

Silex Systems Limited  
& its subsidiaries  
ABN 69 003 372 067

**Financial Statements for  
the year ended 30 June 2010**

## **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](http://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](mailto:web.queries@computershare.com.au)

Enquiries outside Australia: 61 3 9415 4000  
Website: [www.computershare.com.au](http://www.computershare.com.au)

### ***Stock Exchange***

Listed on the Australian Stock Exchange

### ***Auditors***

PricewaterhouseCoopers

### ***Solicitors***

Australia: Baker & McKenzie and Minter Ellison Lawyers      U.S.A Paul Hastings LLP

### ***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 various technologies, including, but not limited to, the SILEX technology and business, the Silex Solar technology and business, Solar Systems technology and business, Translucent technology and ChronoLogic technology. Several of 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 SILEX uranium enrichment development program, the demand for enriched materials including uranium, the business risks associated with Silex Solar's manufacturing and marketing activities; the risks associated with the development of Solar Systems technology and related marketing activities; 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 competitive 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 2010.

**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:

- (a) research and development of the laser isotope separation technology known as 'SILEX',
- (b) 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. These activities are being undertaken by Translucent Inc, a California based company which Silex has a 98% fully diluted interest in, and
- (c) developing data acquisition equipment, test and measurement equipment utilising its proprietary USB-inSync technology. These activities are being undertaken by ChronoLogic Pty Ltd which Silex has a 90% interest in.

In late June 2009, 100% owned subsidiary Silex Solar Pty Ltd acquired solar cell and panel manufacturing assets from BP Solar Pty Ltd. This facility is located at Sydney Olympic Park. During the year, recommissioning and solar panel certification activities were undertaken before Silex Solar commenced manufacturing and sales of solar panels on 31 March 2010.

In March 2010, 100% owned subsidiary Solar Systems Pty Ltd acquired assets from the Solar Systems Group and has been conducting research and development into concentrated photovoltaic systems since then.

**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:

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Revenue from continuing operations	<b>9,609,270</b>	9,278,586
(Loss) before tax	<b>(19,001,148)</b>	(3,744,212)
Income tax expense	<b>(2,504)</b>	(11,396)
(Loss) from ordinary activities after related income tax expense	<b>(19,003,652)</b>	(3,755,608)
(Loss) is attributable to:		
Owners of Silex Systems Limited	<b>(18,127,716)</b>	(3,755,608)
Non-controlling interests	<b>(875,936)</b>	-
	<b>(19,003,652)</b>	(3,755,608)

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

The increase in revenue is largely due to sales of solar panels by Silex Solar Pty Ltd. Silex Solar commenced selling panels on 31 March 2010 with sales of \$3,068,355 in the period to 30 June 2010. The increase was partly offset by a reduction in recoverable project costs on the Uranium Enrichment Project and reduced interest income. Costs on the Uranium Project, which are reimbursed, reduced in the current year. The prior year costs included amounts for materials for the building of the Test Loop.

The increased loss for the period was mainly due to Silex Solar Pty Ltd and Solar Systems Pty Ltd. Silex Solar acquired solar cell and panel manufacturing assets from BP Solar Pty Ltd in late June 2009. Recommissioning and product certification activities occurred in 2009/2010 before Silex Solar commenced solar panel sales on 31 March 2010. Solar Systems acquired assets from the Solar Systems Group in March 2010 and has undertaken research and development activities since then.

In addition, the current year result includes a \$1,008,193 net foreign exchange loss (\$2,755,897 net exchange gain in the prior year). The exchange loss, which is partly unrealised, was due to a strengthening of the Australian dollar against the Company's US dollar holdings during the year. Interest income reduced from \$3,126,693 to \$1,691,352 as the Company's average cash holdings reduced.

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

Details of segment results are detailed below:

**Silex Systems**

Lower recoverable project costs revenue for the Uranium Project in the current year reflected lower Test Loop program costs in the current year. The segment result was a loss of \$1,298,639 compared to a \$4,245,080 profit in the prior year. The result in the current year was impacted by lower interest income as average cash balances reduced in the current year and a \$970,394 net foreign exchange loss (\$2,755,897 net exchange gain in prior year).

**Translucent**

The segment loss decreased from \$4,743,639 to \$4,394,761. This was mainly due to a decrease in expenses partly caused by a strengthening in the Australian dollar against the US dollar.

**Silex Solar**

Silex Solar acquired solar cell and panel manufacturing assets from BP Solar Pty Ltd in late June 2009. Recommissioning and product certification activities occurred in 2009/2010 before Silex Solar commenced solar panel sales on 31 March 2010. Silex Solar generated solar panel sales of \$3,068,355 for the year ended 30 June 2010. Silex Solar's segment loss increased from \$351,715 in the prior year to \$8,279,595 in the current year.

**ChronoLogic**

The segment result was a loss of \$1,544,998 compared to a loss of \$1,554,792 in the previous year.

**Solar Systems**

Solar Systems acquired assets from the Solar Systems Group in March 2010 and has undertaken research and development activities since then. The segment result was a loss of \$1,620,816 for the year ended 30 June 2010.

**5. Earnings per share**

	<b>2010</b>	2009
	<b>Cents</b>	Cents
Basic earnings per share	<b>(12.3)</b>	(2.6)
Diluted earnings per share	<b>(12.3)</b>	(2.6)

**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 subsidiary Silex Solar Pty Ltd commenced the manufacture and sale of solar panels at Sydney Olympic Park.
- Silex subsidiary Solar Systems Pty Ltd acquired assets from the Solar Systems Group, which includes technology applicable to large utility-scale electrical power generation in March 2010. Solar Systems has undertaken development and commercialisation activities for the technology since then.
- In May 2010 Silex exercised its call option in Translucent Inc, resulting in its shareholding moving to 98% on a fully diluted basis.

