

Silex Systems Limited
& its subsidiaries
ABN 69 003 372 067

**Financial Statements for
the year ended 30 June 2011**

Company Directory**Directors**

Mr R P Campbell – Chairman
Dr M P Goldsworthy – Managing Director/CEO
Mr C D Wilks
Dr C S Goldschmidt
Prof S W R Burdon

Audit Committee

Prof S W R Burdon - Chairman
Mr R P Campbell
Dr C S Goldschmidt

Remuneration Committee

Prof S W R Burdon - Chairman
Dr C S Goldschmidt
Mr R P Campbell

Company Secretary

Mrs J E Ducie

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, NSW 2234

Website address: www.silex.com.au

Share Registry

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

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

Stock Exchange

Listed on the Australian Stock Exchange

Auditors

PricewaterhouseCoopers

Solicitors

Baker & McKenzie

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 Systems is a research and development company whose assets are its proprietary rights in various technologies, including, but not limited to, the SILEX technology, the SilexSolar 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 2011.

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:

Dr M P Goldsworthy
Mr C D Wilks
Dr C S Goldschmidt
Mr R P Campbell

Mr B S Patterson was a director from the beginning of the financial year until his retirement on 27 October 2010.

Prof S W R Burdon was appointed a director on 14 February 2011 and continues in office at the date of this report.

2. Principal Activities

During the year the principal continuing activities of the consolidated entity consisted of:

- (a) research and development of the Company's foundation technology – the laser isotope separation process for uranium enrichment known as the 'SILEX Technology';
- (b) manufacture and sale of rooftop silicon solar panels, and further development of solar panel technology by wholly-owned subsidiary Silex Solar Pty Ltd;
- (c) research and development, and commercialisation activities for the unique 'Dense Array' concentrated photovoltaic systems being developed for utility-scale solar power stations by wholly-owned subsidiary Solar Systems Pty Ltd;
- (d) research and development of novel 'Rare Earth Oxide' materials for application to low cost LED lighting devices, power electronics technology and ultra-high efficiency solar energy conversion materials. These activities are being undertaken by Translucent Inc, a California based company which Silex has a 98% fully diluted interest in; and
- (e) development of data acquisition equipment, and test and measurement instrumentation utilising the proprietary 'USB-inSync' technology developed by subsidiary ChronoLogic Pty Ltd, in which Silex has a 90% interest.

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:

| | 2011 | 2010 |
|--|----------------------------|---------------------|
| | \$ | \$ |
| Revenue from continuing operations | <u>29,191,274</u> | <u>9,609,270</u> |
| (Loss) before tax | (31,481,766) | (19,001,148) |
| Income tax expense | - | (2,504) |
| (Loss) from ordinary activities after related income tax expense | <u>(31,481,766)</u> | <u>(19,003,652)</u> |
| (Loss) is attributable to: | | |
| Owners of Silex Systems Limited | (31,301,061) | (18,127,716) |
| Non-controlling interests | <u>(180,705)</u> | <u>(875,936)</u> |
| | <u>(31,481,766)</u> | <u>(19,003,652)</u> |

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

The increase in revenue is largely due to increased sales by Silex Solar Pty Ltd. Silex Solar commenced selling panels in late March 2010 with sales of \$3,068,355 for the period to 30 June 2010. For the year ended 30 June 2011, Silex Solar's sales amounted to \$19,136,713. In addition, interest income increased from \$1,691,352 in the prior year to \$4,576,490 in the current year.

The increased loss for the period was mainly due to:

- a) Solar Systems' segment loss increased from \$1,620,816 in the prior year to \$5,731,189 in the current year. The prior year loss included only 3.5 months of operations of Solar Systems.
- b) Silex Solar's segment loss increased from \$8,279,595 to \$18,078,515 as the business experienced several negative factors, including the strong Australian dollar and a flood of cheap imported panels from Asian competitors which led to much lower than anticipated selling prices. In addition, the solar panel industry was heavily impacted by significant adverse changes to State and Federal government policies relating to solar industry support. This loss includes approximately \$6,300,000 in 'one off' costs associated with the closure of the silicon solar cell production line at the Sydney Olympic Park plant announced in August 2011.

Interest income increased from \$1,691,352 to \$4,576,490 as the Company's average cash and term deposit holdings increased principally as a result of the capital raising undertaken in December 2010. Silex raised \$89,100,000 from the placement of 16,500,000 new ordinary shares at \$5.40 per share in December 2010. Following this, Silex raised \$20,257,038 through a share purchase plan in February 2011. At 30 June 2011, \$93,937,500 was invested in held to maturity investments (term deposits) with maturity dates up to six months.

Details of segment results are detailed below (numbers rounded):

Silex Systems

The segment result for the parent company Silex Systems Limited, improved from a loss of \$1.30 million in the prior year to a profit of \$1.08 million in the current year. The result in the current year was impacted by higher interest income. Silex's average cash and term deposits balances increased in the current year after the capital raising activities noted above.

Translucent

This relates to the activities of Translucent Inc in the United States. The segment loss decreased slightly from \$4.39 million to \$4.35 million.

Silex Solar

Silex Solar's revenue increased from \$3.16 million in the prior year to \$19.27 million in the current year. The current year result included a full 12 months of sales. The business experienced several negative factors during the year, including the strong Australian dollar and a flood of cheap imported panels from Asian competitors which led to much lower than anticipated selling prices. The industry was also heavily impacted by significant adverse changes to State and Federal government policies relating to solar industry support. In addition, as a result of the cell production line closure mentioned above, the effective life of the cell line equipment and the net realisable value of the cell line raw materials and finished goods were reassessed at 30 June 2011, resulting in a write down of \$6.30 million. The segment loss increased from \$8.28 million to \$18.08 million.

ChronoLogic

This relates to the activities of Adelaide-based ChronoLogic Pty Ltd. The segment result was a loss of \$1.76 million compared to a loss of \$1.54 million in the previous year.

Solar Systems

This relates to the activities of Solar Systems Pty Ltd and Solar Systems (Mildura) Pty Ltd. Silex Systems acquired assets from the Solar Systems Group in March 2010 and has undertaken research and development and commercialisation activities since then. The segment result was a loss of \$5.73 million for the current year compared to a loss of \$1.62 million for the 3.5 months ended 30 June 2010.

5. Earnings per share

| | 2011 | 2010 |
|----------------------------|---------------|--------|
| | Cents | Cents |
| Basic earnings per share | (19.6) | (12.3) |
| Diluted earnings per share | (19.6) | (12.3) |

6. Significant changes in state of affairs

The significant changes in the state of affairs of the consolidated entity during the course of the year included Silex raising \$89,100,000 from the placement of 16,500,000 new ordinary shares at \$5.40 per share in December 2010. Subsequent to this, Silex raised \$20,257,038 through a share placement plan in February 2011. At 30 June 2011, \$93,937,500 was invested in held to maturity investments (term deposits) with maturity dates of up to six months.

7. Matters subsequent to the end of the financial year

On 16 August 2011, Silex management announced the cessation of activity of its silicon cell production line at Silex Solar's Sydney Olympic Park manufacturing plant. (Refer ASX Announcement 16 August 2011)

Apart from the financial impact of the cell line details noted above, 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 various technology development programs, including the Company's success in ultimately commercialising those technologies, and the ongoing results of solar manufacturing operations. In particular, the ability for Silex Solar to continue its PV panel manufacturing operations in light of very negative market conditions remains uncertain at this stage.

The Group's segments are summarised below:

Silex Systems

Silex invented a novel method for enriching uranium using lasers in the mid-1990's, and after a further decade of development activities in Australia, is currently supporting the commercialisation of the SILEX Technology in the USA under a Technology Commercialisation and License Agreement with Global Laser Enrichment (GLE – a venture owned by GE (51%), Hitachi (25%) and Cameco (24%)). Test Loop measurements and modifications have continued during the year with positive results achieved. Further Test Loop measurements will continue with the aim of accumulating operating and life-time data on the technology to assist the engineering design program for a planned commercial plant. 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.

Solar Systems

Significant progress with the development of Solar System's unique CPV 'Dense Array' technology and associated Intellectual Property has been made in the last 12 months. The first generation commercial product – the CS500 Dish CPV System is nearing the end of its development cycle and being readied for market. Business development and marketing activities have begun with the Company pursuing several off-shore opportunities to demonstrate its CPV Dish technology through the deployment of pilot plants. The 2MW pilot plant project in Mildura (potentially a precursor to a 100+MW power station) commenced in March 2011. Solar Systems have Victorian State and Federal Government grants in place

which will potentially provide funding for a significant portion of the costs of the Mildura power station project.

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". These unique materials may generate commercial outcomes in key areas such as low cost LED lighting, power electronics, ultra-high efficiency solar cells and silicon-on-insulator (SOI) substrates.

These technologies are still in the research and 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 Intellectual Property including Patents, and successful implementation of commercialisation strategies.

Silex Solar

Silex Solar has recently undertaken a significant operational and managerial restructure. These changes are to assist the business to compete in the highly competitive and volatile rooftop PV panel market, and designed to deliver an improved result for 2011/2012. This notwithstanding, the Australian PV industry is currently undergoing unprecedented volatility due to several external factors including the high Australian dollar value, a massive over-supply in the global market driving a flood of cheap Asian imports into the Australian market, and several adverse changes to State and Federal Government support policies relating to Solar causing a dramatic decline in sales over recent months. In this light, management will be undertaking regular reviews of the viability of the Silex Solar business.

ChronoLogic

Silex holds a 90% interest in ChronoLogic, which continues to develop a range of innovative instrumentation products incorporating its unique patented 'USB-inSync' technology, including the new Distributed Virtual Instrumentation (DVI) product range, which it is hoped will generate significant interest from the Test and Measurement industry.

9. Share options

Shares under option

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

| Number of options | Issue Price of shares | Grant date | Expiry date |
|--------------------------|----------------------------------|--------------------|--------------------|
| 90,000 | \$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 |
| 45,000 | \$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 |
| 455,000 | \$5.88 | 29th June 2009 | 28th June 2014 |
| 205,000 | \$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 |
| 165,000 | \$5.28 | 15th October 2010 | 14th October 2015 |
| 455,000 | \$2.92 | 5th July 2011 | 4th July 2016 |
| 3,505,000 | | | |

The terms and conditions of the options on issue are discussed in Note 34 of the financial statements. 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 455,000 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 2011 on the exercise of options granted under the Silex Systems Limited Employee Share Option Plan. No amounts are unpaid on any of the shares.

| Date options granted | Issue price of shares | Number of shares issued |
|----------------------|--------------------------|----------------------------|
| 22nd June 2006 | \$3.60 | 40,000 |
| 7th October 2008 | \$3.63 | 100,000 |
| | | 140,000 |

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

10. Information on Directors

a) Directors' profiles

Mr Peter Campbell

FCA, FTIA, FAICD

Chairman - Non-executive

Age 66

Experience and expertise

Independent and non-executive director since 1996 and Chairman since 27 October 2010. 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

Member of audit committee

Member of remuneration committee

Dr Michael Goldsworthy

BSc (Hons), MSc, PhD, FAIP

Managing Director/CEO – Executive (director since 1992)

Age 53

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

Non-executive (director since 1988)

Age 53

Experience and expertise

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

Other current directorships

Executive director of Sonic Healthcare Limited since 1989.

Former directorships in last 3 years

Non-executive director of Independent Practitioner Network Limited between August 2005 and October 2008.

Dr Colin Goldschmidt

MB BCh, FRCPA, FAICD

Non-executive (since 1992)

Age 57

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 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.

Special responsibilities

Member of audit committee (Chairman between 27 October 2010 and 30 September 2011)

Member of remuneration committee (Chairman between 27 October 2010 and 30 September 2011)

Mr Stephen Burdon

MBA BSC(Hons) FAICD, FAIM, FIEAust

Non-executive (since 2011)

Age 68

Experience and expertise

Mr Burdon has extensive management experience. He previously held the position of Managing Director of OTC, Group Managing Director of Telstra, and Managing Director of British Telecom Asia Pacific. In addition, Steve has experience as a non-executive director on over a dozen private and public company boards in Australia, NZ, India and Japan. He is currently a Visiting Professor of Management at the University of Technology Sydney and CASS Business School London.

Other current directorships

None

Former directorships in last 3 years

Non-executive director of Transfield Services Limited 2000 to July 2010.

Special responsibilities

Member of audit committee (Chairman from 30 September 2011)

Member of remuneration committee (Chairman from 30 September 2011)

Mr Barry Patterson

ASMM, MIMM, FAICD

Chairman – non executive until 27 October 2010.

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.

Other current directorships

None

Former directorships in last 3 years

Non-executive director of Sonic Healthcare Limited from 1993 to October 2010.

Special responsibilities

Chairman of the Board until 27 October 2010

Member of audit committee until 27 October 2010

Chairman of remuneration committee until 27 October 2010

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

| Directors' name | Class of shares | No. of shares | Share options |
|------------------------|------------------------|----------------------|----------------------|
| Dr M P Goldsworthy | Ordinary | 5,849,533 | - |
| Mr C D Wilks | Ordinary | 2,794,021 | - |
| Dr C S Goldschmidt | Ordinary | 2,525,937 | - |
| Mr R P Campbell | Ordinary | 1,354,823 | - |
| Prof S W R Burdon | Ordinary | 20,000 | - |

11. Remuneration report

This remuneration report sets out remuneration information for Silex Systems Limited's executive directors, non-executive directors, other key management personnel and the five highest paid executives of the group and the company.

Directors and executives disclosed in this report

| Name | Position |
|---|---|
| <i>Non-executive and executive directors - see page 5 to 7 above.</i> | |
| <i>Other key management personnel and group executives</i> | |
| Mr B J Spillane | Subsidiary company secretary, Financial Accountant |
| Mrs J E Ducie | Company secretary and Financial Controller (from 27 October 2010) |
| Mr R J Seares | General Manager Silex Solar Pty Ltd (until 28 June 2011) |

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 to market. 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; and
- 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; and
- attracts and retains high calibre executives.

Alignment to program participants' interest:

- rewards capability and experience;
- reflects competitive reward for contribution to shareholder growth; and
- 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 performance rights or 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 Share Option Plan

Information on the Silex Systems Limited Employee Share Option Plan is set out in note 34 to the financial statements.

