



INTERMOCO  
*MONITORING AND CONTROL*

# **INTERMOCO LIMITED**

A.C.N. 006 908 701

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2005**

## CORPORATE DIRECTORY

### *Directors*

Graeme Shearer (*Chairman*)  
Martin Y.H. Yii (*Managing Director*)  
Saiful A. Shahabudin  
Ir. Dr. Azman bin Ahmad

### *Company Secretary*

Jeffrey H. Bennett

### *Chief Operating Officer*

Stephen F. Black

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**ASX Code:** INT

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***Intermoco is a leading provider of remote monitoring and control technology solutions. Intermoco's primary product is 'Utiligy' a complete end-to-end solution for automated meter reading.***

## Chairman's Review

Intermoco's overall goal is to become a leading global developer and marketer of remote monitoring technology solutions with a reputation for commercial success, innovation and customer satisfaction. To this end, the Company has strategically focused its energies on the emerging markets for remote meter reading systems and in doing so, has continued to develop and market innovative technology solutions.

I am pleased to report that Intermoco, in pursuit of our overall goal, has made solid progress in a number of areas during the 2005 financial year. Whilst we would all appreciate a more rapid market penetration and achievement of a cash positive position, it is worthwhile bearing in mind the following important points:

- there will be prolonged lead times in the commercialisation of new technologies for new markets, especially in the utilities marketplace;
- there will be very long lead times in achieving major contracts in South East Asia, and
- the market trends for Intermoco's suite of AMR products and solutions are extremely positive and dynamic.

I would like to highlight some of our important achievements for the year.

The Company raised a further \$3.87 million through the issuance of shares. We accessed our Equity Line of Credit on three occasions throughout the year raising \$450,000. These funding strategies have served the Company well and will continue to supplement our working capital as required.

The results of the Company's development program have been particularly pleasing. We invested almost \$1 million in research and development, which resulted in the development for market of a third-generation product range bringing AMR to a broader range of building types at reduced cost. Further, ongoing software upgrades have led to the achievement of very high levels of stability and reliability in the quality of our data generation.

Sales revenue at \$768,214 increased 29% over last year's figures. Whilst revenue did not reach the level expected, we are encouraged by the market trends and optimistic that we will achieve a cash positive position during the coming year.

We have continued to vigorously pursue the Australian domestic market, which is changing rapidly as a result of State Governments' regulatory changes. We have also maintained a strong focus on targeting offshore markets in the Asia-Pacific region and have continued to work closely with our joint venture partners in Malaysia and Thailand on the significant opportunities identified. We are optimistic that during this coming year we will realise major contracts in the region and be rewarded for the significant resources invested over the past three years.

Shortly after the close of the financial year, Intermoco completed the acquisition of Vircom Pty Ltd, an established Australian integrated software and services company. The Company develops and markets energy management and telecommunications usage analysis software to large power and telecommunications users throughout Australia. This strategic acquisition brings significant benefit to the Company's data analysis and reporting capability.

It was with pleasure that I announced the appointment of Nigel Maitland as General Manager Marketing and Utility Sales. Nigel brings to the senior management team a wealth of experience in sales, marketing and general management. We also promoted Peter Taylor to a newly created senior management position of General Manager Data Services and Engineering.

The markets for remote monitoring technology solutions continue to broaden and expand. We will retain our focus on our overall goal through targeted product development and expansion of our marketing base. Our overall achievements have positioned us well for future growth and success.

I would like to take this opportunity to thank managing director Martin Yui and all Intermoco staff for their contribution over the past year and look forward to their ongoing commitment to our Company's success. I would also like to thank my fellow Directors for their diligence and guidance throughout the year and to thank all shareholders for their continued support.

Graeme W Shearer  
Chairman

*"Our overall achievements have positioned us well for future growth and success."*

## Management Review

During the 2005 financial year, the Company achieved significant progress across a number of areas. Our most significant achievements have been in the areas of product development, consolidation and expansion of our sales and marketing capacity and success in sales of AMR to a number of strategic customers.

The consolidated loss for the year was \$24 million. Of this, \$20.15 million comprised non-cash items as a result of the amortisation of goodwill and intellectual property and an additional write down of goodwill amounting to \$6.9 million. The net cash outflow from normal activities was \$3.8 million compared with \$3.4 million for the previous year.

During the year the Company undertook a capital raising of \$3.87 million and accessed the \$10 million Equity Line of Credit by making three draw-downs totalling \$450,000. This Line of Credit with US based investment fund, Cornell Capital Partners Offshore, LP, provides the Company with a flexible funding source, which is available to supplement our working capital requirements.

Our revenues from sales increased by 29% to \$768,214, although this fell short of our expectations for the year. Whilst headway is being made in market penetration, it is a slow process as we are in effect building new markets and somewhat dependent on regulatory change. In addition our offshore endeavours, by necessity, involve very long lead times.

Much attention over the past 12 months has been paid to the management of operating costs and improving the efficiency in use of our resources. Significant results have been achieved, especially in the area of employee costs, which are 16%, lower than 2004 and 29% lower than 2003.

Sales were made to a number of important domestic customers including Melbourne and Perth Airports, the Victorian State Government and utilities CitiPower and Western Power. We achieved sales to our first shopping centre at Carrum Downs as well as an industrial complex, and built on our achievements in the markets of retirement villages, residential developments and high-rise apartments.

Other significant projects won included Pentridge Piazza, Lexington Gardens Retirement Village, Bundoora Retirement Village Stage 2 and Metropole Apartments, Brisbane.

Our sales and marketing team has been extremely active in achieving proposals for further projects in the domestic embedded network market, with a combined value of \$10 million. These proposals are awaiting final decision and we are optimistic of a high success rate.

Intermoco, through its joint venture partners SPK Intermoco in Malaysia and Intermoco Thailand, continues to be active in pursuing significant opportunities in the South East Asian Region. Intermoco has entered the tender process with major Malaysian companies for the deployment of its technology. In Thailand, Intermoco has undertaken a successful trial of its AMR solution for the Provincial Electric Authority of Thailand. Intermoco's technology has been installed in Bangkok and at a major tourist resort. The trial is in response to a major sales opportunity, which exists in that country.

Significant progress was made in our technology development. We brought to market our "Smart Connector" a device that now enables the *Utiligy* Solution to read and monitor the entire range of utility services. This new technology now allows customers such as commercial building managers and owners as well as Bodies Corporate to on-sell hot and cold water, gas and electricity to their tenants and owner-occupiers and provide them with the one integrated bill.

Third generation hardware together with software enhancements now allow *Utiligy* to be marketed to a broader range of building types at a further reduced installation cost per meter. The software upgrades achieved have resulted in excellent levels of data reliability and stability. They also enable large-scale deployment of the *Utiligy* solution at reduced cost.

Building on the capability of technology developed to monitor gas storage facilities for Gas Malaysia, we have developed a cost effective solution for the monitoring of petroleum storage facilities in service stations. We are optimistic that this development will be successful in both domestic and offshore markets.

The Company has developed further its sales and marketing capability both by strengthening its internal sales and marketing capacity as well as expanding its distribution channels. Reseller agreements have been established in Queensland, Western Australia, South Australia, Victoria and NSW.

In 2004, Victoria's regulatory body announced a roll out program for the installation of interval meters across Victoria.

This rollout is to commence in 2006. The Company has been particularly active in working with the Regulatory Bodies and major Utilities to position Intermoco to take advantage of the significant opportunities which will open up for AMR as part of this rollout. It is expected that the rollout will enable significantly increased sales penetration for Intermoco's *Utiligy* solution through reduced capital cost.

The electricity utilities market for AMR in NSW and Victoria is emerging. The regulatory bodies in these states are finalising the competitive arrangements for AMR. With the change in the regulatory environment in NSW and Victoria, Intermoco has established significant trials with four major utilities in these states.

We have strengthened our management team over the past year by way of a restructure and the appointment of new senior personnel. Our concern for the health and safety of our staff is paramount and to this end we have an active Occupational Health and Safety Committee. The Committee meets regularly, diligently monitors the workplace and takes appropriate actions in a timely manner.

We are excited by the future prospects for the company over the coming year. We believe that the investment we have made in our product development as well as our positioning in the market place will achieve significant sales results through the coming year.

Achievement of success requires a team effort and we would like to thank all Intermoco staff for their commitment and contribution over the past year.

**Martin Yü**  
Managing Director

**Steve Black**  
Chief Operating Officer

**Jeff Bennett**  
Chief Financial Officer

*“We are excited by the future prospects for the company over the coming year.”*

## Highlights

- Revenue growth of **29% to \$768,214**
- More than **\$10 million** in project quotations under consideration by both current and potential customers
- Over **4,800** points currently monitored using the Intermoco's *Utiligy* AMR technology
- Significant **offshore trials in Thailand**
- Approximately **\$3,800,000** of new capital raised during the year to fund projects and development
- **First Shopping Centre** installation of AMR at Carrum Downs
- **Further major projects** won in the expanding Retirement Villages and Student Accommodation markets
- In excess of **30 new projects** awarded during the year with key customers including:
  - Western Power
  - CitiPower
  - The Victorian Government's Department of Treasury & Finance
  - Pentridge Piazza
  - Primelife Group – Lexington Gardens Retirement Village
  - ARC Group – Bundoora Retirement Village Phase 2
  - Blue Hills Stages 2 & 3
  - Tarneit Retirement Village
  - Metropole Apartments Brisbane
  - Melbourne Airport Terminal
  - Perth Airport
  - YMCA Student Accommodation Stage 2
  - Energy Conservation Systems – 40 Albert Rd
  - Docklands – Lorimer Street
- Commercialisation of the “**Smart Connector**” which enables the monitoring of a range of inputs including electricity, water and gas usage.

## **The Opportunity**

### **Our Vision**

Intermoco's vision is to become a leading global developer and marketer of remote monitoring solutions with a reputation for commercial success, innovation and customer satisfaction.

### **Developing the Core Technology**

Just on four years ago, the Company commenced the task of developing an innovative, reusable core technology capable of delivering complete end-to-end solutions for monitoring and control applications across a broad range of industries. The technology platform is now fully developed with the potential for application in a variety of industries including utilities, energy management, building, water management and agriculture.

The market for monitoring and control products and solutions continues to grow as more businesses recognise the potential for improved performance and efficiencies through their application.

### **Automated Meter Reading**

Three years ago the Company targeted Automated Meter Reading (AMR) as an emerging application of the core technology.

Trends in the marketplace have been characterised by increased government focus on the environment, the introduction of Full Retail Contestability in the national electricity market and the ever-increasing need for organisations to improve their efficient use and distribution of electricity. A significant opportunity was identified for the Company to create a unique and complete end-to-end AMR solution, using the established technology backbone. The brand name for this AMR application is *Utiligy*.

*Utiligy* has been marketed to a number of utilities and organisations and has been successfully deployed for use by large power utilities, government departments, retirement villages, shopping centres and bodies corporate in Australia and overseas.

The first commercial installation of the *Utiligy* solution was for Victorian electricity utility, CitiPower, at the MAB Newquay apartment complex in the prestigious Docklands precinct of Melbourne.

Since then, the Company has successfully deployed the solution into over 80 sites across Australia, including New South Wales with Integral Energy, Country Energy and Energy Australia; Western Australia with Western Power; Victoria with CitiPower and Queensland with Energex. The Company has maintained close working relationships with all of Australia's major utilities.

Product development has progressed significantly over the past three years, with the Company's highly skilled team of engineers expanding the product range to meet emerging needs and satisfy specific customer requirements.

Features include: On-Trac Graphical User Interface, On-Trac Power Management, Data Audit and Verification, Theft and Loss Detection, Demand Side Management, Power Fail Notification, On-Demand Data (via 2.5G GPRS wireless transmission) and an integrated billing package (to enable the on-selling of bulk electricity to retail customers). Significant effort in this last area, combined with customisation for individual users, has resulted in a billing system that integrates seamlessly into the customer's financial management packages.

Significant resources are allocated to the ongoing development of new products and the enhancement of the valuable core technology. We have now completed our third generation of hardware development utilising the recent advances in Power Line Transmission technology (PLT). In addition to providing flexibility in implementation options and to ensure that *Utiligy* is cost effective across a wide range of buildings, a multichannel Smart Connector and meter interface capable of running on a RS485 network has been developed and installed on customer sites.

Software advances have concentrated on assuring data reliability through meter and data validation and the capability to retrieve any data stored in the meter. The data can now be retrieved either automatically or under operator control and the data retrieval network uses a retransmission procedure to provide a self-healing capability.

One of the Company's goals for this coming year will be the continued expansion of its marketing efforts to increase

market awareness of our products in both domestic and international market places and to generate increasing sales revenue. Following the successful establishment of a presence in Asia Pacific we are now expanding our distribution network to ensure coverage in major markets in Europe, the sub Continent and North America.

## **Achievements**

*We have achieved encouraging penetration of the “embedded networks” market with sales to Retirement Villages, Shopping Centres, Industrial Complexes, Airports and Bodies Corporate.*

## **Wins This Year**

Governments and regulatory bodies have further clarified the rights of Bodies Corporate to act as intermediaries for the distribution and sale of electricity to their tenants. This has led to growth in this market segment. Intermoco has been successful in winning contracts for the supply of its *Utiligy* AMR solution together with associated data services, with major Body Corporate Management companies. *Utiligy* enables them to on-sell discounted electricity to their tenants and residents, and in addition, reduce their energy costs for common areas. We anticipate a rapid growth of this market as greater awareness of the benefits of and processes for electricity on-selling is achieved.

Internationally this year Intermoco has continued to position itself to win major AMR contracts in the Asia Pacific region. The *Utiligy* solution continues to be successfully trialled in Malaysia, Thailand, and Singapore.

## **Contracted This Year**

**Blue Hills Retirement Village and Becton’s Brighton Classic Residences** – These two sites continue to grow in size and Intermoco’s installation and commissioning teams are keeping pace with the developments. Development will continue through the course of the coming year at both these sites.

**Bundoora Retirement Village (Australian Retirement Communities (ARC))** – The pilot installation at the Bundoora site was a success and is now being deployed throughout the village. This customer is using *Utiligy* to manage in-floor heating and hot water consumption, in addition to general power, to ensure maximum demand is contained at a reasonable level and the residents benefit from savings on their energy costs.

**Carrum Downs Shopping Centre** – *Utiligy* Solution has been installed to enable the delivery of the benefits of discounted power, normally reserved for major corporations, to the small businesses located in a suburban shopping centre. This installation is expected to be the first of many AMR installations for Shopping Centres and Malls throughout Australia.

**Residential Apartments** – In conjunction with major utilities, installation of *Utiligy* AMR was completed for a number of residential apartment buildings in capital cities.

**Energy Conservation Services** – Is a company that specialises in the efficient use of power for its clients. ECS has selected *Utiligy* as its preferred platform for the metering and management of its client’s sites, to ensure that the benefits of its energy conservation plans are delivered. The most significant project to date has been 40 Albert Road, South Melbourne. Szencorp has redeveloped a 1980’s office block as an environmental friendly and environmentally sustainable office complex. The project will be benchmarked against Government and private rating tools to ensure best practice. *Utiligy* provides management of all utilities to ensure consumption is optimised.

**Pentridge Piazza** – *Utiligy* has been selected by West Homes Australia, the developer of this innovative piece of urban renewal, to provide energy management and remote meter reading to better ensure the safety of residents of this new village in urban Coburg.

**Western Power** – Intermoco has installed AMR in more than 20 office and residential apartments in Perth and have orders for a further 15 buildings. Western Power is strengthening current regulation requiring AMR. It is expected that this strengthening will further grow the market for the *Utiligy* solution over the coming year. It is expected that the regulatory model supporting AMR in WA will be adopted in other states, which will further drive demand.

**YMCA** – This customer continues to expand its deployment of the *Utiligy* AMR solution adding an additional 500 student accommodation units in the last 12 months.

## **Other Major Wins This Year**

**Agency Agreements** - Have been established in Queensland and NSW to deliver sales in identified market segments.

Already the Metropal Towers, a major apartment complex in the Brisbane CBD, in Queensland has been converted to the *Utiligy* solution. Negotiations with a number of other developers are underway and sales are expected to result from those negotiations during the coming year.