**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 technology company with interests in a number of technology development projects both in Australia and overseas. Silex also has manufacturing operations through its subsidiary Silex Solar Pty Ltd at Sydney Olympic Park. The Company's future prospects remain dependent on the outcomes of the solar manufacturing operations and on the various technology development programs, including the Company's success in ultimately commercialising those technologies.

The Group's segments are summarised below:

***Silex Systems***

Silex is developing a novel method of enriching uranium using lasers in collaboration with Global Laser Enrichment (GLE – a venture owned by GE, Hitachi and Cameco to commercialise the SILEX technology in the US). In April 2010, Silex advised that the initial Test Loop measurement program had been successfully completed. After this, further Test Loop measurements and other activities will focus increasingly on the engineering design effort for a commercial production facility. GLE will continue to evaluate the project to decide whether to proceed with a commercial production facility. The decision to build a commercial facility, coupled with the granting of a commercial operating license from the US Nuclear Regulatory Commission, would trigger a milestone payment of US\$15 million to Silex, likely to be in the 2012 timeframe.

***Translucent Inc***

Silex has a 98% fully diluted interest in Translucent Inc, a California based company which has been researching and developing advanced semiconductor materials called "Rare-Earth Oxides" for several years. These unique materials may generate commercial outcomes in key areas such as high efficiency solar cells and silicon-on-insulator (SOI) substrates.

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. ChronoLogic continues to develop new products, including the new Distributed Virtual Instrumentation (DVI) product range, which it is hoped will generate significant interest from the Test and Measurement industry.

**Silex Solar**

Silex Solar generated its first solar panel sales in late March 2010 and is ramping up production. Silex Solar sales are expected to increase significantly over the next 12 months.

**Solar Systems**

Solar Systems launched a technology commercialisation program in April 2010 due to be completed in mid 2011 - which will bring the technology to market readiness. Business development and marketing activities will occur in parallel with the aim of commencing commercial activities in the second half of 2011. These activities are expected to culminate in the construction of the first showcase plant – a 2MW pilot plant in Mildura (potentially a precursor to a 100 to 150MW power station). Solar Systems has Victorian State and Federal government grants in place which will provide funding for some of these activities.

**9. Share options**

***Shares under option***

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

<b>Number of options</b>	<b>Issue Price of shares</b>	<b>Grant date</b>	<b>Expiry date</b>
2,470,500	\$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
100,000	\$5.81	24th December 2007	23rd December 2012
190,000	\$7.06	15th July 2008	14th July 2013
145,000	\$3.63	7th October 2008	6th October 2013
50,000	\$3.54	28th November 2008	27th November 2013
50,000	\$3.51	5th December 2008	4th December 2013
50,000	\$4.19	31st March 2009	30th March 2014
500,000	\$5.88	29th June 2009	28th June 2014
220,000	\$6.13	11th January 2010	10th January 2015
60,000	\$5.99	19th March 2010	18th March 2015
740,000	\$5.24	27th May 2010	26th May 2015
600,000	\$4.65	30th July 2010	29th July 2015
<b>5,525,500</b>			

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 sheet date and the date of this report 600,000 options were granted and these are included in the table above.

***Shares issued on the exercise of options***

The following ordinary shares of Silex Systems Limited were issued during the year ended 30 June 2010 on the exercise of options granted under the Silex Systems Limited Employee Share Option Plan. No amounts are unpaid on any of the shares.

<b>Date options granted</b>	<b>Issue price of shares</b>	<b>Number of shares issued</b>
4th May 2005	\$0.85	51,500
22nd November 2005	\$1.77	45,000
22nd June 2006	\$3.60	399,500
		<b>496,000</b>

Between balance date and the date of this report, no options were exercised.

## 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) Service Agreements
- D) Share-based compensation
- E) 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.

### *Non-executive Directors*

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. 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.

*Superannuation*

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

*Long-term incentives*

*Silex Systems Limited Employee Option Plan*

Executives are entitled to participate in the Silex Systems Limited Employee Share Option Plan.

**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***

2010	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	611,950	75,000	60,587	14,461	(8,949)	-	753,049
Mr C D Wilks	130,272	-	-	11,273	214	-	141,759
<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>							
Mr B J Spillane Company Secretary and Financial Controller	141,671	-	14,796	12,176	6,497	-	175,140
Mr R J Seares General Manager - Silex Solar Pty Ltd (appointed 17 August 2009)	152,538	10,000	-	14,005	198	72,045	248,786
<b>Total</b>	<b>1,241,431</b>	<b>85,000</b>	<b>75,383</b>	<b>70,365</b>	<b>(2,040)</b>	<b>72,045</b>	<b>1,542,184</b>

**Silex Systems Limited**  
**Directors' report**  
30 June 2010 (continued)

The bonus for Dr M P Goldsworthy was in recognition of delivery of the new solar divisions (Silex Solar and Solar Systems). This bonus was paid after year end. The bonus paid to Mr R J Seares was for the successful completion of the qualification/certification of the first Silex Solar panels.