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 the group and other executives of the company and the group

| 2011 | 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 | Termination benefits | Options | |
| Name | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Executive directors</i> | | | | | | | | |
| Dr M P Goldsworthy | 722,401 | - | 77,478 | 15,199 | 11,779 | - | - | 826,857 |
| Mr C D Wilks (until 28 June 2011) | 173,982 | - | - | 15,023 | 159 | - | - | 189,164 |
| <i>Non-executive directors</i> | | | | | | | | |
| Dr C S Goldschmidt | 68,370 | - | - | 6,153 | - | - | - | 74,523 |
| Mr B S Patterson (until 27 October 2010) | 22,822 | - | - | 2,054 | - | - | - | 24,876 |
| Mr R P Campbell | 70,000 | - | - | 6,300 | - | - | - | 76,300 |
| Prof S W R Burdon (from 14 February 2011) | 26,444 | - | - | 2,380 | - | - | - | 28,824 |
| Mr C D Wilks (from 29 June 2011) | 884 | - | - | 75 | 1 | - | - | 960 |
| <i>Other key management personnel and group executives</i> | | | | | | | | |
| Mr B J Spillane | 132,246 | - | 13,742 | 11,665 | 1,759 | - | - | 159,412 |
| Mrs J E Ducie (from 27 October 2010) | 99,635 | 13,761 | - | 9,728 | 255 | - | 26,633 | 150,012 |
| Mr R J Seares (until 28 June 2011) | 190,608 | - | - | 15,077 | (198) | 28,938 | (72,045) | 162,380 |
| Total | 1,507,392 | 13,761 | 91,220 | 83,654 | 13,755 | 28,938 | (45,412) | 1,693,308 |

The negative amount for Mr R J Seares for options relates to options that were forfeited during the year prior to vesting.

Silex Systems Limited
Directors' report
30 June 2011 (continued)

Key management personnel of the group and other executives of the company and the 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 |
| Total | 1,241,431 | 85,000 | 75,383 | 70,365 | (2,040) | 72,045 | 1,542,184 |

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 * | |
|--|--------------------|--------|---------------|------|-----------------|------|
| | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| <i>Executive directors</i> | | | | | | |
| Dr M P Goldsworthy | 100.0% | 90.0% | - | 10% | - | - |
| Mr C D Wilks | 100.0% | 100.0% | - | - | - | - |
| <i>Other key management personnel and group executives</i> | | | | | | |
| Mr B J Spillane | 100.0% | 100.0% | - | - | - | - |
| Mrs J E Ducie | 73.1% | - | 9.2% | - | 17.7% | - |
| Mr R J Seares | 100.0% | 67.0% | - | 4% | (44.4%) | 29% |

* This relates to options with the percentages based on the value of options expensed during the year.

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 23 November 2010.

Package consisting of directors fees, daily fee for additional specialist work and superannuation.

Remuneration 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.

Mrs J E Ducie

Term of agreement – employed from 3 May 2010, 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.

Mr R J Seares (until 28 June 2011)

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 Share 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 | Share price hurdle |
|----------------|----------------|----------------|--------------------------------|---------------------------|--------------------|
| 29th June 2009 | 28th June 2014 | \$5.88 | \$3.20 | 100% after 29th June 2011 | N/A |
| 30th July 2010 | 29th July 2015 | \$4.65 | \$1.97 | 100% after 30th July 2012 | \$4.86 |

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. Further information on options is set out in note 34 to the financial statements.

Silex Systems Limited
Directors' report
30 June 2011 (continued)

| Name | Number of options granted during the year | Value of options at grant date | Number of options vested during the year | Number of options that were forfeited during the year | Number of options lapsed during the year | Value at lapse date |
|---|---|--------------------------------|--|---|--|---------------------|
| Directors of Silex Systems Limited | | | | | | |
| Dr M P Goldsworthy | - | - | - | - | 1,200,000 | - |
| Mr C D Wilks | - | - | - | - | 600,000 | - |
| Other key management personnel and executives of the Group | | | | | | |
| Mr B J Spillane | - | - | - | - | 28,000 | - |
| Mrs J E Ducie | 40,000 | 78,820 | - | - | - | - |
| Mr R J Seares | - | - | - | 45,000 | - | - |

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables. Fair values at grant date are 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 2011 included:

| Exercise price cents | Grant date | Expiry date | Share price at grant date cents | Expected volatility of Company's shares | Expected dividend yield | Risk free interest rate |
|----------------------|--------------|--------------|---------------------------------|---|-------------------------|-------------------------|
| 465 | 30 July 2010 | 29 July 2015 | 462 | 50% | - | 4.75% |

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 | |
|--|---|--------|
| | 2011 | 2010 |
| Directors of Silex Systems Limited | | |
| - | - | - |
| Other key management personnel of the Group | | |
| Mr B J Spillane | - | 22,000 |

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 9 to 12, 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 | Maximum total value of grant to vest \$ |
| Mrs J E Ducie | 100 | - | Y/E 30/6/2011 | - | - | Y/E 30/6/2013 | 78,820 |
| Mr R J Seares | - | - | Y/E 30/6/2009 | - | 100 | N/A | N/A |

Restrictions on limiting risk

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 \$ |
|--------------------|-----------|---------|---------------------------|
| 2007 | 6.4 | 460,000 | 12.49 |
| 2008 | (6.5) | - | 7.96 |
| 2009 | (2.6) | - | 6.00 |
| 2010 | (12.3) | 85,000 | 4.60 |
| 2011 | (19.6) | 13,761 | 2.92 |

The increase in the negative earnings per share in the current year was mainly due to Solar Systems Pty Ltd and Silex Solar Pty Ltd. As mentioned earlier, Solar Systems segment loss increased from \$1,620,816 in the prior year to \$5,731,189 in the current year. The prior year loss included only 3.5 months of operations of Solar Systems. Silex Solar's segment loss increased from \$8,279,595 to \$18,078,515 as the business experienced several negative factors, including the strong Australian dollar and a flood of cheap imported panels from Asian competitors which led to much lower than anticipated selling prices. In addition, the industry was heavily impacted by significant adverse changes to State and Federal government solar industry support policies. This loss includes approximately \$6,300,000 in 'one off' costs associated with the cell line closure.

The short term incentives (STI's) in the current year were awarded to Mrs Julie Ducie for her tremendous contribution to the management of the Company's financial affairs and for her role in the share placement and share purchase plan. The prior year STI's were awarded to Dr Michael Goldsworthy for the establishment of the Solar division (Silex Solar and Solar Systems) and to Mr RJ Seares for achieving product certification for the Silex Solar panels. The STI's in the year ended 30 June 2007 are related to the progress made on the Uranium Enrichment Project and the signing of the deal with GE.

In recent years, the share market has dropped considerably due to growing concerns over the deteriorating conditions in global financial and equity markets. Silex's share price has suffered as a result. In addition, events in Fukushima have had a negative impact on uranium-based stocks, including a significant fall in the Silex share price in the weeks following the initial event. Progress in the Group's various technology projects has not directly been reflected in EPS as some of the projects are still in the research and development phase and, with the exception of the Uranium Enrichment Project and more recently Silex Solar, are yet to generate substantial revenue.

12. Company secretary

Mrs Julie E. Ducie, B. Bus., CA was appointed to the position of Company Secretary in October 2010. Before joining Silex, Julie spent 4 years in the Construction Industry in the Middle East as Finance Manager of a Facade Engineering company with projects in Dubai, Bahrain and Qatar. Prior to this, Julie was a Senior Associate with a Chartered Accounting Practice.

13. Meetings

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

| Director's name | Directors' Meetings | | Audit Committee Meetings | | Remuneration Committee Meetings | |
|--------------------|---------------------|-----------------|--------------------------|-----------------|---------------------------------|-----------------|
| | Number Held | Number Attended | Number Held | Number Attended | Number Held | Number Attended |
| Mr B S Patterson | 5 | 4 | 1 | - | - | - |
| Mr R P Campbell | 12 | 12 | 2 | 2 | 1 | 1 |
| Dr M P Goldsworthy | 12 | 12 | - | - | - | - |
| Mr C D Wilks | 12 | 12 | - | - | - | - |
| Dr C S Goldschmidt | 12 | 11 | 2 | 2 | 1 | 1 |
| Prof S W R Burdon | 4 | 4 | 1 | 1 | 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 | |
|---|----------------|---------|
| | 2011 | 2010 |
| | \$ | \$ |
| Remuneration of auditors | | |
| During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-audit firms: | | |
| (a) Assurance services | | |
| Audit services | | |
| PricewaterhouseCoopers Australian firm | | |
| Audit and review of financial reports and other audit work under the Corporations Act 2001 | 202,000 | 155,950 |
| Total remuneration for audit services | 202,000 | 155,950 |
| Other assurance services | | |
| PricewaterhouseCoopers Australian firm | | |
| Audit of government grants | 19,000 | - |
| Total remuneration for other assurance services | 19,000 | - |
| Total remuneration for assurance services | 221,000 | 155,950 |
| Total remuneration | 221,000 | 155,950 |

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 17.

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 2011



Auditor's Independence Declaration

As lead auditor for the audit of Silex Systems Limited for the year ended 30 June 2011, 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 2011

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation

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. They comply with the ASX Corporate Governance Principles and Recommendations (including 2010 Amendments).

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.

The Company maintains a mix of directors on the Board from different backgrounds with complementary skills and experience. When a new director is to be appointed, the Board prepares a list of the requisite range of skills, experience and expertise. From this the Board, prepares a short-list of candidates with appropriate skills and experience. A number of channels are used to source candidates to ensure the company benefits from a diverse range of individuals in the selection process.

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 | 53 | Managing Director/CEO | Physicist and Co-inventor of the SILEX Technology | 1992 |
| Mr C D Wilks | 53 | Non-executive Director | Investment Banking, Finance and Company Management | 1988 |
| Dr C S Goldschmidt | 57 | Non-executive Director | Company Management | 1992 |
| Prof S W R Burdon | 68 | Non-executive Director | Telecommunications industry and Company Management | 2011 |
| Mr R P Campbell | 66 | Non-executive Director/Chairman | Finance and Accounting, Computing and Company Management | 1996 |

Dr C S Goldschmidt, Prof S W R Burdon and Mr R B Campbell 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 10 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 June 2011 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.

Diversity policy

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly the Company has developed a diversity policy which takes effect from 1 July 2011, a copy of which can be found on the Company's website. This policy outlines the Company's position on all forms of diversity, in particular diversity as it relates to gender. It includes requirements for the Board to establish measurable objectives for achieving gender diversity, and for the Board to assess annually both the objectives, and the company's progress in achieving them. Reporting against the defined measurable objectives will commence in the 2012 Annual Report.

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 B S Patterson (until 27 October 2010)

Dr C S Goldschmidt (member for full year, Chairman from 27 October 2010 to 30 September 2011)

Prof S W R Burdon (member from 14 February 2011, Chairman from 30 September 2011)

Mr R P Campbell (Chairman until 27 October 2010, member after 27 October 2010)

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

Following Mr Patterson's retirement, the Board commenced a search for a new director who would also join the audit committee. Mr Burdon was appointed a director in February 2011 and became a member of the audit committee at that time. The audit committee did not meet during the period between Mr Patterson's retirement and Mr Burdon's appointment.

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 note 28 to the financial statements. 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, intellectual property patenting and significant commercial exposures on a regular basis for review. Management has reported to the Board 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:

Mr B S Patterson (Chairman until 27 October 2010)

Mr R P Campbell

Dr C S Goldschmidt (Chairman from 27 October 2010 to 30 September 2011)

Prof S W R Burdon (member from 14 February 2011, Chairman from 30 September 2011)

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

Following Mr Patterson's retirement, the Board commenced a search for a new director who would also join the remuneration committee. Mr Burdon was appointed a director in February 2011 and became a member of the remuneration committee at that time. The remuneration committee did not meet during the period between Mr Patterson's retirement and Mr Burdon's appointment.

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, and note 26 to the financial statements.

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

Annual financial report – 30 June 2011

Contents

| | Page |
|--|------|
| Financial statements | |
| Consolidated income statement | 27 |
| Consolidated statement of comprehensive income | 28 |
| Consolidated balance sheet | 29 |
| Consolidated statement of changes in equity | 30 |
| Consolidated statement of cash flows | 31 |
| Notes to the financial statements | 32 |
| Directors' declaration | 76 |
| Independent auditor's report to the members | 77 |

This financial report covers the consolidated entity consisting of Silex Systems Limited and its subsidiaries. The financial report is presented in the Australian currency.

Silex Systems Limited is a company limited by its shares, incorporated and domiciled in Australia.

Its registered office and principal place of business is:
Silex Systems Limited
Building 64, Lucas Heights Science & Technology Centre
New Illawarra Road, Lucas Heights NSW 2234

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on pages 1 to 3, which is not part of this financial report.

The financial report was authorised for issue by the directors on 30 September 2011. The Company has the power to amend and reissue the financial report.

Silex Systems Limited
Consolidated income statement
For the year ended 30 June 2011

| | Notes | 2011 \$ | 2010 \$ |
|--|-------|---------------------|--------------|
| | | | |
| Revenue from continuing operations | 4 | 29,191,274 | 9,609,270 |
| Other income | 5 | 3,420,665 | 370,000 |
| Research and development materials | | (2,227,726) | (784,713) |
| Finance costs | 6 | (112,247) | (115,416) |
| Depreciation and amortisation expense | 6 | (7,750,067) | (2,278,257) |
| Employee benefits expense | | (20,914,487) | (12,564,568) |
| Consultants and professional fees | | (3,728,271) | (3,149,989) |
| Printing, postage, freight and stationery | | (457,494) | (139,840) |
| Rent, utilities and property outgoings | | (4,048,387) | (2,763,677) |
| Travelling expenses | | (1,346,578) | (748,170) |
| Changes in inventories | | 8,314,376 | 2,686,801 |
| Raw materials and stores used | | (27,739,956) | (5,547,984) |
| Net foreign exchange losses | 6 | (990,374) | (1,008,193) |
| Share of net loss of associate accounted for using the equity method | | (5,470) | - |
| Other expenses from ordinary activities | | (3,087,024) | (2,566,412) |
| (Loss) before income tax expense | | (31,481,766) | (19,001,148) |
| Income tax expense | 7 | - | (2,504) |
| Net (loss) | | (31,481,766) | (19,003,652) |
| (Loss) is attributable to: | | | |
| Owners of Silex Systems Limited | | (31,301,061) | (18,127,716) |
| Non-controlling interests | | (180,705) | (875,936) |
| | | (31,481,766) | (19,003,652) |
| | | Cents | Cents |
| Earnings per share for (loss) from continuing operations attributable to the ordinary equity holders of the company | | | |
| Basic earnings per share | | (19.6) | (12.3) |
| Diluted earnings per share | | (19.6) | (12.3) |

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 2011

| | 2011 | 2010 |
|--|---------------------|--------------|
| | \$ | \$ |
| (Loss) for the year | (31,481,766) | (19,003,652) |
| Other comprehensive income | | |
| Exchange differences on translation of foreign operations | (471,034) | (223,383) |
| Other comprehensive income for the year, net of tax | (471,034) | (223,383) |
| Total comprehensive income for the year | (31,952,800) | (19,227,035) |
| Attributable to: | | |
| Owners of Silex Systems Limited | (31,772,095) | (18,351,099) |
| Non-controlling interests | (180,705) | (875,936) |
| Total comprehensive income for the year | (31,952,800) | (19,227,035) |

