has an 81.0% fully diluted interest in Translucent Inc, a California based company which is researching and developing novel solar energy conversion materials, and silicon based materials and manufacturing technology for application to both the optical communications and mainstream computer chip industries. Silex increased its interest in Translucent from 70.3% to 81.0% during the year.

In addition to these activities, the controlled entity ChronoLogic Pty Ltd (formerly Fiberbyte Pty Ltd) is developing data acquisition equipment utilising its proprietary USB-inSync technology. Silex has a 90% interest in ChronoLogic Pty Ltd (ChronoLogic).

3. Dividend

No dividend payments were made during the year. No dividend has been recommended or declared by the Board.

4. Review of operations and activities

Trading Results

A summary of consolidated revenue and results is set out below:

	2008	2007
	\$	\$
Revenue from ordinary activities	13,031,442	35,744,201
(Loss)/profit before tax	(9,248,155)	11,967,069
Income tax expense	-	(3,226,150)
(Loss)/profit after related income tax expense	(9,248,155)	8,740,919
Net loss attributable to minority interest	-	26,502
Net (loss)/profit attributable to members of Silex Systems Limited	(9,248,155)	8,767,421

Comments on the operations and the results of those operations are set out below:

The decrease in revenue is mainly due to the inclusion of a one off up-front receipt from General Electric (GE) in the prior year. Revenue for the current year includes recoverable project costs of \$9,624,501 (\$7,343,892 last year) and interest income \$3,223,552 (\$1,342,171 last year).

The loss for the current year was mainly due to the reduced revenue (refer above explanation) and the ongoing research and development costs associated with the Company's various technology projects. Income tax expense was nil in the current year (\$3,226,150 last year due to the up-front agreement fee from GE).

The Company's cash reserves are invested in bank bills/term deposits and the remainder as cash or deposits at call with banks.

5. Earnings per share

	2008 Cents	2007 Cents
Basic earnings per share	(6.5)	6.4
Diluted earnings per share	(6.5)	6.3

6. Significant changes in state of affairs

The significant changes in the state of affairs of the consolidated entity during the course of the year included the following:

- During the year, Silex raised \$50 million through the placement of 6,493,507 new ordinary shares at a price of \$7.70 per share.
- During the year Silex increased its holding in Translucent from 70.3% to 81.0% and entered into call option deeds that allow the parent entity to move to 96.9% ownership in the future.

7. Matters subsequent to the end of the financial year

The directors are not aware of any matters or circumstances which are not otherwise dealt with in the financial statements that have significantly or may significantly affect the operations of the consolidated entity, the results of its operations or the state of the consolidated entity in subsequent years.

8. Likely developments and expected results of operations

Silex is a research and development company with interests in a number of technology projects both in Australia and overseas. The Company's future prospects remain dependent on the outcome of those technical programs and the group's success in ultimately commercialising these technologies.

The Group's primary technologies are summarised below:

Uranium Enrichment Program

Silex is developing a novel method of enriching uranium using lasers. During the year, work continued on the Test Loop program which is the key pre-commercial demonstration of the technology. If the test loop demonstration is successful and the necessary license for the next stage of the project is obtained, Silex will be entitled to a milestone payment of US\$15 million. Work would then commence on the next stage of the project.

Stable Isotope Program

Silex has been conducting a parallel Stable Isotope Program for several years with the aim of demonstrating cost-effective enrichment of stable isotopes such as silicon, carbon and oxygen. For example, enriched oxygen is used for medical (PET) imaging. The unique properties of these enriched materials and the costs and benefits of using them have yet to be fully determined.

Translucent Inc

Silex has an 81% fully diluted interest in Translucent Inc, a California based company which is researching and developing high efficiency solar energy conversion materials, and silicon based materials and manufacturing technology for application to both the optical communications and mainstream computer chip industries.

These technologies are still in the development phase. Future commercial prospects for the Translucent technology will depend on continued success with the technical program, third party validation of the technologies, sufficient protection of IP including Patents, and successful implementation of commercialisation strategies.

ChronoLogic

Silex holds a 90% interest in ChronoLogic, an Adelaide based company with novel technology in the field of optical communications test and measurement equipment, and data acquisition technology. ChronoLogic is launching its product range with its first significant marketing campaign. In addition, discussions with companies in the test and measurement and data acquisition markets continue with the aim of forming strategic partnerships to help accelerate adoption of USB-inSync technology.

9. Share options

Shares under option

Unissued ordinary shares of Silex Systems Limited under option at the date of this report are as follows:

Number of options	Issue Price of shares	Grant date	Expiry date
10,000	\$0.65	11th November 2003	10th November 2008
40,000	\$0.95	3rd May 2004	2nd May 2009
136,500	\$0.85	4th May 2005	3rd May 2010
75,000	\$1.77	22nd November 2005	21st November 2010
3,075,000	\$3.60	22nd June 2006	21st June 2011
100,000	\$7.01	9th March 2007	8th March 2012
250,000	\$6.79	22nd August 2007	21st August 2012
150,000	\$5.81	24th December 2007	23rd December 2012
290,000	\$7.06	15th July 2008	14th July 2013
4,126,500			

No option holder has any right under the option to participate in any other share issue of the Company or of any other entity. Between balance date and the date of this report 290,000 options were granted and these are included in the above table.

Shares issued on the exercise of options

The following ordinary shares of Silex Systems Limited were issued during the year ended 30 June 2008 on the exercise of options granted under the Silex Systems Limited Employee Share Option Plan. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number of shares issued
14th August 2002	\$0.73	13,000
12th November 2002	\$0.55	90,000
11th November 2003	\$0.65	90,000
3rd May 2004	\$0.95	21,000
8th July 2004	\$0.88	17,500
4th May 2005	\$0.85	547,000
22nd November 2005	\$1.77	15,000
22nd June 2006	\$3.60	140,000
		933,500

Between balance date and the date of this report, the following options were exercised resulting in the issue of 437,500 ordinary shares. These options have been excluded from the shares under option table above.

Date options exercised	Issue price of shares	Number of shares issued
9th July 2008	\$0.85	20,000
9th July 2008	\$0.95	24,000
9th July 2008	\$3.60	81,000
9th July 2008	\$1.77	10,000
31st July 2008	\$0.85	5,000
31st July 2008	\$3.60	21,900
21st August 2008	\$0.65	5,000
21st August 2008	\$3.60	44,000
8th September 2008	\$0.85	28,500
8th September 2008	\$0.65	160,000
8th September 2008	\$3.60	38,100
		437,500

10. Remuneration report

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amounts of remuneration
- B Details of remuneration
- C Share based compensation
- D Additional information

The information provided in this report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

A Principles used to determine the nature and amount of remuneration

The objective of the Company's executive reward framework is to ensure reward for performance is competitive. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market best practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- transparency.