2009	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	552,745	-	63,153	13,745	21,090	-	650,733
Mr C D Wilks	123,669	-	-	10,679	106	-	134,454
<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>							
Mr B J Spillane Company Secretary and Financial Controller	123,611	-	14,625	10,998	5,440	-	154,674
<b>Total</b>	<b>1,005,025</b>	<b>-</b>	<b>77,778</b>	<b>53,872</b>	<b>26,636</b>	<b>-</b>	<b>1,163,311</b>

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	
	2010	2009	2010	2009	2010	2009
<i>Executive directors</i>						
Dr M P Goldsworthy	<b>90.0%</b>	100.0%	<b>10.0%</b>	-	-	-
Mr C D Wilks	<b>100.0%</b>	100.0%	-	-	-	-
<i>Other key management personnel</i>						
Mr B J Spillane	<b>100.0%</b>	100.0%	-	-	-	-
Mr R J Seares	<b>67.0%</b>	-	<b>4.0%</b>	-	<b>29.0%</b>	-

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

**C) Service Agreements**

Dr M P Goldsworthy

Term of agreement – no expiry.

Package consisting of base salary, superannuation and motor vehicle reviewed by remuneration committee.

Mr C D Wilks

Term of agreement – reappointed a director for a further period of 3 years commencing 26 November 2008.

Package consisting of directors fees, salary and superannuation.

Salary details reviewed by remuneration committee.

Mr B J Spillane

Term of agreement – employed from 26 November 2001, no expiry.

Package consisting of base salary, superannuation and motor vehicle reviewed annually.

Payment of a termination benefit on early termination by the Company equal to 1 month's package.

Mr R J Seares

Term of agreement – employed 17 August 2009, no expiry.

Package consisting of base salary and superannuation reviewed annually.

Payment of a termination benefit on early termination by the Company equal to 1 month's package.

**D) Share-based compensation**

*Options*

Options are granted under the Silex Systems Limited Employee Option Plan. 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
9 <sup>th</sup> 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 23 <sup>rd</sup> December 2009
15th July 2008	14th July 2013	\$7.06	\$3.82	100% after 15th July 2010
7 <sup>th</sup> October 2008	6th October 2013	\$3.63	\$1.96	100% after 7th October 2010
28th November 2008	27th November 2013	\$3.54	\$1.81	100% after 28th November 2010
5 <sup>th</sup> December 2008	4th December 2013	\$3.51	\$1.86	100% after 5 <sup>th</sup> December 2010
31st March 2009	30th March 2014	\$4.19	\$2.28	100% after 31st March 2011
29th June 2009	28th June 2014	\$5.88	\$3.20	100% after 29 <sup>th</sup> June 2011
11th January 2010	10th January 2015	\$6.13	\$2.88	100% after 11th January 2012
19th March 2010	18th March 2015	\$5.99	\$2.52	100% after 19th March 2012
27th May 2010	26th May 2015	\$5.24	\$2.20	100% after 27 <sup>th</sup> May 2012

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.

**Silex Systems Limited**  
**Directors' report**  
30 June 2010 (continued)

Name	Number of options granted during the year		Number of options vested during the year	
	2010	2009	2010	2009
<b>Directors of Silex Systems Limited</b>				
Dr M P Goldsworthy	-	-	-	-
Mr C D Wilks	-	-	-	-
<b>Other key management personnel of the Group</b>				
Mr B J Spillane	-	-	-	-
Mr R J Seares	-	-	-	-

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 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 2010 included:

- (a) Options are granted for no consideration. 100% vests and are exercisable after two years of the date of grant
- (b) Exercise price \$6.13, \$5.99 and \$5.24 (2009: \$7.06, \$3.63, \$3.54, \$3.51, \$4.19 and \$5.88)
- (c) Grant date: 11 January 2010, 19 March 2010 and 27 May 2010 (2009: 15 July 2008, 7 October 2008, 28 November 2008, 5 December 2008, 31 March 2009 and 29 June 2009)
- (d) Expiry date: 10 January 2015, 18 March 2015 and 26 May 2015 (2009: 14 July 2013, 6 October 2013, 27 November 2013, 4 December 2013, 30 March 2014 and 28 June 2014)
- (e) Share price at grant date: \$6.05, \$5.69 and \$5.17 (2009: \$6.78, \$3.54, \$3.34, \$3.45, \$4.25 and \$5.99)
- (f) Expected volatility of the Company's shares: 60%, 55% and 50% (2009: 70%)
- (g) Expected dividend yield: nil (2009: nil)
- (h) Risk-free interest rate: 4.00%, 4.25% and 4.75% (2009: 7.5%, 6.25%, 5.5%, 4.5%, 3.5% and 3.25%)

*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	
	2010	2009
<b>Directors of Silex Systems Limited</b>		
-	-	-
<b>Other key management personnel of the Group</b>		
Mr B J Spillane	<b>22,000</b>	25,000

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
9th July 2008	\$0.85	10,000	31st August 2009	\$3.60	11,000
31st July 2008	\$0.85	5,000	24th March 2010	\$3.60	1,000
8th September 2008	\$0.85	5,000	19th April 2010	\$3.60	8,000
29th October 2008	\$0.85	5,000	14th May 2010	\$3.60	2,000

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

**E) 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 9, 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	-	-	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 30/6/2006	100	-	N/A	N/A	N/A
Mr R J Seares	100	-	Y/E 30/6/2009	-	-	Y/E 30/6/2011	-	144,090

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	-	-	N/A	-	-
Mr C D Wilks	-	-	N/A	-	-
Mr B J Spillane	-	-	69,030	-	69,030
Mr R J Seares	29.0	-	N/A	-	-

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 \$
2006	(7.6)	200,000	4.08
2007	6.4	460,000	12.49
2008	(6.5)	-	7.96
2009	(2.6)	-	6.00
2010	(12.3)	85,000	4.60

The increase in the negative earnings per share in the current year was mainly due to Silex Solar Pty Ltd and Solar Systems Pty Ltd. As mentioned earlier, Silex Solar conducted recommissioning and product certification activities in the first nine months of the year before selling its first solar panels on 31 March 2010. Solar Systems acquired assets from Solar Systems Group in March 2010 and has undertaken research and development activities since then.