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 2011

| | Note | 30/06/2011 \$ | 30/6/2010 \$ |
|--|-------|--------------------|-----------------|
| ASSETS | | | |
| Current assets | | | |
| Cash and cash equivalents | 8 | 15,470,436 | 40,731,209 |
| Held to maturity investments – term deposits | 9 | 93,937,500 | - |
| Trade and other receivables | 10 | 8,550,710 | 3,183,548 |
| Inventories | 11 | 9,183,917 | 3,222,840 |
| Total current assets | | 127,142,563 | 47,137,597 |
| Non-current assets | | | |
| Property, plant and equipment | 12 | 14,486,600 | 11,883,255 |
| Deferred tax assets | 13 | 20,168 | 20,985 |
| Intangible assets | 14 | 22,037,511 | 23,450,887 |
| Investments accounted for using the equity method | 15 | 129,556 | - |
| Other | 16 | - | 1,510,357 |
| Total non-current assets | | 36,673,835 | 36,865,484 |
| Total assets | | 163,816,398 | 84,003,081 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | 17 | 5,210,593 | 5,646,927 |
| Provisions | 18 | 811,607 | 734,703 |
| Total current liabilities | | 6,022,200 | 6,381,630 |
| Non-current liabilities | | | |
| Trade and other payables | 19 | 2,334,690 | 1,182,000 |
| Provisions | 21 | 124,434 | 135,095 |
| Total non-current liabilities | | 2,459,124 | 1,317,095 |
| Total liabilities | | 8,481,324 | 7,698,725 |
| Net assets | | 155,335,074 | 76,304,356 |
| EQUITY | | | |
| Contributed equity | 22 | 231,040,738 | 122,423,175 |
| Reserves | 23(a) | 6,930,760 | 5,035,839 |
| Accumulated losses | 23(b) | (82,276,667) | (50,975,606) |
| Capital and reserves attributable to owners of Silex Systems Limited | | 155,694,831 | 76,483,408 |
| Non-controlling interest | | (359,757) | (179,052) |
| Total equity | | 155,335,074 | 76,304,356 |

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 2011

| | Attributable to owners of Silex Systems Limited | | | | | |
|---|---|------------------|-----------------------|--------------------|----------------------------------|--------------------|
| | Contributed equity | Reserves | Accumulated losses | Total | Non- controlling interests | Total |
| | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance at 30 June 2009 | 103,611,221 | 7,250,013 | (32,847,890) | 78,013,344 | - | 78,013,344 |
| 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) |
| Total comprehensive income for the year | - | (223,383) | (18,127,716) | (18,351,099) | (875,936) | (19,227,035) |
| Transactions with owners in their capacity as owners | | | | | | |
| 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 |
| Balance at 30 June 2010 | 122,423,175 | 5,035,839 | (50,975,606) | 76,483,408 | (179,052) | 76,304,356 |
| Loss for the year | - | - | (31,301,061) | (31,301,061) | (180,705) | (31,481,766) |
| Exchange differences on translation of foreign operations | - | (471,034) | - | (471,034) | - | (471,034) |
| Total comprehensive income for the year | - | (471,034) | (31,301,061) | (31,772,095) | (180,705) | (31,952,800) |
| Transactions with owners in their capacity as owners | | | | | | |
| Contributions of equity, net of transaction costs | 108,347,195 | - | - | 108,347,195 | - | 108,347,195 |
| Employee share options - value of employee services | - | 2,637,140 | - | 2,637,140 | - | 2,637,140 |
| Transfer from share based payments reserve | 271,185 | (271,185) | - | - | - | - |
| Transactions with non-controlling interests | - | - | - | - | - | - |
| Deferred tax credit recognised directly in equity | (817) | - | - | (817) | - | (817) |
| | 108,617,563 | 2,365,955 | - | 110,983,518 | - | 110,983,518 |
| Balance at 30 June 2011 | 231,040,738 | 6,930,760 | (82,276,667) | 155,694,831 | (359,757) | 155,335,074 |

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 2011

| | Note | 2011 | 2010 |
|---|------|----------------------|---------------------|
| | | \$ | \$ |
| Cash Flows from operating activities | | | |
| Receipts from customers (inclusive of goods and services tax) | | 28,955,595 | 7,124,147 |
| Payments to suppliers and employees (inclusive of goods and services tax) | | (60,903,378) | (22,657,952) |
| Transaction costs relating to acquisition of business | | (226,160) | (267,095) |
| Interest received | | 3,597,163 | 1,913,854 |
| Interest paid | | (153,492) | (514) |
| Income tax (paid) | | - | (13,900) |
| Net cash (outflows) from operating activities | 32 | (28,730,272) | (13,901,460) |
| Cash Flows from investing activities | | | |
| Payment for additional interest in subsidiaries | | - | (200) |
| Payment for investments accounted for using the equity method | | (135,026) | - |
| Payments for acquisition of business, net of cash acquired | | - | (1,999,998) |
| Payments for held to maturity investments | | (93,937,500) | - |
| Payments for property, plant and equipment | | (7,525,386) | (1,364,377) |
| Payments for intangibles | | (107,979) | (138,290) |
| Payments for other non-current assets | | - | (1,055,808) |
| Proceeds from sale of property, plant and equipment | | 6,355 | - |
| Repayment of loans by employees | | 3,731 | 24,493 |
| Net cash (outflows) from investing activities | | (101,695,805) | (4,534,180) |
| Cash Flows from financing activities | | | |
| Proceeds from issue of shares | | 106,347,190 | 1,502,434 |
| Net cash inflows from financing activities | | 106,347,190 | 1,502,434 |
| Net (decrease) in cash held | | (24,078,887) | (16,933,206) |
| Cash and cash equivalents at the beginning of the financial year | | 40,731,209 | 58,605,297 |
| Effects of exchange rate changes on cash | | (1,181,886) | (940,882) |
| Cash and cash equivalents at end of year | | 15,470,436 | 40,731,209 |
| Non-cash financing and investing activities | 33 | | |

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

| Note | Contents | Page |
|-------------|--|-------------|
| 1 | Summary of significant accounting policies | 33 |
| 2 | Financial risk management | 44 |
| 3 | Critical accounting estimates and judgements | 48 |
| 4 | Revenue | 48 |
| 5 | Other income | 48 |
| 6 | Expenses | 49 |
| 7 | Income tax expense | 49 |
| | Assets | |
| 8 | Current assets - Cash and cash equivalents | 50 |
| 9 | Current assets – Held to maturity investments | 50 |
| 10 | Current assets – Trade and other receivables | 51 |
| 11 | Current assets - Inventories | 52 |
| 12 | Non-current assets – Property, plant and equipment | 52 |
| 13 | Non-current assets – Deferred tax assets | 53 |
| 14 | Non-current assets – Intangible assets | 54 |
| 15 | Investments accounted for using the equity method | 55 |
| 16 | Non-current assets – Other | 55 |
| | Liabilities | |
| 17 | Current liabilities – Trade and other payables | 55 |
| 18 | Current liabilities – Provisions | 56 |
| 19 | Non-current liabilities – Trade and other payables | 56 |
| 20 | Non-current liabilities – Deferred tax liabilities | 56 |
| 21 | Non-current liabilities – Provisions | 57 |
| | Total equity | |
| 22 | Contributed equity | 57 |
| 23 | Reserves and accumulated losses | 58 |
| 24 | Franking account balance | 59 |
| 25 | Commitments | 59 |
| 26 | Key management personnel disclosures | 59 |
| 27 | Related party transactions | 61 |
| 28 | Remuneration of auditors | 62 |
| 29 | Segment information | 62 |
| 30 | Earnings per share | 66 |
| 31 | Subsidiaries and transactions with non-controlling interests | 66 |
| 32 | Reconciliation of (loss) after income tax to net cash (outflow) from operating activities | 67 |
| 33 | Non-cash financing and investing activities | 67 |
| 34 | Share-based payments | 67 |
| 35 | Business combination | 71 |
| 36 | Parent entity financial information | 71 |
| 37 | Deed of cross guarantee | 72 |
| 38 | Investment in associate | 75 |
| 39 | Events occurring after reporting date | 75 |

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Silex Systems Limited and its subsidiaries.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The consolidated financial statements of the Silex Systems Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Silex Systems Limited ("company" or "parent entity") as at 30 June 2011 and the results of all subsidiaries for the year then ended. Silex Systems Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(i)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and balance sheet respectively.

(ii) Associates

Associates are all entities over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (refer to note 38).

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates are recognised as reduction in the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Silex Systems Limited.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Silex Systems Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings, are recognised in other comprehensive income. The Company's funding of its investment in Translucent Inc has been deemed part of its net investment. When a foreign operation is sold or borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Sale of goods

A sale is recorded when goods have been despatched to a customer pursuant to a sales order and the associated risks have passed to the carrier or customer.

(ii) Interest income

Interest revenue is recognised on a time proportion basis using the effective interest method.

(iii) Recoverable project costs

Revenue is recorded in the month when the related costs are incurred.

(f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight line basis over the expected lives of the related assets.

(g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

Silex Systems Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

(h) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 25). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(i) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate they might be impaired. Other assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(k) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Held to maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell a significant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available-for-sale. Held to maturity financial assets are included in current assets as all have maturities less than 12 months from the end of the reporting period.

(m) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 60 days from the date of recognition.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the income statement.

(n) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials and direct labour. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(o) Investments and other financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (note 10). Loans and receivables are carried at amortised cost using the effective interest method.

Impairment

The Group assesses at each balance date whether there is objective evidence that a financial asset or group of financial assets is impaired. The subsidiaries have continued their activities, mostly research and development and start-up activities and as such remain in loss making positions. Hence, due to the nature of these businesses, a provision against the value of the investment in the subsidiaries has been raised.

(p) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately.

(i) Forward exchange contracts

The Group has entered into forward exchange contracts which are economic hedges for foreign currencies to be traded at a future date but do not satisfy the requirements for hedge accounting. These contracts are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity. Any changes in fair values are taken to the income statement immediately.

(q) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(r) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

| | |
|-------------------------------------|------------|
| - Buildings | 25 years |
| - Leasehold improvements | 2 years |
| - Plant and Machinery | 3-10 years |
| - Vehicles | 3-7 years |
| - Furniture, fittings and equipment | 3-10 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, it is Group policy to transfer the amounts included in other reserves in respect of those assets to retained earnings.

(s) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is not amortised. Instead, goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those cash-generating units represents the Group's investment by each reporting segment (note 29).

(ii) Intellectual property

Intellectual property acquired from the Solar Systems Group is amortised on a straight-line basis over 4 years for domain names and copyright, and over the remaining life of each individual patent which ranges from 4 to 20 years.

(iii) Software

Costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction are capitalised to software. Costs capitalised include external direct costs of materials and service. Amortisation is calculated on a straight-line basis over periods generally ranging from 3 to 4 years.

(iv) Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

Costs incurred on development projects relating to the design and testing of new or improved products are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibility and its costs can be measured reliably. Other expenditure that does not meet these expenditure criteria are recognised as an expense as incurred. Given the stage of development of the Company's technologies, research and development costs are expensed as incurred.

(t) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

(u) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(v) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

(w) Provisions

Provisions for legal claims and product and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability.

(x) Employee benefits

(i) Wages and salaries, annual leave and personal leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating personal leave are recognised when the leave is taken and measured at the rates paid or payable. The liability for annual leave is recognised in the other payables.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

Some employees of the Group are entitled to benefits on retirement, disability or death from the Group's defined contribution superannuation plan. The fund receives fixed contributions from Group companies and the Group's legal or constructive obligation is limited to these contributions. Contributions to the defined contribution fund are recognised as an expense as they become payable.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Silex Systems Limited Employee Share Option Plan. Ownership-based remuneration is also provided to employees via the Translucent Inc Employee Option Plan. Information relating to these schemes is set out in note 34.

The fair value of options granted under the Silex Systems Limited Employee Share Option Plan and Translucent Inc Employee Option Plan are recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Binomial option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, 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 fair value of the options granted excludes the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share-based payments reserve relating to those options is transferred to share capital.

(v) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or to providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(y) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(z) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit/loss attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

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

(aa) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flow.

(ab) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The Group has not yet decided when to adopt AASB 9.

(ii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. When the amendments are applied, the Group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

(iii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements(effective from 1 July 2013)

On 30 June 2010, the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. Silex Systems Limited is listed on the ASX and is not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. The two standards will therefore have no impact on the financial statements of the entity.

(iv) AASB 2010-6 Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011)

Amendments made to AASB 7 *Financial Instruments: Disclosures* in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.

(ac) Parent entity financial information

The financial information for the parent entity, Silex Systems Limited, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements except as set out below:

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Silex Systems Limited. Dividends received from associates are recognized in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Silex Systems Limited and its wholly-owned Australian subsidiaries have implemented the tax consolidation legislation. The head entity, Silex Systems Limited, and the controlled entities in the tax consolidation group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidation continues to be a stand alone taxpayer in its own right.

Note 2 Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk.

Risk management is carried out by senior management under policies approved by the board of directors. Senior management identifies, evaluates and manages financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk and investing excess liquidity.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group's exposure to foreign currency risk at the reporting date, expressed in Australian dollars, was as follows:

| | 30-Jun-11 | 30-Jun-10 |
|---------------------------|------------------|-----------|
| | US Dollar | US Dollar |
| | AUD | AUD |
| Cash and cash equivalents | 4,176,004 | 8,180,906 |
| Receivables | 2,758,489 | 751,003 |
| Trade payables | 207,571 | 806,644 |

Foreign exchange contracts are used to manage foreign exchange risk. The Group's policy is to hedge a proportion of its anticipated cash flows in USD. At year end, the Group held a forward exchange contract totalling USD\$1,000,000 (2010: nil) to purchase USD with a contractual maturity date of 1 month after the reporting period end, as part of its strategy to minimise the financial affects of foreign currency fluctuations. The Board monitors the Company's hedging strategy on a continuing basis. The fair value of derivative contracts outstanding at year end totals \$11,200 and is recorded in Current liabilities – trade and other payables at 30 June 2011.

(ii) Cash flow and fair value interest rate risk

As the Group has significant interest-bearing assets, the Group's income and operating cash flows are influenced by changes in market interest rates. Group policy is to maintain the majority of cash and cash equivalents at fixed rates by the use of term deposits, bank bills etc.

The Group manages its cash flow interest-rate risk by having a spread of maturity dates with different institutions.

As at the reporting date, the Group had the following variable interest rate cash and cash equivalents:

| | 30 June 2011 | | 30 June 2009 | |
|---------------------------|---|-----------------------|-------------------------------------|---------------|
| | Weighted average interest rate % | Balance \$ | Weighted average interest rate % | Balance \$ |
| Cash and cash equivalents | 1.78% | 7,194,885 | 3.15% | 4,816,345 |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

(b) Credit risk

The Group has a significant concentration of credit risk with its main receipts coming from Global Laser Enrichment (GLE – the venture owned by GE, Hitachi and Cameco to commercialise the SILEX technology in the US), banks (interest income), government (government grants) and from Silex Solar's customers. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Silex Solar has a number of customers and the amount owed by each customer represents less than one third of the total owed by all of Silex Solar's customers. For banks and financial institutions, only independently rated parties with a minimum rating as approved by the Board are accepted. Cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available).

| | 2011 | 2010 |
|----------------------------|------------------|------------------|
| | \$ | \$ |
| Trade receivables * | | |
| Group 1 | 942,348 | 1,147,097 |
| Group 2 | 2,582,652 | 360,712 |
| Group 3 | - | - |
| Total trade receivables | 3,525,000 | 1,507,809 |

*Group 1 – new customers (less than 6 months).