Alignment to shareholders' interests:

- focuses on sustained growth in share price as well as focusing the executive on key non-financial drivers of value
- attracts and retains high calibre executives.

Alignment to program participants' interest:

- rewards capability and experience
- reflects competitive reward for contribution to shareholder growth
- provides recognition for contribution.

The framework provides a blend of fixed pay and short and long-term incentives. The Board has established a remuneration committee which provides advice on remuneration and recommendations on remuneration packages for executive directors, other senior executives and non-executive directors.

Directors' fees

The current base remuneration was last reviewed with effect from 1 July 2006. Directors' fees are currently \$60,000 per director. Additional fees of \$5,000 per annum are also payable from 1 July 2006 for membership on the audit committee and \$5,000 per annum for the remuneration committee. Non – executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum non-executive directors' fees currently stands at \$350,000 per annum and was approved by shareholders at the Annual General Meeting on 1 December 2006.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentives via the issue of share options, and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

Base pay

Executive salaries are structured as a total employment cost package which may be delivered as a mix of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases fixed in any senior executives' contracts, or arrangements.

Benefits

Executives receive benefits including car allowances.

Retirement benefits

Retirement benefits are delivered under the Silex Systems Limited Superannuation Fund or an alternative fund of the executive's choice. These fund are accumulation funds.

Short-term incentives

At the discretion of the Board, if the Company achieves pre-determined targets set by the Board, then a pool of short-term incentive (STI) funds may be made available for executives and senior staff for allocation during the annual review, or other appropriate times.

B Details of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of Silex Systems Limited and the Silex Systems Limited Group are set out in the following tables.

Key management personnel of Silex Systems Limited and the Silex Group

2008	Short-term employee benefits			Post-employment benefits	Long term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Superannuation	Long service leave	Options	
Name	\$	\$	\$	\$	\$	\$	\$
<i>Executive directors</i>							
Dr M P Goldsworthy	452,117	-	76,157	13,129	19,641	1,099,074	1,660,118
Mr C D Wilks	85,500	-	-	7,695	-	549,537	642,732
<i>Non executive directors</i>							
Dr C S Goldschmidt	65,000	-	-	5,850	-	-	70,850
Mr B S Patterson	70,000	-	-	6,300	-	-	76,300
Mr R P Campbell	70,000	-	-	6,300	-	-	76,300
<i>Other key management personnel</i>							
B J Spillane	123,404	-	9,011	10,941	4,348	45,795	193,499
<i>Company Secretary and Financial Controller</i>							
Total	866,021	-	85,168	50,215	23,989	1,694,406	2,719,799

2007	Short-term employee benefits			Post-employment benefits	Long term benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Superannuation	Long service leave	Options	
Name	\$	\$	\$	\$	\$	\$	\$
<i>Executive directors</i>							
Dr M P Goldsworthy	506,203	400,000	78,772	12,686	9,789	1,126,860	2,134,310
Mr C D Wilks	93,750	-	-	8,438	-	563,430	665,618
<i>Non executive directors</i>							
Dr C S Goldschmidt	65,000	-	-	5,850	-	-	70,850
Mr B S Patterson	70,000	-	-	6,300	-	-	76,300
Mr R P Campbell	15,000	-	-	61,300	-	-	76,300
<i>Other key management personnel</i>							
B J Spillane	120,217	60,000	11,278	12,686	2,316	70,620	277,117
<i>Company Secretary and Financial Controller</i>							
Total	870,170	460,000	90,050	107,260	12,105	1,760,910	3,300,495

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk- STI		At risk – LTI	
	2008	2007	2008	2007	2008	2007
<i>Executive directors</i>						
Dr M P Goldsworthy	33.8%	28.5%	-	18.7%	66.2%	52.8%
Mr C D Wilks	14.5%	15.4%	-	-	85.5%	84.6%
Other key management personnel						
B J Spillane	76.3%	52.9%	-	21.6%	23.7%	25.5%

There are no other senior managers/executives in the Group.

C Share-based compensation

Options

Options are granted under the Silex Systems Limited Employee Option Plan to other key management personnel. Full time and part time staff of the consolidated entity are eligible to participate in the plan. Options are granted under the plan for no consideration. Options are granted for a five year period and vest 100% after two years. Options are also granted to executive directors. These are subject to shareholder approval, are granted for a five year period and vest 100% after two years.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
4th May 2005	3rd May 2010	\$0.85	\$0.33	100% after 4th May 2007
22nd November 2005	21st November 2010	\$1.77	\$0.95	100% after 22nd November 2007
22nd June 2006	21st June 2011	\$3.60	\$1.88	100% after 22nd June 2008
9th March 2007	8th March 2012	\$7.01	\$3.26	100% after 9th March 2009
22nd August 2007	21st August 2012	\$6.79	\$4.26	100% after 22nd August 2009
24th December 2007	23rd December 2012	\$5.81	\$2.87	100% after 23rd December 2009
15th July 2008	14th July 2013	\$7.06	\$3.82	100% after 15th July 2010

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the five days immediately before the options are granted, plus five cents.

Details of options over ordinary shares in the company provided to each director of Silex Systems Limited and each of the key management of the group are set out below. When exercisable, each option is converted into one ordinary share of Silex Systems Limited.

Name	Number of options granted during the year		Number of options vested during the year	
	2008	2007	2008	2007
Directors of Silex Systems Limited				
Dr M P Goldsworthy	-	-	1,200,000	-
Mr C D Wilks	-	-	600,000	-
Other key management personnel of the Group				
Mr B J Spillane	-	-	50,000	170,000

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables. Fair values at grant date are independently determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2008 included:

- (a) options are granted for no consideration. 100% vests and are exercisable after two years of the date of grant
- (b) exercise price \$6.79 and \$5.81 (2007: \$7.01)
- (c) Grant date: 22 August 2007 and 24 December 2007 (2007: 9 March 2007)
- (d) Expiry date: 21 August 2012 and 23 December 2012 (2007: 8 March 2012)
- (e) Share price at grant date: \$8.13 and \$5.65 (2007: \$7.36)
- (f) Expected volatility of the Company's shares: 50% and 60% (2007: 45%)
- (g) Expected dividend yield: nil (2007: nil)
- (h) Risk-free interest rate: 6.75% and 7.0% (2007: 6.5%)

The minimum value of options issued during the year is nil. The maximum value of options issued during the year to directors and key management personnel is nil.