The short term incentives in the current year were awarded to Dr Michael Goldsworthy for delivery of the Solar divisions (Silex Solar and Solar Systems) and to Mr RJ Seares for achieving product certification for the Silex Solar panels. Silex Solar panel sales are expected to increase significantly in 2010/2011. The STI's in the years ended 30 June 2006 and 30 June 2007 are related to the progress made on the Uranium Enrichment Project and the signing of the deal with GE.

The share price increased significantly between when the agreement with General Electric was announced in May 2006 and 30 June 2007. More recently the share market has 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. Progress on the Group's projects has not directly been reflected in EPS as most of the projects are still in the research and development phase and, apart from the Uranium Enrichment Project and more recently Silex Solar, are yet to generate substantial revenue.

**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 uranium enrichment project, and the establishment of the consolidated entity's extensive interests in solar, semiconductor and photonics technologies. Dr Goldsworthy was awarded the Royal Society of NSW's James Cook Medal for 2009 which recognises outstanding contributions for science and human welfare.

*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. Mr Wilks plays a role in the financial oversight and corporate development of Silex.

*Other current directorships*

Executive director of Sonic Healthcare Limited since 1989.

*Former directorships in last 3 years*

Non-executive director of Independent Practitioner Network Limited between August 2005 and October 2008 (Independent Practitioner Network Limited was delisted in October 2008).

**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. 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.

*Former directorships in last 3 years*

Non-executive director of Independent Practitioner Network Limited between August 2005 and October 2008 (Independent Practitioner Network Limited was delisted in October 2008).

*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 and non-executive director of QRxPharma Limited since April 2007.

*Former directorships in last 3 years*

Non-executive director of Admerex Limited from January 1997 to October 2008.

*Special responsibilities*

Chairman of audit committee

Member of remuneration committee

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

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

**12. Company secretary**

Mr 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:

<b>Director's name</b>	<b>Directors' Meetings</b>		<b>Audit Committee Meetings</b>		<b>Remuneration Committee Meetings</b>	
	<b>Number Held</b>	<b>Number Attended</b>	<b>Number Held</b>	<b>Number Attended</b>	<b>Number Held</b>	<b>Number Attended</b>
Mr B S Patterson	12	10	2	1	1	1
Dr M P Goldsworthy	12	12	-	-	-	-
Mr C D Wilks	12	12	-	-	-	-
Dr C S Goldschmidt	12	12	2	2	-	-
Mr R P Campbell	12	11	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 parent entity is subject to the environmental and health and safety regulations applicable to tenants of the Lucas Heights Science and Technology Centre. The parent entity is also bound by the rules and regulations set out in the Australian Radiation Protection and Nuclear Safety Act, 1998, and are a licensee under the Act. Silex Solar is subject to a number of regulations including the Sydney Water Act, NSW Occupational Health and Safety (Dangerous Goods) Regulation and NSW Protection of the Environment Operations (Clean Air) Regulations.

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	
	2010	2009
	\$	\$
<b>Remuneration of auditors</b>		
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 Corporations Act 2001	155,950	101,148
Total remuneration for audit services	155,950	101,148
Other assurance services		
PricewaterhouseCoopers Australian firm		
Total remuneration for other assurance services	-	-
Total remuneration for assurance services	155,950	101,148
<b>Total remuneration</b>	<b>155,950</b>	<b>101,148</b>

**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 16.

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



Dr M P Goldsworthy  
Managing Director



Mr C D Wilks  
Director

Sydney, 30 September 2010



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## **Auditor's Independence Declaration**

As lead auditor for the audit of Silex Systems Limited for the year ended 30 June 2010, 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.

A handwritten signature in black ink, appearing to read 'Rod Dring'.

Rod Dring  
Partner  
PricewaterhouseCoopers

Sydney  
30 September 2010

## **CORPORATE GOVERNANCE STATEMENT**

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

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.

### **Principle 1: Lay solid foundations for management and oversight**

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.

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.

The Chairman undertakes an annual assessment of the performance of executive directors and meets privately with each executive 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. These assessments and meetings took place during the year.

### **Principle 2: Structure the Board to add value**

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.

**Silex Systems Limited**  
**Corporate Governance Statement**  
30 June 2010 (continued)

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

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

Name	Age	Position	Expertise	Year Appointed Director
Dr M P Goldsworthy	52	Managing Director/CEO	Physicist and Co-inventor of the SILEX Technology	1992
Mr C D Wilks	52	Director	Investment Banking, Finance and Company Management	1988
Dr C S Goldschmidt	56	Non-executive Director	Company Management	1992
Mr B S Patterson	69	Non-executive Director/Chairman	Company Management	1992
Mr R P Campbell	65	Non-executive Director	Finance and Accounting, Computing and Company Management	1996

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. Additional information on the skills and experience of the directors is included in Section 11 of the Directors' report.

**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.

**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.

**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.

**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.

**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.

**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.

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.

**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 May 2010 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 Board considers the appropriate mix of skills required by the Board to maximise its effectiveness and its contribution to the Group.

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.

**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.

#### **Nomination committee**

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

#### **Principle 3: Promote ethical and responsible decision making**

##### **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.

#### **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.

#### **Principle 4: Safeguarding integrity in financial reporting**

##### **Audit committee**

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

Mr R P Campbell (Chairman)  
Dr C S Goldschmidt  
Mr 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's 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.