Group 2 – existing customers (more than 6 months) with no defaults in the past.

Group 3 – existing customers (more than 6 months) with some defaults in the past.

| | 2011 | 2010 |
|---|--------------------|-------------------|
| | \$ | \$ |
| Cash and cash equivalents and held to maturity investments | | |
| ANZ Banking Group Limited | 59,035,243 | 25,500,059 |
| Westpac Banking Corporation | 2,000,000 | 4,600,000 |
| National Australia Bank | 25,200,000 | 2,200,000 |
| Bendigo and Adelaide Bank Limited | 10,500,000 | - |
| Bank of Western Australia Limited | - | 3,800,000 |
| St George Bank | 12,300,838 | 4,037,667 |
| Bank of America | 367,658 | 589,393 |
| Other | 4,197 | 4,090 |
| | 109,407,936 | 40,731,209 |

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

| | 2011 | 2010 |
|--|----------------|------------------|
| | \$ | \$ |
| Floating rate | | |
| - Expiring within one year (documentary credit facility and visa facility) | 480,000 | 2,280,000 |
| | 480,000 | 2,280,000 |

The visa facility and documentary credit facility may be drawn at any time and is subject to annual review.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the tables are the contractual undiscounted cash flows.

| Group - at 30 June 2011 | Less than 6 months \$ | 6-12 months \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Total contractual cash flows \$ | Carrying Amounts (assets)/ Liabilities \$ |
|------------------------------------|-----------------------------|----------------------|-----------------------------------|-----------------------------------|-----------------------|--|---|
| Non-derivatives | | | | | | | |
| Non-interest bearing | 5,131,657 | - | - | - | - | 5,131,657 | 5,131,657 |
| Fixed rate | - | - | - | - | - | - | - |
| Total non-derivatives | 5,131,657 | - | - | - | - | 5,131,657 | 5,131,657 |

| Group - at 30 June 2010 | Less than 6 months \$ | 6-12 months \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Total contractual cash flows \$ | Carrying Amounts (assets)/ Liabilities \$ |
|------------------------------------|-----------------------------|----------------------|-----------------------------------|-----------------------------------|-----------------------|--|---|
| Non-derivatives | | | | | | | |
| Non-interest bearing | 3,656,695 | - | - | - | - | 3,656,695 | 3,656,695 |
| Fixed rate | 2,000,000 | - | - | - | - | 2,000,000 | 1,990,232 |
| Total non-derivatives | 5,656,695 | - | - | - | - | 5,656,695 | 5,646,927 |

(d) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual values at the current market interest rates that is available to the Group for similar instruments.

(e) Sensitivity analysis

The following tables summarise the sensitivity of the Group's financial assets and financial liabilities to interest rate risk and foreign exchange risk.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | Carrying amount | Interest rate risk | | | | Foreign exchange risk | | | |
|--------------------------------------|-----------------|--------------------|-----------|----------|----------|-----------------------|-----------|-------------|-------------|
| | | -1.0% | -1.0% | 1.0% | 1.0% | -15% | -15% | 15% | 15% |
| | | Profit | Equity | Profit | Equity | Profit | Equity | Profit | Equity |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| 30 June 2011 Group | | | | | | | | | |
| Financial assets | | | | | | | | | |
| Cash and cash equivalents | 15,470,436 | (276,012) | (276,012) | 276,012 | 276,012 | 736,942 | 736,942 | (544,696) | (544,696) |
| Held to maturity investments | 93,937,500 | (502,286) | (502,286) | 502,286 | 502,286 | - | - | - | - |
| Trade debtors and other receivables | 5,182,970 | - | - | - | - | 486,792 | 486,792 | (359,803) | (359,803) |
| Loans to employees | 104,879 | 982 | 982 | (982) | (982) | - | - | - | - |
| Financial liabilities | | | | | | | | | |
| Trade payables | (5,131,657) | - | - | - | - | 94,643 | 94,643 | (127,439) | (127,439) |
| Borrowings | - | 18,318 | 18,318 | (18,318) | (18,318) | - | - | - | - |
| Total increase/(decrease) before tax | | (758,998) | (758,998) | 758,998 | 758,998 | 1,318,377 | 1,318,377 | (1,031,938) | (1,031,938) |
| Tax charge | | - | - | - | - | - | - | - | - |
| Total increase/(decrease) after tax | | (758,998) | (758,998) | 758,998 | 758,998 | 1,318,377 | 1,318,377 | (1,031,938) | (1,031,938) |

| | Carrying amount | Interest rate risk | | | | Foreign exchange risk | | | |
|--------------------------------------|-----------------|--------------------|----------|--------|--------|-----------------------|----------|-----------|-----------|
| | | -1.0% | -1.0% | 1.0% | 1.0% | -10% | -10% | 10% | 10% |
| | | Profit | Equity | Profit | Equity | Profit | Equity | Profit | Equity |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | |
| 30 June 2010 Group | | | | | | | | | |
| Financial assets | | | | | | | | | |
| Cash and cash equivalents | 40,731,209 | (50,028) | (50,028) | 50,028 | 50,028 | 908,990 | 908,990 | (743,719) | (743,719) |
| Trade receivables | 1,507,809 | - | - | - | - | 39,224 | 39,224 | (32,092) | (32,092) |
| Loans to employees | 136,208 | - | - | - | - | - | - | - | - |
| Financial liabilities | | | | | | | | | |
| Trade payables | (3,656,695) | - | - | - | - | (89,627) | (89,627) | 73,331 | 73,331 |
| Borrowings | - | 34 | 34 | (34) | (34) | - | - | - | - |
| Total increase/(decrease) before tax | | (49,994) | (49,994) | 49,994 | 49,994 | 858,587 | 858,587 | (702,480) | (702,480) |
| Tax charge | | - | - | - | - | - | - | - | - |
| Total increase/(decrease) after tax | | (49,994) | (49,994) | 49,994 | 49,994 | 858,587 | 858,587 | (702,480) | (702,480) |

Note 3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(s). The recoverable amount of a cash generating unit (CGU) is determined based on fair value less costs to sell. As part of its annual impairment assessment the company has reviewed the status of its technology projects in Translucent. In addition, an independent expert performed an analysis of the value of the business. The report findings support the directors' assessment that no impairment of goodwill is required at 30 June 2011.

(ii) Income taxes

The Group is subject to income taxes in Australia and jurisdictions where it has foreign operations. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

(iii) Intellectual Property

The Group's intellectual property portfolio is assessed on an annual basis to determine its ongoing use to the business. The intellectual property is subject to technical risks dependent upon changes to technology and the ongoing use in future commercial activities. Where there is no ongoing use to the business, the intellectual property is impaired.

| | 2011 | 2010 |
|-----------------------------------|-------------------|-------------|
| | \$ | \$ |
| Note 4 Revenue | | |
| From continuing operations | | |
| Recoverable Project costs | 5,208,290 | 4,767,279 |
| Sale of goods | 19,388,590 | 3,099,828 |
| Interest income | 4,576,490 | 1,691,352 |
| Other | 17,904 | 50,811 |
| | 29,191,274 | 9,609,270 |
| | | |
| Note 5 Other income | | |
| Government Grants | 3,392,253 | 370,000 |
| Other | 28,412 | - |
| | 3,420,665 | 370,000 |

(i) Government grants

Federal and state government solar project grants of \$3,112,954 (2010: \$320,000) were recognised as other income by Solar Systems during the financial year. Part of the grants may be repayable in certain circumstances. These include: if there remains an amount of funding that has not been spent, the government determines that Solar Systems is unable to perform the Activities in the agreement, and if the government determines that the funds have not been spent in accordance with the grant. State government solar project grants of \$264,636 (2010: \$50,000) were recognised as other income by Silex Solar during the financial year. There are no unfulfilled conditions attaching to these grants. An export market development grant of \$14,663 (2010: nil) was recognised as income during the financial year.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | 2011 | 2010 |
|---|---------------------|---------------------|
| | \$ | \$ |
| Note 6 Expenses | | |
| (Loss) before income tax includes the following expenses: | | |
| Depreciation of plant and equipment | 6,140,726 | 1,890,834 |
| Depreciation of buildings | 76,400 | 22,398 |
| Depreciation of leasehold improvements | 11,586 | 4,269 |
| Amortisation of software | 46,912 | 2,580 |
| Amortisation of intellectual property | 1,474,443 | 358,176 |
| Total depreciation and amortisation | <u>7,750,067</u> | <u>2,278,257</u> |
| Finance costs | | |
| Interest and finance charges paid/payable | 112,247 | 115,416 |
| Finance costs expensed | <u>112,247</u> | <u>115,416</u> |
| Rental expenses relating to operating leases | | |
| Minimum lease payments | 2,430,195 | 1,820,594 |
| Provision for employee entitlements | (10,924) | 69,291 |
| Defined contribution superannuation expense | 1,055,810 | 562,198 |
| Provision for warranties | 136,428 | 61,562 |
| Research and development costs | 16,378,610 | 9,373,860 |
| Foreign exchange losses | 990,374 | 1,008,193 |
| Loss on disposal of property, plant and equipment | <u>2,163</u> | <u>-</u> |
| | 2011 | 2010 |
| | \$ | \$ |
| Note 7 Income tax | | |
| (a) Income tax expense | | |
| Adjustments for current tax of prior periods | - | 2,504 |
| | <u>-</u> | <u>2,504</u> |
| Income tax expense is attributable to: | | |
| Profit from continuing operations | - | 2,504 |
| Aggregate income tax expense | <u>-</u> | <u>2,504</u> |
| (b) Numerical reconciliation of income tax expense to prima facie tax payable | | |
| (Loss) before income tax expense | <u>(31,481,766)</u> | <u>(19,001,148)</u> |
| Income tax calculated @ 30% | <u>(9,444,530)</u> | <u>(5,700,344)</u> |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | | |
| Amortisation of intangibles | 13,739 | 574 |
| Share based payments | 791,142 | 515,206 |
| Unrealised exchange differences on loan balances | (1,678,007) | (267,867) |
| Research and development concession | (45,000) | (30,000) |
| Sundry items | 105,000 | 118,857 |
| | <u>(10,257,656)</u> | <u>(5,363,574)</u> |
| Deferred tax asset and deferred tax liability not recognised | 10,858,041 | 5,990,226 |
| Effect of higher rates on overseas income | (600,385) | (626,652) |
| Under provided tax paid for previous year | - | 2,504 |
| Income tax expense | <u>-</u> | <u>2,504</u> |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | 2011 | 2010 |
|--|-------------------|-------------------|
| | \$ | \$ |
| (c) Amounts recognised directly in equity | | |
| Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity | | |
| Net deferred tax - debited (credited) directly to equity | 817 | (10,041) |
| | | |
| | 2011 | 2010 |
| | \$ | \$ |
| (d) Tax losses | | |
| Unused tax losses for which no deferred tax asset has been recognised | 60,852,450 | 45,662,823 |
| Potential tax benefit at tax rate | 21,957,831 | 17,816,412 |

A deferred tax asset has not been recognised as the consolidated entity has a history of tax losses.

The benefit of a deferred tax asset will only be obtained if:

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

(e) Tax consolidation legislation

Silex Systems Limited and its wholly owned Australian controlled subsidiaries Silex Solar Pty Ltd, Solar Systems Pty Ltd and Solar Systems (Mildura) Pty Ltd have implemented the tax consolidation legislation.

| | 2011 | 2010 |
|--|-------------------|-------------------|
| | \$ | \$ |
| Note 8 Current assets - Cash and cash equivalents | | |
| Cash at bank and on hand | 7,434,686 | 2,630,475 |
| Deposits at call | - | 2,550,000 |
| Short term bank deposits | 8,035,750 | 35,550,734 |
| | 15,470,436 | 40,731,209 |

(a) Cash at bank and on hand

These bear interest between 0% and 4.7% (2010: between 0% and 3.75%).

(b) Deposits at call

The prior year deposits bore interest at 4.45%.

(c) Short term bank deposits

The deposits bear interest between 5.34% and 5.75% (2010: between 0.27% and 5.70%).

Additional information on the Group's exposure to interest rate risk is discussed in note 2.

| | 2011 | 2010 |
|--|-------------------|-------------|
| | \$ | \$ |
| Note 9 - Held to maturity investments - term deposits | | |
| Bank deposits | 93,937,500 | - |

The bank deposits earn interest at between 5.71% and 6.31%. The deposits have an average maturity of 177 days.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | 2011 | 2010 |
|---|------------------|-----------|
| | \$ | \$ |
| Note 10 Current assets - Trade and other receivables | | |
| Trade debtors | 3,525,000 | 1,507,809 |
| Provision for impairment of receivables | - | - |
| | 3,525,000 | 1,507,809 |
| Other receivables | 1,657,970 | 483,848 |
| Loans to employees | 104,879 | 136,208 |
| Accrued income | 2,341,007 | 874,507 |
| Prepayments | 921,854 | 181,176 |
| | 8,550,710 | 3,183,548 |

(a) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the consolidated entity. Collateral is not normally obtained.

(b) Impaired trade receivables

As at 30 June 2011, no current trade receivables of the Group were impaired (2010: nil). The amount of the provision was therefore nil (2010: nil).

Movement in the provision for impairment of receivable is as follows:

| | 2011 | 2010 |
|---|-------------|------|
| | \$ | \$ |
| At 1 July | - | - |
| Provision for impairment recognised during the year | - | - |
| | - | - |

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

(c) Past due but not impaired

As of 30 June 2011, trade receivables of nil (2010: nil) were past due but not impaired.

Loans to employees with a value of \$104,879 (2010: \$132,148) were past due but not impaired. The loan is 27 months overdue. The Group does not hold any collateral in relation to the loan. The Group expects to recover the loan in full.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

(d) Foreign exchange and interest rate risk

Information concerning the Group's exposure to foreign currency and interest rate risk in relation to trade and other receivables is provided in note 2.

(e) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value.

The maximum exposure to credit rate risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer note 2 for further information.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | 2011 | 2010 |
|--|------------------|-------------|
| | \$ | \$ |
| Note 11 Current assets - Inventories | | |
| Raw materials and stores - at net realisable value | 3,529,810 | 2,766,185 |
| Work in progress - at net realisable value | 576,176 | 303,821 |
| Finished goods - at net realisable value | 5,077,931 | 152,834 |
| | 9,183,917 | 3,222,840 |

(a) Inventory expense

Inventories recognised as expense (including write-down to net realisable value) during the year ended 30 June 2011 amounted to \$19,425,580 (2010: \$2,861,183).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2011 amounted to \$2,353,299 (2010: \$191,228). The expense has been included in "Raw materials and stores used" in the income statement.