Shares provided on exercise of remuneration options

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of Silex Systems Limited and other key management personnel of the Group are set out below:

Name	Number of ordinary shares issued on exercise of options during the year	
	2008	2007
Directors of Silex Systems Limited		
-	-	-
Other key management personnel of the Group		
B Spillane	135,000	87,000

The amounts paid per ordinary share by each director and other key management personnel on the exercise of options at the date of exercise were as follows:

Exercise date	Amount paid per share	Number of shares	Exercise date	Amount paid per share	Number of shares
11th July 2006	\$0.73	2,000	9 th July 2007	\$0.85	10,000
11th August 2006	\$0.73	2,000	26th July 2007	\$0.85	10,000
30th August 2006	\$0.73	20,000	10th August 2007	\$0.85	20,000
13th September 2006	\$0.73	3,000	30th August 2007	\$0.85	50,000
27th October 2006	\$0.73	5,000	19th September 2007	\$0.85	20,000
30th November 2006	\$0.73	5,000	9 th November 2007	\$0.85	5,000
30th November 2006	\$0.65	10,000	4 th February 2008	\$0.85	10,000
12th December 2006	\$0.65	10,000	17th April 2008	\$0.85	5,000
1st February 2007	\$0.95	10,000	25th June 2008	\$0.85	5,000
29th March 2007	\$0.95	10,000			
9th May 2007	\$0.85	10,000			

No amounts are unpaid on any shares issued on the exercise of options.

D Additional information

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year.

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 6 to 8, the percentage of the available bonus or grant that was paid, or that vested is set out below. The maximum value of options to vest is based on the value determined using the binomial model taking the value calculated as at grant date.

Name	Cash bonus		Options					
	Paid %	Forfeited %	Financial Year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant to vest \$
Dr M P Goldsworthy	N/A	N/A	Y/E 30/6/2006	100	-	N/A	N/A	N/A
Mr C D Wilks	N/A	N/A	Y/E 30/6/2006	100	-	N/A	N/A	N/A
Mr B J Spillane	N/A	N/A	Y/E 30/6/2005	100	-	N/A	N/A	N/A
			Y/E 30/6/2006	100	-	N/A	N/A	N/A

Further details relating to options are set out below:

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B-D \$
Dr M P Goldsworthy	66.2%	-	N/A	-	-
Mr C D Wilks	85.5%	-	N/A	-	-
Mr B J Spillane	23.7%	-	1,031,750	-	1,031,750

A = The percentage of the value of remuneration consisting of options, based on the value of options expensed during the current year.

B = The value at grant date calculated in accordance with AASB 2 *Share Based Payments* of options granted during the year as part of remuneration.

C = The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D = The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

Share options granted to directors and the most highly remunerated officers

No options over unissued ordinary shares of Silex Systems Limited were granted during or since the end of the financial year to directors or the most highly remunerated officers of the Company as part of their remuneration.

Where a part of the directors or executive's remuneration consists of securities, the director or executive is not allowed to limit their exposure to risk in relation to the securities. Directors and executives with remuneration consisting of securities are required to provide an annual declaration of compliance with this policy.

Other executives of the consolidated entity

There are no officers, other than Executive Directors and Executives noted above, involved in, concerned in, or taking part in, the management of the commercial affairs of Silex Systems Limited.

Performance of Silex Systems Limited

Year ended 30 June	EPS Cents	STI \$	Share price at 30 June \$
2004	(6.9)	-	0.82
2005	(7.6)	-	1.11
2006	(7.6)	200,000	4.08
2007	6.4	460,000	12.49
2008	(6.5)	-	7.96

The earnings per share in the current year and share price deteriorated from the prior year. The EPS in the prior year was boosted by a one off up front license agreement fee from GE relating to the Uranium Project. The current EPS is the second best over the last five years. The share price has increased significantly between when the agreement with General Electric was announced in May 2006 and 30 June 2007. During the year ended 30 June 2008 the share market dropped considerably due to growing concerns over the deteriorating conditions in global financial and equity markets. Silex's share price was not immune to the market fall. The share price has increased in the last 5 years as progress has been made on the Company's projects and increased interest in the Company has been generated in the market. Progress on the projects has not directly been reflected in EPS as the projects are still in the research and development phase and, apart from the Uranium Project, are yet to generate substantial revenue. Until 30 June 2005, earnings per share were calculated in accordance with Australian GAAP as opposed to Australian Equivalents to International Financial Reporting Standards (AIFRS). The STI's in the years ended 30 June 2006 and 30 June 2007 are related to the progress made on the Uranium Project and the signing of the deal with GE.

11. Information on Directors

a) Directors' profiles

Mr Barry Patterson

ASMM, MIMM, FAICD

Chairman – non executive

Experience and expertise

Mr Patterson has a corporate mining background, but in more recent years has held directorial positions in a number of both public and private companies. He is a major shareholder in Silex through his interest in Polly Pty Ltd.

Other current directorships

Non-executive director of Sonic Healthcare Limited since 1993.

Former directorships in last 3 years

None.

Special responsibilities

Chairman of the Board

Member of audit committee

Chairman of remuneration committee

Dr Michael Goldsworthy

BSc (Hons), MSc, PhD, FAIP

Managing Director/CEO - Executive

Experience and expertise

Dr Goldsworthy received his PhD in Physics from The University of New South Wales. Prior to starting with Silex Systems Limited in 1988, Dr Goldsworthy was a member of the University's academic staff and was involved in a number of laser-associated research projects. Dr Goldsworthy is the founder of the Company and has been the driving force behind the SILEX project, and the establishment of the consolidated entity's extensive interests in solar, semiconductor and photonics technologies.

Other current directorships

None

Former directorships in last 3 years

None

Special responsibilities

Managing Director

Mr Christopher Wilks

BComm, ASA, FCIS, FCIM, FAICD

Director – executive

Experience and expertise

Mr Wilks has a background in chartered accounting and investment banking. He was previously a partner in a private investment bank and has held positions on the board of a number of public companies.

Other current directorships

Executive director of Sonic Healthcare Limited since 1989, and non-executive director of Independent Practitioner Network Limited since August 2005.

Former directorships in last 3 years

Non executive director of SciGen Limited from 1999 to October 2005.

Special responsibilities

Mr Wilks is responsible for financial oversight and corporate development of Silex.

Dr Colin Goldschmidt

MB BCh, FRCPA, FAICD

Non-executive

Experience and expertise

Dr Goldschmidt is the CEO and Managing Director of Sonic Healthcare Limited. He was appointed to this role in 1993 and has overseen Sonic's growth within Australia and its expansion into the UK, Europe and the USA. He joined Sonic in 1987 as a pathologist, after completing his Australian Pathology Fellowship training in Sydney in 1986. Experience in listed public company management, international business operations and healthcare and scientific markets.