### **Future Prospects**

The capability of the *Utiligy* solution to collect data from various sources and data collection devices enables the Company to seek out a broader range of marketing opportunities. With changes in software, the *Utiligy* solution can be adapted to suit a number of industrial and commercial situations.

To meet their environmental objectives and to foster demand management of energy by consumers, the Victorian Government has launched an aggressive plan to have all meters in the electricity market replaced by interval meters by the year 2011. This roll out will commence next year. This has created an opportunity for Intermoco to market the AMR solution and its benefits to utility companies as they prepare plans to meet the required conversion rate and dates.

The Body Corporate segment in Victoria is significant and presents an enormous opportunity for the *Utiligy* solution. Sales and marketing activities are clearly focused on this segment for the coming year. Interstate opportunities are also available in the Body Corporate segment and agencies are identifying sales opportunities.

Malaysia and Thailand continue to present significant opportunities for Intermoco. The Company, through its joint venture partners, has participated in the tender process for a number of key AMR contracts, with announcement of results expected in the coming year.

## **Case Study 1 Pentridge Piazza**

### **The Opportunity**

In September 2003, the gates of Pentridge Prison were opened again, signalling the birth of Pentridge Piazza. Pentridge Piazza is a prestigious development being built on the site of the old Pentridge Prison, which was decommissioned in 1997. The site is located at Coburg, in Melbourne's north, 8 km from the CBD. The site is now being transformed into a high quality, commercial and residential development on 8 hectares of land within the old 6 metre bluestone walls.

On completion, the staged development will provide homes for 2,000 residents in a mix of apartment, townhouse and warehouse style living. The development will also include a supermarket, shops, restaurants, cafes, offices, a boutique hotel and an education facility, all built around a large European style piazza.

### **The Intermoco Solution**

Intermoco won the substantial contract for the provision of AMR and data management services and billing for the entire precinct. Under contract, Intermoco will install and manage its *Utiligy* AMR solution within the precinct, which will be utilised for the management and billing of electricity, gas and hot water and rain water consumption.

The total value for equipment and services to be provided under the contract is in excess of \$2.5 million. Intermoco will also provide a total end-to-end solution for billing and the associated collection of payments.

### **The Benefits**

Intermoco's solution will enable the cost effective on-selling of all services to residents and tenants. Electricity will be purchased from suppliers at bulk rates and on-sold to residents and tenants at significantly discounted rates. Gas as well as hot water and rain water will be on-sold with users receiving the one integrated bill. Further, residents and tenants will be able to monitor their daily usage data through a secure website and to use this information to manage their usage more cost effectively.

The Bodies Corporate and precinct management on the site will also benefit through significantly reduced costs for the supply of energy to common and public areas.

Intermoco's billing software application provides occupiers and tenants with a detailed account of their energy usage on a monthly basis and graphical comparison of consumption for the same period last year.

### **Ecologically Sustainable Development**

One of the Pentridge Piazza's key objectives is to implement the best standards of Ecologically Sustainable Development (ESD) and accordingly, a number of ESD strategies have been incorporated into the overall design. These strategies include installation of rainwater tanks, recycling of rainwater, five star energy ratings for buildings, glazing and insulation techniques and solar panels. Consistent with this philosophy has been the selection of Intermoco's *Utiligy* solution.

Utilitisation of this solution enables residents and tenants to more effectively manage their energy usage and reduce their consumption and cost.

## Case Study 2 40 Albert Road – Szencorp

### The Opportunity

The development of the building at 40 Albert Road, South Melbourne is both unique and exciting. The project transformed a 16 year old, five-storey office block into a state-of-the-art, environmentally friendly and energy sustainable development that sets a benchmark for best practice design and performance in “green” office buildings.

The building is the first retrofit in Australia to receive a 5 star rating under the Australian Building Greenhouse Rating System. It has also been designed to achieve a 6 star rating under the Green Building Council of Australia.

Green buildings utilise new technologies with low-ech, natural systems and concepts to use limited resources more efficiently and minimise their impact on the environment. The vision for 40 Albert Road is to be the benchmark of “green buildings” in Australia. The goal was to design and renovate 40 Albert Road to the best possible energy and environmental efficiencies, and ensure the best possible environmental outcomes for employees, visitors and tenants.

40 Albert Road is a research and development test bed for innovative solutions. The project is aimed to demonstrate minimum energy and water performance standards to minimise outgoings and running costs and demonstrate that *green is commercial*. The building will be completed for occupation in late 2005.

### Importance of the Project

40 Albert Road is a significant project as it sets out to prove that:

- green sustainable buildings make good commercial sense;
- green buildings reduce greenhouse emissions and enhance our environment, not just for today’s generation but future generations;
- green buildings use key resources (energy, water, materials) more efficiently, and
- green buildings provide a better, healthier, safer and friendlier work environment.

Some of the unique features incorporated into the design include:

- rain water collection
- grey water re-use
- waterless urinals
- automatic taps
- solar hot water
- open air meeting places
- double glazing and motorised louvers and windows for natural lighting
- gas engine powered air conditioning
- a fuel cell to provide 10% of energy needs

In recognising the importance of this project, the Victorian Government contributed \$40,000 towards the sustainable design improvement through the Sustainable Energy Authority.

### Intermoco’s Contribution

Intermoco was proud to be selected by the client, **Szencorp**, as the supplier of AMR and associated data services for the project. Intermoco’s *Utiligy* AMR solution is being installed in the building to provide ECS with state of the art technology to monitor and manage energy usage. In addition Intermoco’s technology will be used for the on-selling of all energy needs within the building

## **The AMR Opportunity**

The Legislative and regulatory frameworks for energy in Australia are State based, although there is a high level of co-ordination at the national level undertaken by the Australian National Electricity Market (NEM), which commenced operation in December 1998. The NEM was established as part of the deregulation of the Australian power industry. A key objective of the NEM is to promote competition at each stage of the electricity production and supply chain.

Many aspects of modern day living and development place pressures on our environment and accordingly there is a growing focus on technologies, which can deliver positive environmental outcomes. Intermoco's *Utiligy* solution achieves positive outcomes for the environment through its enablement of user focused demand management objectives. *Utiligy* enables savings in energy usage by providing real time access to energy consumption data, which is used to better understand consumption and modify usage patterns.

Reduced energy consumption reduces costs to businesses and consumers and reduces greenhouse gas emissions (GHG), a key negative impact on the environment. A further feature of *Utiligy* is the capacity to provide GHG generation figures down to each household level and to display that information on the consumers bill and on the website.

Regulatory bodies in Australia and overseas have also recognised the role of smart meters in developing a competitive electricity market. For example, the Commonwealth of Australia has recommended the national deployment of smart meters (Parer Report 2002), and the former Chairman of the Competition Authority (ACCC) has similarly called for their deployment to improve competition within the Industry. The Victorian Essential Services Commission (ESC) has regulated for the deployment of smart meters to all consumers in the state of Victoria commencing with AMR enabled smart meters to be deployed to larger business customers, commencing in 2006. Energy Australia in NSW has also announced a new policy initiative in this area. Other States of Australia are also expected to adopt similar policies over the next two to three years.

The many benefits to the environment from better demand management that a smart meter can offer are not realised without the addition of cost effective AMR technology. AMR enables utilities to use the data to better manage their assets and significantly improve their overall efficiency and increase profitability. The deployment of the Intermoco AMR technology to utilities and a range of other non-regulated users will deliver these benefits.

The Victorian Government recently commissioned a review to consider the benefits of the mass deployment of AMR. The results of this inquiry are expected in early 2006. In NSW, Integral Energy is planning to implement a trial in the next 12 months to quantify the business benefits that can flow from the broad deployment of AMR.

Other jurisdictions around the world are also focusing on strong environmental policies, recognising the benefits of deregulating electricity markets, and the need to embrace new technologies that allow them to introduce "demand management" policies. Demand management offers a solution to the dilemma faced by Governments and regulators of underutilised generating capacity to meet electricity peak consumption. Smart meters, innovative tariff structures and responsive customer consumption feedback loops supported by AMR are essential elements of a successful demand management strategy by Governments and regulators.

The accelerated rollout of interval meters, as supported by the Victorian Regulator's decision in March 2004 to mandate the rollout of smart interval meters for Victoria and the similar NSW decision, presents further opportunities. These major deployments provide real and immediate opportunities for Intermoco to sell its AMR product into the utilities concurrently with the deployment of their smart meters. It also substantially reduces the capital cost incurred by any commercial or industrial customer installing Intermoco's AMR solution because the utility business will have already installed the smart meter. This means that the addition of Intermoco's AMR solution is now a simpler, less costly process.

## **Regulatory Change**

Within the local market, the mandated deployment of smart meters changes the landscape for Intermoco's AMR products. The smart meters are being deployed primarily to support government environmental policies which focus on the broader implementation of user focused demand management objectives and innovative tariff options. The increased information costs of supporting innovative tariffs and demand management, change the economics of data collection. For example, supporting a time of use tariff involves recording and processing two readings per day and to obtain the maximum advantage from implementation of user focused demand management policies is best achieved through more frequent customer billing and more accurate market settlement processes based on actual consumption rather than profiles.

These major policy shifts will drive Australian demand for AMR products. Once the initial "first-movers" adopt the technology, it is expected that remaining utilities will recognise the benefits and move quickly. Utilities, that adopt AMR, will enjoy a significant advantage over those who do not. This advantage will be in the form of improved information

about their customers and in particular their network energy requirements, thus allowing them to generate considerable cost savings in energy forecasting and purchases.

Working with the regulatory environment within Australia, and pursuing opportunities to achieve change in that environment, presents a substantial opportunity to enhance Intermoco's performance in the market. Intermoco will continue to work towards regulatory change across Australia.

In particular Intermoco is monitoring the following regulatory changes:

- the extension to License Exemption Regulations by clarification and extension of the regulatory framework under which persons and companies are excused from the requirement to hold a License to distribute, supply and on-sell electricity to customers located in the premises they own or occupy.
- the adoption in Victoria and NSW of regulations to require the mandatory deployment of AMR metering in large, or secure buildings along the lines of regulations implemented in Western Australia.
- the inclusion of AMR and smart meters in the Sustainable Housing Code, and Extension of the Sustainable Housing Codes (SHC's), to include smart meters and AMR as cost effective preferences.
- the mandatory deployment of smart meters throughout Australia commencing with the large power consumers and progressing to small business and residential sectors.
- the ACCC decision to exclude AMR meters from utility derogations.

Close relationships have been developed and nurtured with many Australian regulators and government representatives and the Company continues to focus on presenting the benefits of interval meters and AMR to government's environmental policies

### **Marketing Opportunities**

The following key markets have been targeted for sale of the Company's range of products:

#### **Utilities Markets**

##### **Domestic**

Sales of AMR to power and resource Utilities, including electricity, gas and water within Australia. Utilities are attracted to the Intermoco AMR product by the need to better understand their customer usage profiles and the competitive pricing of the solution, in addition to the numerous efficiency and financial benefits that it delivers. The AMR solution is also attractive in overcoming the problems of providing services into secure, high and medium rise buildings. It is estimated that there are 8 million meter points in Australia.

##### **Offshore**

The initial markets for the Company's AMR solution offshore are the major utilities in Malaysia, Thailand, Sri Lanka, Indonesia, USA, UK and the Philippines. The potential market for these key customers is most significant as detailed below.

<b>Utility</b>	<b>Meter Numbers (Million)</b>
Malaysia	5.5
Philippines	7.0
Indonesia	2.9
Thailand	8.0
USA -Regional Electricity Co-ops	10.0
British utilities (UU and LEC)	5.0

#### **Sub-Metering Markets**

Sales have been achieved within the sub-metering market to commercial and industrial customers who on-sell energy and resources within their premises requiring management solutions, usage analysis and billing capability. In particular operators of large developments in the commercial, industrial and residential markets are targeted. Specific targets will

include:

- Large building complexes and organisations with high level energy management needs, and
- Shopping Centres, Retirement Villages and Bodies Corporate entities
- Commercial and industrial customers requiring energy management solutions and usage analysis for gas, water, chilled water, heat and street lighting.

### **Other Markets**

Sales have been targeted at commercial and industrial customers requiring monitoring and control devices for applications such as dairy storage and processing, transport, LPG and retail petroleum storage facilities and sewerage monitoring.

### **Key Alliances**

In achieving its business goals, Intermoco places great importance on the development of strategic alliances with a range of organizations. The following key alliances have been established and are highly valued by Intermoco.

### **Telecommunications**

Telstra– provide telecommunications services including the strategically important GPRS service for all remotely read meters in the Intermoco customer base. Customers are spread across a broad geographic area including northern Queensland, Brisbane, central NSW, Sydney, regional Victoria, metropolitan Melbourne, as well as Western Australia and Tasmania.

Vodafone New Zealand – provides GPRS services for Intermoco AMR solutions sold in New Zealand. Intermoco uses these services to transmit meter data read throughout the north and south islands back to the Company’s National Operations Centre.

### **Future Growth**

#### **Taking the Product to Market**

By focusing on the two essential components of business growth, innovative products and customer driven solutions, Intermoco has demonstrated that it remains a leader in complete, turnkey, end-to-end AMR systems.

This has required continual innovation and development of our propriety 3<sup>rd</sup> generation AMR platform as well as the development of the integration of the monitored data stream into our customers business systems. This leads to improvements in our customers day-to-day business decisions based on up to date information not previously available. It also builds on the significant business benefits already being delivered by our core system.

### **Technology**

The significant improvements achieved with our 3<sup>rd</sup> generation platform involve both software and hardware developments.

Hardware development is focused on achieving:

- reduced manufacturing and shipping costs
- reduced logistics in terms of numbers of components
- interface capability with a broad range of smart and passive sensors
- improved installation processes in terms of cabling and connectors
- utilisation of latest technology to avoid component obsolescence

For software development is focused on achievements leading to:

- increased stability and in reliability of data collection
- ability to recover quickly from extended loss of communication
- improved commissioning processes now suitable for mass rollout
- automatic remote commissioning of AMR technology
- meter Data Validation and Audit
- meter Operational Management
- meter Asset Management
- on-Trac Client Services Management

### **Target Markets**

The following markets are currently targeted and will remain so over the coming year:

- electricity, gas and water meters owned directly by the utilities as well as by resellers using embedded networks
- sub metering market
- petrochemical storage tanks for wholesale and retail operators
- waste management tanks, pumps and systems
- primary producers with liquid storage of their product
- recycled water monitoring and management
- monitoring and management of street lighting networks

We continue to develop innovative products with the aim of always providing a complete solution to customer requirements, adding value to the monitoring and control core business.

Our clients now generate bills, track transactions in their own financial package, negotiate cheaper energy contracts and monitor and manage their own energy usage. These benefits may also be passed to the end consumer to enable them to manage their usage.

## Board of Directors

### □ **Graeme W. Shearer** (age 58) B.Comm, BEd. *Chairman*

Mr. Shearer was a founding Director of Intermoco Limited. He has extensive experience in general business management. He was appointed as a Director of the Company on 9 January 2001 immediately following the purchase by the Company of Intermoco Solutions Pty. Ltd. (then Australon Enterprises Australia Pty. Ltd.) and was appointed as Chairman of Intermoco Limited on 7 March 2002. Prior to joining the Company, he held senior positions with Telstra Corporation, following which he established his own management consultancy business. He is Chairman of the Audit Committee and a member of the Remuneration Committee.

### □ **Martin Y.H. Yii** (age 41) BEng (Elec) (Hons) *Managing Director*

Mr. Yii has spent a number of years managing a variety of engineering companies after graduating from Monash University with a degree in Electrical Engineering and, during that time, has been responsible for the establishment of a number of businesses. He brings to the Board considerable engineering and business experience and, in addition to his Australian business interests, Mr. Yii has successfully delivered to the Company a number of substantial contracts and opportunities from both the Asian and Middle East markets. He was appointed as a Director of the Company on 31 January 2002 and as Managing Director on 29 November 2002. He is Chairman of the Remuneration Committee.