Note 12 Non-current assets – Property, plant and equipment

| | Plant and equipment \$ | Land and Buildings \$ | Leasehold improvements \$ | Motor vehicles \$ | Total \$ |
|--------------------------|------------------------------|-----------------------------|---------------------------------|-------------------------|-------------|
| At 30 June 2009 | | | | | |
| Cost | 14,950,555 | - | 808,522 | 178,265 | 15,937,342 |
| Accumulated depreciation | (6,679,861) | - | (805,697) | (16,073) | (7,501,631) |
| Net book amount | 8,270,694 | - | 2,825 | 162,192 | 8,435,711 |

Year ended 30 June 2010

| | | | | | |
|---|-------------|-----------|---------|----------|-------------|
| Opening net book amount | 8,270,694 | - | 2,825 | 162,192 | 8,435,711 |
| Exchange differences | (100,644) | - | 1,312 | - | (99,332) |
| Additions | 1,343,192 | - | 21,185 | - | 1,364,377 |
| Additions as part of business acquisition | 1,917,000 | 2,115,000 | - | 68,000 | 4,100,000 |
| Disposals | - | - | - | - | - |
| Depreciation charge | (1,859,379) | (22,398) | (4,269) | (31,455) | (1,917,501) |
| Closing net book value | 9,570,863 | 2,092,602 | 21,053 | 198,737 | 11,883,255 |

At 30 June 2010

| | | | | | |
|--------------------------|-------------|-----------|-----------|----------|-------------|
| Cost | 17,864,571 | 2,115,000 | 792,605 | 246,265 | 21,018,441 |
| Accumulated depreciation | (8,293,708) | (22,398) | (771,552) | (47,528) | (9,135,186) |
| Net book amount | 9,570,863 | 2,092,602 | 21,053 | 198,737 | 11,883,255 |

Year ended 30 June 2011

| | | | | | |
|-------------------------|-------------|-----------|----------|----------|-------------|
| Opening net book amount | 9,570,863 | 2,092,602 | 21,053 | 198,737 | 11,883,255 |
| Exchange differences | (191,206) | - | (3,962) | - | (195,168) |
| Additions | 8,984,504 | - | 8,768 | 42,471 | 9,035,743 |
| Disposals | (1,564) | - | - | (6,954) | (8,518) |
| Depreciation charge * | (6,089,667) | (76,400) | (11,586) | (51,059) | (6,228,712) |
| Closing net book value | 12,272,930 | 2,016,202 | 14,273 | 183,195 | 14,486,600 |

At 30 June 2011

| | | | | | |
|--------------------------|--------------|-----------|-----------|----------|--------------|
| Cost | 25,321,008 | 2,115,000 | 637,554 | 280,736 | 28,354,298 |
| Accumulated depreciation | (13,048,078) | (98,798) | (623,281) | (97,541) | (13,867,698) |
| Net book amount | 12,272,930 | 2,016,202 | 14,273 | 183,195 | 14,486,600 |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

* Included within the current year charge is accelerated depreciation of \$4,000,000 resulting from a reassessment of the useful life of plant and equipment in respect of Silex Solar.

(a) Assets in the course of construction

The carrying amount of the assets disclosed above include the following expenditure recognised in relation to property, plant and equipment which is in the course of construction:

| | 2011 | 2010 |
|--|------------------|---------|
| | \$ | \$ |
| Plant and equipment | 1,898,911 | 841,603 |
| Total assets in the course of construction | 1,898,911 | 841,603 |

| | 2011 | 2010 |
|--|-------------|------|
| | \$ | \$ |

Note 13 Non-current assets - Deferred tax assets

The balance comprises temporary differences attributable to :

| | | |
|--|-------------------|------------|
| Amounts recognised in profit or loss | | |
| Provision for employee entitlements and warranties | 280,812 | 260,939 |
| Provisions for stock obsolescence | 851,863 | 145,873 |
| Depreciation and amortisation | 2,391,736 | 808,609 |
| Payables not deductible | 3,102,526 | 2,734,936 |
| Deferred revenue | 328,010 | - |
| Foreign currency cash balances and loans | 2,295,008 | 788,148 |
| Amortisation of share issue expenses | 20,168 | 20,985 |
| Tax losses | 21,957,831 | 17,816,412 |
| | 31,227,954 | 22,575,902 |

Amounts recognised directly in equity

| | | |
|----------------------|-------------------|------------|
| Share issue expenses | (817) | 10,041 |
| | 31,227,137 | 22,585,943 |

| | | |
|---|---------------------|--------------|
| Set-off deferred tax liabilities pursuant to set-off provisions | (586,163) | (138,395) |
| Net deferred assets not recognised | (30,620,806) | (22,426,563) |
| Net deferred tax assets | 20,168 | 20,985 |

| | 2011 | 2010 |
|--|-------------|------|
| | \$ | \$ |

| | | |
|--|---------------|--------|
| Movements: | | |
| Opening at 1 July | 20,985 | 10,944 |
| Credited/(charged) to the income statement | - | - |
| Credited/(charged) to equity | (817) | 10,041 |
| Closing balance at 30 June | 20,168 | 20,985 |

| | 2011 | 2010 |
|--|-------------|------|
| | \$ | \$ |

| | | |
|---|---------------|--------|
| Deferred tax assets to be recovered after more than 12 months | 12,621 | 14,244 |
| Deferred tax assets to be recovered within 12 months | 7,547 | 6,741 |
| | 20,168 | 20,985 |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | Intellectual property on consolidation \$ | Intellectual Property \$ | Software \$ | Goodwill \$ | Total \$ |
|---|--|--------------------------------|----------------|----------------|-------------|
| Note 14 Non-current assets - Intangible assets | | | | | |
| At 30 June 2009 | | | | | |
| Cost | 1,980,573 | - | - | 9,346,115 | 11,326,688 |
| Accumulated amortisation and impairment | (1,975,950) | - | - | (868,496) | (2,844,446) |
| Net book amount | 4,623 | - | - | 8,477,619 | 8,482,242 |
| Year ended 30 June 2010 | | | | | |
| Opening net book value | 4,623 | - | - | 8,477,619 | 8,482,242 |
| Additions - acquisition | - | - | 138,290 | - | 138,290 |
| Additions - part of business acquisition | - | 15,191,111 | - | - | 15,191,111 |
| Amortisation charge * | (1,913) | (356,263) | (2,580) | - | (360,756) |
| Closing net book value | 2,710 | 14,834,848 | 135,710 | 8,477,619 | 23,450,887 |
| At 30 June 2010 | | | | | |
| Cost | 1,980,573 | 15,191,111 | 138,290 | 9,346,115 | 26,656,089 |
| Accumulated amortisation and impairment | (1,977,863) | (356,263) | (2,580) | (868,496) | (3,205,202) |
| Net book amount | 2,710 | 14,834,848 | 135,710 | 8,477,619 | 23,450,887 |
| Year ended 30 June 2011 | | | | | |
| Opening net book value | 2,710 | 14,834,848 | 135,710 | 8,477,619 | 23,450,887 |
| Additions - acquisition | - | - | 107,979 | - | 107,979 |
| Amortisation charge * | (1,913) | (1,472,530) | (46,912) | - | (1,521,355) |
| Closing net book value | 797 | 13,362,318 | 196,777 | 8,477,619 | 22,037,511 |
| At 30 June 2011 | | | | | |
| Cost | 1,980,573 | 15,191,111 | 246,269 | 9,346,115 | 26,764,068 |
| Accumulated amortisation and impairment | (1,979,776) | (1,828,793) | (49,492) | (868,496) | (4,726,557) |
| Net book amount | 797 | 13,362,318 | 196,777 | 8,477,619 | 22,037,511 |

* Amortisation of \$1,521,355 (2010: \$360,756) is included in depreciation and amortisation expense in the income statement.

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGU's) identified according to business segment and country of operation.

A segment-level summary of the goodwill allocated is presented below.

| | United States of America \$ | Total \$ |
|-------------|-----------------------------------|-------------|
| 2011 | | |
| Translucent | 8,477,619 | 8,477,619 |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| 2010 | United States of America | Total |
|-------------|-----------------------------|-----------|
| | \$ | \$ |
| Translucent | 8,477,619 | 8,477,619 |

The recoverable amount of the Translucent CGU is determined based on fair value less costs to sell. As part of its annual impairment assessment, the company has also reviewed the status of its technology projects and their likely commercial outcomes. These projects continue to be researched and developed in line with the company's technical program. As Translucent is in a pre-commercial phase of development, estimates of future value are dependent upon successful commercialization of its technology. Changes in research and development results together with changes in market conditions could impact the future valuation of the underlying technology. Based on the results to date, the company has committed to continue funding the technical program in line with the strategic plan.

An independent assessment of the value of the Translucent business has been undertaken at 30 June 2011, and on this basis the Directors have determined that no impairment of goodwill is required.

| | 2011 | 2010 |
|--|----------------|------|
| | \$ | \$ |
| Note 15 Investments accounted for using the equity method | | |
| Shares in associate (note 38) | 129,556 | - |

| | 2011 | 2010 |
|---|------|-----------|
| | \$ | \$ |
| Note 16 Non-current assets – Other | | |
| Deposit on equipment | - | 1,510,357 |

| | 2011 | 2010 |
|---|------------------|-----------|
| | \$ | \$ |
| Note 17 Current Liabilities - Trade and other payables | | |
| Trade creditors | 3,994,020 | 2,677,304 |
| Deferred grant income | 78,936 | - |
| Deferred consideration | - | 1,990,232 |
| Other payables | 1,137,637 | 979,391 |
| | 5,210,593 | 5,646,927 |

(a) Amounts not expected to be settled within the next 12 months

Other payables include accruals for annual leave. The entire obligation is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave within the next 12 months. The following amounts reflect leave that is not expected to be taken within the next 12 months:

| | 2011 | 2010 |
|---|---------------|--------|
| | \$ | \$ |
| Annual leave obligations expected to be settled after 12 months | 89,383 | 51,302 |

(b) Risk exposure

Information about the Group's exposure to foreign exchange risk is provided in note 2.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | 2011 | 2010 |
|---|-----------------------|----------------|
| | <u>\$</u> | <u>\$</u> |
| Note 18 Current liabilities – Provisions | | |
| Employee Benefits - long service leave | 618,156 | 672,335 |
| Warranties | 193,451 | 62,368 |
| | <u>811,607</u> | <u>734,703</u> |

(a) Warranties

Provision is made for the estimated warranty claims in respect of products sold. These claims may be settled in the next financial year but this may be extended into future years.

(b) Amounts not expected to be settled within the next 12 months

The current provision for long service leave includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current, since the Group does not have an unconditional right to defer settlement. However, based on past experience, the Group does not expect all employees to take the full amount of accrued long service leave or require payment within the next 12 months. The following amounts reflect leave that is not to be expected to be taken or paid within the next 12 months.

| | 2011 | 2010 |
|---|-----------------------|----------------|
| | <u>\$</u> | <u>\$</u> |
| Long service leave obligations expected to be settled after 12 months | <u>550,357</u> | <u>605,101</u> |

(c) Movements in warranty provisions

| | Warranties |
|------------------------------------|-----------------------|
| | <u>\$</u> |
| Carrying amount at start of year | 62,368 |
| Charged to profit or loss | |
| - additional provisions recognised | 136,428 |
| Amounts used during the year | <u>(5,345)</u> |
| Carrying amount at end of year | <u>193,451</u> |

| | 2011 | 2010 |
|---|-------------------------|------------------|
| | <u>\$</u> | <u>\$</u> |
| Note 19 Non-Current Liabilities - Trade and other payables | | |
| Deferred grant income | 1,014,430 | - |
| Deferred rent liability | <u>1,320,260</u> | <u>1,182,000</u> |
| | <u>2,334,690</u> | <u>1,182,000</u> |

| | 2011 | 2010 |
|--|-------------|-------------|
| | <u>\$</u> | <u>\$</u> |

Note 20 Non-current liabilities - Deferred tax liabilities

The balance comprising temporary differences attributable to :

| | | |
|---|-------------------------|------------------|
| Amounts recognised in profit or loss | | |
| Accrued income | 586,163 | 138,935 |
| | <u>586,163</u> | <u>138,935</u> |
| Set off deferred tax liabilities pursuant to set-off provisions | <u>(586,163)</u> | <u>(138,935)</u> |
| Net deferred tax liabilities | <u>-</u> | <u>-</u> |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | 2011 | 2010 |
|---|----------------|---------|
| | \$ | \$ |
| Note 21 Non-current liabilities - Provisions | | |
| Employee benefits - long service leave | 124,434 | 135,095 |

| | Parent entity | | Parent entity | |
|-----------------------------------|--------------------|-------------|--------------------|-------------|
| | 2011 | 2010 | 2011 | 2010 |
| | Shares | Shares | \$ | \$ |
| Note 22 Contributed equity | | | | |
| (a) Share capital | | | | |
| Ordinary shares | | | | |
| Fully paid | 170,133,997 | 149,073,532 | 231,040,738 | 122,423,175 |

(b) Movements in ordinary share capital

| Date | Details | Number of shares | Issue Price \$ | \$ |
|------------------|---|---------------------|----------------------|--------------------|
| 30 June 2009 | Balance | 145,749,880 | | 103,611,221 |
| Various | Exercise of options - proceeds received | 496,000 | Various | 1,561,625 |
| Various | Issue of shares | 2,827,652 | Various | 16,489,312 |
| | | | | 121,662,158 |
| | Less transaction costs arising on share issue | | | (59,191) |
| | Transfer from share based payments reserve | | | 810,167 |
| | Deferred tax credit recognised directly in equity | | | 10,041 |
| 30 June 2010 | Balance | 149,073,532 | | 122,423,175 |
| Various | Exercise of options - proceeds received | 140,000 | Various | 507,000 |
| Various | Issue of shares | 432,859 | Various | 2,000,005 |
| 14 December 2010 | Share Placement | 16,500,000 | 5.40 | 89,100,000 |
| 4 February 2011 | Share Purchase Plan | 3,987,606 | 5.08 | 20,257,038 |
| | | | | 234,287,218 |
| | Less transaction costs arising on share issue | | | (3,516,848) |
| | Transfer from share based payments reserve | | | 271,185 |
| | Deferred tax credit recognised directly in equity | | | (817) |
| 30 June 2011 | Balance | 170,133,997 | | 231,040,738 |

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options

Information relating to the Silex Systems Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 34.