Other current directorships

Managing Director of Sonic Healthcare Limited since 1993, and non-executive director of Independent Practitioner Network Limited since August 2005.

Former directorships in last 3 years

Non-executive director of SciGen Ltd from 1999 to October 2005.

Special responsibilities

Member of audit committee

Mr Peter Campbell

FCA, FTIA, FAICD

Non-executive

Experience and expertise

Mr Campbell is a Chartered Accountant with his own practice based in Sydney. He is a Fellow of both the Institute of Chartered Accountants in Australia and the Taxation Institute of Australia and is a registered Company Auditor.

Other current directorships

Non-executive director of Sonic Healthcare Limited since 1993, non-executive director of Admerex Limited since January 2007 and non-executive director of QRxPharma Limited since April 2007.

Former directorships in last 3 years

None

Special responsibilities

Chairman of audit committee

Member of remuneration committee

b) Directors' interests in shares and options as at the date of this report

Director's name	Class of shares	No. of shares	Share options
B S Patterson	Ordinary	4,073,863	-
M P Goldsworthy	Ordinary	5,849,533	1,200,000
C D Wilks	Ordinary	2,794,021	600,000
C S Goldschmidt	Ordinary	2,525,937	-
R P Campbell	Ordinary	1,354,823	-

12. Company secretaries

B J Spillane, B.Comm, CA was appointed to the position of company secretary in 2003. Mr Spillane has been Financial Controller of Silex since he joined the Company in 2001. Before joining Silex Systems Limited he was a Financial Accountant in the building products industry for ten years and prior to that an auditor for five years.

13. Meetings

The number of Directors' meetings held during the financial year and the number of meetings attended by each director are set out in the following table:

Director's name	Directors' Meetings		Audit Committee Meetings		Remuneration Committee Meetings	
	Number Held	Number Attended	Number Held	Number Attended	Number Held	Number Attended
B S Patterson	9	9	2	2	1	1
M P Goldsworthy	9	9	-	-	-	-
C D Wilks	9	9	-	-	-	-
C S Goldschmidt	9	9	2	2	-	-
R P Campbell	9	9	2	2	1	1

14. Indemnification and Insurance of Directors

The Company has entered into agreements to indemnify the Directors of the Company against all liabilities to persons (other than the Company or related body corporate) which arise out of the performance of their normal duties as Directors or Executive Officers unless the liability relates to conduct involving lack of good faith. The Company has agreed to indemnify the Directors and Executive Officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity.

The Directors' and Officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company) incurred in their position as a Director or Executive Officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage. The insurance policy does not allow specific disclosure of the nature of the liabilities insured against or the premium paid under the policy.

15. Environmental regulation

The Company is subject to the environmental and health and safety regulations applicable to tenants of the Lucas Heights Science and Technology Centre. The Company is also bound by the rules and regulations set out in the Australian Radiation Protection and Nuclear Safety Act, 1998, and is a licensee under the Act.

To the best of the Directors' knowledge, all environmental and health and safety regulatory requirements have been met and there have been no claims made during the financial year.

16. Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the consolidated entity are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The board of directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- None of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the parent company, its related practices and non-related audit firms.

	Consolidated 2008 \$	2007 \$
Remuneration of auditors		
During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-audit firms:		
(a) Assurance services		
Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	118,425	105,812
Total remuneration for audit services	118,425	105,812
Other assurance services		
PricewaterhouseCoopers Australian firm		
Audit of government grants	7,500	3,000
Total remuneration for other assurance services	7,500	3,000
Total remuneration for assurance services	125,925	108,812
(b) Taxation services		
PricewaterhouseCoopers Australian firm		
Training course fees	-	718
Total remuneration for taxation services	-	718
(c) Advisory services		
PricewaterhouseCoopers Australian firm		
Corporate finance advice	-	-
Total remuneration for advisory services	-	-
Total remuneration	125,925	109,530

17. Auditors

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

18. Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 15.

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



Dr M P Goldsworthy
Managing Director



Mr C D Wilks
Director

Sydney, 29/09/08

Auditors' Independence Declaration

As lead auditor for the audit of Silex Systems Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Silex Systems Limited and the entities it controlled during the period.



RD Dring
Partner
PricewaterhouseCoopers

Sydney
29 September 2008

CORPORATE GOVERNANCE STATEMENT

Silex Systems Limited (the Company) and the board are committed to achieving and demonstrating the highest standards of corporate governance.

The directors are responsible to the shareholders for the performance of the Company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the board to the Managing Director and senior executives.

A description of the Company's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

1. Role of the board of directors

The board of directors is accountable to shareholders for the performance of the Group and is responsible for the corporate governance practices of the Group.

The board's principal objective is to maintain and increase shareholder value while ensuring that the Group's overall activities are properly managed.

Silex's corporate governance practices provide the structure which enables the board's principal objective to be achieved, whilst ensuring that the business and affairs of the group are conducted ethically and in accordance with the law.

The board's overall responsibilities include:

- providing strategic direction and approving corporate strategies;
- monitoring management and financial performance and reporting;
- monitoring and ensuring the maintenance of adequate risk management controls and reporting mechanisms, and
- ensuring the business is conducted ethically and transparently.
- The board delegates responsibility for day-to-day management of the business to the Managing Director. The Managing Director also oversees the implementation of strategies approved by the board. The board uses committees to support it in matters that require more intensive review and involvement. Details of the board committees are provided below.

As part of its commitment to good corporate governance, the board undertakes regular reviews of the practices and standards governing the board's composition, independence and effectiveness, the accountability and compensation of directors and the board's responsibility for the stewardship of the Group.

2. Composition of the board

The board is comprised of both executive and non-executive directors with a majority of non-executive directors. Non-executive directors bring a balanced perspective to the board's consideration of strategic, risk and performance matters and are best placed to exercise independent judgement and review and constructively challenge the performance of management.

The Chairman is an independent non-executive director, the majority of the board are independent of management and all directors are required to bring independent judgement to bear in their board decision making. The Chairman is elected by the full board.

The Company maintains a mix of directors on the board from different backgrounds with complementary skills and experience.

The board undertakes an annual board performance review and considers the appropriate mix of skills required by the board to maximise its effectiveness and its contribution to the Group.