#### **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.

#### **Principles 5 and 6: Make timely and balanced disclosures and respect the rights of shareholders** **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 effective communication with shareholders and encourage 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 website 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.

#### **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.

**Principle 7: Recognise and manage risk**

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.

**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 OH&S Committees have been 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.

**Environmental regulation**

As noted in the Directors' report, the parent entity is subject to the environmental and health and safety regulations applicable to tenants of the Lucas Heights Science and Technology Centre. The parent entity is also bound by the rules and regulations set out in the Australian Radiation Protection and Nuclear Safety Act, 1998, and are a licensee under that Act. Silex Solar is subject to a number of regulations including the Sydney Water Act, NSW Occupational Health and Safety (Dangerous Goods) Regulation and NSW Protection of the Environment Operations (Clean Air) Regulations. To the best of the Directors' knowledge, all environmental regulatory requirements have been met.

**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.

**Principle 8: Remunerate fairly and responsibly**

**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, which distinguishes non-executive directors' remuneration from that of executive directors and senior executives.

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

Where a part of the director's or executive's remuneration consists of securities, the director or executive is not allowed to enter into transactions in associated products which limit the economic risk of participation in unvested entitlements under any equity based remuneration schemes. Annual declarations of compliance are obtained.

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

## Silex Systems Limited

### Concise financial report – 30 June 2010

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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 2010. 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](mailto: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](http://www.silex.com.au).

**Silex Systems Limited**  
**Consolidated income statement**  
For the year ended 30 June 2010

	Notes	2010 \$	2009 \$
<b>Revenue from continuing operations</b>	3	<b>9,609,270</b>	9,278,586
Other income – net foreign exchange gains	4 (a)	-	2,755,897
Other income – other	4 (b)	<b>370,000</b>	-
Research and development materials		<b>(784,713)</b>	(1,612,323)
Finance costs		<b>(115,416)</b>	(4,709)
Depreciation and amortisation expense		<b>(2,278,257)</b>	(1,049,864)
Employee benefits expense		<b>(12,564,568)</b>	(9,982,906)
Consultants and professional fees		<b>(3,149,989)</b>	(1,101,659)
Printing, postage and stationery		<b>(139,840)</b>	(62,321)
Rent, utilities and property outgoings		<b>(2,763,677)</b>	(448,393)
Travelling expenses		<b>(748,170)</b>	(657,161)
Changes in inventories		<b>2,686,801</b>	39,918
Raw materials and stores used		<b>(5,356,756)</b>	(43,238)
Net foreign exchange losses		<b>(1,008,193)</b>	-
Other expenses from ordinary activities		<b>(2,757,640)</b>	(856,039)
<b>(Loss) before income tax expense</b>		<b>(19,001,148)</b>	(3,744,212)
Income tax expense		<b>(2,504)</b>	(11,396)
<b>Net (loss)</b>		<b>(19,003,652)</b>	(3,755,608)
 (Loss) is attributable to:			
Owners of Silex Systems Limited		<b>(18,127,716)</b>	(3,755,608)
Non-controlling interests		<b>(875,936)</b>	-
		<b>(19,003,652)</b>	(3,755,608)
		<b>Cents</b>	<b>Cents</b>
<hr/>			
<b>Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company</b>			
Basic earnings per share		<b>(12.3)</b>	(2.6)
Diluted earnings per share		<b>(12.3)</b>	(2.6)

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

**Silex Systems Limited**  
**Consolidated statement of comprehensive income**  
For the year ended 30 June 2010

	2010	2009
	\$	\$
<b>(Loss) for the year</b>	<b>(19,003,652)</b>	(3,755,608)
<b>Other comprehensive income</b>		
Exchange differences on translation of foreign operations	(223,383)	297,172
<b>Other comprehensive income for the year, net of tax</b>	<b>(223,383)</b>	297,172
<b>Total comprehensive income for the year</b>	<b>(19,227,035)</b>	(3,458,436)
Attributable to:		
Owners of Silex Systems Limited	(18,351,099)	(3,458,436)
Non-controlling interests	(875,936)	-
<b>Total comprehensive income for the year</b>	<b>(19,227,035)</b>	(3,458,436)

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

**Silex Systems Limited**  
**Consolidated balance sheet**  
As at 30 June 2010

	<b>30 June 2010</b>	30 June 2009
	\$	\$
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	40,731,209	58,605,297
Trade and other receivables	3,183,548	2,051,870
Inventories	3,222,840	50,705
Total current assets	47,137,597	60,707,872
<b>Non-current assets</b>		
Receivables	-	33,276
Property, plant and equipment	11,883,255	8,435,711
Call option deeds	-	2,200,894
Deferred tax assets	20,985	10,944
Intangible assets	23,450,887	8,482,242
Other	1,510,357	-
Total non-current assets	36,865,484	19,163,067
<b>Total assets</b>	84,003,081	79,870,939
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	5,646,927	1,143,819
Current tax liabilities	-	11,396
Provisions	734,703	517,247
Total current liabilities	6,381,630	1,672,462
<b>Non-current liabilities</b>		
Trade and other payables	1,182,000	-
Provisions	135,095	185,133
Total non-current liabilities	1,317,095	185,133
<b>Total liabilities</b>	7,698,725	1,857,595
<b>Net assets</b>	76,304,356	78,013,344
<b>EQUITY</b>		
Contributed equity	122,423,175	103,611,221
Reserves	5,035,839	7,250,013
Accumulated losses	(50,975,606)	(32,847,890)
Capital and reserves attributable to owners of Silex Systems Limited	76,483,408	78,013,344
Non-controlling interests	(179,052)	-
<b>Total equity</b>	76,304,356	78,013,344