(e) Capital risk management

The Group's objectives when managing capital are to safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

In order to maintain or adjust the capital structure, the Group may issue new shares.

| | 2011 | 2010 |
|---|---------------------|--------------|
| | \$ | \$ |
| Note 23 Reserves and accumulated losses | | |
| (a) Reserves | | |
| Foreign currency translation reserve | (1,482,573) | (1,011,539) |
| Transactions with non-controlling interests | (2,897,978) | (2,897,978) |
| Share based payments reserve | 11,311,311 | 8,945,356 |
| | 6,930,760 | 5,035,839 |
| | 2011 | 2010 |
| | \$ | \$ |
| Movements | | |
| Foreign currency translation reserve | | |
| Balance at the beginning of the financial year | (1,011,539) | (788,156) |
| Net exchange differences on translation of foreign controlled entity | (471,034) | (223,383) |
| Balance at the end of the financial year | (1,482,573) | (1,011,539) |
| | 2011 | 2010 |
| | \$ | \$ |
| Transactions with non-controlling interests | | |
| Balance at the beginning of the financial year | (2,897,978) | - |
| Acquisition of additional ownership in Translucent Inc | - | (2,201,094) |
| Transfer of non-controlling interest share of loss of Translucent Inc | - | (696,884) |
| Balance at the end of the financial year | (2,897,978) | (2,897,978) |
| | 2011 | 2010 |
| | \$ | \$ |
| Share based payments reserve | | |
| Balance at the beginning of the financial year | 8,945,356 | 8,038,169 |
| Options and share based payment expense | 2,637,140 | 1,717,354 |
| Transfer to share capital (options exercised and shares issued) | (271,185) | (810,167) |
| Balance at the end of the financial year | 11,311,311 | 8,945,356 |
| | 2011 | 2010 |
| | \$ | \$ |
| (b) Accumulated losses | | |
| Accumulated losses at the beginning of the financial year | (50,975,606) | (32,847,890) |
| Net (loss) attributable to members of Silex Systems Limited | (31,301,061) | (18,127,716) |
| Accumulated losses at the end of the financial year | (82,276,667) | (50,975,606) |

(c) Nature and purpose of reserves

(i) Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

(ii) Transactions with non-controlling interests

This reserve is used to record the differences described in note 1(b)(ii) which may arise as a result of transactions with non-controlling interests that do not result in a loss of control.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | 2011 | 2010 |
|---|------------------|-----------|
| | \$ | \$ |
| Note 24 Franking account balance | | |
| Franking credits available for the subsequent financial year at 30% | 8,154,151 | 8,154,151 |

The above amount represents the balance of the franking accounts at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability;
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
- (d) franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

Note 25 Commitments

| | 2011 | 2010 |
|---|------------------|-----------|
| | \$ | \$ |
| (a) Capital commitments | | |
| Commitments for the acquisition of plant and equipment contracted for at the reporting date but not recognised as liabilities, payable: | | |
| Not later than one year | 1,095,417 | 1,238,219 |

| | 2011 | 2010 |
|--|------------------|------------|
| | \$ | \$ |
| (b) Operating leases | | |
| Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows: | | |
| Not later than one year | 2,031,027 | 1,559,516 |
| Later than one year but not later than five years | 6,071,338 | 6,205,280 |
| Later than five years | 1,634,007 | 3,212,758 |
| | 9,736,372 | 10,977,554 |

Note 26 Key management personnel disclosures

(a) Key management personnel compensation

| | 2011 | 2010 |
|------------------------------|------------------|-----------|
| | \$ | \$ |
| Short-term employee benefits | 1,612,373 | 1,401,814 |
| Post-employment benefits | 83,654 | 70,365 |
| Long-term benefits | 13,755 | (2,040) |
| Termination benefits | 28,938 | - |
| Share-based payments | (45,412) | 72,045 |
| | 1,693,308 | 1,542,184 |

Detailed remuneration disclosures are provided in sections A-B of the remuneration report on pages 8 to 10.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options.

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section D of the remuneration report on pages 11 to 12.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

(ii) Options holdings

The numbers of options over ordinary shares in the Company held during the financial year by each director of Silex Systems Limited and other key management personnel of the Group, including their personally-related parties, are set out below.

| 2011 Name | Balance at the start of the year | Granted during the year as compensation | Lapsed during the year | Forfeited during the year | Exercised during the year | Balance at the end of the year | Vested and exercisable at the end of the year | Unvested |
|---|----------------------------------|---|------------------------|---------------------------|---------------------------|--------------------------------|---|----------|
| Directors of Silex Systems Limited | | | | | | | | |
| Dr M P Goldsworthy | 1,200,000 | - | (1,200,000) | - | - | - | - | - |
| Mr C D Wilks | 600,000 | - | (600,000) | - | - | - | - | - |
| Other key management personnel and executives of the Group | | | | | | | | |
| Mr B J Spillane | 28,000 | - | (28,000) | - | - | - | - | - |
| Mrs J E Ducie * | - | 40,000 | - | - | - | 40,000 | - | 40,000 |
| Mr R J Seares | 45,000 | - | - | (45,000) | - | - | - | - |

*The 40,000 options for Mrs J E Ducie were granted on 30 July 2010. Mrs Ducie commenced employment with Silex Systems in May 2010 and became a key management person in October 2010.

| 2010 Name | Balance at the start of the year | Granted during the year as compensation | Lapsed during the year | Forfeited during the year | Exercised during the year | Balance at the end of the year | Vested and exercisable at the end of the year | Unvested |
|---|----------------------------------|---|------------------------|---------------------------|---------------------------|--------------------------------|---|----------|
| Directors of Silex Systems Limited | | | | | | | | |
| Dr M P Goldsworthy | 1,200,000 | - | - | - | - | 1,200,000 | 1,200,000 | - |
| Mr C D Wilks | 600,000 | - | - | - | - | 600,000 | 600,000 | - |
| Other key management personnel and executives of the Group | | | | | | | | |
| Mr B J Spillane | 50,000 | - | - | - | (22,000) | 28,000 | 28,000 | - |
| Mr R J Seares | 45,000 | - | - | - | - | 45,000 | - | 45,000 |

All vested options are exercisable at the end of the year.

(iii) Share holdings

The numbers of shares in the company held during the financial year by each director of Silex Systems Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the reporting period as compensation.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| 2011 Name | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|--|----------------------------------|---|-------------------------------|--------------------------------|
| Directors of Silex Systems Limited | | | | |
| Dr M P Goldsworthy | 5,849,533 | - | - | 5,849,533 |
| Mr C D Wilks | 2,794,021 | - | - | 2,794,021 |
| Dr C S Goldschmidt | 2,525,937 | - | - | 2,525,937 |
| Mr B S Patterson | 4,073,863 | - | - | 4,073,863 |
| Mr R P Campbell | 1,354,823 | - | - | 1,354,823 |
| Prof S W R Burdon | - | - | 20,000 | 20,000 |
| Other key management personnel and executives of the Group | | | | |
| Mr B J Spillane | 55,200 | - | - | 55,200 |
| Mrs J E Ducie | - | - | - | - |
| Mr R J Seares | - | - | - | - |

| 2010 Name | Balance at the start of the year | Received during the year on the exercise of options | Other changes during the year | Balance at the end of the year |
|--|----------------------------------|---|-------------------------------|--------------------------------|
| Directors of Silex Systems Limited | | | | |
| Dr M P Goldsworthy | 5,849,533 | - | - | 5,849,533 |
| Mr C D Wilks | 2,794,021 | - | - | 2,794,021 |
| Dr C S Goldschmidt | 2,525,937 | - | - | 2,525,937 |
| Mr B S Patterson | 4,073,863 | - | - | 4,073,863 |
| Mr R P Campbell | 1,354,823 | - | - | 1,354,823 |
| Other key management personnel and executives of the Group | | | | |
| Mr B J Spillane | 66,000 | 22,000 | (32,800) | 55,200 |
| Mr R J Seares | - | - | - | - |

Note 27 Related party transactions

(a) Subsidiaries

Interests in subsidiaries are set out in note 31.

(b) Key management personnel

Disclosures relating to key management personnel are set out in note 26.

(c) Transactions with related parties

The following transactions occurred with related parties:

| | 2011 | 2010 |
|--|------------------|-------------|
| | \$ | \$ |
| Contributions to superannuation funds on behalf of employees | 1,055,810 | 562,198 |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | 2011 | 2010 |
|---|----------------|-----------|
| | <u>\$</u> | <u>\$</u> |
| Note 28 Remuneration of auditors | | |
| During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-audit firms: | | |
| (a) Assurance services | | |
| Audit services | | |
| PricewaterhouseCoopers Australian firm | | |
| Audit and review of financial reports and other audit work under the Corporations Act 2001 | 202,000 | 155,950 |
| Total remuneration for audit services | 202,000 | 155,950 |
| Other assurance services | | |
| PricewaterhouseCoopers Australian firm | | |
| Audit of government grants | 19,000 | - |
| Total remuneration for other assurance services | 19,000 | - |
| Total remuneration for assurance services | 221,000 | 155,950 |
| Total remuneration | 221,000 | 155,950 |

It is Silex's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with Silex are important; these assignments are principally assurance related, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is Silex's policy to seek competitive quotes for all major consulting projects.

Note 29 Segment information

(a) Description of segments

Management has determined the operating segments based on the reports reviewed by management and the board of directors to make strategic decisions. Five segments have been determined as follows:

Silex Systems – this relates to the operations of the parent entity which is based in Sydney.

Translucent – this relates to the activities of Translucent Inc in the United States.

Silex Solar – this relates to the solar panel operations which are based in Sydney.

ChronoLogic – this relates to the activities of ChronoLogic which is based in Adelaide.

Solar Systems – this relates to the activities of Solar Systems which is based in Victoria, Solar Systems (Mildura) and the associate Meehan Greene Technologies.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

(b) Segment information provided to management and the board of directors

The segment information provided to management and the board of directors for the reportable segments for the year ended 30 June 2011 is as follows:

| 2011 | Silex Systems \$ | Translucent \$ | Silex Solar \$ | ChronoLogic \$ | Solar Systems \$ | Total \$ |
|---|------------------------|--------------------|---------------------|--------------------|------------------------|---------------------|
| Total segment revenue | 10,440,020 | 2,702,959 | 19,266,708 | 38,398 | 242,592 | 32,690,677 |
| Inter-segment revenue | (815,186) | (2,684,217) | - | - | - | (3,499,403) |
| Revenue from external customers | 9,624,834 | 18,742 | 19,266,708 | 38,398 | 242,592 | 29,191,274 |
| Segment result | 1,077,843 | (4,351,375) | (18,078,515) | (1,759,477) | (5,731,189) | (28,842,713) |
| Depreciation and amortisation | 64,164 | 389,789 | 5,227,574 | 34,574 | 2,032,053 | 7,748,154 |
| Interest income | 5,231,730 | 838 | 129,995 | 3,444 | 25,669 | 5,391,676 |
| Inter-segment interest income | (815,186) | - | - | - | - | (815,186) |
| | 4,416,544 | 838 | 129,995 | 3,444 | 25,669 | 4,576,490 |
| Interest expense | 3,895 | 815,186 | - | - | 108,352 | 927,433 |
| Inter-segment interest expense | - | (815,186) | - | - | - | (815,186) |
| | 3,895 | - | - | - | 108,352 | 112,247 |
| Inventory write down to net realisable value | - | - | 2,268,311 | 84,988 | - | 2,353,299 |
| Income tax expense | - | - | - | - | - | - |
| Total segment assets | 107,706,026 | 1,539,538 | 20,173,869 | 366,300 | 25,532,081 | 155,317,814 |
| Total assets includes: Additions to non-current assets (other than deferred tax) | 121,668 | 588,981 | 2,292,935 | 12,041 | 4,752,766 | 7,768,391 |
| Total segment liabilities | 1,538,358 | 238,263 | 4,278,886 | 237,454 | 2,188,363 | 8,481,324 |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

The segment information provided to management and the board of directors for the reportable segments for the year ended 30 June 2010 is as follows:

| 2010 | Silex Systems \$ | Translucent \$ | Silex Solar \$ | ChronoLogic \$ | Solar Systems \$ | Total \$ |
|---|------------------------|--------------------|--------------------|--------------------|------------------------|---------------------|
| 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) |
| Revenue from external customers | 6,403,127 | 9,948 | 3,158,402 | 20,185 | 17,608 | 9,609,270 |
| Segment result | (1,298,639) | (4,394,761) | (8,279,595) | (1,544,998) | (1,620,816) | (17,138,809) |
| Depreciation and amortisation | 58,078 | 673,509 | 1,009,411 | 35,639 | 499,707 | 2,276,344 |
| Interest income | 2,386,479 | 9,948 | 48,236 | 2,150 | 4,170 | 2,450,983 |
| Inter-segment interest income | (759,631) | - | - | - | - | (759,631) |
| | 1,626,848 | 9,948 | 48,236 | 2,150 | 4,170 | 1,691,352 |
| Interest expense | 444 | 759,631 | 70 | - | 114,902 | 875,047 |
| Inter-segment interest expense | - | (759,631) | - | - | - | (759,631) |
| | 444 | - | 70 | - | 114,902 | 115,416 |
| Inventory write down/(write back) to net realisable value | - | - | 270,000 | (78,772) | - | 191,228 |
| Income tax expense | 2,504 | - | - | - | - | 2,504 |
| Total segment assets | 38,962,120 | 1,774,954 | 12,493,407 | 403,774 | 21,867,512 | 75,501,767 |
| Total assets includes: Additions to non-current assets (other than deferred tax) | 36,507 | 185,473 | 1,226,242 | 4,607 | 19,340,949 | 20,793,778 |
| Total segment liabilities | 1,703,388 | 220,837 | 2,971,020 | 216,789 | 2,586,691 | 7,698,725 |

(c) Other segment information

(i) Segment revenue

Sales between segments are carried out at arm's length and are eliminated on consolidation.

The entity is domiciled in Australia. The amount of its revenue from external customers in Australia is \$29,172,532 (2010: \$9,599,322) and the total segment revenue from external customers in the United States is \$18,742 (2010: \$9,948). Segment revenues are allocated based on the country in which the supplier is located.

Revenues of \$5,208,290 (2010: \$4,767,279) are derived from a single external customer. These revenues are attributable to the Silex Systems segment.

(ii) 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:

| | 2011 | 2010 |
|--|---------------------|--------------|
| | \$ | \$ |
| Segment result | (28,842,713) | (17,138,809) |
| Amortisation of Intellectual property on consolidation | (1,913) | (1,913) |
| Share based payments expense | (2,637,140) | (1,860,426) |
| (Loss) before income tax | (31,481,766) | (19,001,148) |

(iii) Segment assets

Assets which eliminate on consolidation such as investments in controlled entities and intercompany receivables are excluded from segment assets. Deferred tax assets and intellectual property on consolidation are also excluded from segment assets. Reportable segment assets are reconciled to total segment assets as follows:

| | 2011 | 2010 |
|--|--------------------|------------|
| | \$ | \$ |
| Segment assets | 155,317,814 | 75,501,767 |
| Unallocated : | | |
| Intellectual property on consolidation | 797 | 2,710 |
| Goodwill | 8,477,619 | 8,477,619 |
| Deferred tax assets | 20,168 | 20,985 |
| Total assets as per the balance sheet | 163,816,398 | 84,003,081 |

The total of non-current assets other than deferred tax assets located in Australia is \$27,072,083 (2010: \$27,396,495) and the total of these non-current assets located in other countries is \$9,581,584 (2010: \$9,448,004).