### □ **Saiful A. Shahabudin** (age 45) B.BA, MBA, MICPA *Non-Executive Director*

Mr. Shahabudin is currently the Managing Director of Sharikat Permodalan Kebangsaan Berhad (“SPK”), a Malaysian investment holding company whose subsidiaries are involved in technology, property and construction. SPK controls Austral System Sdn. Bhd., a substantial shareholder of the Company. He is also Trustee of M.U.S.T. Ehsan Foundation which was set up to establish the Malaysian University of Science and Technology in collaboration with the Massachusetts Institute of Technology. Previously, Mr. Shahabudin was a Partner of Andersen Worldwide and was in charge of Arthur Andersen’s Corporate Finance and Enterprise Group Services in Kuala Lumpur. He holds an MBA from the University of Chicago, qualified as an American Certified Public Accountant and is a member of the Malaysian Institute of Certified Public Accountants. He was appointed as a Director of Intermoco Limited on 15 November 2002. He is a member of the Audit Committee.

### □ **Ir. Dr Azman bin Ahmad** (age 44) LLB (Hons) *Non-Executive Director*

Ir. Dr. Azman bin Ahmad was appointed to the Board of Directors of SPK-Sentosa Corporation Berhad on 24 February 2003 and to Habib Corporation Berhad, he was appointed as a Director on 19 November 1997 and later appointed as Chairman of the Audit Committee on 26 November 1997. He is also a member of the Nomination Committee and Remuneration Committee of Habib Corporation Berhad. He is a qualified Civil Engineer, with a Ph.D in Engineering from University of Malaya. He is a corporate member of the Institution of Engineers, Malaysia and registered as a professional engineer with the Board of Engineers Malaysia. He has over 20 years of working experience in the engineering and corporate industry including consultancy, construction, property development and project management. Ir. Dr. Azman is currently the Executive Vice Chairman who sits on the board of Sharikat Permodalan Kebangsaan Berhad as well as other private companies.

## Directorships of other listed companies

No Director of the company was a Director of another listed company in the three years before the end of the financial year.

## Company Secretary

### **Jeffrey Bennett** (Age 46) B. Comm. (CPA)

Mr. Bennett has been the company secretary of Intermoco Limited for the past 15 months. He also holds the position of Chief Financial Officer. Mr. Bennett is an experienced CPA with extensive financial and commercial experience. He held senior management positions at both Corporate and Business Group levels for some of Australia’s leading companies including BHP and Shell Oil. Prior to joining the company he held the position of CFO for Simoco Pacific.

## Director's Report

The Directors of Intermoco Limited (the "Company") present the annual financial report for the financial year ended 30 June 2005. In order to comply with the provisions of the *Corporations Act 2001*, the Directors report as follows:

The names of the Directors of the Company during or since the end of the financial year are:

Graeme W. Shearer  
Martin Y.H. Yii  
Saiful A. Shahabudin  
Dr. Azman bin Ahmad

## The Company

Intermoco Limited is a company limited by shares that is incorporated and domiciled in Australia. The consolidated entity employed 34 employees as at 30 June 2005 (2004: 26 employees). Refer *Note 29* for details pertaining to the Group's structure.

## Principal Activity

The principal activity of the consolidated entity constituted by the Company and the entities it controlled from time to time during the financial year was the development and commercialisation of monitoring and control products and solutions. During the financial year there was no significant change in the nature of this activity.

## Results And Dividends

The net loss from ordinary activities of the consolidated entity was:

	2005	2004
Net loss from ordinary activities before income tax expense	\$ (24,013,450)	\$ (19,134,611)
Income tax expense relating to ordinary activities	<u>-</u>	<u>-</u>
Net loss from ordinary activities	<u>\$ (24,013,450)</u>	<u>\$ (19,134,611)</u>

During the year ended 30 June 2005 no dividends were paid or declared by the consolidated entity.

## Review Of Operations

A detailed review of the operations of the consolidated entity is contained in the Chairman's Review and Management Review in this Annual Report.

## Significant Changes In The State Of Affairs

During the year ended 30 June 2005, the following significant changes in the state of affairs occurred:

- An increase in contributed equity of \$3,873,585 through the issue of 100,920,043 shares at an average price of 3.9 cents.
- Shares were also issued during the Financial Year to extinguish loans and to cover contractual arrangements. A total of 25,356,789 shares were issued at a value of \$1,141,615 at an average price of 4.5 cents.

Apart from the abovementioned matters, there were no significant changes in the state of affairs of the consolidated entity which have not been included elsewhere in this Annual Report.

## Share Options

As at 30 June 2005, there were a total of 102,540,000 options outstanding over ordinary shares in the Company. Subsequent to that date, a total of 8,430,000 options were granted to employees of the Company pursuant to the Intermoco Employee Option Plan. A total of 1,095,000 options that had been owned by former employees and Directors of the Company were cancelled. On 1 July 2005, the Company granted a total of 1,000,000 options over ordinary shares in the Company as part of the purchase price of Vircom Pty Ltd. Holders of the above mentioned options do not have any right, by virtue of the options, to participate in any share issue of the Company or any related Bodies Corporate. Refer *Note 23* for details.

## Significant Events After Balance Date

- On 1 July 2005, the Company purchased Vircom Pty Ltd for a total consideration of \$500,000. The consideration is made up of a combination of shares and 1,000,000 options to be approved at the upcoming Annual General Meeting.
- On 1 July 2005, the Company announced to the Market that a total of 1,095,000 options that had previously been granted to former employees of the Company pursuant to its Employee Option Plan had lapsed. Also 17,500,000 options issued to private investors with an exercise price of 5.0 cents and an expiry date of 30 June 2005 had lapsed and were subsequently cancelled (no financial effect).
- On 13 July 2005, the Company purchased National Energy Management Services Pty Ltd for a total consideration of \$320,000 through the issue of shares to be approved at the upcoming Annual General Meeting.
- On 13 July 2005 the Company issued, by way of private placement, a total of 2,000,000 fully paid ordinary shares at an issue price of 3.4 cents each to raise a total of \$69,000 in cash, prior to the payment of expenses associated with the placement.
- On 13 July 2005, the Company issued a total of 8,430,000 options to employees of the Company under the existing Employee Option Plan.
- On 8 September 2005 the Company issued, by way of private placement, a total of 26,222,988 fully paid ordinary shares at an issue price of 3.5 cents each to raise a total of \$918,000 in cash, prior to the payment of expenses associated with the placement.

Apart from these events, there were no other significant events which have occurred after balance date.

## Future Developments

Future developments of the consolidated entity are outlined in the Chairman's Review and Management Review. Further information on likely developments in the operations of the consolidated entity and the expected results from those operations have not been included in this report as it is the opinion of the Directors that their disclosure could be prejudicial to the interests of the consolidated entity.

## Directors' Meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member).

Name of Directors and the period during which they served	Meetings of Committees					
	Directors		Audit		Remuneration	
	Held	Attended	Held	Attended	Held	Attended
Graeme W. Shearer (1 July 2004 to 30 June 2005)	12	12	6	6	3	3
Martin Y.H. Yii (1 July 2004 to 30 June 2005)	12	12	-	-	3	3
Saiful A. Shahabudin (1 July 2004 to 30 June 2005)	12	12	6	6	-	-
Ir. Dr Azman bin Ahmad (1 July 2004 to 30 June 2005)	12	4	-	-	-	-

## Interests In Securities Of The Company And Related Bodies Corporate

The interests in securities of the Company which are held by Directors of the Company as at the date of this Report, either directly or indirectly through entities or parties related to him, are set out in the following table:

Name of Director	Securities held directly in Intermoco Limited		Securities held indirectly in Intermoco Limited	
	Shares	Options	Shares	Options
Graeme William Shearer	-	4,000,000	45,809,146	-
Martin Yong Heng Yii	-	4,000,000	98,184,137	-
Saiful Aznir Shahabudin	-	4,000,000	-	-
Dr Azman bin Ahmad	-	-	-	-

Note: As at the date of this Report, Messrs. Shearer and Yii are each Directors of Australon Enterprises Pty. Ltd., which

holds 203,331,922 ordinary shares in the Company (representing approximately 27.17 percent of the total number of ordinary shares on issue). As at the same date, Mr. Shahabudin, and Ir. Dr Azman bin Ahmad are related to Austral System Sdn. Bhd., which holds 98,386,669 ordinary shares in the Company (representing approximately 13.15 percent of the total number of ordinary shares on issue).

## **Remuneration Report**

This report outlines the remuneration arrangements in place for Directors and Executives of Intermoco Limited and Intermoco Solutions Pty Ltd (the Companies).

### **Remuneration Policy for Directors and Executives**

Intermoco's remuneration policy seeks to ensure that Directors and Executives are remunerated at competitive rates, in order to attract and retain high quality individuals. Executive remuneration is linked to the achievement of long-term corporate goals to protect the interests of shareholders and to encourage the individual performance of Directors and Executives.

### **Remuneration Committee**

The Remuneration Committee is a Committee of the Board of Intermoco and is established in accordance with Article 72 of the Constitution. The Committee operates according to a Charter which is included at the Investor Section on the Company website. The Committee consists of Mr. Shearer and Mr. Yii.

The Committee makes recommendations to the Board on matters of remuneration policy and its implementation. It has authority to approve arrangements for senior management with the exclusion of the Managing Director.

The Policy is driven by the following principles:

- cohesive remuneration policies and practices which enable the attraction and retention of appropriate Executives and Directors;
- rewards Executives in a fair and responsible manner giving consideration to the performance of the company, the individual and trends in the labour market;
- complies with the ASX Listing Rules and Corporation Law; and
- separation of Executive and non-Executive remuneration structures.

### **Non-Executive Directors Remuneration**

Fees and payments to Non-Executive Directors are reviewed by the Remuneration Committee on an annual basis. Remuneration is calculated on the basis of the Director's level of responsibility and their involvement in Board Committees.

The aggregate amount of fees and amounts payable to Non-Executive Directors in any one year is approved by shareholders at the Annual General Meeting, and is currently set at a maximum aggregate sum of \$75,000 plus out of pocket expenses.

### **Executive Director and Executive Remuneration**

The Remuneration Committee has responsibility for reviewing the remuneration of Executive Directors and group Executives. The Executive salaries and remuneration framework has three components:

- fixed remuneration (including superannuation and fringe benefits);
- short-term incentive/performance bonus payments; and
- long-term equity based incentive schemes including the Intermoco Share Option Plan.

### **Fixed Remuneration**

Fixed remuneration payable to Executives may include cash or non-cash benefits, such as additional superannuation or retirement benefits or motor vehicles. The framework for Executive fixed remuneration is reviewed on an annual basis by the Remuneration Committee.

### **Short Term Incentive Payments**

Executives may also receive incentive or performance payments, based on predetermined individual and company performance criteria. The framework for incentive payments is reviewed on an annual basis by the Remuneration Committee.

### **Intermoco Directors Share Option Plan**

Directors can participate in the Intermoco Director's Share Option Plan as approved by shareholders on 15 November 2002.

The options, which are granted for nil consideration, are issued subject to the Plan and, once issued, cannot be transferred

by the Director, nor are they listed on the Australian Stock Exchange. Each option, entitles the holder to acquire one fully paid ordinary share in the Company at a price of \$0.15 per share at any time up to, and including, 30 June 2006. On cessation of Directorship they have three months to exercise their options following which they lapse.

### Intermoco Executives Share Option Plan

All existing Senior Executives were invited to participate in the Intermoco Executive Share Option Plan approved by shareholders.

On 13 February 2002, the Company established an Executive Share Option Plan (the “Plan”) under which full-time Executives of the Company are issued with options over the ordinary shares of Intermoco Limited. The options, which are granted for nil consideration, are issued subject to the Plan and, once issued, cannot be transferred by the Executive, nor are they listed on the Australian Stock Exchange. No options can be exercised until such time as the Executive has completed twelve months continuous employment with the Company. Each option, entitles the holder to acquire one fully paid ordinary share in the Company at a price of \$0.125 per share at any time up to, and including, 13 February 2006. On cessation of employment the Executives have three months to exercise their options following which they lapse.

The purpose of the Share Option Plans are to:

- provide long-term incentive to Directors and key Executives to remain with the Company (or its subsidiaries);
- to reward performance;
- improve the long-term performance of the Company; and
- improve the return to the Company’s shareholders.

The Remuneration Committee is, at the time of writing this report, considering the implementation of a further long-term equity based incentive scheme for Directors and Executives which will be subject to appropriate shareholder approval.

### Remuneration of Directors and Senior Executives of the consolidated entity and the Company

Based on the Company’s performance over the last three years the Directors or Executives have not been paid any performance related incentives in either cash or equity. The only equity issued to Directors or Executives have been issued in lieu of a proportion of base salary.

The following table discloses the emoluments of the Directors of the Company and the most highly paid Executives of the consolidated entity and the Company for the year ended 30 June 2005.

	Annual Emoluments					Long-Term Emoluments			Super (\$)	Total Remuneration
	Base fee (\$)	Other fees (\$)	Bonus (\$)	Non monetary	Termination (\$)	Options @ Number granted	Value at grant date (\$)	% of Remuneration		
<b>Directors</b>										
Graeme W. Shearer	25,000	120,000	-	-	-	-	-	-	2,250	147,250
Martin Y.H. Yii	205,000	-	-	-	-	-	-	-	18,450	223,450
Saiful Shahabudin	25,000	-	-	-	-	-	-	-	-	25,000
Azman bin Ahmad	25,000	-	-	-	-	-	-	-	-	25,000

	Annual Emoluments					Long-Term Emoluments			Super (\$)	Total Remuneration
	Base fee (\$)	Other fees (\$)	Bonus (\$)	Non monetary	Termination (\$)	Options @ Number granted	Value at grant date (\$)	% of Remuneration		
<b>Executives</b>										
Stephen Black	92,000	-	-	13,000	-	2,000,000	5,300	4.5	8,280	118,580
Jeffrey Bennett	100,000	-	-	28,000	-	2,000,000	4,300	3.7	9,000	141,300
Vincent D’Agostino	120,322	10,639	-	-	-	-	-	-	10,232	141,193
John Howell	110,088	-	-	-	-	-	-	-	9,908	119,996

The terms “Director” and “Officer” have been treated as mutually exclusive for the purposes of this disclosure. The elements of emoluments have been determined on the basis of the total cost to the Company. Executives are those directly accountable and responsible for the management and strategic direction of the Company.

### Options granted as part of remuneration for the year ended 30 June 2005 (in accordance with the Executive Share Option Plan)

	Grant date	Grant number	Vesting date	% Vested in 2005	Value per option at grant date @	Exercised number	Value per option at exercise date	Value at date option lapsed	% of remuneration
S Black	1 Dec 2003	2,000,000	1 Dec 2004	100	\$0.00265	N/A	N/A	N/A	4.5
J Bennett	3 May 2004	2,000,000	3 May 2005	100	\$0.00215	N/A	N/A	N/A	3.7

@ From 1 July 2004, options granted as part of the Executive remuneration have been valued using a Binomial option pricing model, which takes account of factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share and the expected life of the option. See below for further details.

#### Fair values of options:

The fair value of each option is estimated on the date of grant using a Binomial option-pricing model with the following weighted average assumptions used for grants made on 1 December 2003 and 3 May 2004.

	Granted 1 Dec 2003	Granted 3 May 2004
Dividend yield	0.00%	0.00%
Expected volatility	35% to 45%	35% to 45%
Historical volatility	45%	45%
Risk-free interest rate	5.10%	5.10%
Effective life of option	2.1 years	1.8 years

The dividend yield reflects the assumption that the current dividend payout will continue to remain as zero for the next two years. The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends which may also not necessarily be the actual outcomes.

The resulting weighted average fair values per incentive right for those rights vesting after 1 December 2003 are:

Number of options	Grant date	Vesting date	Weighted ave. fair value
2,000,000	1 Dec 2003	1 Dec 2004	\$0.00265
2,000,000	3 May 2004	3 May 2005	\$0.00215

Currently, these fair values are not recognised as expenses in the financial statements. However, should these grants be expensed, they would be amortised over the vesting periods resulting in an increase in employee benefits expense of \$9,600 for the 2005 financial year. Note that no adjustments to these amounts have been made to reflect estimated or actual forfeitures (i.e. options that do not vest).