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

**Silex Systems Limited**  
**Consolidated statement of changes in equity**  
For the year ended 30 June 2010

	Attributable to owners of Silex Systems Limited					
	Contributed equity \$	Reserves \$	Accumulated losses \$	Total \$	Non- controlling interests \$	Total \$
<b>Balance at 1 July 2008</b>	101,426,404	6,558,684	(29,092,282)	78,892,806	-	78,892,806
Loss for the year	-	-	(3,755,608)	(3,755,608)	-	(3,755,608)
Exchange differences on translation of foreign operations	-	297,172	-	297,172	-	297,172
<b>Total comprehensive income for the year</b>	-	<b>297,172</b>	<b>(3,755,608)</b>	<b>(3,458,436)</b>	-	<b>(3,458,436)</b>
<b>Transactions with owners in their capacity as owners</b>						
Contributions of equity, net of transaction costs	1,527,704	(286,800)	-	1,240,904	-	1,240,904
Employee share options - value of employee services	-	1,337,233	-	1,337,233	-	1,337,233
Transfer from share based payments reserve	656,276	(656,276)	-	-	-	-
Deferred tax credit recognised directly in equity	837	-	-	837	-	837
	2,184,817	394,157	-	2,578,974	-	2,578,974
<b>Balance at 30 June 2009</b>	<b>103,611,221</b>	<b>7,250,013</b>	<b>(32,847,890)</b>	<b>78,013,344</b>	-	<b>78,013,344</b>
Loss for the year	-	-	(18,127,716)	(18,127,716)	(875,936)	(19,003,652)
Exchange differences on translation of foreign operations	-	(223,383)	-	(223,383)	-	(223,383)
<b>Total comprehensive income for the year</b>	-	<b>(223,383)</b>	<b>(18,127,716)</b>	<b>(18,351,099)</b>	<b>(875,936)</b>	<b>(19,227,035)</b>
<b>Transactions with owners in their capacity as owners</b>						
Contributions of equity, net of transaction costs	17,991,746	-	-	17,991,746	-	17,991,746
Employee share options - value of employee services	-	1,717,354	-	1,717,354	-	1,717,354
Transfer from share based payments reserve	810,167	(810,167)	-	-	-	-
Transactions with non-controlling interests	-	(2,897,978)	-	(2,897,978)	696,884	(2,201,094)
Deferred tax credit recognised directly in equity	10,041	-	-	10,041	-	10,041
	18,811,954	(1,990,791)	-	16,821,163	696,884	17,518,047
<b>Balance at 30 June 2010</b>	<b>122,423,175</b>	<b>5,035,839</b>	<b>(50,975,606)</b>	<b>76,483,408</b>	<b>(179,052)</b>	<b>76,304,356</b>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

**Silex Systems Limited**  
**Consolidated statement of cash flows**  
For the year ended 30 June 2010

	2010	2009
	\$	\$
<b>Cash Flows from operating activities</b>		
Receipts from customers (inclusive of goods and services tax)	7,124,147	7,353,237
Payments to suppliers and employees (inclusive of goods and services tax)	(22,657,952)	(14,243,202)
Transaction costs relating to acquisition of business	(267,095)	-
Interest received	1,913,854	3,373,213
Interest paid	(514)	(4,709)
Income tax (paid)	(13,900)	-
<b>Net cash (outflows) from operating activities</b>	<b>(13,901,460)</b>	<b>(3,521,461)</b>
 <b>Cash Flows from investing activities</b>		
Payment for additional interest in subsidiaries	(200)	-
Payments for acquisition of business, net of cash acquired	(1,999,998)	-
Payments for property, plant and equipment	(1,364,377)	(7,300,230)
Payments for intangibles	(138,290)	-
Payments for other non-current assets	(1,055,808)	-
Proceeds from sale of property, plant and equipment	-	63,636
Repayment of loans by related parties	24,493	34,534
<b>Net cash (outflows) from investing activities</b>	<b>(4,534,180)</b>	<b>(7,202,060)</b>
 <b>Cash Flows from financing activities</b>		
Proceeds from issue of shares	1,502,434	1,240,904
Repayment of hire purchase liabilities	-	(98,211)
<b>Net cash inflows from financing activities</b>	<b>1,502,434</b>	<b>1,142,693</b>
 <b>Net (decrease) in cash held</b>	<b>(16,933,206)</b>	<b>(9,580,828)</b>
Cash and cash equivalents at the beginning of the financial year	58,605,297	65,471,514
Effects of exchange rate changes on cash	(940,882)	2,714,611
<b>Cash and cash equivalents at end of year</b>	<b>40,731,209</b>	<b>58,605,297</b>

*The above consolidated statement of cash flows 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 2010. The accounting policies have been consistently applied to all years presented, unless otherwise stated in note 2 below.

**Note 1 Presentation currency**

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

**Note 2 Changes in accounting policy**

Following the adoption of new or revised accounting standards, the Group had to make a number of changes to its accounting policies. The changes are explained below.

**Principles of consolidation – changes in ownership interests**

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control, joint control or significant influence from 1 July 2009 when a revised AASB127 *Consolidated and Separate Financial Statements* became operative. The revisions to AASB 127 contained consequential amendments to AASB 128 *Investments in Associates* and AASB 131 *Interests in Joint Ventures*.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously when the Group ceased to have control, joint control or significant influence over an entity, the carrying amount of the investment at the date control, joint control or significant influence ceased became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 July 2009. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

**Segment reporting**

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. There has been no other impact on the measurement of the company's assets and liabilities. Comparatives for 2009 have been restated.