(iv) Segment liabilities

Reportable segment liabilities exclude intercompany loans, income tax payable and deferred tax liabilities. Reportable segment liabilities are reconciled to total liabilities as follows:

| | 2011 | 2010 |
|--|------------------|-----------|
| | \$ | \$ |
| Segment liabilities | 8,481,324 | 7,698,725 |
| Unallocated: | - | - |
| Total liabilities as per the balance sheet | 8,481,324 | 7,698,725 |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | 2011 | 2010 |
|--|---------------|--------|
| Note 30 Earnings per share | | |
| Basic earnings per share (cents per share) | (19.6) | (12.3) |
| Diluted earnings per share (cents per share) | (19.6) | (12.3) |

| | 2011 | 2010 |
|---|--------------------|-------------|
| Weighted average number of ordinary shares on issue used in the calculation of basic earning per share: | 160,084,827 | 146,812,555 |
| Weighted average number of ordinary shares on issue used in the calculation of diluted earning per share: | 160,084,827 | 146,812,555 |

| | 2011 | 2010 |
|---|---------------------|--------------|
| | \$ | \$ |
| Reconciliation of earnings used in calculating earnings per share | | |
| Basic and diluted earnings per share | | |
| Net (loss) | (31,481,766) | (19,003,652) |
| Net loss attributable to non-controlling interests | 180,705 | 875,936 |
| Earnings used in calculating basic and diluted earnings per share | (31,301,061) | (18,127,716) |

| | 2011 | 2010 |
|--|--------------------|-------------|
| | Shares | Shares |
| Reconciliation of denominator used in calculating basic earnings per share | | |
| Adjustment for options | - | - |
| Shares used in calculating diluted earnings per share | 160,084,827 | 146,812,555 |

Note 31 Subsidiaries and transactions with non-controlling interests

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1 (b).

| Name of entity | Country of incorporation | Class of Shares | Equity holding | |
|---------------------------------|--------------------------|-----------------|----------------|--------|
| | | | 2011 | 2010 |
| | | | % | % |
| ChronoLogic Pty Ltd | Australia | Ordinary | 79.6% | 79.6% |
| | | Preference | 100.0% | 100.0% |
| | | Total | 90.0% | 90.0% |
| Translucent Inc * | United States of America | Ordinary | 100.0% | 100.0% |
| | | Preference | 100.0% | 100.0% |
| | | Total | 100.0% | 100.0% |
| Silex Solar Pty Ltd | Australia | Ordinary | 100.0% | 100.0% |
| | | Total | 100.0% | 100.0% |
| Solar Systems Pty Ltd | Australia | Ordinary | 100.0% | 100.0% |
| | | Total | 100.0% | 100.0% |
| Solar Systems (Mildura) Pty Ltd | Australia | Ordinary | 100.0% | 100.0% |
| | | Total | 100.0% | 100.0% |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

* Option holders have options over ordinary shares in Translucent Inc. On a fully-diluted basis, in total, Silex Systems Limited owns 98.3% of Translucent (2010: 98.3%).

(a) Transactions with non-controlling interests

These were no transactions with non-controlling interests in the current year. In the prior year, Silex Systems Limited exercised the call options with the minorities in Translucent by paying \$200 to acquire their Translucent shares. As a result the \$200 plus the initial call option amount of \$2,200,894 was transferred to Transactions with non-controlling interests reserve in the prior year.

| | 2011 | 2010 |
|--|---------------------|--------------|
| | \$ | \$ |
| Note 32 Reconciliation of (loss) after income tax to net cash (outflow) from operating activities | | |
| Operating (loss) after income tax | (31,481,766) | (19,003,652) |
| Depreciation and amortisation | 7,750,067 | 2,278,257 |
| Loss on sale of plant and equipment | 2,163 | - |
| Non cash employee benefits expense - share based payments | 2,637,140 | 1,860,426 |
| Share of loss of associate | 5,470 | - |
| Net exchange differences | 943,391 | 890,432 |
| (Increase) in prepayments and other current assets | (740,678) | (105,260) |
| (Increase) in trade and other debtors | (3,191,313) | (881,061) |
| (Increase) in accrued income | (1,466,500) | (146,282) |
| (Increase) in inventories | (5,961,077) | (2,482,135) |
| Increase in trade and other creditors | 2,706,588 | 3,568,358 |
| Increase in provision for employee entitlements and warranties | 66,243 | 130,853 |
| (Decrease) in provision for income taxes payable | - | (11,396) |
| Net cash (outflow) from operating activities | (28,730,272) | (13,901,460) |
| | 2011 | 2010 |
| | \$ | \$ |

Note 33 Non-cash Financing and Investing Activities

| | | |
|---|------------------|------------|
| Issue of shares as part consideration for acquisition of business | 2,000,005 | 15,891,691 |
| Issue of shares as part consideration for acquisition of other non-current assets | - | 454,549 |
| | 2,000,005 | 16,346,240 |

Note 34 Share-based payments

(a) Silex Systems Limited Employee Share Option Plan

All full-time and part-time staff of the consolidated entity and executive directors 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 become exercisable after two years of the date of the grant. The options lapse if the holder ceases to be an eligible employee other than by reason of death or permanent disablement, unless the Board determines otherwise in its absolute discretion. 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 trading days before the options are granted plus five cents. Amounts received on the exercise of options are recognised as share capital.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

Set out below are summaries of options granted under the plan:

| Grant date | Expiry date | Exercise price cents | Balance at start of year Number | Issued during the year Number | Lapsed /forfeited during the year Number | Exercised during the year Number | Balance at end of the year Number | Exercisable at the end of the year Number |
|--|-------------|----------------------|---------------------------------|-------------------------------|--|----------------------------------|-----------------------------------|---|
| Consolidated and parent entity – 2011 | | | | | | | | |
| 22/6/2006 | 21/6/2011 | 360 | 670,500 | - | (630,500) | (40,000) | - | - |
| 9/3/2007 | 8/3/2012 | 701 | 100,000 | - | (10,000) | - | 90,000 | 90,000 |
| 22/8/2007 | 21/8/2012 | 679 | 250,000 | - | - | - | 250,000 | 250,000 |
| 24/12/2007 | 23/12/2012 | 581 | 100,000 | - | - | - | 100,000 | 100,000 |
| 15/7/2008 | 14/7/2013 | 706 | 190,000 | - | - | - | 190,000 | 190,000 |
| 7/10/2008 | 6/10/2013 | 363 | 145,000 | - | - | (100,000) | 45,000 | 45,000 |
| 28/11/2008 | 27/11/2013 | 354 | 50,000 | - | - | - | 50,000 | 50,000 |
| 5/12/2008 | 4/12/2013 | 351 | 50,000 | - | - | - | 50,000 | 50,000 |
| 31/3/2009 | 30/3/2014 | 419 | 50,000 | - | - | - | 50,000 | 50,000 |
| 29/6/2009 | 28/6/2014 | 588 | 500,000 | - | (45,000) | - | 455,000 | 455,000 |
| 11/1/2010 | 10/1/2015 | 613 | 220,000 | - | (15,000) | - | 205,000 | - |
| 19/3/2010 | 18/3/2015 | 599 | 60,000 | - | - | - | 60,000 | - |
| 27/5/2010 | 26/5/2015 | 524 | 740,000 | - | - | - | 740,000 | - |
| 30/7/2010 | 29/7/2015 | 465 | - | 600,000 | - | - | 600,000 | - |
| 15/10/2010 | 14/10/2015 | 528 | - | 165,000 | - | - | 165,000 | - |
| | | | 3,125,500 | 765,000 | (700,500) | (140,000) | 3,050,000 | 1,280,000 |

| | | | | | | |
|---------------------------------|--------|--------|--------|--------|--------|--------|
| Weighted average exercise price | \$5.23 | \$4.79 | \$3.85 | \$3.62 | \$5.51 | \$5.98 |
|---------------------------------|--------|--------|--------|--------|--------|--------|

| Grant date | Expiry date | Exercise price cents | Balance at start of year Number | Issued during the year Number | Lapsed /forfeited during the year Number | Exercised during the year Number | Balance at end of the year Number | Exercisable at the end of the year Number |
|--|-------------|----------------------|---------------------------------|-------------------------------|--|----------------------------------|-----------------------------------|---|
| Consolidated and parent entity – 2010 | | | | | | | | |
| 4/5/2005 | 3/5/2010 | 85 | 131,500 | - | (80,000) | (51,500) | - | - |
| 22/11/2005 | 21/11/2010 | 177 | 45,000 | - | - | (45,000) | - | - |
| 22/6/2006 | 21/6/2011 | 360 | 1,070,000 | - | - | (399,500) | 670,500 | 670,500 |
| 9/3/2007 | 8/3/2012 | 701 | 100,000 | - | - | - | 100,000 | 100,000 |
| 22/8/2007 | 21/8/2012 | 679 | 250,000 | - | - | - | 250,000 | 250,000 |
| 24/12/2007 | 23/12/2012 | 581 | 150,000 | - | (50,000) | - | 100,000 | 100,000 |
| 15/7/2008 | 14/7/2013 | 706 | 190,000 | - | - | - | 190,000 | - |
| 7/10/2008 | 6/10/2013 | 363 | 145,000 | - | - | - | 145,000 | - |
| 28/11/2008 | 27/11/2013 | 354 | 50,000 | - | - | - | 50,000 | - |
| 5/12/2008 | 4/12/2013 | 351 | 50,000 | - | - | - | 50,000 | - |
| 31/3/2009 | 30/3/2014 | 419 | 50,000 | - | - | - | 50,000 | - |
| 29/6/2009 | 28/6/2014 | 588 | 500,000 | - | - | - | 500,000 | - |
| 11/1/2010 | 10/1/2015 | 613 | - | 220,000 | - | - | 220,000 | - |
| 19/3/2010 | 18/3/2015 | 599 | - | 60,000 | - | - | 60,000 | - |
| 27/5/2010 | 26/5/2015 | 524 | - | 740,000 | - | - | 740,000 | - |
| | | | 2,731,500 | 1,020,000 | (130,000) | (496,000) | 3,125,500 | 1,120,500 |

| | | | | | | |
|---------------------------------|--------|--------|--------|--------|--------|--------|
| Weighted average exercise price | \$4.64 | \$5.48 | \$2.76 | \$3.15 | \$5.23 | \$4.81 |
|---------------------------------|--------|--------|--------|--------|--------|--------|

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

The market price of shares under option at 30 June 2011 was \$2.92 (2010: \$4.60).

The weighted average share price at the date of exercise of options exercised regularly during the year ended 30 June 2011 was \$5.65 (2010: \$6.86). The 2010 table in last year's accounts incorrectly had the 50,000 options that lapsed as being issued on 22 August 2007 whereas it should have been the options issued 24 December 2007. This has been corrected in the current year.

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.2 years (2010: 3.2 years).

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2011 was 197.05 cents for the options issued 30 July 2010 and 223.38 cents for the options issued 15 October 2010 (2010: 288.15 cents for the options issued 11 January 2010, 251.72 cents for the options issued 19 March 2010 and 219.80 cents for the options issued 27 May 2010). The fair value at grant date is 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 2011 included:

| Exercise Price Cents | Grant Date | Expiry Date | Share Price at grant date Cents | Expected volatility of Company's shares | Expected dividend yield | Risk free interest rate |
|----------------------|------------|-------------|---------------------------------|---|-------------------------|-------------------------|
| 465 | 30/07/2010 | 29/07/2015 | 462 | 50% | - | 4.75% |
| 528 | 15/10/2010 | 14/10/2015 | 524 | 50% | - | 4.75% |

The model inputs for options granted during the year ended 30 June 2010 included:

| Exercise Price Cents | Grant Date | Expiry Date | Share Price at grant date Cents | Expected volatility of Company's shares | Expected dividend yield | Risk free interest rate |
|----------------------|------------|-------------|---------------------------------|---|-------------------------|-------------------------|
| 613 | 11/01/2010 | 10/01/2015 | 605 | 60% | - | 4.00% |
| 599 | 19/03/2010 | 18/03/2015 | 569 | 55% | - | 4.25% |
| 524 | 27/05/2010 | 26/05/2015 | 517 | 50% | - | 4.75% |

The expected price volatility is based on the historical volatility adjusted for any expected changes to future volatility due to publicly available information.

(b) Options to executive directors

On 22 June, 2006, 1,200,000 share options were granted to Dr M P Goldsworthy and 600,000 share options to Mr C D Wilks. These received shareholder approval at the 2006 Annual General Meeting. The terms (and model inputs) are the same as for the employee share options granted on 22 June 2006. These options lapsed in June 2011.

(c) Translucent Inc Stock Incentive Plan

All full-time and part-time staff of Translucent Inc are eligible to participate in the plan. In addition consultants are eligible to participate in the plan.

Options are granted under the plan for no consideration. Options are granted for a ten year period and become exercisable at various stages over the five years from the date of the grant. The options lapse if the holder ceases to be an eligible employee other than by reason of death or permanent disablement, unless the Board determines otherwise in its absolute discretion. Options granted under the plan carry no dividend or voting rights.

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

When exercisable, each option is convertible into one ordinary share. The exercise price of options is based on the fair value of the shares. Amounts received on the exercise of options are recognised as share capital.