3. Board members

The Directors of the Company in office at the date of this statement are:

Name	Age	Position	Expertise
Dr M P Goldsworthy	50	Managing Director/CEO	Physicist and Co-inventor of the SILEX Technology
Mr C D Wilks	50	Director	Investment Banking, Finance and Company Management
Dr C S Goldschmidt	54	Non-executive Director	Company Management
Mr B S Patterson	67	Non-executive Director/Chairman	Company Management
Mr R P Campbell	63	Non-executive Director	Finance and Accounting, Computing and Company Management

All of Silex's non-executive directors, including the Chairman, are considered independent. An independent director cannot be a substantial shareholder (as defined in section 9 of the *Corporations Act 2001*). The size and composition of the board is determined by the full board.

4. Directors' independence

The board has adopted specific principles in relation to directors' independence. These state that to be deemed independent, a director must be a non-executive and:

- not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company
- within the last three years, not have been employed in an executive capacity by the Company or any other group member, or been a director after ceasing to hold any such employment
- within the last three years not have been a principal of a material professional adviser or a material consultant to the Company or any other group member, or an employee materially associated with the service provided
- not be a material supplier or customer of the Company or any other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- must have no material contractual relationship with the Company or a controlled entity other than as a director of the Group
- be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

Materiality for these purposes is determined on both quantitative and qualitative bases. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

5. Term of office

The Company's Articles of Association specifies that all directors other than the Managing Director must retire from office no later than the third annual general meeting (AGM) following their last election. Where eligible, a director may stand for re-election.

Prior to appointment or being submitted for re-election each non-executive director is required to specifically acknowledge that they have and will continue to have the time available to discharge their responsibilities to the Company.

6. Chairman and Chief Executive Officer (CEO)

The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, and facilitating board discussions.

The CEO is responsible for the day-to-day management of the Company's affairs, and for implementing Group strategies and policies as determined by the Board of Directors.

7. Board meetings

The board meets formally at least 9 times a year to consider a broad range of matters, including progress with respect to the Company's various development programs, strategy, financial reviews, acquisitions and investments. Details of meetings and attendances are set out in the Directors' Report.

8. Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

9. Performance assessment and remuneration

The board meets to undertake an annual self assessment of its collective performance, the performance of the Chairman and of its committees. This was performed in February 2008 and all deemed satisfactory. The board discusses a broad range of issues including the progress of the various research and development projects, the financial results, capital raisings, major deals negotiated and the share price.

The Chairman undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment. The managing director meets annually with non-director senior executives to discuss their performance. Feedback is also sought from other directors.

The Directors' report contains details of remuneration paid to directors and executives. Executive and non-executive directors' fees are clearly separated in the Directors' report.

Where bonuses are paid, details of the reason for the bonus are described. Options issued to executive directors are approved by shareholders at the Annual General Meeting.

Additional information on performance evaluation and remuneration is provided in the Directors' Report.

10. Corporate reporting

The Managing Director/CEO and Financial Controller have made the following certifications to the board:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and Group and are in accordance with relevant accounting standards
- that the above statement is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

11. Board committees

The board has established a number of committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the board are the remuneration and audit committees. Each is comprised of a majority of non-executive directors. The committee structure and membership is reviewed on an annual basis.

12. Remuneration committee

The remuneration committee consists of the following non-executive directors:

B S Patterson (Chairman)
R P Campbell

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report.

The remuneration committee advises the board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. Further

information on directors' and executives' remuneration is set out in the directors' report.

The remuneration committee adopts policies that attract and maintain talented and motivated directors and employees so as to encourage enhanced performance.

13. Audit committee

The audit committee consists of 3 non-executive independent directors as follows:

R P Campbell (Chairman)
C S Goldschmidt
B S Patterson

Details of these directors' qualifications and attendance at audit committee meetings are set out in the Directors' report.

The audit committee has appropriate financial expertise and all members are financially literate and have an appropriate understanding of the industries in which the Group operates.

The audit committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. The charter is reviewed on an annual basis and is available on the Company website.

Minutes of committee meetings are tabled at the subsequent board meeting.

The audit committee operates in accordance with a charter. The main responsibilities of the committee are to:

- review, assess and approve the financial reports and all other financial information published by the Company or released to the market
- assist the board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations
- oversee the effective operation of the risk management framework
- recommend to the board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance
- consider the independence and competence of the external auditor on an ongoing basis
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence
- review and monitor related party transactions and assess their propriety
- report to the board on matters relevant to the committee's role and responsibilities.

In fulfilling its responsibilities, the Audit Committee receives regular reports from management and the external auditors. It also meets with the external auditors at least twice a year – more frequently if necessary, and reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved. The external auditors have a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

14. Nomination committee

The Board has decided that it is in the Company's best interest that the full Board deal with nomination issues. As a result a Nomination Committee has not been established.

15. External auditors

The Company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into

consideration assessment of performance, existing value and tender costs. It is PricewaterhouseCoopers policy to rotate audit engagement partners on listed companies at least every five years.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the Directors' report. It is the policy of the external auditors to provide annual declarations of their independence to the audit committee.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

16. Risk assessment and management

The board, through the audit committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. These policies, detailed in the audit committee charter are available on the Company website. In summary, the Company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the board actively promotes a culture of quality and integrity.

Detailed control procedures cover management accounting, financial reporting, project appraisal, environment, health and safety, IT security, compliance and other risk management issues.

The Board requires management to design and implement the risk management and internal control system to manage the Company's material business risks. The board discusses these policies at regular intervals. For example management provides details of cash deposits and intellectual property patenting on a regular basis for review. Management reports on the effectiveness of the Company's management of its material business risks.

The board requires that each major proposal submitted to the board for decision is accompanied by sufficient due diligence and risk review.

17. Occupational Health and Safety (OH&S)

The Company recognises the importance of occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the OH&S Committee was established to facilitate the systematic identification of OH&S issues and to ensure they are managed in a structured and rigorous manner. This system has been operating for a number of years and allows the Company to:

- monitor its compliance with all relevant OH&S legislation and regulations,
- continually assess and improve the effectiveness of the Company's OH&S program,
- encourage employees to actively participate in the management of all OH&S issues, and
- reinforce the importance of safe work practices throughout the Company, as mandated by management.

18. Environmental regulation

As noted in the Directors' report, the Company is subject to the environmental and health and safety regulations applicable to tenants of the Lucas Heights Science and Technology Centre. The Company is also bound by the rules and regulations set out in the Australian Radiation Protection and Nuclear Safety Act, 1998, and is a licensee under that Act. To the best of the Directors' knowledge, all environmental regulatory requirements have been met.

19. Code of conduct

The Company has developed a Code of Conduct (the Code) which has been fully endorsed by the board and applies to all directors and employees.

In summary, the Code requires that at all times Company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

A copy of the Code is available on the Company's website.