#### Employment Contracts

The Chief Operating Officer, Mr Stephen Black, is employed under a one year rolling contract, which commenced on 1 December 2003 and terminates by either party giving 60 days notice.

Under the terms of this contract:

- Mr Black's base salary is \$92,000 plus 1,000,000 shares per annum, issued quarterly. The shares issued annually are not based on performance criteria, they have been issued in lieu of a proportion of base salary;
- Mr Black is entitled to 2,000,000 employee share options, exercisable at 12.5 cents under the employee share option plan. The options become vested after twelve months continuous employment with the Company; and
- either party may terminate the agreement without having to provide reason and without any penalty by giving the other party 60 days notice.

The Chief Financial Officer, Mr Jeffrey Bennett, is employed under a two year contract, which commenced on 3 May 2004 and terminates on the 2 May 2006.

Under the terms of this contract:

- Mr Bennett's base salary is \$100,000 plus shares which will be issued to the value of \$62,000 over the term of the contract on a quarterly basis. The shares issued annually are not based on performance criteria, they have been issued

- in lieu of a proportion of base salary;
- Mr Bennett is entitled to 2,000,000 employee share options, exercisable at 12.5 cents under the employee share option plan. The options become vested after twelve months continuous employment with the Company; and
- the Company may, by giving, notice at least one month prior to the termination, negotiate an extension of the contract for a further twelve months on the same terms and conditions unless otherwise agreed in writing.

The Manager, Strategic Projects, Mr Vincent D'Agostino, commenced employment on 13 March 2001 under Intermoco's standard employment contract.

Under the terms of this contract:

- Mr. D'Agostino's base salary is \$123,360 per annum;
- Mr D'Agostino is entitled to 1,500,000 employee share options, exercisable at 12.5 cents under the employee share option plan. The options become vested after twelve months continuous employment with the Company; and
- either party may terminate the agreement without having to provide reason and without any penalty by giving the other party 60 days notice.

The Manager, Commercial Operations, Dr. John Howell, commenced employment on 14 October 2002 under Intermoco's standard employment contract.

Under the terms of this contract:

- Dr. Howell's base salary is \$110,100 per annum;
- Dr Howell is entitled to 2,000,000 employee share options, exercisable at 12.5 cents under the employee share option plan. The options become vested after twelve months continuous employment with the Company; and
- either party may terminate the agreement without having to provide reason and without any penalty by giving the other party 30 days notice.

### **Environmental Regulation And Performance**

At the date of this Report, the consolidated entity holds interests in mineral exploration licences in South Australia. These licences impose regulations regarding environmental issues arising from exploration. There have been no known breaches of the conditions, which apply in respect of any such licences.

### **Tax Consolidation**

Intermoco Limited consolidates all entities for income tax purposes.

### **Indemnification And Insurance Of Directors**

During the year ended 30 June 2005, the Company did not provide any Directors of the Company with any form of indemnification or insurance, nor has it entered into any agreement with any such individual to do so in the future.

### **Corporate Governance**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Intermoco Limited support, and have adhered to, the principles of corporate governance. A statement regarding the Company's corporate governance policies is included in the Corporate Governance Statement, which follows.

### **Auditor's Independence Declaration**

Section 307C of the *Corporations Act 2001* requires our auditors, Ernst & Young, to provide the Directors of the Company with an Independence Declaration in relation to the audit of the financial report. The Independence Declaration is set out on page 24 and forms part of the Directors' report for the year ended 30 June 2005.

## **Auditor's Independence Declaration to the Directors of Intermoco Limited**

In relation to our audit of the financial report of Intermoco Limited for the financial year ended 30 June 2005, to the best of my knowledge and belief, there has been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

*Ernst & Young*

Ernst & Young

*R C Piltz*

R C Piltz  
Partner

Melbourne  
30 September 2005

### **Non-Audit Services**

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amount for the provision of non-audit services:

Tax compliance services - \$78,590

Signed in accordance with a resolution of the Directors.



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**Graeme W. Shearer**

*Chairman*

Melbourne, 30 September 2005

## **Corporate Governance Statement**

The Intermoco Board is responsible for putting in place a corporate governance framework, which ensures the enhancement and protection of shareholder value. In undertaking this responsibility, implementation of rigorous accountability and control processes are required.

Intermoco has a strong commitment to effective corporate governance and endorses the Australian Stock Exchange Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations published in March 2003. The company is currently complying with all aspects of the Principles of Good Corporate Governance with the exception of Board structure. The Board does not currently have a majority of independent Directors. The Board is of the belief that an immediate major Board restructure is not in the best interests of the shareholders, however, as the company grows it will seek to recruit more independent Directors.

The company's web-site [intermoco.com](http://intermoco.com) contains an Investor Section, which details the Company's Corporate Governance policies and procedures. This provides public access to all the information relevant to the company meeting its corporate governance obligations.

The following is a summary of the of the key Corporate Governance procedures which were fully implemented early in the financial year.

### **Responsibilities and Functions of the Board**

The Board of Directors is responsible for setting the strategic direction of the company and for overseeing and monitoring its business affairs. Directors are accountable to the shareholders for the Company's performance.

The major responsibilities of the Board include:

- setting overall financial and business goals for the Company;
- adopting a strategic plan to achieve the Company's goals;
- approving annual financial plans and budgets;
- monitoring business performance and results;
- agreeing key performance indicators with senior management;
- approving management recommendations on strategic issues including major capital expenditure, acquisitions, restructuring and funding;
- ensuring systems are in place which facilitate the effective monitoring and management of principal risks to which the Company is exposed;
- appointing and reviewing the performance of the Managing Director;
- approving the remuneration packages and performance criteria for senior Executives;
- ensuring processes are in place for the effective communication with shareholders and other stakeholders;
- reporting to shareholders on the Company's performance; and
- adopting formal processes for the selection of new Directors.

The Board Charter included in the Corporate Governance section on the company website details the principles and procedures, which guide the Board's operations.

### **Composition of the Board**

The names and details of Directors in office at the date of this Annual Report are included in the Director's Report Section of this Annual Report. Directors of Intermoco are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. At this point in time, all Directors have associations with major shareholdings.

The composition of the Board is guided by the following principles:

- the Board should be comprised of a minimum of three and a maximum of ten Directors;
- the Board should have a broad range of expertise;
- the Board should consist of at least as many non-Executive Directors as there are Executive Directors.;
- the Chairman shall be independent;
- a person cannot hold the positions of Chairman and Managing Director; and
- a majority of the Board will be comprised of independent Directors.

election for a further three-year period. All Directors are expected to prepare fully for all Board meetings and to attend as many Board meetings as is reasonably practicable.

As mentioned above, the current Board does not conform to the principles of composition, which is a matter, which will be addressed with the growth of the company.

### **Review of Board Performance**

The Chairman is responsible for reviewing the overall performance of the Board, Board Committees and individual Directors. The criteria and procedure for reviewing Board performance is detailed in the Intermoco Board and Director's Performance Evaluation statement within the Corporate Governance section of the company web site.

### **Director's Conflict of Interest**

Where a Director becomes aware of a conflict or potential conflict of interest, that member shall formally declare the conflict and accept the guidance of the Board.

The Company's Code of Conduct for Directors and Executives is contained within the Corporate Governance section on the Company web site.

### **Board Committees**

The Board has established a Remuneration Committee and an Audit, Risk and Compliance Committee to assist in the execution of its responsibilities.

### **Remuneration Committee**

The Remuneration Committee makes recommendations to the Board on matters of remuneration policy and its implementation. It has authority to approve arrangements for senior management with the exclusion of the Managing Director.

The primary purpose of the Committee is to support and advise the Board in meeting its obligations to the shareholders by:

- determining executive remuneration policy;
- reviewing remuneration of Directors;
- determining the remuneration of Executive Directors;
- reviewing and approving the remuneration of direct reports to the Managing Director and other senior Executives as appropriate, and
- reviewing and approving employee equity participation schemes.

The members of the Remuneration Committee during the year were Mr. Yii (Chairman) and Mr. Shearer. Remuneration details for the reporting year for Directors and Executives are included in the Director's Report.

### **Audit, Risk and Compliance Committee**

The overall responsibility of the Committee is to assist the Board meet its responsibility to exercise due care, diligence and skill in relation to:

- financial reporting;
- application of accounting policies;
- financial management;
- internal control;
- external audit;
- risk management;
- business policies and practices;
- protection of the entities assets, and
- compliance with applicable laws, regulations, standards and best practice guidelines.

In discharging its role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the authority to engage independent advice as it determines necessary. Members of the Audit, Risk and Compliance Committee during the year were Mr. Shearer and Mr. Shahabudin.

### **Integrity in Financial Reporting**

The COO and CFO provided the Board with an unqualified statement regarding the integrity of the financial statements. This sign off is based on the existence of a robust and effective financial statement close process which ensures that the

resultant financial statements comply with accounting standards and provide a true and fair view of the company's financial performance and position.

### **Internal Control and Risk Management**

The Board is responsible for ensuring that the management's objectives and activities are aligned with expectations and risks identified by the Board.

The Audit, Risk and Compliance Committee is responsible for reporting to the Board on matters including:

- internal processes for identifying and managing key risk areas;
- the Company's risk management system and risk profile;
- suspected and actual frauds, thefts and breaches of law;
- effectiveness of the internal control system with management and external auditors, and
- effectiveness of and compliance with the code of ethical conduct.

# Statement of Financial Performance

Year ended 30 June 2005	NOTES	CONSOLIDATED		INTERMOCO LIMITED	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>REVENUES FROM ORDINARY ACTIVITIES</b>	2	<b>768,214</b>	596,287	<b>8,600</b>	2,857
Depreciation and amortisation expenses	3	<b>(13,369,912)</b>	(13,381,972)	<b>(20,061)</b>	(13,912)
Salaries and employee benefits expenses		<b>(2,180,181)</b>	(2,591,093)	<b>(457,988)</b>	(651,186)
Exploration and evaluation costs written down/off	3	-	(120,000)	-	-
Share of losses of associated companies accounted for using the equity method	11	-	(394,913)	-	-
Borrowing costs	3	<b>(32,533)</b>	(64,605)	<b>(19,067)</b>	(51,783)
Write-down of loans to controlled entities	3	-	-	<b>(2,256,010)</b>	(2,705,856)
Write-down of investments	3	<b>(33,085)</b>	(1,217,232)	<b>(20,186,750)</b>	(15,237,236)
Provision - doubtful debts	3	<b>(99,988)</b>	-	-	-
Write-down of Goodwill	3	<b>(6,887,625)</b>	-	-	-
Provision – non recovery of bond	3	<b>(50,229)</b>	-	<b>(50,229)</b>	-
Marketing and business development expenses		-	(34,273)	-	(15,159)
Cost of goods sold	3	<b>(549,436)</b>	(535,022)	-	-
Other expenses from ordinary activities		<b>(1,578,675)</b>	(1,391,788)	<b>(1,031,945)</b>	(700,659)
<b>LOSS FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE</b>		<b>(24,013,450)</b>	(19,134,611)	<b>(24,013,450)</b>	(19,372,935)
INCOME TAX EXPENSE RELATING TO ORDINARY ACTIVITIES	4	-	-	-	-
<b>NET LOSS ATTRIBUTABLE TO MEMBERS OF INTERMOCO LIMITED</b>	21	<b>(24,013,450)</b>	(19,134,611)	<b>(24,013,450)</b>	(19,372,935)
Share issue costs		<b>(186,496)</b>	(369,325)	<b>(186,496)</b>	(369,325)
<b>TOTAL REVENUES, EXPENSES AND VALUATION ADJUSTMENTS ATTRIBUTABLE TO MEMBERS OF INTERMOCO LIMITED AND RECOGNISED DIRECTLY IN EQUITY</b>		<b>(186,496)</b>	(369,325)	<b>(186,496)</b>	(369,325)
<b>TOTAL CHANGES IN EQUITY OTHER THAN THOSE RESULTING FROM TRANSACTIONS WITH MEMBERS AS MEMBERS</b>		<b>(24,199,946)</b>	(19,503,936)	<b>(24,199,946)</b>	(19,742,260)
Basic loss per ordinary share (cents per share)	28	<b>(3.5)</b>	(3.3)		
Diluted loss per ordinary share (cents per share)	28	<b>(3.5)</b>	(3.3)		

# Statement of Financial Position

Year ended 30 June 2005	NOTES	CONSOLIDATED		INTERMOCO LIMITED	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash assets	5	<b>271,100</b>	41,045	<b>181,942</b>	10,276
Receivables	6	<b>156,355</b>	35,301	-	-
Inventories	7	<b>288,419</b>	451,052	-	-
Other financial assets	8	<b>1,000</b>	1,000	-	-
Other	9	<b>24,001</b>	-	<b>23,501</b>	-
<b>TOTAL CURRENT ASSETS</b>		<b>740,875</b>	528,398	<b>205,443</b>	10,276
<b>NON-CURRENT ASSETS</b>					
Receivables	10	-	-	<b>317,490</b>	108,550
Investments accounted for using the equity method	11	-	33,085	-	-
Other financial assets	12	-	-	<b>11,830,540</b>	32,017,290
Property, plant and equipment	13	<b>383,650</b>	445,858	<b>150,957</b>	171,018
Intangible assets	14	<b>12,070,541</b>	32,224,207	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>12,454,191</b>	32,703,150	<b>12,298,987</b>	32,296,858
<b>TOTAL ASSETS</b>		<b>13,195,066</b>	33,231,548	<b>12,504,430</b>	32,307,134
<b>CURRENT LIABILITIES</b>					
Payables	15	<b>1,849,932</b>	2,112,982	<b>1,229,621</b>	1,353,881
Interest-bearing liabilities	16	-	538,966	-	504,520
Provisions	17	<b>82,584</b>	92,600	<b>30,268</b>	20,502
Other	18	-	45,015	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,932,516</b>	2,789,563	<b>1,259,889</b>	1,878,903
<b>NON-CURRENT LIABILITIES</b>					
Interest-bearing liabilities		-	-	-	-
Provisions	19	<b>19,492</b>	14,181	<b>1,483</b>	427
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>19,492</b>	14,181	<b>1,483</b>	427
<b>TOTAL LIABILITIES</b>		<b>1,952,008</b>	2,803,744	<b>1,261,372</b>	1,879,330
<b>NET ASSETS</b>		<b>11,243,058</b>	30,427,804	<b>11,243,058</b>	30,427,804
<b>EQUITY</b>					
Parent entity interest					
Contributed equity	20	<b>109,017,233</b>	104,188,529	<b>109,017,233</b>	104,188,529
Accumulated losses	21	<b>(97,774,175)</b>	(73,760,725)	<b>(97,774,175)</b>	(73,760,725)
<b>TOTAL EQUITY</b>		<b>11,243,058</b>	30,427,804	<b>11,243,058</b>	30,427,804

# Statement of Cash Flows

Year ended 30 June 2005	NOTES	CONSOLIDATED		INTERMOCO LIMITED	
		2005	2004	2005	2004
		\$	\$	\$	\$
<b>CASH FLOWS USED IN OPERATING ACTIVITIES</b>					
Receipts from customers		654,360	915,436	-	-
Payments to suppliers and employees		(4,055,012)	(3,734,292)	(988,572)	(1,055,077)
Net GST received		182,335	324,784	87,893	216,776
Interest received		9,750	3,595	8,600	2,857
Borrowing costs - other persons		(18,628)	(2,585)	(5,162)	-
Receipt/(Payment) of bond		(50,729)	25,000	(50,229)	-
<b>NET CASH FLOWS USED IN OPERATING ACTIVITIES</b>	23	<b>(3,277,924)</b>	<b>(2,468,062)</b>	<b>(947,470)</b>	<b>(835,444)</b>
<b>CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>					
Purchase of plant and equipment		(41,663)	(60,741)	-	(16,448)
Purchase of interests in associates		-	(33,085)	-	(33,085)
Acquisition-related costs		(150,462)	(309,122)	(150,462)	(309,122)
<b>NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES</b>		<b>(192,125)</b>	<b>(402,948)</b>	<b>(150,462)</b>	<b>(358,655)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from the issue of ordinary shares		3,873,545	1,945,000	3,873,545	1,945,000
Advances from related parties		22,788	1,042,213	47,500	1,017,500
Finance lease principal		(9,733)	(2,817)	-	-
Capital raising expenses		(186,496)	(119,325)	(186,496)	(119,325)
Net advances to related parties		-	-	(2,464,951)	(1,679,204)
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>3,700,104</b>	<b>2,865,071</b>	<b>1,269,598</b>	<b>1,163,971</b>
<b>NET INCREASE/(DECREASE) IN CASH HELD</b>		<b>230,055</b>	<b>(5,939)</b>	<b>171,666</b>	<b>(30,128)</b>
Add: opening cash brought forward		41,045	46,984	10,276	40,404
Add: effect of exchange rate changes on cash		-	-	-	-
<b>CLOSING CASH CARRIED FORWARD</b>	5	<b>271,100</b>	<b>41,045</b>	<b>181,942</b>	<b>10,276</b>

# Notes to the Financial Statements

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of accounting

The financial report is a general-purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, which includes applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with. The financial report has been prepared in accordance with the historical cost convention.