**Business combinations**

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

**Silex Systems Limited**  
**Notes to the financial statements**  
30 June 2010 (continued)

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

The changes were implemented prospectively from 1 July 2009 and affected the accounting for the acquisition of the assets from the Solar Systems Group. Acquisition related costs of \$493,255 were recognised in profit or loss.

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Note 3 Revenue</b>		
<b>From continuing operations</b>		
Recoverable Project costs	<b>4,767,279</b>	6,146,593
Sale of goods	<b>3,099,828</b>	5,300
Interest income	<b>1,691,352</b>	3,126,693
Other	<b>50,811</b>	-
	<b>9,609,270</b>	9,278,586

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
<b>Note 4 Other income</b>		
<b>(a) Other income - net foreign exchange gains</b>		
Foreign currency exchange gains (net)	-	2,755,897

<b>(b) Other income - other</b>		
Government Grants	<b>370,000</b>	-

*(i) Government grants*

Federal government solar project grants of \$320,000 (2009: \$nil) and state government solar project grants of \$50,000 (2009: \$nil) were recognised as other income by the Group during the financial year. There are no unfulfilled conditions attaching to these grants.

**Note 5 Segment information**

	Silex Systems	Translucent	Silex Solar	ChronoLogic	Solar Systems	Total
<b>2010</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Total segment revenue	7,177,219	2,620,403	3,158,402	20,185	17,608	12,993,817
Inter-segment revenue	(774,092)	(2,610,455)	-	-	-	(3,384,547)
<b>Revenue from external customers</b>	<b>6,403,127</b>	<b>9,948</b>	<b>3,158,402</b>	<b>20,185</b>	<b>17,608</b>	<b>9,609,270</b>
<b>Segment result</b>	<b>(1,298,639)</b>	<b>(4,394,761)</b>	<b>(8,279,595)</b>	<b>(1,544,998)</b>	<b>(1,620,816)</b>	<b>(17,138,809)</b>
<b>Total segment assets</b>	38,962,120	1,774,954	12,493,407	403,774	21,867,512	75,501,767
<b>Total segment liabilities</b>	1,703,388	220,837	2,971,020	216,789	2,586,691	7,698,725

**Silex Systems Limited**  
**Notes to the financial statements**  
30 June 2010 (continued)

<b>2009</b>	Silex Systems \$	Translucent \$	Silex Solar \$	ChronoLogic \$	Solar Systems \$	Total \$
Total segment revenue	10,171,940	3,431,542	1,170	7,782	-	13,612,434
Inter-segment revenue	(915,605)	(3,418,243)	-	-	-	(4,333,848)
<b>Revenue from external customers</b>	<b>9,256,335</b>	<b>13,299</b>	<b>1,170</b>	<b>7,782</b>	<b>-</b>	<b>9,278,586</b>
<b>Segment result</b>	<b>4,245,080</b>	<b>(4,743,639)</b>	<b>(351,715)</b>	<b>(1,554,792)</b>	<b>-</b>	<b>(2,405,066)</b>
<b>Total segment assets</b>	<b>61,541,046</b>	<b>2,175,155</b>	<b>7,391,173</b>	<b>270,379</b>	<b>-</b>	<b>71,377,753</b>
<b>Total segment liabilities</b>	<b>1,450,603</b>	<b>179,300</b>	<b>43,495</b>	<b>172,801</b>	<b>-</b>	<b>1,846,199</b>

*(i) Segment result*

The board of directors assesses the performance of the operating segments based on a result that excludes share based payments. Exchange gains and losses on intercompany loans which eliminate on consolidation are also excluded from the segment result. Amortisation of intellectual property on consolidation is also excluded from the segment result. A reconciliation of segment result to operating (loss) before tax is provided as follows:

	<b>2010</b> \$	2009 \$
Segment result	<b>(17,138,809)</b>	(2,405,066)
Amortisation of Intellectual property on consolidation	<b>(1,913)</b>	(1,913)
Share based payments expense	<b>(1,860,426)</b>	(1,337,233)
(Loss) before income tax	<b>(19,001,148)</b>	(3,744,212)

**Note 6 Business combination**

**(a) Summary of acquisition**

The Group completed the acquisition of assets of Melbourne based Solar Systems Group (SSG) on 15 March 2010. The assets have been acquired in a wholly owned subsidiary (Solar Systems Pty Ltd), with business operations to continue in part of the previously leased premises in Abbotsford, Melbourne and at Bridgewater, Victoria.

Details of the purchase consideration and the net assets are as follows:

The cost of the acquisition comprised:

	\$
Initial Silex Systems Limited shares	<b>12,891,682</b>
Deferred Silex Systems Limited shares	<b>4,926,348</b>
Cash paid	<b>2,000,000</b>
<b>Total purchase consideration</b>	<b>19,818,030</b>

As at 30 June 2010 deferred consideration of \$1,990,232 remained payable. Shares were issued in July 2010 and August 2010 to satisfy the balance of the deferred consideration.

**Silex Systems Limited**  
**Notes to the financial statements**  
30 June 2010 (continued)

The provisionally determined fair values of the assets and liabilities recognised as a result of the acquisition are as follows:

	<b>Fair Value</b>
	<b>\$</b>
Inventory	<b>690,000</b>
Plant & equipment	<b>1,985,000</b>
Land & buildings	<b>2,115,000</b>
Intellectual property	<b>15,191,111</b>
Shares – Solar Systems (Mildura) Pty Ltd*	<b>2</b>
Trade creditors	<b>(9,701)</b>
Other payables - annual leave	<b>(116,817)</b>
Provisions – long service leave	<b>(36,565)</b>
<b>Net identifiable assets acquired</b>	<b>19,818,030</b>

\*As part of the acquisition shares were acquired in Solar Systems (Mildura) Pty Ltd. Solar Systems (Mildura) Pty Ltd had \$2 cash.