20. Share trading policy

The Company has in place a formal share trading policy which places certain prohibitions on the trading of the Company's shares. The policy is on the Company's website. All Silex share dealings by directors are promptly notified to the Australian Stock Exchange (ASX). All directors and employees are prohibited from buying and selling Silex shares at any time if they are aware of any material price sensitive information that has not been made available to the public. This however does not restrict directors and employees from exercising options over unissued Silex shares. Trading of the subsequently issued shares is however subject to the prohibitions above. The Share trading policy is available on the Company's website.

21. Independent professional advice and access to information

Each director has the right to seek independent professional advice at the Company's expense. However, prior approval of the Chairman is required, which is not unreasonably withheld.

All directors have access to Company records and information and receive detailed financial and operational reports from senior management during the year to enable them to carry out their duties. Directors also liaise with senior management as required, and may consult with other employees and seek additional information on request.

22. Conflicts of interest of directors

The board has guidelines dealing with disclosure of interests by directors and participation and voting at board meetings where any such interests are discussed. In accordance with the *Corporations Act 2001*, any director with a material personal interest in a matter being considered by the board does not receive the relevant board papers, must not be present when the matter is being considered, and may not vote on the matter.

Further details of directors' remuneration, superannuation and retirement payments are set out in the Directors' Report.

23. Continuous disclosure and shareholder communication

The Company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the Company and its subsidiaries that a reasonable person would expect to have a material effect on the price of the Company's securities. These policies and procedures also include the arrangements the Company has in place to promote communication with shareholders and encourage effective participation at general meetings. The Company's Continuous Disclosure Policy is available on the Company's website.

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Information disclosed to the ASX is posted on the Company's web site as soon as it is disclosed to the ASX. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed, and if so, this information is also immediately released to the market.

24. The role of shareholders

The Board of Directors aims to ensure that the shareholders are informed of all major developments affecting the group's state of affairs. Information is communicated to shareholders as follows:

- The annual report is distributed to all shareholders who have elected to receive it and is posted on the company's website. The board ensures that the annual report includes relevant information about the operations of the group during the year, changes in the state of affairs of the group and details of likely future developments, in addition to the other disclosures required by the *Corporations Act 2001*;

- Proposed major changes in the group which may impact on share ownership rights are submitted to a vote of shareholders.

The board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the group's strategy and goals. Important issues are presented to the shareholders as single resolutions.

The shareholders are responsible for voting on the appointment of directors.

Silex Systems Limited

Concise financial report – 30 June 2008

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Relationship of the concise financial report to the full financial report

The concise financial report is an extract from the full financial report for the year ended 30 June 2008. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of Silex Systems Limited and its subsidiaries as the full financial report. Further financial information can be obtained from the full financial report.

The full financial report and auditor's report will be sent to members on request, free of charge. Please call 61 2 9532 1331 and request a copy of the full financial report (or email enquiries@silex.com.au). Alternatively, you can access both the full financial report and the concise report via the internet on our website: www.silex.com.au.

Consolidated income statement
For the year ended 30 June 2008

	Notes	2008	2007
		\$	\$
Revenue from continuing operations	2	13,031,442	35,744,201
Other income	3	273,935	390,776
Research and development materials		(6,193,038)	(3,763,844)
Finance costs		(8,663)	(9,997)
Depreciation and amortisation expense		(914,798)	(1,588,562)
Employee benefits expense		(10,714,929)	(12,644,450)
Professional fees		(1,002,922)	(1,488,053)
Printing, postage and stationery		(66,283)	(85,664)
Rent		(353,909)	(417,519)
Travelling expenses		(674,266)	(651,535)
Changes in inventories		12,019	41,735
Raw materials and stores used		(23,049)	(45,875)
Net foreign exchange losses		(1,804,697)	(2,642,122)
Other expenses from ordinary activities		(808,997)	(872,022)
(Loss)/profit before income tax expense		(9,248,155)	11,967,069
Income tax expense		-	(3,226,150)
Net (loss)/profit		(9,248,155)	8,740,919
 (Loss)/profit is attributable to:			
Equity holders of Silex Systems Limited		(9,248,155)	8,767,421
Minority interest		-	(26,502)
		(9,248,155)	8,740,919
		<hr/>	<hr/>
		Cents	Cents
Earnings per share for (loss)/profit from continuing operations attributable to the ordinary equity holders of the company			
Basic earnings per share		(6.5)	6.4
Diluted earnings per share		(6.5)	6.3

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated balance sheet

As at 30 June 2008

	30 June 2008	30 June 2007
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	65,471,514	22,623,517
Trade and other receivables	2,694,313	1,791,841
Inventories	61,274	91,166
Other	49,566	81,322
Total current assets	<u>68,276,667</u>	<u>24,587,846</u>
Non-current assets		
Receivables	35,009	191,116
Property, plant and equipment	1,913,415	2,212,401
Call option deeds	2,200,894	-
Deferred tax assets	10,107	7,932
Intangible assets	8,484,155	8,397,054
Total non-current assets	<u>12,643,580</u>	<u>10,808,503</u>
Total assets	<u>80,920,247</u>	<u>35,396,349</u>
LIABILITIES		
Current liabilities		
Trade and other payables	1,308,064	1,399,232
Borrowings	25,712	23,804
Provisions	440,347	445,028
Total current liabilities	<u>1,774,123</u>	<u>1,868,064</u>
Non-current liabilities		
Borrowings	72,499	98,211
Provisions	180,819	100,631
Total non-current liabilities	<u>253,318</u>	<u>198,842</u>
Total liabilities	<u>2,027,441</u>	<u>2,066,906</u>
Net assets	<u>78,892,806</u>	<u>33,329,443</u>
EQUITY		
Contributed equity	101,426,404	49,224,639
Reserves	6,558,684	3,948,931
Accumulated losses	(29,092,282)	(19,844,127)
Parent equity interest	78,892,806	33,329,443
Minority interest	-	-
Total equity	<u>78,892,806</u>	<u>33,329,443</u>

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of recognised income and expense
For the year ended 30 June 2008

	2008	2007
	\$	\$
Exchange differences on translation of foreign controlled entity	<u>(395,925)</u>	<u>(630,962)</u>
Net income recognised directly in equity	(395,925)	(630,962)
(Loss)/profit for the year	<u>(9,248,155)</u>	<u>8,740,919</u>
Total recognised income and expense for the year	<u>(9,644,080)</u>	<u>8,109,957</u>

Total recognised income and expense for the year is attributable to:

Members of Silex Systems Limited	(9,644,080)	8,136,459
Minority interest	-	(26,502)
	<u>(9,644,080)</u>	<u>8,109,957</u>

The above consolidated statement of recognised income and expense should be read in conjunction with the accompanying notes.