The financial statements have been prepared on a going concern basis. The consolidated entity incurred an operating loss after income tax of \$24,013,450 for the financial year ended 30 June 2005, which included non-cash items totalling \$20,153,666. As at 30 June 2005, the consolidated entity held cash reserves of \$271,100. The Directors believe that, although there is significant uncertainty, the Company and the consolidated entity will be able to continue as going concerns on the basis that sufficient funds will be generated from a combination of sources during the coming twelve-month period. Details of these sources and other factors which the Directors have taken into consideration when forming their belief are detailed below.

- 1. Sales from domestic market.** During the period from 1 July 2005 to the date of this Annual Report, the Company received cash from the sale of its monitoring and control technology of \$120,000, with outstanding debtors in respect of further sales of \$132,000. The Directors are confident the Company will be cash flow positive by financial year end.
- 2. Sales from international market.** The Directors believe that successful trials of the Company's technology which have already been completed for large south-east Asian customers will lead to other contracts being awarded to the Company. Internal forecasts in respect of the year ending 30 June 2006, show estimated gross revenues in excess of \$10,200,000, and \$42,800,000 for the year ending 30 June 2007. Tenders have been submitted and are currently under negotiation, however contracts are yet to be signed.
- 3. Fundraising.** The Company, on the 5 April 2004, signed an agreement with a significant New York based investment fund, Cornell Capital Partners Offshore, LP (Cornell), to provide the Company with a \$10 million Equity Line of Credit. The equity facility gives the Company financial security while providing substantial flexibility to drawdown on funds together with the freedom to use alternative funding sources. In summary, the Company can issue ordinary shares to Cornell in tranches of \$150,000 up to a maximum total of \$10 million for a period of five years from the date of the agreement. There is also no mandatory or minimum drawdown amount and there are no fees payable to Cornell in respect of the unused portion of the unused facility. To date the company has drawn down \$600,000 of the \$10 million available.

Since 1 July 2005, the Company has issued a total of 27,571,429 shares to raise a total of \$964,000 in working capital. Further, the Company is currently in negotiation with a number of interested parties and the Directors are confident that additional applications for shares in the Company will be secured in the short term.

- 4. Creditor management.** Repayment schedules in respect of certain larger debts have been offered and accepted by relevant creditors, with payment schedules in place in respect of \$346,684 of outstanding amounts.
- 5. Cost reduction measures.** With the successful completion of its underlying core technology, the Company is increasing its focus on the commercialisation of its products to generate further revenues. In addition there is a concerted focus to reduce production/product costs, resulting in increased margins.

The ability of the Company and the consolidated entity to continue as going concerns is dependent on the achievement of the above items. If the Company and the consolidated entity are unable to continue as going concerns, they may be required to realise assets and extinguish liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts or classification of liabilities, that might be necessary should the Company or the consolidated entity not be able to continue as going concerns.

### Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising Intermoco Limited (the parent entity) and all entities which Intermoco Limited controlled from time to time during the year and at balance date. Information from the financial statements of subsidiaries is included from the date the parent entity obtains control until such time as control ceases. Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the parent entity obtains control.

## NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Subsidiary acquisitions are accounted for using the purchase method of accounting. The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

### **Foreign currencies**

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction. Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year. Amounts payable to, and by, the entities within the consolidated entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

All overseas operations are deemed to be integrated, as each is financially and operationally dependent on Intermoco Limited. The financial reports of overseas operations are translated using the current rate method and any exchange differences are written off during the period in which they arise.

### **Cash and cash equivalents**

Cash on hand and in banks and short-term deposits are stated at nominal value. For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, and money market investments readily convertible to cash within two working days, net of outstanding bank overdrafts. Bank overdrafts, if any, are carried at the principal amount. Interest is charged as an expense as it accrues.

### **Trade and other receivables**

Trade receivables are recognised and carried at the original invoice amount less any provision for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred. Receivables from related parties are recognised and carried at the nominal amount due. Interest receivable is taken up as income on an accruals basis. Bills of exchange and promissory notes are measured at the lower of cost and net realisable value.

### **Inventories**

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted as follows:

#### *Raw materials*

Purchase cost on a first-in-first-out basis.

#### *Finished goods and work in progress*

Purchase cost on a first-in-first-out basis.

### **Recoverable amount**

Non-current assets are not carried at an amount above recoverable amount and, where carrying values exceed this recoverable amount, assets are written down. In determining recoverable amount, the expected net cash flows have not been discounted to their present value using a market determined risk adjusted discount rate.

### **Property, plant and equipment**

Consistent with prior years, the major depreciation rates, using both diminishing value and prime cost methods, for each class of fixed asset in respect of the years ended 30 June 2004 and 2005 are stated below. All figures are in percentage terms.

Office equipment	11.25	Technical equipment	15
Motor vehicles	22.5	Testing equipment	37.5
Computer hardware	37.5	Leasehold improvements	11.25
Computer software	40	Leased assets	7.5

### **Intangibles**

#### *Intellectual property*

Intellectual property is carried at cost and is amortised on a straight-line basis over its estimated useful life, being 5 years.

## **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

### *Goodwill*

Effective as from 1 July 2004 the Company reduced the period over which the consolidated Group's goodwill arising on consolidation is amortised. The effect of this change was to double the annual amortisation expense being charged against the Group's goodwill. The accelerated charge reduced the future period over which the goodwill is to be amortised from 6.5 years to 3.25 years. In addition the Intermoco Directors valued the goodwill at \$15,000,000 at the half year ended 31 December 2004. The financial effect of this adjustment in this full-year is an additional write off expense of \$6,887,625.

#### *Formation expenses*

Formation expenses are amortised over a period of three years using the straight-line method.

#### **Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### *Operating leases*

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item, are recognised as an expense on a straight-line basis. The lease incentive liability in relation to the non-cancellable operating lease is being reduced on an imputed interest basis over the lease term (5 years) at the interest rate implicit in the lease. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

#### *Finance leases*

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Group are capitalised at the present value of the minimum lease payments and disclosed as leased assets in the property, plant and equipment note to the financial report (refer *Note 13*). A lease liability of equal value is also recognised. Capitalised leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and charged directly to the Statement of Financial Performance. The cost of improvements to, or on, leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

#### **Investments**

Investments in associates are carried at the lower of the equity-accounted amount and the recoverable amount in the consolidated financial report.

#### **Research and development costs**

Research and development costs are expensed as incurred, except where future benefits are expected, beyond any reasonable doubt, to exceed those costs. The unamortised component of any research and development costs which have been capitalised in the Statement of Financial Position are reviewed at each balance date to determine the amount (if any) that is no longer recoverable and any amount identified is written off.

#### **Trade and other payables**

Liabilities for trade creditors and other amounts are carried at cost which represents the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the consolidated entity. Payables to related parties are carried at the principle amount. Interest, when charged by the lender, is recognised as an expense on an accruals basis.

#### **Interest-bearing liabilities**

All loans are measured at the principal amount. Interest is recognised as an expense as it accrues. Finance lease liabilities are determined in accordance with the requirements of Accounting Standard *AASB 1008 Leases*.

#### **Provisions**

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities or persons, as a result of past transactions or other events, and it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of that obligation.

#### **Contributed equity**

Ordinary share capital is recognised at the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the proceeds received.

### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

## **Taxes**

### *Income tax*

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent that timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless it is virtually certain of being realised. The income tax expense for the year is calculated using the 30 percent tax rate.

### *Goods and services tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST except where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as a part of the cost of acquisition of the asset or as part of the expense item as applicable, and in respect of receivables and payables which are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the Taxation Office are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the Taxation Office.

## **Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

### *Sale of goods*

Control of the goods has passed to the buyer.

### *Rendering of services*

Where the contract outcome can be reliably measured, control of the right to be compensated for the services and the stage of completion can be reliably measured. Stage of completion is measured by reference to the labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably measured, revenue is recognised only to the extent that costs have been incurred.

## **Employee benefits**

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave. Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Employee benefit expenses and revenues arising in respect of wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits, and other types of employee benefits, are recognised against profits on a net basis in their respective categories.

The value of options issued pursuant to the Employee Option Plan described in *Note 22* is not being charged as an employee entitlement expense.

## **Earnings per share**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- ❑ costs of servicing equity (other than dividends) and preference share dividends;
- ❑ the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- ❑ other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

## **Comparative information**

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$
<b>NOTE 2: REVENUE FROM ORDINARY ACTIVITIES</b>				
<b>Revenues from operating activities</b>				
Revenue from the sale of goods	668,674	472,698	-	-
Revenue from services	89,790	119,994	-	-
Total revenues from operating activities	758,464	592,692	-	-
<b>Revenues from non-operating activities</b>				
Total revenues from non-operating activities	9,750	3,595	8,600	2,857
<b>Total revenues from ordinary activities</b>	<b>768,214</b>	<b>596,287</b>	<b>8,600</b>	<b>2,857</b>
<b>NOTE 3: EXPENSES AND LOSSES/(GAINS)</b>				
<b>Expenses</b>				
Depreciation of non-current assets				
Office equipment	6,335	5,837	1,041	1,340
Motor vehicles	1,505	1,808	-	-
Computer hardware	30,429	30,899	461	742
Computer software	18,602	27,834	-	-
Technical equipment	12,823	14,813	178	286
Testing equipment	12,760	13,992	-	-
Total depreciation of non-current assets	82,454	95,183	1,680	2,368
Amortisation of non-current assets				
Intellectual property	3,600,000	3,600,000	-	-
Goodwill arising on acquisition	9,666,041	9,666,040	-	-
Leasehold improvements	20,560	19,839	18,381	11,544
Leased assets	857	910	-	-
Total amortisation of non-current assets	13,287,458	13,286,789	18,381	11,544
Total depreciation and amortisation expenses	13,369,912	13,381,972	20,061	13,912
Borrowing costs				
Directors personally related entities	13,905	51,783	13,905	51,783
Other	18,628	12,822	5,162	-
Total borrowing costs	32,533	64,605	19,067	51,783
Provision – Bad debt	99,988	-	-	-
Provision – Non recovery of bond	50,229	-	50,229	-
Share of net losses of associates	-	394,913	-	-
Decrement in value of inventories	-	6,320	-	-
Cost of goods sold	549,436	535,022	-	-
<b>Specific items</b>				
Exploration and evaluation costs written down/off	-	120,000	-	-
Write-down of loans to controlled entities	-	-	2,256,010	2,705,856
Write-down of investments	33,085	1,217,232	20,186,750	15,237,236
Write-down of goodwill	6,887,625	-	-	-

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$

#### NOTE 4: INCOME TAX

The prima facie tax, using tax rates applicable in the country of operation, on the operating loss differs from the income tax provided in the financial statements as follows:

Operating loss before income tax	<b>(24,013,450)</b>	(19,134,611)	<b>(24,013,450)</b>	(19,372,935)
Prima facie tax on loss from ordinary activities (charged at 30%) (2004: 30%)	<b>(7,204,035)</b>	(5,740,383)	<b>(7,204,035)</b>	(5,811,880)
<i>Adjust for tax effect of permanent differences</i>				
Exploration expenditure write-down not recognised	-	36,000	-	-
Amortisation of goodwill arising on acquisition	<b>2,899,812</b>	2,899,812	-	-
Amortisation of intellectual property	<b>1,080,000</b>	1,080,000	-	-
Write-down of investments	<b>9,925</b>	365,170	<b>6,056,025</b>	4,571,171
Write-down of receivables from controlled entities	-	-	<b>676,803</b>	811,759
Write-down of goodwill	<b>2,066,287</b>	-	-	-
Equity accounted losses	-	118,474	-	-
Marketing and business development expenses	-	-	-	-
Other non-deductible expenses	<b>257</b>	2,115	-	433
Income tax benefit arising from current year	<b>(1,147,754)</b>	(1,238,813)	<b>(471,207)</b>	(428,517)
Add: benefit of tax losses not brought to account	<b>1,147,754</b>	1,238,813	<b>471,207</b>	428,517
Income tax expense attributable to ordinary activities	-	-	-	-

#### Carry forward tax losses

A future income tax benefit (calculated at 30 percent) of approximately \$5,435,287 (2004: \$4,287,533) for the consolidated entity and approximately \$4,844,790 (2004: \$4,373,583) for the Company, resulting from the recoupment of available tax losses as at 30 June 2005, is contingent upon the following:

- the Company and the consolidated entity deriving future assessable income of a nature and of an amount sufficient to enable the benefit from the losses to be realised;
- the conditions for deductibility imposed by tax legislation continuing to be complied with; and
- there being no changes in tax legislation which would adversely affect the Company and the consolidated entity from realising the benefit from the losses.

As there is no virtual certainty of the Company or the companies, which comprise the consolidated entity deriving future assessable income, no future income tax benefit has been brought to account as at 30 June 2005.

#### Tax Consolidation

Effective 1 July 2003, for the purposed of income taxation, Intermoco Ltd and its 100% owned subsidiaries formed a tax consolidated group. Members of the group have entered into a tax sharing arrangement in order to allocate income tax expense to the wholly-owned subsidiaries on a pro-rata basis. In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. At the balance date, the possibility of default is remote. The head entity of the tax consolidation group is Intermoco Ltd.

Intermoco Ltd formally notified the Australian Tax Office of its adoption of the tax consolidation regime when lodging its 30 June 2003 tax return.

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>NOTE 5: CASH ASSETS</b>				
Cash at bank	271,088	41,002	181,942	10,276
Cash on hand	12	43	-	-
Total cash assets (refer <i>Note 23</i> )	<u>271,100</u>	<u>41,045</u>	<u>181,942</u>	<u>10,276</u>
<b>NOTE 6: RECEIVABLES (CURRENT)</b>				
Trade and other debtors	256,323	35,301	-	-
Less provision for doubtful debts	(99,988)	-	-	-
Total current receivables	<u>156,335</u>	<u>35,301</u>	<u>-</u>	<u>-</u>
Trade debtors are non-interest bearing and generally on 30 day terms. There are no receivables due from related parties.				
<b>NOTE 7: INVENTORIES (CURRENT)</b>				
Finished goods, at cost	200,610	345,649	-	-
Finished goods, at net realisable value	-	17,568	-	-
Work-in-progress, at cost	87,809	87,835	-	-
Total inventories at the lower of cost and net realisable value	<u>288,419</u>	<u>451,052</u>	<u>-</u>	<u>-</u>
<b>NOTE 8: OTHER FINANCIAL ASSETS (CURRENT)</b>				
Bonds and deposits, at cost	51,229	1,000	-	-
Less Provision for non-recovery of bond	(50,229)	-	-	-
Total current other financial assets	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>-</u>
Bonds and deposits are non-interest bearing.				
<b>NOTE 9: OTHER ASSETS (CURRENT)</b>				
Deferred Expenditure	23,501	-	23,501	-
Pre-payments	500	-	-	-
Total current other assets	<u>24,001</u>	<u>-</u>	<u>23,501</u>	<u>-</u>
<b>NOTE 10: RECEIVABLES (NON-CURRENT)</b>				
Unsecured loans to controlled entities (refer <i>Note 32</i> )	-	-	13,557,298	11,092,347
Less: provision for diminution	-	-	(13,239,808)	(10,983,797)
Total non-current receivables	<u>-</u>	<u>-</u>	<u>317,490</u>	<u>108,550</u>
Loans to controlled entities are unsecured and non-interest bearing.				