Set out below are summaries of options granted under the plan:

| Grant date | Expiry date | Exercise price US cents | Balance at start of year | Issued during the year | Lapsed/ forfeited during the year | Exercised during the year | Balance at end of the year | Exercisable at the end of the year |
|--|-------------|-------------------------|--------------------------|------------------------|-----------------------------------|---------------------------|----------------------------|------------------------------------|
| Translucent Inc – 2011 | | | | | | | | |
| 25/6/2001 | 25/6/2011 | 25 | 10,000 | - | (10,000) | - | - | - |
| 2/11/2001 | 2/11/2011 | 25 | 10,000 | - | - | - | 10,000 | 10,000 |
| 13/2/2002 | 13/2/2012 | 25 | 5,000 | - | - | - | 5,000 | 5,000 |
| 4/5/2002 | 4/5/2012 | 25 | 5,000 | - | - | - | 5,000 | 5,000 |
| 29/9/2003 | 29/9/2013 | 1 | 26,000 | - | - | - | 26,000 | 26,000 |
| 22/12/2004 | 22/12/2014 | 2.657 | 346,866 | - | - | - | 346,866 | 346,866 |
| 13/4/2006 | 13/4/2016 | 6.4 | 700,029 | - | - | - | 700,029 | 700,029 |
| 4/10/2006 | 4/10/2016 | 6.4 | 644,404 | - | - | - | 644,404 | 644,404 |
| 15/5/2008 | 15/5/2018 | 10.8 | 258,321 | - | (18,750) | - | 239,571 | 215,919 |
| | | | 2,005,620 | - | (28,750) | - | 1,976,870 | 1,953,218 |
| Weighted average exercise price - US cents | | | 6.528 | - | 15.739 | - | 6.394 | 6.340 |

| Grant date | Expiry date | Exercise price US cents | Balance at start of year | Issued during the year | Lapsed/ forfeited during the year | Exercised during the year | Balance at end of the year | Exercisable at the end of the year |
|--|-------------|-------------------------|--------------------------|------------------------|-----------------------------------|---------------------------|----------------------------|------------------------------------|
| Translucent Inc – 2010 | | | | | | | | |
| 25/6/2001 | 25/6/2011 | 25 | 10,000 | - | - | - | 10,000 | 10,000 |
| 2/11/2001 | 2/11/2011 | 25 | 10,000 | - | - | - | 10,000 | 10,000 |
| 13/2/2002 | 13/2/2012 | 25 | 5,000 | - | - | - | 5,000 | 5,000 |
| 4/5/2002 | 4/5/2012 | 25 | 5,000 | - | - | - | 5,000 | 5,000 |
| 29/9/2003 | 29/9/2013 | 1 | 276,000 | - | (250,000) | - | 26,000 | 26,000 |
| 22/12/2004 | 22/12/2014 | 2.657 | 1,615,050 | - | (1,268,184) | - | 346,866 | 346,866 |
| 13/4/2006 | 13/4/2016 | 6.4 | 729,196 | - | (29,167) | - | 700,029 | 700,029 |
| 4/10/2006 | 4/10/2016 | 6.4 | 769,257 | - | (124,853) | - | 644,404 | 601,444 |
| 15/5/2008 | 15/5/2018 | 10.8 | 258,321 | - | - | - | 258,321 | 134,542 |
| | | | 3,677,824 | - | (1,672,204) | - | 2,005,620 | 1,838,881 |
| Weighted average exercise price - US cents | | | 4.812 | - | 2.754 | - | 6.528 | 6.243 |

No options were granted during the year or the previous year.

(d) Shares to employees and others

In May 2008, Silex increased its shareholding in Translucent. As part of the deal, Silex received call options to increase its shareholding in Translucent. Silex exercised the call option in May 2010 by paying \$200. Silex issued 20,000 shares to a new employee in January 2010 when the share price was \$6.08 and 3,430 shares in November 2009 when the share price was \$6.26.

(e) Expenses arising from share based transactions

Total expenses arising from share-based payment transactions recognised during the period as part of remuneration expense were as follows:

| | 2011 | 2010 |
|----------------|------------------|------------------|
| | \$ | \$ |
| Options issued | 2,637,140 | 1,717,354 |
| Shares issued | - | 143,072 |
| | 2,637,140 | 1,860,426 |

Note 35 Business combination

(a) Summary of acquisition

There were no acquisitions in the current year.

In the prior year, the Group completed the acquisition of assets of Melbourne based Solar Systems Group (SSG). The assets were 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.

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.

The provisionally determined fair values of the assets and liabilities recognised as a result of the acquisition disclosed in last year's accounts have been finalised without change.

Acquisition-related costs

Acquisition-related costs of \$226,160 which were included in Other expenses in the prior year were paid in the current year and are included in operating cash flows in the statement of cash flows in the current year.

Note 36 Parent entity financial information

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

| | 2011 | 2010 |
|-----------------------------------|---------------------|-------------------|
| | \$ | \$ |
| Balance Sheet | | |
| Current assets | 107,384,012 | 38,704,977 |
| Total assets | 154,567,702 | 88,343,141 |
| Current liabilities | 1,602,314 | 1,649,905 |
| Total liabilities | 1,618,427 | 1,703,388 |
| Net assets | 152,949,275 | 86,639,753 |
| Shareholders' equity | | |
| Issued capital | 231,040,738 | 122,423,175 |
| Reserves | | |
| Share based payments | 11,116,922 | 8,752,752 |
| Accumulated losses | (89,208,385) | (44,536,174) |
| Total equity | 152,949,275 | 86,639,753 |
| (Loss) for the period | (44,672,211) | (22,991,166) |
| Total comprehensive income | (44,672,211) | (22,991,166) |

The (Loss) for the period above differs from the segment result disclosed in note 29 mainly due to the segment result excluding exchange losses on intercompany loans (which eliminate on consolidation), write-downs of intercompany loans (which eliminate on consolidation) and impairment charges for investments in subsidiaries (which eliminate on consolidation).

(b) Guarantees entered into by the parent company

| | 2011 | 2010 |
|---|-------------|-------------|
| | \$ | \$ |
| Carrying amount included in current liabilities | - | 1,990,232 |

The prior year amount relates to the deferred consideration payable as part of the acquisition of assets from the Solar Systems Group. The liability belonged to Solar Systems Pty Ltd however, the guarantee was provided by the parent entity, Silex Systems Limited.

In addition, the parent entity has provided a \$1,146,474 bank guarantee (2010: \$1,146,474) for rent for the premises tenanted by Silex Solar Pty Ltd.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010.

(d) Contractual commitments for the acquisition of property, plant or equipment

As at the 30 June 2011 (and 30 June 2010), the parent entity did not have any contractual commitments for the acquisition of property, plant or equipment.

Note 37 Deed of cross guarantee

Silex Systems Limited, Solar Systems Pty Ltd and Silex Solar Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, Solar Systems Pty Ltd and Silex Solar Pty Ltd has been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a "closed group" for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Silex Systems Limited, they also represent the "extended closed group".

Set out below is a consolidated income statement, a consolidated statement of comprehensive income and a summary of movements in consolidated retained earnings for the year ended 30 June 2011 of the closed entity consisting of Silex Systems Limited, Solar Systems Pty Ltd and Silex Solar Pty Ltd.

| <i>Income statement</i> | 2011 \$ |
|--|---------------------|
| Revenue from continuing operations | 29,949,320 |
| Other income | 3,435,864 |
| Research and development materials | (1,690,573) |
| Finance costs | (112,247) |
| Depreciation and amortisation expense | (7,323,791) |
| Employee benefits expense | (14,940,112) |
| Consultants and professional fees | (5,539,102) |
| Printing, postage, freight and stationery | (430,350) |
| Rent, utilities and property outgoings | (3,741,939) |
| Travelling expenses | (1,118,648) |
| Changes in inventories | 8,274,832 |
| Raw materials and stores used | (27,596,044) |
| Provision for diminution of investment in subsidiaries | (879,000) |
| Provision for impairment of loans to subsidiaries | (4,505,000) |
| Net foreign exchange losses | (6,580,803) |
| Share of net loss of associate accounted for using the equity method | (5,470) |
| Other expenses from ordinary activities | (2,632,015) |
| (Loss) before income tax expense | (35,435,078) |
| Income tax expense | - |
| Net (loss) | (35,435,078) |

| <i>Statement of comprehensive income</i> | 2011 \$ |
|--|---------------------|
| (Loss) for the year | (35,435,078) |
| Other comprehensive income for the year, net of tax | - |
| Total comprehensive income for the year | (35,435,078) |

| <i>Summary of movement in consolidated accumulated losses</i> | 2011 \$ |
|--|---------------------|
| Accumulated losses at the beginning of the financial year | (52,845,143) |
| (Loss) for the year | (35,435,078) |
| Accumulated losses at the end of the financial year | (88,280,221) |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

(b) Consolidated balance sheet

Set out below is a consolidated balance sheet as at 30 June 2011 of the closed group consisting of Silex Systems Limited, Solar Systems Pty Ltd and Silex Solar Pty Ltd.

| | 30/06/2011 |
|---|--------------------|
| | \$ |
| ASSETS | |
| Current assets | |
| Cash and cash equivalents | 14,950,087 |
| Held to maturity investments - term deposits | 93,937,500 |
| Trade and other receivables | 8,334,385 |
| Inventories | 9,025,908 |
| Total current assets | 126,247,880 |
| Non-current assets | |
| Receivables | 8,530,214 |
| Property, plant and equipment | 13,475,474 |
| Deferred tax assets | 20,168 |
| Intangible assets | 13,559,095 |
| Investments accounted for using the equity method | 129,556 |
| Other financial assets | 728 |
| Total non-current assets | 35,715,235 |
| Total assets | 161,963,115 |
| LIABILITIES | |
| Current liabilities | |
| Trade and other payables | 4,906,291 |
| Provisions | 750,446 |
| Total current liabilities | 5,656,737 |
| Non-current liabilities | |
| Trade and other payables | 2,334,690 |
| Provisions | 94,249 |
| Total non-current liabilities | 2,428,939 |
| Total liabilities | 8,085,676 |
| Net assets | 153,877,439 |
| EQUITY | |
| Contributed equity | 231,040,738 |
| Reserves | 11,116,922 |
| Accumulated losses | (88,280,221) |
| Total equity | 153,877,439 |

Silex Systems Limited
Notes to the financial statements
30 June 2011 (continued)

| | 2011 | 2010 |
|--|-----------------------|-------------|
| | <u>\$</u> | <u>\$</u> |
| Note 38 Investment in associate | | |
| (a) Movement in carrying amounts | | |
| Carrying amount at the beginning of the financial year | - | - |
| Additions during the year | 135,026 | - |
| Share of (losses) after tax | (5,470) | - |
| Carrying amount at the end of the financial year | <u>129,556</u> | - |

(b) Summarised financial information of associate

The group's share of the results of its associate and its aggregated assets (including goodwill) and liabilities are as follows:

| | Ownership interest | Company's share of: | | | |
|--------------------------------|--------------------|---------------------|--------------|--------------|----------------|
| | | Assets | Liabilities | Revenues | (Loss) |
| 2011 | % | \$ | \$ | \$ | \$ |
| Meehan Greene Technologies Ltd | 20% | 135,071 | 5,515 | 2,927 | (5,470) |
| 2010 | - | - | - | - | - |

(c) Contingent liabilities of associates

| | 2011 | 2010 |
|---|-------------|-------------|
| | <u>\$</u> | <u>\$</u> |
| Share of contingent liabilities incurred jointly with other investors | - | - |
| Contingent liabilities relating to liabilities of the associate for which the company is severably liable | - | - |

Note 39 Events occurring after reporting date

Subsequent to year end, Silex management announced the cessation of activity of its cell production line at Silex Solar. (Refer ASX announcement 16 August 2011).

Apart from the cell production line details above, 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.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 26 to 75 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration these are reasonable grounds to believe that the members of the extended closed group identifies in note 37 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 37.

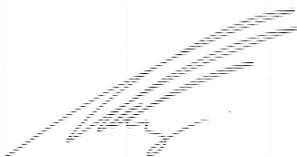
Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Dr M P Goldsworthy
Managing Director



Mr C D Wilks
Director

Sydney

30 September 2011



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

Report on the financial report

We have audited the accompanying financial report of Silex Systems Limited (the company), which comprises the balance sheet as at 30 June 2011 and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Silex Systems Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

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

PricewaterhouseCoopers, ABN 52 780 433 757

*Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
DX 77 Sydney, Australia
T +61 2 8266 0000, F +61 2 8266 9999, www.pwc.com.au*

Liability limited by a scheme approved under Professional Standards Legislation.



Independence

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

Auditor's opinion

In our opinion:

- (a) the financial report of Silex Systems Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 7 to 14 of the directors' report for the year ended 30 June 2011. 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 Silex Systems Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in cursive script, appearing to read 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in cursive script, appearing to read 'Rod Dring'.

Rod Dring
Partner

Sydney
30 September 2011

Shareholders' information

1. Information relating to shareholders as at 22 September 2011

a. Distribution schedule

| | |
|---|-------|
| 1-1,000 | 2,355 |
| 1,001-5,000 | 2,677 |
| 5,001-10,000 | 798 |
| 10,001-100,000 | 787 |
| 100,001 and over | 92 |
| Total number of holders of each class of security | 6,709 |

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

| | |
|---|--------|
| Percentage of total holding held by the largest 20 holders | 71.15% |
| Number of total holding less than a marketable parcel of shares | 225 |

| Substantial shareholders | Ordinary shares |
|--|-----------------|
| Jardvan Pty Ltd | 29,801,030 |
| The Bank of New York Mellon Corporation | 14,268,822 |
| M&G Investment (including M&G Investment Funds (3), M&G Investment Management Limited, M&G Limited, M&G Group Limited and Prudential plc) | 10,240,822 |

b. Names of Twenty Largest Holders as at 22 September 2011

| Name | Number of securities | Percentage held |
|--|----------------------|-----------------|
| Jardvan Pty Ltd | 29,801,030 | 17.52% |
| HSBC Custody Nominees (Australia) Limited | 23,464,785 | 13.79% |
| National Nominees Limited | 23,319,276 | 13.71% |
| J P Morgan Nominees Australia Limited | 9,291,640 | 5.46% |
| J P Morgan Nominees Australia Limited (Cash Income A/c) | 7,309,931 | 4.30% |
| Majenta Holdings Pty Ltd | 5,702,923 | 3.35% |
| Polly Pty Ltd | 4,073,863 | 2.39% |
| Throvena Pty Ltd | 2,978,203 | 1.75% |
| Hamlac Pty Ltd | 2,525,937 | 1.48% |
| Mr Christopher David Wilks | 2,405,070 | 1.41% |
| Citicorp Nominees Pty Limited | 2,060,442 | 1.21% |
| Quintal Pty Ltd | 2,002,952 | 1.18% |
| Truenergy Solar Pty Ltd | 1,103,927 | 0.65% |
| Credit Suisse Securities (Europe) Ltd | 870,000 | 0.51% |
| Mithena Holdings Pty Ltd | 817,139 | 0.48% |
| HSBC Custody Nominees (Australia) Limited - A/C 2 | 765,750 | 0.45% |
| Cogent Nominees Pty Limited | 701,770 | 0.41% |
| RBC Dexia Investor Services Australia Nominees Pty Ltd | 653,763 | 0.38% |
| CS Fourth Nominees Pty Ltd | 638,632 | 0.38% |
| UBS Wealth Management Australia Nominees Pty Ltd | 558,428 | 0.33% |
| | 121,045,461 | 71.15% |

2. Vendor securities as at 22 September 2011

There are no vendor securities.

Silex Systems Limited
Shareholders' information
30 June 2011 (continued)

3. Interest of directors in securities as at 22 September 2011

| | Ordinary shares | Interest held |
|--------------------|------------------------|-------------------------|
| Mr R P Campbell | 1,354,823 | 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 |
| Prof S W R Burdon | 20,000 | Beneficially |

4. Securities subject to voluntary escrow as at 22 September 2011

| | Number on issue | Date escrow period ends |
|--|--------------------|----------------------------|
| As at 20 September 2011 the following securities were subject to voluntary escrow: | | |
| Ordinary shares | 1,098,099 | 15 March 2012 |

5. Unquoted equity securities as at 22 September 2011

| | Number on issue | Number of holders |
|---|--------------------|-------------------|
| Options issued under the Silex Systems Limited Employee Share Option Plan to take up ordinary shares | 3,505,000 | 64 |