Consolidated cash flow statement
For the year ended 30 June 2008

	2008	2007
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	9,642,240	33,331,202
Payments to suppliers and employees (inclusive of goods and services tax)	(16,278,654)	(16,415,882)
Interest received	2,704,245	1,347,336
Interest paid	(8,663)	(9,997)
Income tax paid	-	(3,228,360)
Net cash (outflows)/inflows from operating activities	<u>(3,940,832)</u>	<u>15,024,299</u>
Cash flows from investing activities		
Payment for additional interest in subsidiaries	(145,470)	(10,000)
Payments for call options in subsidiary	(890,374)	-
Loans to related parties	(52,716)	(140,717)
Payments for property, plant and equipment	(788,987)	(571,671)
Proceeds from sale of property, plant and equipment	17,727	9,636
Proceeds from maturity of held to maturity assets	-	1,390,040
Repayment of loans by related parties	185,539	171,928
Net cash (outflows)/inflows from investing activities	<u>(1,674,281)</u>	<u>849,216</u>
Cash flows from financing activities		
Proceeds from issue of shares	50,377,452	1,118,091
Repayment of promissory note	-	(6,726,759)
Repayment of hire purchase liabilities	(23,804)	(22,985)
Net cash inflows/(outflows) from financing activities	<u>50,353,648</u>	<u>(5,631,653)</u>
Net increase in cash held	44,738,535	10,241,862
Cash and cash equivalents at the beginning of the financial year	22,623,517	15,040,749
Effects of exchange rate changes on cash	(1,890,538)	(2,659,094)
Cash and cash equivalents at end of year	<u>65,471,514</u>	<u>22,623,517</u>

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

This concise financial report relates to the consolidated entity consisting of Silex Systems Limited and the entities it controlled at the end of, or during, the year ended 30 June 2008. The accounting policies have been consistently applied to all years presented, unless otherwise stated.

Note 1 Presentation currency

The presentation currency used in this concise financial report is Australian dollars.

	2008	2007
	\$	\$
Note 2 Revenue		
From continuing operations		
Up Front Uranium Agreement Fee	-	26,878,000
Recoverable Project costs	9,624,501	7,343,892
Interest income	3,223,552	1,342,171
DARPA contract	163,031	159,340
Other	20,358	20,798
	13,031,442	35,744,201

Note 3 Other income

Government Grants	261,364	390,776
Net gain on sale of property, plant and equipment	12,571	-
	273,935	390,776

(i) Government grants

Commercial Ready grants of \$261,364 (2007: \$390,776) were recognised as other income by the Group during the financial year. There are no unfulfilled conditions attaching to these grants. The grant was received by ChronoLogic Pty Ltd and part of it may be repayable in certain circumstances. These include if a change in control of ChronoLogic occurs without Ausindustry's consent; ChronoLogic wishes to commercialise the project other than as represented in its grant application; significantly additional aspects of the project would be commercialised in a country other than Australia, or overseas commercialisation would deliver significantly reduced national benefit when compared to the proposed commercialisation arrangements set out in the application; ChronoLogic becomes insolvent; or ChronoLogic breaches any warranty contained in the Agreement conditions.

Note 4 Segment information

Primary reporting-business segments

Primary segment reporting has changed from geographic to business segments as this is now more appropriate given laser enrichment is being undertaken both in Australia and the United States. The consolidated entity is organised into the following divisions by business type.

Laser enrichment

Enrichment of uranium, silicon, carbon and oxygen by the "SILEX" laser isotope separation technology.

Photonics and solar energy

Development of new silicon based materials and manufacturing technology for application to both the optical communications and mainstream computer chip industries; and development of a solar energy conversion cell.

Test and measurement equipment

Development of novel electronics equipment for the Data acquisition and electronics instrumentation industries.

Note 4 Segment information (continued)

Year ended 30/06/2008	Laser enrichment \$	Photonics and solar energy \$	Test and measurement equipment \$	Inter segment eliminations/ unallocated \$	Consolidated \$
Recoverable Project costs	9,624,501	-	-	-	9,624,501
DARPA contract	-	163,031	-	-	163,031
Other	889	-	19,469	-	20,358
Total segment revenue	9,625,390	163,031	19,469	-	9,807,890
Unallocated - interest income				3,223,552	3,223,552
Total revenue				<u>3,223,552</u>	<u>13,031,442</u>
Segment result	(3,134,724)	(3,618,701)	(1,184,323)	-	(7,937,748)
Unallocated revenue and income less unallocated expenses				(1,310,407)	(1,310,407)
(Loss) before tax					(9,248,155)
Income tax expense					-
Net (loss)					<u>(9,248,155)</u>
Segment assets	1,959,869	12,715,986	202,433		14,878,288
Unallocated assets				66,041,959	66,041,959
Total assets				<u>66,041,959</u>	<u>80,920,247</u>
Segment liabilities	1,319,769	164,281	177,450	-	1,661,500
Unallocated liabilities				365,941	365,941
Total liabilities				<u>365,941</u>	<u>2,027,441</u>
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	21,236	3,055,856	67,008	-	3,144,100
Depreciation and amortisation expense	45,888	783,973	84,937	-	914,798
Other non-cash expenses	59,475	31,818	57,943	-	149,236

Note 4 Segment information (continued)

Year ended 30/06/2007	Laser enrichment \$	Photonics and solar energy \$	Test and measurement equipment \$	Inter segment eliminations/u nallocated \$	Consolidated \$
Up Front Agreement Fee	26,878,000	-	-	-	26,878,000
Recoverable Project costs	7,343,892	-	-	-	7,343,892
DARPA contract	-	159,340	-	-	159,340
Other	12,878	-	7,920	-	20,798
Total segment revenue	<u>34,234,770</u>	<u>159,340</u>	<u>7,920</u>	-	<u>34,402,030</u>
Unallocated - interest income				1,342,171	1,342,171
Total revenue				<u>1,342,171</u>	<u>35,744,201</u>
Segment result	<u>22,826,387</u>	<u>(5,610,859)</u>	<u>(1,229,567)</u>	-	15,985,961
Unallocated revenue and income less unallocated expenses				<u>(4,018,892)</u>	<u>(4,018,892)</u>
Profit before tax					11,967,069
Income tax expense					<u>(3,226,150)</u>
Net profit					<u>8,740,919</u>
Segment assets	<u>1,850,169</u>	<u>10,726,494</u>	<u>188,237</u>	-	12,764,900
Unallocated assets				<u>22,631,449</u>	<u>22,631,449</u>
Total assets					<u>35,396,349</u>
Segment liabilities	<u>1,135,649</u>	<u>416,146</u>	<u>112,455</u>	-	1,664,250
Unallocated liabilities				<u>402,656</u>	<u>402,656</u>
Total liabilities					<u>2,066,906</u>
Acquisition of property, plant and equipment, intangibles and other non-current segment assets	<u>149,013</u>	<u>550,724</u>	<u>13,317</u>	-	713,054
Depreciation and amortisation expense	<u>76,403</u>	<u>1,095,204</u>	<u>416,955</u>	-	1,588,562
Other non-cash expenses	<u>139,803</u>	<u>-</u>	<u>88,302</u>	-	228,105

Note 5 Dividends

No dividends were declared or paid during the year or in the prior year.