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$

**NOTE 11: INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (NON-CURRENT)**

**Carrying amount of investments in associates**

Investments in associates, at cost	33,085	1,764,335
Less: shares of net losses of associates	-	(514,018)
Less: write-down of investments	(33,085)	(1,217,232)
Net investments accounted for using the equity method	<u>-</u>	<u>33,085</u>

**Share of associates' assets and liabilities**

SPK Intermoco Sdn. Bhd.

Current assets	-	-
Non-current assets	-	-
Current liabilities	-	-
Net liabilities	<u>-</u>	<u>-</u>

SPK Engineering Services Sdn. Bhd.

Non-current assets	-	-
Current liabilities	-	-
Net assets	<u>-</u>	<u>-</u>

SMA Intermoco Co. Ltd.

Current assets	-	33,085
Non-current assets	-	-
Current liabilities	-	-
Net assets	<u>-</u>	<u>33,085</u>

**Accumulated losses of the consolidated entity attributable to associate**

SPK Intermoco

Balance at the beginning of the year	23,600	23,600
Share of associate's net losses	-	-
Balance at the end of the year	<u>23,600</u>	<u>23,600</u>

SPK Engineering

Balance at the beginning of the year	1,707,650	95,505
Share of associate's net losses	-	394,913
Provision for write-down of investment	-	1,217,232
Balance at the end of the year	<u>1,707,650</u>	<u>1,707,650</u>

SMA Intermoco Co. Ltd

Balance at the beginning of the year	-	-
Provision for write-down of investment	33,085	-
Share of associate's net losses	-	-
Balance at the end of the year	<u>33,085</u>	<u>-</u>

Total

Balance at the beginning of the year	1,731,250	119,105
Share of associate's net losses	-	394,913
Provision for write-down of investment	33,085	1,217,232
Balance at the end of the year	<u>1,764,335</u>	<u>1,731,250</u>

Subsequent events affecting the associate's profits/losses for the ensuing year are disclosed in *Note 33*. The consolidated

entity's share of the associate's commitments and contingent liabilities are disclosed in *Notes 29 and 31* respectively.

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$

#### NOTE 12: OTHER FINANCIAL ASSETS (NON-CURRENT)

Shares in controlled entities, at cost	-	-	<b>65,655,011</b>	65,655,011
Less: provision for diminution	-	-	<b>(55,588,806)</b>	(35,402,056)
	-	-	<b>10,066,205</b>	30,252,955
Shares in associated entities at cost	-	-	<b>1,764,335</b>	1,764,335
Total non-current other financial assets	-	-	<b>11,830,540</b>	32,017,290

#### NOTE 13: PROPERTY, PLANT AND EQUIPMENT

Office equipment, at cost	<b>94,411</b>	90,155	<b>20,952</b>	20,952
Less: accumulated depreciation	<b>(49,848)</b>	(43,513)	<b>(16,065)</b>	(15,024)
Add: transfer	<b>10,576</b>	-	-	-
Net office equipment	<b>55,139</b>	46,642	<b>4,887</b>	5,928
Motor vehicles, at cost	<b>18,000</b>	18,000	-	-
Less: accumulated depreciation	<b>(12,818)</b>	(11,313)	-	-
Net motor vehicles	<b>5,182</b>	6,687	-	-
Computer hardware, at cost	<b>244,878</b>	211,583	<b>28,433</b>	28,433
Less: accumulated depreciation	<b>(173,107)</b>	(142,678)	<b>(27,664)</b>	(27,203)
Net computer hardware	<b>71,771</b>	68,905	<b>769</b>	1,230
Computer software, at cost	<b>78,315</b>	77,817	-	-
Less: accumulated depreciation	<b>(77,112)</b>	(58,509)	-	-
Net computer software	<b>1,203</b>	19,308	-	-
Technical equipment, at cost	<b>191,814</b>	191,314	<b>9,158</b>	9,158
Less: accumulated depreciation	<b>(126,893)</b>	(114,070)	<b>(8,862)</b>	(8,683)
Net technical equipment	<b>64,921</b>	77,244	<b>296</b>	475
Testing equipment, at cost	<b>66,760</b>	63,645	-	-
Less: accumulated depreciation	<b>(43,115)</b>	(30,355)	-	-
Net testing equipment	<b>23,645</b>	33,290	-	-
Leasehold improvements, at cost	<b>203,436</b>	203,436	<b>176,148</b>	176,148
Less: accumulated amortisation	<b>(41,647)</b>	(21,087)	<b>(31,143)</b>	(12,763)
Net leasehold improvements	<b>161,789</b>	182,349	<b>145,005</b>	163,385
Leased assets, at cost	<b>20,065</b>	20,065	-	-
Less: accumulated amortisation	<b>(9,489)</b>	(8,632)	-	-
Less: transfer	<b>(10,576)</b>	-	-	-
Net leased assets	-	11,433	-	-
Total net property, plant and equipment	<b>383,650</b>	445,858	<b>150,957</b>	171,018

#### Reconciliation of movements in consolidated property, plant and equipment

<b>Asset category</b>	<b>Opening carrying amount</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Depreciation/ amortisation expense</b>	<b>Closing carrying amount</b>
Office equipment	46,642	4,256	-	10,576	(6,335)	55,139
Motor vehicles	6,687	-	-	-	(1,505)	5,182
Computer hardware	68,905	33,295	-	-	(30,429)	71,771
Computer software	19,308	497	-	-	(18,602)	1,203
Technical equipment	77,244	500	-	-	(12,823)	64,921
Testing equipment	33,290	3,115	-	-	(12,760)	23,645
Leasehold improvements	182,349	-	-	-	(20,560)	161,789
Leased assets	11,433	-	-	(10,576)	(857)	-
<b>Totals</b>	<b>445,858</b>	<b>41,663</b>	<b>-</b>	<b>-</b>	<b>(103,871)</b>	<b>383,650</b>

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>NOTE 14: INTANGIBLE ASSETS</b>				
Intellectual property, at cost	<b>18,000,000</b>	18,000,000	-	-
Less: accumulated amortisation	<b>(16,096,438)</b>	(12,496,438)	-	-
Net intellectual property	<b>1,903,562</b>	5,503,562	-	-
Goodwill arising on acquisition	<b>48,330,204</b>	48,330,204	-	-
Less: accumulated amortisation	<b>(31,275,600)</b>	(21,609,559)	-	-
Less: write-down	<b>(6,887,625)</b>	-	-	-
Net goodwill arising on acquisition	<b>10,166,979</b>	26,720,645	-	-
Total net intangible assets	<b>12,070,541</b>	32,224,207	-	-

The ultimate recoupment of intangible assets is dependent on the successful commercial exploitation or sale of the intellectual property being developed.

**NOTE 15: PAYABLES (CURRENT)**

Trade and other creditors	<b>900,310</b>	1,373,645	<b>563,927</b>	877,197
Accrued expenses	<b>949,622</b>	739,337	<b>665,694</b>	476,684
Total current payables	<b>1,849,932</b>	2,112,982	<b>1,229,621</b>	1,353,881
Aggregate amounts payable to Director-related entities	<b>444,373</b>	529,232	<b>444,373</b>	409,223

Trade creditors are non-interest bearing and are normally settled on 30 day terms. Aggregate amounts payable to Director related entities are non-interest bearing and are payable within the financial year they are incurred.

**NOTE 16: INTEREST-BEARING LIABILITIES (CURRENT)**

Unsecured loan from related entity	-	529,233	-	504,520
Lease liability (refer <i>Note 25</i> )	-	9,733	-	-
Total current interest-bearing liabilities	-	538,966	-	504,520

**NOTE 17: PROVISIONS (CURRENT)**

Employee benefits (refer <i>Note 27</i> )	<b>82,584</b>	92,600	<b>30,268</b>	20,502
Total current provisions	<b>82,584</b>	92,600	<b>30,268</b>	20,502

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005 \$	2004 \$	2005 \$	2004 \$

**NOTE 18: OTHER LIABILITIES (CURRENT)**

Income received in advance	-	45,015	-	-
Total current other liabilities	-	45,015	-	-

**NOTE 19: PROVISIONS (NON-CURRENT)**

Employee benefits (refer <i>Note 27</i> )	19,492	14,181	1,483	427
Total non-current provisions	19,492	14,181	1,483	427

**NOTE 20: CONTRIBUTED EQUITY**

**Issued and paid up capital**

Fully paid ordinary shares	109,017,233	104,188,529	109,017,233	104,188,529
Total contributed equity	109,017,233	104,188,529	109,017,233	104,188,529

Movements in shares on issue	2005		2004	
	No. of shares	\$	No. of shares	\$
<i>Ordinary shares</i>				
Beginning of the financial year	622,091,707	104,188,529	537,390,371	99,888,487
Add: shares issued during the year				
Shares issued for cash	100,920,043	3,873,585	41,011,550	1,945,000
Shares issued other than for cash				
Operating activities <sup>(1)</sup>	14,473,616	575,730	13,779,072	749,367
Repayment of loans	10,883,173	565,885	29,910,714	1,975,000
Less: capital raising expenses	-	(186,496)	-	(369,325)
End of the financial year	748,368,539	109,017,233	622,091,707	104,188,529

<sup>(1)</sup> Of the total \$575,730 issued for operating activities, \$396,530 was issued to meet employee contractual commitments for the year 2005 and accrued liabilities from 2004. The balance being \$179,200 was issued to settle creditor obligations.

**Terms and conditions of contributed equity**

*Ordinary shares*

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$

#### NOTE 21: ACCUMULATED LOSSES

Balance at the beginning of the year	(73,760,725)	(54,626,114)	(73,760,725)	(54,387,791)
Net loss attributable to members of Intermoco Limited	(24,013,450)	(19,134,611)	(24,013,450)	(19,372,934)
Balance at the end of the year	<u>(97,774,175)</u>	<u>(73,760,725)</u>	<u>(97,774,175)</u>	<u>(73,760,725)</u>

#### NOTE 22: OPTIONS

##### Options Outstanding as at 1 July 2004

Option Holder	No. of Options	Grant Date	Vesting Date	Expiry Date	Weighted Ave Exercise Price
Macquarie	75,000,000	12 August 2002	12 August 2002	30 June 2006	15 cents
Directors	16,000,000	15 November 2002	15 November 2003	30 June 2006	15 cents
Private Investors	15,000,000	8 April 2004	8 April 2004	30 June 2005	5 cents
Employees	16,335,000	13 February 2002	13 February 2003 <sup>(1)</sup>	13 February 2006	12.5 cents
<b>TOTAL</b>	<b>122,335,000</b>				

<sup>(1)</sup> All options issued to employees have a twelve month vesting date. Vesting date on these options will vary depending on the grant date of the options.

##### Options Granted During the Reporting Period

Private Investors	5,000,000	8 October 2004	8 October 2005	30 June 2005	5 cents
Employees	5,150,000	2 May 2005	2 May 2006	13 February 2006	12.5 cents
<b>Total</b>	<b>10,150,000</b>				

##### Options Exercised During the Reporting Period

			Exercised		
Private Investors	2,500,000	8 April 2004	2 May 2005	30 June 2005	5 cents
<b>Total</b>	<b>2,500,000</b>				

##### Options Cancelled/Expired During the Reporting Period

Directors	4,000,000	15 November 2002	-	6 September 2004	15 cents
Employees	2,500,000	13 February 2002	-	6 September 2004	12.5 cents
Employees	2,350,000	13 February 2002	-	25 October 2004	12.5 cents
Employees	1,095,000	13 February 2002	-	30 June 2005	12.5 cents
Private Investors	17,500,000	8 April 2004	-	30 June 2005	5 cents
<b>Total</b>	<b>27,445,000</b>				

##### Summary of Outstanding Options to 30 June 2005

Macquarie	75,000,000	12 August 2002	12 August 2002	30 June 2006	15 cents
Directors	12,000,000	15 November 2002	15 November 2003	30 June 2006	15 cents
Employees	15,540,000	13 February 2002 to 2 May 2005	12 Months from grant date	13 February 2006	12.5 cents
<b>TOTAL</b>	<b>102,540,000</b>				

As at 1 July 2004, a total of 122,335,000 options over ordinary shares in the Company were outstanding. Of these 75,000,000 were held by Macquarie Bank Limited, 16,000,000 held by Directors, 15,000,000 held by private investors and the remainder 16,335,000 held by employees of the Company. During the period to 30 June 2005, the Company granted a total of 5,150,000 options over ordinary shares in the Company pursuant to the terms and conditions of the Company's Employee Option Plan (*note 27*). On 6 September 2004 a total of 4,000,000 options held by Directors of the Company were cancelled. On 8 October 2004, the Company granted 5,000,000 options over ordinary shares pursuant to a placement agreement to raise funds. Each option, which was granted for nil consideration, entitled the holder to acquire one fully paid ordinary share in the Company at a price of \$0.05 per share at any time up to, and including 30 June 2005. During the year ended 30 June 2005, a total of 5,945,000 options, which were held by employees of the Company, were cancelled. On 2 May 2005 a private investor exercised his 2,500,000 options at an exercise price of \$0.05 cents per share. As at 30 June 2005, a total of 102,540,000 options over ordinary shares in the Company were outstanding. No shares have been issued during or since the end of the year as a result of exercising of an option over unissued shares in the entity.

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$

## NOTE 23: STATEMENT OF CASH FLOWS

### Reconciliation of operating loss

Reconciliation of the operating loss after income tax to net cash flows used in operating activities is as follows:

Operating loss after income tax	(24,013,450)	(19,134,611)	(24,013,450)	(19,372,934)
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#### Adjust for non-cash items

Depreciation of plant and equipment	82,454	95,183	1,680	13,912
Amortisation of intellectual property	3,600,000	3,600,000	-	-
Amortisation of goodwill	9,666,041	9,666,040	-	-
Amortisation of other assets	21,417	20,748	18,381	-
Write-down of goodwill	6,887,625	-	-	-
Share of losses of associated entities	-	394,913	-	-
Write-down of investments	33,085	1,217,232	20,186,750	15,237,291
Write-down of loans to controlled entities	-	-	2,256,010	2,705,856
Write-down doubtful debt	99,988	-	-	-
Write-down non-recoverable bond	50,229	-	50,229	-
Shares issued for services rendered	575,730	199,761	575,730	199,761
Profit/(loss) on sale of plant and equipment	-	100,232	-	-
Loan forgiveness to controlled entities	-	-	-	(258,525)

#### Adjust for changes in assets and liabilities

(Increase)/decrease in trade and other debtors	(221,042)	428,469	-	183,122
(Increase)/decrease in inventories	162,633	48,981	-	-
(Increase)/decrease in prepayments	(24,001)	13,430	(23,501)	8,911
Increase/(decrease) in trade and other creditors	(322,874)	504,717	(162,808)	213,898
Increase/(decrease) in accrued expenses	210,285	309,792	189,010	194,050
(Increase)/decrease in bonds	(50,229)	25,000	(50,229)	-
Increase/(decrease) in income in advance	(45,015)	39,015	-	-
Increase/(decrease) in unsecured loans from related entities	13,905	62,020	13,905	62,020
Increase/(decrease) in provisions	(4,705)	(58,984)	10,823	(22,806)
Net cash flows used in operating activities	<u>(3,277,924)</u>	<u>(2,468,062)</u>	<u>(947,470)</u>	<u>(835,444)</u>

### Reconciliation of cash

Cash at bank	271,088	41,002	181,942	10,276
Cash on hand	12	43	-	-
Total cash	<u>271,100</u>	<u>41,045</u>	<u>181,942</u>	<u>10,276</u>

### Non-cash financing activities

- On 11 October 2004, the Company issued a total of 4,235,844 ordinary shares to employees of the Company to meet contractual commitments. The value of these shares was \$130,492.
- On 1 December 2004, the Company issued a total of 980,100 ordinary shares to employees of the Company to meet contractual commitments. The value of these shares was \$51,998.
- On 1 December 2004, the Company issued a total of 12,406,250 ordinary shares to Flow and Controls Pte Ltd to settle an unsecured loan. The value of these shares was \$645,125
- On 1 December 2004, the Company issued a total of 2,500,000 ordinary shares to Springwell Australia Pty Ltd to meet contractual commitments. The value of these shares was \$100,000.
- On 1 December 2004, the Company issued a total of 5,000,000 ordinary shares to MLW Technologies Pty Ltd to meet contractual commitments. The value of these shares was \$200,000.
- On 4 May 2005, the Company issued a total of 234,595 fully paid ordinary shares to an employee of the company to meet a contractual commitment. The value of these shares was \$14,000.