At the time the financial statements were authorised for issue, the Group had not yet completed the accounting for the acquisition of assets from the Solar Systems Group. In particular, the fair values of the assets and liabilities disclosed above have only been determined provisionally as the independent valuations have not been finalised.

There were no acquisitions in the year ended 30 June 2009.

*(i) Revenue and profit contribution*

The acquired business contributed revenues of \$17,608 and net loss of \$1,677,381 to the Group for the period from 15 March 2010 to 30 June 2010. It is considered impracticable to estimate the Group's revenue and net loss if the acquisition had occurred on 1 July 2009. This is due to a number of factors including the requirement to estimate significant amounts and the making of numerous assumptions about what management's intent would have been in the pre-acquisition period.

**(b) Purchase consideration – cash outflow**

	<b>2010</b>	<b>2009</b>
	<b>\$</b>	<b>\$</b>
Outflow of cash to/for business acquisition, net of cash acquired		
Cash consideration	<b>2,000,000</b>	-
Less: Cash balances acquired	<b>(2)</b>	-
Outflow of cash - investing activities	<b>1,999,998</b>	-

**Note 7 Dividends**

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

**Note 8 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 2010 as set out on pages 24 to 33 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 2010. 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

30 September 2010

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

### Report on the concise financial report

The accompanying concise financial report of Silex Systems Limited (the company) comprises the balance sheet as at 30 June 2010, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and related notes, derived from the audited financial report of the company for the year ended 30 June 2010. 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 controls 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 the company for the year ended 30 June 2010. Our audit report on the financial report for the year was signed on 30 September 2010 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 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.

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.

#### *Independence*

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

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

*Auditor's opinion*

In our opinion, the concise financial report of the company for the year ended 30 June 2010 complies with Australian Accounting Standard AASB 1039: *Concise Financial Reports*.

*Report on the remuneration report*

The following paragraphs are copied from our report on the remuneration report for the year ended 30 June 2010.

We have audited the remuneration report included in pages 5 to 11 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's opinion*

In our opinion, the remuneration report of the company for the year ended 30 June 2010 complies with section 300A of the *Corporations Act 2001*.



PricewaterhouseCoopers



Rod Dring  
Partner

Sydney  
30 September 2010

**Silex Systems Limited**  
**Shareholders' information**  
30 June 2010

Shareholders' information

**1. Information relating to shareholders as at 20 September 2010**

**a. Distribution schedule**

1-1,000	2,677
1,001-5,000	2,737
5,001-10,000	686
10,001-100,000	719
100,001 and over	86
Total number of holders of each class of security	6,905

Voting rights - on a show of hands  
- on a poll

Percentage of total holding held by the largest 20 holders	68.92%
Number of total holding less than a marketable parcel of shares	178

Substantial shareholders	Ordinary shares
Jardvan Pty Ltd	31,674,095
The Bank of New York Mellon Corporation	10,485,329

**b. Names of Twenty Largest Holders of each Security as at 20 September 2010**

Name	Number of securities	Percentage held
Jardvan Pty Ltd	31,674,095	21.19%
National Nominees Limited	19,582,616	13.10%
HSBC Custody Nominees (Australia) Limited	9,242,838	6.18%
J P Morgan Nominees Australia Limited	6,995,381	4.68%
Majenta Holdings Pty Ltd	5,703,923	3.82%
Polly Pty Ltd	4,073,863	2.72%
J P Morgan Nominees Australia Limited (Cash Income A/c)	3,743,519	2.50%
Throvena Pty Ltd	2,978,203	1.99%
Hamlac Pty Ltd	2,525,937	1.69%
Mr Christopher David Wilks	2,405,070	1.61%
ANZ Nominees Limited (Cash Income A/c)	2,306,666	1.54%
Solar Systems Pty Ltd (in liquidation)	2,196,198	1.47%
Quintal Pty Ltd	2,000,000	1.34%
Credit Suisse Securities (Europe) Ltd	1,900,000	1.27%
Citicorp Nominees Pty Limited	1,687,028	1.13%
Mithena Holdings Pty Ltd	1,139,823	0.76%
Cogent Nominees Pty Limited (SMP accounts)	796,988	0.53%
UBS Wealth Management Australia Nominees Pty Ltd	767,895	0.51%
Cogent Nominees Pty Limited	676,434	0.45%
Merrill Lynch (Australia) Nominees Pty Limited	636,562	0.43%
	103,033,039	68.92%

**2. Vendor securities as at 20 September 2010**

There are no vendor securities.

**Silex Systems Limited**  
**Shareholders' information**  
30 June 2010 (continued)

**3. Interest of directors in securities as at 20 September 2010**

	<b>Ordinary shares</b>	<b>Interest held</b>
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 20 September 2010**

	Number on issue	Date escrow period ends
As at 20 September 2010 the following securities were subject to voluntary escrow:		
Ordinary shares	77,436	17 December 2010
Ordinary shares	20,000	6 January 2011
Ordinary shares	1,098,099	15 March 2011
Ordinary shares	1,098,099	15 March 2012

**5. Unquoted equity securities as at 20 September 2010**

	Number on issue	Number of holders
Options issued under the Silex Systems Limited Employee Share Option Plan to take up ordinary shares	3,725,500	71
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.