Note 6 Events occurring after reporting date

The directors are not aware of matters or circumstances which are not otherwise dealt with in the financial statements that have significantly or may significantly affect the operations of the consolidated entity, the results of its operations or the state of the consolidated entity in subsequent years.

The directors declare that in their opinion, the concise financial report of the consolidated entity for the year ended 30 June 2008 as set out on pages 23 to 30 complies with Accounting Standard AASB 1039: Concise Financial Reports.

The concise financial report is an extract from the full financial report for the year ended 30 June 2008. The financial statements and specific disclosures included in the concise financial report have been derived from the full financial report.

The concise financial report cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report, which is available on request.

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



Dr M P Goldsworthy
Managing Director



C D Wilks
Director

Sydney

29 September 2008

**Independent auditor's report to the members of
Silex Systems Limited**

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Report on the concise financial report

The accompanying concise financial report of Silex Systems Limited comprises the balance sheet as at 30 June 2008, the income statement, statement of recognised income and expense and cash flow statement for the year then ended and related notes, derived from the audited financial report of Silex Systems Limited for the year ended 30 June 2008. The concise financial report does not contain all the disclosures required by the Australian Accounting Standards.

Directors' responsibility for the concise financial report

The directors are responsible for the preparation and presentation of the concise financial report in accordance with Accounting Standard AASB 1039 Concise Financial Reports, and the Corporations Act 2001. This responsibility includes establishing and maintaining internal control relevant to the preparation of the concise financial report; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on the concise financial report based on our audit procedures. We have conducted an independent audit, in accordance with Australian Auditing Standards, of the financial report of Silex Systems Limited for the year ended 30 June 2008. Our audit report on the financial report for the year was signed on 29 September 2008 and was not subject to any modification. The Australian Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report for the year is free from material misstatement.

Our procedures in respect of the concise financial report included testing that the information in the concise financial report is derived from, and is consistent with, the financial report for the year, and examination on a test basis, of evidence supporting the amounts and other disclosures which were not directly derived from the financial report for the year. These procedures have been undertaken to form an opinion whether, in all material respects, the concise financial report complies with Accounting Standard AASB 1039 Concise Financial Reports.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the concise financial report.

For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

**Independent auditor's report to the members of
Silex Systems Limited (continued)**

Independence

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

Auditor's opinion on the financial report

In our opinion, the concise financial report of Silex Systems Limited for the year ended 30 June 2008 complies with Australian Accounting Standard AASB 1039: Concise Financial Reports.

Auditor's opinion on the remuneration report

In our opinion, the Remuneration Report of Silex Systems Limited for the year ended 30 June 2008 complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited concise financial report

This auditor's report relates to the concise financial report and remuneration report of Silex Systems Limited (the company) for the year ended 30 June 2008 included on Silex Systems Limited web site. The company's directors are responsible for the integrity of the Silex Systems Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.



PricewaterhouseCoopers



RD Dring
Partner

Sydney
29 September 2008

Shareholders' information

1. Information relating to shareholders as at 22 September 2008**a. Distribution schedule**

1-1,000	2,385
1,001-5,000	2,605
5,001-10,000	686
10,001-100,000	701
100,001 and over	105
Total number of holders of each class of security	<u>6,482</u>

Voting rights - on a show of hands

- on a poll

Percentage of total holding held by the largest 20 holders 68.33%

Number of total holding less than a marketable parcel of shares 117

Substantial shareholders	Ordinary shares
Jardvan Pty Ltd	33,674,095
Bank of New York Mellon Corporation	8,709,995

b. Names of Twenty Largest Holders of each Security as at 22 September 2008

<u>Name</u>	<u>Number of securities</u>	<u>Percentage held</u>
Jardvan Pty Ltd	33,674,095	23.13%
National Nominees Limited	13,285,426	9.13%
HSBC Custody Nominees (Australia) Limited	10,416,288	7.15%
J P Morgan Nominees Australia Limited	5,751,016	3.95%
Majenta Holdings Pty Ltd	5,703,923	3.92%
ANZ Nominees Limited	4,968,299	3.41%
Citicorp Nominees Pty Limited	4,769,746	3.28%
Polly Pty Ltd	4,073,863	2.80%
Throvena Pty Ltd	2,978,203	2.05%
Hamlac Pty Ltd	2,525,937	1.73%
Mr Christopher David Wilks	2,405,070	1.65%
Quintal Pty Ltd	2,000,000	1.37%
Quadrangle Nominees Limited	1,327,630	0.91%
UBS Nominees Pty Ltd	1,189,516	0.82%
Mithena Holdings Pty Limited	1,139,823	0.78%
Merrill Lynch (Australia) Nominees Pty Limited	1,070,212	0.74%
Dr Andrew Tan	645,664	0.44%
Mr Hayden Harvey Prior	540,000	0.37%
Mr Elia Castronova	510,765	0.35%
LYC Corporation Pty Ltd	504,043	0.35%
	<u>99,479,519</u>	<u>68.33%</u>

2. Vendor securities as at 22 September 2008

There are no vendor securities.

3. Interest of directors in securities as at 22 September 2008

	Ordinary shares	Interest held
Mr B S Patterson	4,073,863	Beneficially
Dr M P Goldsworthy	5,849,533	Personally/Beneficially
Mr C D Wilks	2,794,021	Personally/Beneficially
Dr C S Goldschmidt	2,525,937	Beneficially
Mr R P Campbell	1,354,823	Beneficially

4. Securities subject to voluntary escrow as at 22 September 2008

	Number on issue	Date escrow period ends
As at 22 September 2008 the following securities were subject to voluntary escrow:		
Ordinary shares	32,824	2 May 2009
Ordinary shares	8,020	14 May 2009
Ordinary shares	20,000	7 July 2009

5. Unquoted equity securities as at 22 September 2008

	Number on issue	Number of holders
Options issued under the Silex Systems Limited Employee Share Option Plan to take up ordinary shares	2,326,500	39
Other options issued to take up ordinary shares *	1,800,000	2

* These options are held by directors Dr M P Goldsworthy and Mr C D Wilks.