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$

#### NOTE 24: AUDITOR'S REMUNERATION

Amounts received, or due and receivable, by the auditor of Intermoco Limited in respect of:

<input type="checkbox"/> auditing the financial statements	57,000	54,000	57,000	54,000
<input type="checkbox"/> taxation services	78,590	17,197	78,590	17,197
	<u>135,590</u>	<u>71,197</u>	<u>135,590</u>	<u>71,197</u>

#### NOTE 25: EXPENDITURE COMMITMENTS

##### Finance leases

Not later than one year	-	9,733	-	-
Later than one year but not later than five years	-	-	-	-
Later than five years	-	-	-	-
Total minimum lease payments	-	9,733	-	-
Future finance charges	-	-	-	-
Total lease liability	-	9,733	-	-
Current liability	-	9,733	-	-
Non-current liability	-	-	-	-
Total lease liability	-	9,733	-	-

##### Operating lease

Amounts not provided for				
Rental commitments	1,540,000	-	1,540,000	-
Total not provided for	1,540,000	-	1,540,000	-
Total lease expenditure contracted for at reporting date	1,540,000	9,733	1,540,000	-

##### Exploration commitments

As at 30 June 2005, the Company retained an interest in certain exploration tenements in South Australia which are covered by the Commonwealth Hill joint venture. As at that date, there were no outstanding commitments in respect of these tenements.

#### NOTE 26: JOINT VENTURE

As at 30 June 2005, the Company held a 39.22 percent direct equity interest in the Commonwealth Hill exploration joint venture in South Australia. This interest was acquired by the Company (then Gawler Gold and Mineral Exploration NL) prior to the acquisition of its current monitoring and control business. The Project is currently dormant and the Company is evaluating options for the potential disposal of its interest in the joint venture.

Apart from its share of the Commonwealth Hill exploration tenements, the Company has no interest in any other joint venture assets or liabilities.

Year ended 30 June 2005	CONSOLIDATED		INTERMOCO LIMITED	
	2005	2004	2005	2004
	\$	\$	\$	\$

## NOTE 27: EMPLOYEE BENEFITS

### Employment benefit liability

The aggregate employment benefit liability is comprised of:

Provision for annual leave	82,584	92,600	30,268	20,502
Provision for long service leave	19,492	14,181	1,483	427
Accrued pay-as-you-go tax	140,149	173,092	11,380	20,779
Accrued payroll tax	7,500	10,618	-	3,506
Accrued superannuation	36,427	50,878	13,321	16,054
Total employment benefit liability	<u>286,152</u>	<u>341,369</u>	<u>56,452</u>	<u>61,268</u>

### Employee option plan

On 13 February 2002, the Company established an Employee Option Plan (the "Plan") under which full-time employees of the Company are issued with options over the ordinary shares of Intermoco Limited as a means of attracting and retaining high quality employees, minimising the level of cash outflows associated with their employment and to provide additional incentive. The options, which are granted for nil consideration, are issued subject to the Plan, and, once issued, cannot be transferred by the employee, nor are they listed on the Australian Stock Exchange. No options can be exercised until such time as the employee has completed twelve months continuous employment with the Company. As at 30 June 2005, a total of 22 full-time employees held a total of 15,540,000 such options. Each option, entitles the holder to acquire one fully paid ordinary share in the Company at a price of \$0.125 per share at any time up to, and including, 13 February 2006. Refer *Note 22* for further details.

### Fair value of options

The amounts disclosed in the report for remuneration relating to options are the assessed fair values of options that have been calculated in accordance with AASB 1046: Directors and Executive Disclosures by Disclosing Entities.

Currently, these fair values are not recognised as expenses in the financial statements.

### Employee share issues

During the year 2 employees were issued a total of 2,731,272 fully paid ordinary shares as part of their remuneration package (refer *Note 32*).

### Fair value shares

The value of shares issued under equity based compensation arrangements is recognised as an employee benefit expense.

### Superannuation

The Company contributes to a number of contribution funds at a rate of 9 percent in accordance with legislative requirements.

## NOTE 28: EARNINGS PER SHARE

The following reflects the income and share data used in the calculations of basic and diluted loss per share.

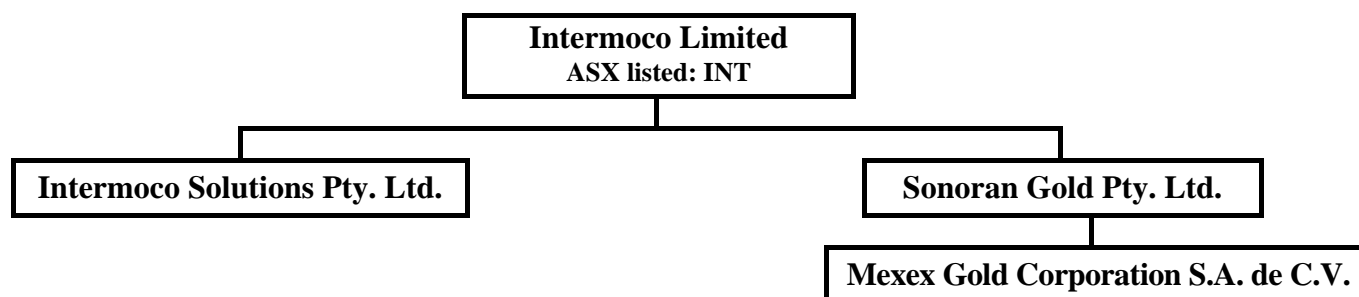
Net loss	(24,013,450)	(19,134,611)
Less: net adjustment to outside equity interest	-	-
Earnings used in calculating basic loss per share	<u>(24,013,450)</u>	<u>(19,134,611)</u>
Basic loss per ordinary share (cents per share)	(3.5)	(3.3)
Diluted loss per ordinary share (cents per share)	<u>(3.5)</u>	<u>(3.3)</u>
Weighted average number of shares on issue	<u>700,977,142</u>	<u>578,102,988</u>

In respect of the years ended 30 June 2004 and 2005, the basic loss per share equated to the diluted loss per share. Outstanding options are not considered to be dilutive due to the material differences between the exercise prices of the options and the prevailing share prices at the respective balance dates.

## NOTE 29: INTERESTS IN SUBSIDIARIES AND ASSOCIATED ENTITIES

### Group structure and results

Intermoco Limited is a company listed by shares domiciled and incorporated in Australia. As at 30 June 2005, the Intermoco Group structure may be depicted as follows:



Name of Controlled / Associated Entities	Date of Incorporation	Place of Incorporation	Reporting Date	Group interest
				2005 (%)
<b>Chief entity</b> Intermoco Limited	10 September 1987	Australia	30 June 2005	N/A
<b>Controlled entities</b> Intermoco Solutions Pty. Ltd.	18 August 2000	Australia	30 June 2005	100%
Sonoran Gold Pty. Ltd.	4 July 1997	Australia	30 June 2005	99%
Mexex Gold Corporation SA de CV	31 March 1998	Mexico	30 June 2005	99%
<b>Associated entities</b> SPK Intermoco Sdn. Bhd.	28 February 2002	Malaysia	31 December 2004	49%
SPK Engineering Services Sdn. Bhd.	8 March 2000	Malaysia	31 December 2004	49%
SMA Intermoco Co. Ltd.	16 October 2003	Thailand	31 December 2004	49%

### Associated Entities

SPK Intermoco Sdn. Bhd. was established to market and distribute the Intermoco range of products in Malaysia and surrounding regions. Due to the uncertain nature of the business, Intermoco Limited has provided for the impairment in value of the investment.

SPK Engineering Services Sdn. Bhd was established to market software specialising in the development of integrated health care applications in Malaysia. Due to the uncertain nature of the business, Intermoco Limited has provided for the impairment in value of the investment.

SMA Intermoco Co. Ltd. was established to market and distribute the Intermoco range of products in Thailand. Due to the uncertain nature of the business, Intermoco Limited has provided for the impairment in value of the investment.

## NOTE 30: SEGMENT INFORMATION

### Industry segment

Following the acquisition of Intermoco Solutions Pty. Ltd. (then known as Australon Enterprises Australia Pty. Ltd.) by the Company in January 2001, the consolidated entity changed its principal activity from that of mineral exploration and evaluation to that of technology development and commercialisation. Subsequent to that change in activities, the consolidated entity has operated predominantly in the monitoring and control industry, with particular focus on products and solutions for the utilities' industries.

### Geographic segments

The consolidated entity operates predominantly in Australia. As at balance date, the Company held a 49 percent equity interests in two Malaysian and one Thailand incorporated joint ventures. However, during the year ended 30 June 2005, only minor operations were carried out by these three companies. Refer *Note 29* for further details.

## NOTE 31: CONTINGENT LIABILITIES

At the date of this Report there were no contingent liabilities.

## NOTE 32: DIRECTOR AND EXECUTIVE DISCLOSURES

### (a) Details of specified Directors and specified Executives during the financial year are:

#### (i) Specified Directors

Graeme William Shearer - Chairman (non-Executive)

Martin Yong Heng Yii - Managing Director

Saiful Aznir Shahabudin - Director (non-Executive)

Ir. Dr Azman bin Ahmad - Director (non-Executive)

Dato' Amanullah Mohamed Yusooif – Director (non-Executive) resigned 4 June 2004

Allen Christopher George Roberts – Director resigned 30 September 2003

#### (ii) Specified Executives

Stephen Black Chief Operating Officer

Jeff Bennett Company Secretary, Chief Financial Officer

John Howell General Manager, Operations & Engineering

Vince D'Agostino Manager, Strategy & Business Development (*employment ceased 10 June 05*)

Thomas Howitt Company Secretary, Chief Financial Officer (*employment ceased 7 May 04*)

Michael Stephens General Manager, Sales (*employment ceased 28 May 04*)

### Remuneration Policy for Directors and Executives

The Remuneration Committee of the Board of Directors of Intermoco Ltd is responsible for determining and reviewing compensation arrangements for the Directors, the Chief Executive Officer and the Executive team. The Remuneration Committee assesses the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and Executive team. Such officers are given the opportunity to receive their base emolument in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of Executive Directors' and officers' emoluments of the Company's financial and operational performance. All Directors and Executives have the opportunity to qualify for participation in the Employee Share Plan.

The Remuneration Committee, at the time of writing this report, is considering the implementation of a new bonus scheme for Directors and Executives payable upon the achievement of annual corporate profitability measures, the most important being return on shareholder's equity.

The current employment agreements with the Chief Executive Officer and the Chief Financial Officer are as follows:

The Chief Operating Officer, Mr Stephen Black, is employed under a one year rolling contract, which commenced on 1 December 2003 and terminates by either party giving 60 days notice.

- Mr Black's base salary is \$92,000 plus 1,000,000 shares per annum, issued quarterly. The shares issued annually are not based on performance criteria, they have been issued in lieu of a proportion of base salary;
- Mr Black is entitled to 2,000,000 employee share options, exercisable at 12.5 cents under the employee share option plan. The options become vested after twelve months continuous employment with the Company; and

The Chief Financial Officer, Mr Jeffrey Bennett, is employed under a two year contract, which commenced on 3 May 2004 and terminates on the 2 May 2006.

Under the terms of this contract:

- Mr Bennett's base salary is \$100,000 plus shares which will be issued to the value of \$62,000 over the term of the contract on a quarterly basis. The shares issued annually are not based on performance criteria, they have been issued in lieu of a proportion of base salary;
- Mr Bennett is entitled to 2,000,000 employee share options, exercisable at 12.5 cents under the employee share option plan. The options become vested after twelve months continuous employment with the Company; and
- the Company may, by giving, notice at least one month prior to the termination, negotiate an extension of the contract for a further twelve months on the same terms and conditions unless otherwise agreed in writing.

**NOTE 32: DIRECTOR AND EXECUTIVE DISCLOSURES (cont)**

**(b) Details of specified Director's disclosures**

consolidated entity and the Company for the year ended 30 June 2005.

Directors		Annual Emoluments					Long-Term Emoluments			Super (\$)	Total Remuneration
		Base fee	Other fees	Bonus	Non monetary	Termination	Options @				
		(\$)	(\$)	(\$)		(\$)	Number granted	Value at grant date (\$)	% of Remuneration		
G. Shearer	2005	25,000	120,000	-	-	-	-	-	-	2,250	147,250
	2004	25,000	120,000	-	-	-	-	-	-	2,250	147,250
M. Yui	2005	205,000	-	-	-	-	-	-	-	18,450	223,450
	2004	205,000	2,793	-	-	-	-	-	-	18,450	226,243
S. Shahabudin	2005	25,000	-	-	-	-	-	-	-	-	25,000
	2004	25,000	-	-	-	-	-	-	-	-	25,000
A. Ahmad	2005	25,000	-	-	-	-	-	-	-	-	25,000
	2004	1,775	-	-	-	-	-	-	-	-	1,775
A. Yusooof	2005	-	-	-	-	-	-	-	-	-	-
	2004	23,225	-	-	-	-	-	-	-	-	23,225
A. Roberts	2005	-	-	-	-	-	-	-	-	-	-
	2004	6,250	-	-	-	-	-	-	-	562	20,785
			13,973								
<b>Total</b>	<b>2005</b>	<b>280,000</b>	<b>120,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,700</b>	<b>420,700</b>
	2004	286,250	136,766	-	-	-	-	-	-	21,262	444,278

**(c) Details of specified Executive's disclosures**

Executives		Annual Emoluments					Long-Term Emoluments			Super (\$)	Total Remuneration
		Base fee	Other fees	Bonus	Non monetary	Termination	Options @				
		(\$)	(\$)	(\$)		(\$)	Number granted	Value at grant date (\$)	% of Remuneration		
S. Black	2005	92,000	-	-	13,000	-	2,000,000	5,300	4.5	8,280	118,580
	2004	53,677	65,561	-	-	-	-	-	-	4,830	124,068
J. Bennett	2005	100,000	-	-	28,000	-	2,000,000	4,300	3.7	9,000	141,300
	2004	16,666	-	-	-	-	-	-	-	1,500	18,166
J. Howell	2005	110,088	-	-	-	-	-	-	-	9,908	119,996
	2004	110,088	3,334	-	-	-	-	-	-	9,908	123,330
V. D'Agostino	2005	120,322	10,639	-	-	-	-	-	-	10,232	141,193
	2004	92,409	23,680	-	-	-	-	-	-	10,833	126,922
T. Howitt	2005	-	-	-	-	-	-	-	-	-	-
	2004	112,000	8,018	-	-	-	-	-	-	10,114	130,132
M. Stephens	2005	-	-	-	-	-	-	-	-	-	-
	2004	122,211	33,115	-	-	-	-	-	-	14,564	169,890
<b>Total</b>	<b>2005</b>	<b>422,410</b>	<b>10,639</b>	<b>-</b>	<b>31,000</b>	<b>-</b>	<b>4,000,000</b>	<b>9,600</b>	<b>-</b>	<b>37,420</b>	<b>521,069</b>
	2004	507,051	133,708	-	-	-	-	-	-	51,749	692,508

Details of the Directors' remunerations are disclosed on page three of the Directors' Report and also in *Note 32*.

There were no payments made to Directors or Executives that were related to the performance of the Company.

**NOTE 32: DIRECTOR AND EXECUTIVE DISCLOSURES (cont.)**

**(d) Option holdings of specified Directors and specified Executives**

	Balance at beginning of period	Granted as remuneration	Options exercised	Net change other	Balance at end of period	Vested at 30 June 2005	
	1 July 04			#	30 June 05	Not exercisable	Exercisable
<b>Specified Directors</b>							
G. Shearer	4,000,000	-	-	-	4,000,000	-	4,000,000
M. Yii	4,000,000	-	-	-	4,000,000	-	4,000,000
S. Shahabudin	4,000,000	-	-	-	4,000,000	-	4,000,000
A. Ahmad	-	-	-	-	-	-	-
A. Yusoof	4,000,000	-	-	(4,000,000)	-	-	-
A. Roberts	-	-	-	-	-	-	-
<b>Specified Executives</b>							
S. Black	-	2,000,000	-	-	2,000,000	2,000,000	-
J. Bennett	-	2,000,000	-	-	2,000,000	2,000,000	-
J. Howell	2,000,000	-	-	-	2,000,000	-	2,000,000
V. D'Agostino	1,500,000	-	-	-	1,500,000	-	1,500,000
T. Howitt	3,000,000	-	-	(3,000,000)	-	-	-
M. Stephens	3,250,000	-	-	(3,250,000)	-	-	-
<b>Total</b>	<b>25,750,000</b>	<b>4,000,000</b>	<b>-</b>	<b>(10,250,000)</b>	<b>19,500,000</b>	<b>4,000,000</b>	<b>15,500,000</b>

**Note:**

The options are granted for nil consideration and are issued subject to the Executive Option Plan. Once issued these options cannot be transferred by the Executive, nor are they listed on the Australian Stock Exchange. No options can be exercised until such time as the Executive has completed twelve months continuous employment with the Company. Each option, entitles the holder to acquire one fully paid ordinary share in the Company at a price of \$0.125 per share (Specified Executive) and \$0.15 per share (Directors) at any time up to, and including, 13 February 2006.

**Terms & conditions for each grant**

	Vested number	Granted number	Grant date	Value per option at grant date (\$)	Exercise price per share (\$)	First exercise date	Last exercise date
S. Black	-	2,000,000	1 Dec 2003	0.00265	0.125	1 Dec 2004	13 Feb 2006
J. Bennett	-	2,000,000	3 May 2004	0.00215	0.125	3 May 2005	13 Feb 2006

(e) Shareholdings of specified Directors and specified Executives

	Balance 1 July 2004	Granted as Remuneration	On Exercise of Options	Net Change Other	Balance at 30 June 2005
	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares
<b>Specified Directors</b>					
G. Shearer	44,124,290	-	-	1,684,856	45,809,146
M. Yii	94,348,629	-	-	3,835,508	98,184,137
S. Shahabudin	-	-	-	-	-
A. Ahmad	-	-	-	-	-
<b>Specified Executives</b>					
S. Black	3,048,755	1,311,445	-	-	4,360,200
J. Bennett	680,534	1,419,827	-	-	2,100,361
J. Howell	-	-	-	-	-
V. D'Agostino	-	-	-	-	-
<b>Total</b>	<b>142,202,208</b>	<b>2,731,272</b>	<b>-</b>	<b>5,520,364</b>	<b>150,453,844</b>

Note: As at the date of this Report and in addition to the shareholdings above, Messrs. Shearer and Yii are each Directors of Australon Enterprises Pty. Ltd., which holds 203,331,922 ordinary shares in the Company (representing approximately 27.17 percent of the total number of ordinary shares on issue). As at the same date, Mr. Shahabudin, and Ir. Dr Azman bin Ahmad are related to Austral System Sdn. Bhd., which holds 98,386,669 ordinary shares in the Company (representing approximately 13.15 percent of the total number of ordinary shares on issue).

**NOTE 32: DIRECTOR AND EXECUTIVE DISCLOSURES (cont.)**

**Transactions with Director-related entities**

Related entity	Relationship	Nature of transaction	Amounts paid	
			2005 (\$)	2004 (\$)
Springwell Australia Pty. Ltd.	Associate of G. Shearer	Consulting services	120,000	120,000
Newpage Pty Ltd	Associate of M. Yii	Consulting Services	-	-
Keswick Pty Ltd	Associate of A. Roberts	Consulting Services	-	13,973

All amounts paid to Director-related entities were charged on commercial and arm's-length terms and conditions.

**Transactions within the wholly-owned group**

As at 30 June 2005, an amount of \$13,557,298 (2004: \$11,092,347) was receivable by Intermoco Limited from its various controlled entities (refer *Note 10*). The loans are unsecured, interest free and there are no fixed terms of repayment.

**Equity instruments of Directors**

*Interests at balance date*

Interests in the equity instruments of the Company and related entities held by Directors of the Company and entities related to them, as at 30 June 2005 being the number of instruments held:

*Movements in Directors' equity holdings*

During the period from 1 July 2004 up to, and including, the date of this Report, there were the following movements in Director's equity holdings:

- On 1 December 2004, Springwell Australia Pty. Ltd. (a company associated with Mr. G. Shearer) was issued with 2,000,000 ordinary shares at a price of \$0.04 per share for consultancy services rendered.
- On 1 December 2004, MLW Technologies Pty. Ltd. (a company associated with Mr. M. Yii) was issued with 5,000,000 ordinary shares at a price of \$0.04 per share in settlement of salary and wages for Mr. M. Yii.
- During the period Springwell Australia Pty. Ltd. (a company associated with Mr. G. Shearer), disposed of a net indirect

interest in a total of 315,144 ordinary shares in the Company via a decrease of the shareholding in the Company held by Australon Enterprises Pty. Ltd (a company associated with Mr. G. Shearer and Mr. M. Yii).

- During the period Newpage Pty Ltd (a company associated with Mr. M. Yii), disposed of a net indirect interest in a total of 1,164,492 ordinary shares in the Company via a decrease of the shareholding in the Company held by Australon Enterprises Pty. Ltd (a company associated with Mr. G. Shearer and Mr. M. Yii).

Apart from the above, there have been no other transactions concerning equity instruments during the financial year with Directors or their Director-related entities. All equity dealings with Directors have been entered into on terms and conditions no more favourable than those which the entity would have adopted if dealing at arm's-length.

#### **Directors' benefits - other**

No other benefits have been received, or are receivable, by Directors of the Company, other than those already disclosed elsewhere in these Notes to the Financial Statements.

#### **Ultimate parent**

As at the date of this Report, no shareholder controls more than 50 percent of the issued capital of the Company.

### **NOTE 33: SUBSEQUENT EVENTS**

- On 1 July 2005, the Company purchased Vircom Pty Ltd for a total consideration of \$500,000. The consideration is made up of a combination of shares and 1,000,000 options to be approved at the upcoming Annual General Meeting.
- On 1 July 2005, the Company announced to the Market that a total of 1,095,000 options that had previously been granted to former employees of the Company pursuant to its Employee Option Plan had lapsed. Also 17,500,000 options issued to private investors with an exercise price of 5.0 cents and an expiry date of 30 June 2005 had lapsed and were subsequently cancelled (no financial effect).
- On 13 July 2005, the Company purchased National Energy Management Services Pty Ltd for a total consideration of \$320,000 through the issue of shares to be approved at the upcoming Annual General Meeting.
- On 13 July 2005 the Company issued, by way of private placement, a total of 2,000,000 fully paid ordinary shares at an issue price of 3.4 cents each to raise a total of \$69,000 in cash, prior to the payment of expenses associated with the placement.
- On 13 July 2005, the Company issued a total of 8,430,000 options to employees of the Company under the existing Employee Option Plan.
- On 8 September 2005 the Company issued, by way of private placement, a total of 25,571,429 fully paid ordinary shares at an issue price of 3.4 cents each to raise a total of \$895,000 in cash, prior to the payment of expenses associated with the placement.
- On 8 September 2005 the Company issued a total of 651,559 fully paid ordinary shares at an issue price of 3.5 to satisfy existing contractual commitments.

Apart from these events, there were no other significant events, which have occurred after balance date.

### **NOTE 34: FINANCIAL INSTRUMENTS**

#### **Interest rate risk**

The weighted average effective interest rate applicable to the Company's cash deposits during the year ended 30 June 2005 was approximately 4.0 percent per annum.

#### **Credit risk exposure**

The consolidated entity's maximum exposure to credit risk as at balance date, in relation to each class of financial assets, is the carrying amount of those assets as indicated in the Statement of Financial Position.

#### **Net fair values**

The aggregate net fair values of the financial assets and liabilities of the consolidated entity, both recognised and unrecognised at

balance date, are as follows:

Financial assets	Notes	Carrying amount		Aggregate net fair value	
		2005 (\$)	2004 (\$)	2005 (\$)	2004 (\$)
Cash	5	271,100	41,045	271,100	41,045
Trade and other debtors	6	156,355	35,301	156,355	35,301
Bonds and deposits	8	1,000	1,000	1,000	1,000
Investments	11	-	33,085	-	33,085
Total financial assets		428,455	110,431	428,455	110,431

Financial liabilities	Notes	Carrying amount		Aggregate net fair value	
		2005 (\$)	2004 (\$)	2005 (\$)	2004 (\$)
Trade and other creditors	15	900,310	1,373,645	900,310	1,373,645
Accrued expenses	15	949,622	739,337	949,622	739,337
Unsecured loan	16	-	529,233	-	529,233
Income received in advance	18	-	45,015	-	45,015
Finance leases	25	-	9,733	-	9,733
Total financial liabilities		1,849,932	2,696,963	1,849,932	2,696,963

#### ASSUMPTIONS

- For all financial assets and liabilities, the carrying amount as shown in the Notes to the Financial Statements, approximates the fair value due to their short-term maturity.

#### NOTE 35: IMPACT OF ADOPTING AUSTRALIAN EQUIVALENTS TO A-IFRS STANDARDS

Intermoco Limited has commenced transitioning its accounting policies and financial reporting from current Australian Standards to Australian equivalents to International Financial Reporting Standards (A-IFRS). The company has allocated internal resources and conducted impact assessments to isolate key areas that will be impacted by the transition to A-IFRS. Intermoco has established a process whereby solutions have been developed and will shortly be implemented. The Audit Committee is also a key participant in this process, overseeing progress and addressing any issues that may arise. As Intermoco has a 30 June year-end, priority has been given to considering the preparation of an opening balance sheet in accordance with A-IFRS. This will form the basis of accounting for A-IFRS in the future, and is required when Intermoco prepares its first fully A-IFRS compliant financial report for the year ended 30 June 2006. Set out below are key areas where accounting policies will change and may have an impact on the financial report of Intermoco. At this time the company has not yet been able to reliably quantify the impacts of changes to the financial report as a result of the adoption of A-IFRS.

#### Impairment of Assets

Under AASB 136 *Impairment of Assets* the recoverable amount of an asset is determined as the higher of fair value less costs to sell and value in use. This will result in a change in the company's accounting policy which determines the recoverable amount of an asset on the basis of undiscounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-downs will be greater. This will result in increased volatility of results of the Company.

#### Goodwill

Under the Australian equivalent to A-IFRS 3 Business Combinations goodwill will no longer be able to be amortised but instead will be subject to annual impairment testing. This will result in a change in the group's current accounting policy which amortises goodwill over its useful life but not exceeding 6 years. Under the new policy, amortisation will no longer be charged, but goodwill will be written down to the extent it is impaired. This will result in increased volatility of results of the Company.

#### Share Based Payments

Under AASB 2 *Share Based Payments*, the company will be required to recognise an expense in net profit for the fair value of share rights and any options issued to employees as remuneration. It applies to all share rights issued after 7 November 2002 that have not vested as at 1 January 2005. The Company will also be required to recognise an expense in net profit for the fair value of share rights and any options issued to creditors for goods and services. Upon initial adoption of Australian equivalents to A-IFRS standards retained profits will decrease. Subsequent to initial adoption expenses will increase.

#### Classification of Financial Instruments

Under AASB 139 *Financial Instruments: Recognition and Measurement*, financial instruments will be required to be classified into one of five categories which will, in turn, determine the accounting treatment of the item. The classifications are loans and receivables- measured at amortised cost, held to maturity - measured at amortised cost, held for trading -

measured at fair value with fair value changes charged to net profit or loss, available for sale – measured at fair value with fair value changes taken to equity and non-trading liabilities - measured at amortised cost.

This will result in a change in the current accounting policy that does not classify financial instruments. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not yet been fully completed.

### **Income Taxes**

Under AASB 112 *Income Taxes*, the company will be required to use a balance sheet liability method which focuses on the tax-effects of the transactions and other events that affect amounts recognized in either the Statement of Financial Position or a tax-based balance sheet. As Intermoco has not booked any deferred tax balances, there will be no impact on transition to A-IFRS.

### **Directors' Declaration**

In accordance with a resolution of the Directors of Intermoco Limited I state that,

- (1) In the opinion of the Directors:
  - (a) the financial statements and notes of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date; and
    - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
  - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.

On behalf of the Board



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**GRAEME W. SHEARER**

*Chairman*

Melbourne, 30 September 2005

## Independent audit report to members of Intermoco Limited

### Scope

#### *The financial report and directors' responsibility*

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Intermoco Limited (the company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### *Audit approach*

We conducted an independent audit of the financial report in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

## **Independence**

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which is included in the Directors' Report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

## **Qualification**

As a result of the acquisition of Intermoco Solutions Pty Ltd (formerly Australon Enterprises Australia Pty Ltd), intangible assets representing intellectual property of \$18,000,000 and goodwill of \$48,330,204 were recognised. The valuation of the intellectual property is based on an independent valuation. The valuation takes into account the future value of cash flows from the sale of products utilising the intellectual property. As at 30 June 2005, the written down values of the intellectual property and goodwill were \$1,903,562 and \$10,166,979 respectively.

The ability of Intermoco Limited to recover the carrying amounts of the intellectual property and goodwill is dependent on the generation of sufficient future cash flows from the sale of products utilising the intellectual property. We have been unable to obtain sufficient reliable audit evidence to support the expected future profits and other cash flows associated with the intellectual property and goodwill, and therefore we are unable to conclude whether these assets are carried at amounts above their recoverable amounts in accordance with *AASB 1010 "Recoverable Amount of Non-Current Assets"*.

## **Qualified Audit opinion**

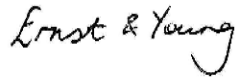
In our opinion, except for the effects on the financial report of such adjustments, if any, as might have been determined to be necessary had the limitation of scope referred to in the qualification paragraphs not existed, the financial report of Intermoco Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the financial position of Intermoco Limited and the consolidated entity at 30 June 2005 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.

## **Inherent Uncertainty Regarding Going Concern**

Without further qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters disclosed in Note 1 to the financial statements, there is significant uncertainty whether Intermoco Limited and the consolidated entity will be able to continue as going concerns and, therefore, whether they will be able to pay their debts as and when they become due and payable, and whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts

stated in the financial statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts, or to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.



Ernst & Young



R C Piltz  
Partner

Melbourne  
30 September 2005

## ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 15 September 2005.

### Substantial Shareholders

As at 15 September 2005, the Company's Register of Substantial Shareholders disclosed three substantial shareholders. The names of the substantial shareholders are Advanced Communications Technologies (Australia) Pty Ltd (Administrator appointed) and Newpage Pty. Ltd., each through their respective shareholdings in Australon Enterprises Pty. Ltd., and Austral System Sdn. Bhd.

### Shareholder Distribution

As at 15 September 2005, the issued share capital of the Company comprised 780,556,026 fully paid ordinary shares. Further, a total of 111,970,000 options over shares in the Company were outstanding (refer Note 23 of the accompanying financial statements for details). As at that date, the Company's Register of Shareholders disclosed a total of 2,385 shareholders. The number of shareholders, by size of holding, in each class of share is:

	Ordinary Shares		Preference Shares	
	No. of holders	No. of shares	No. of holders	No. of shares
1 - 1,000	37	17,307	-	-
1,001 - 5,000	116	491,417	-	-
5,001 - 10,000	519	4,896,329	-	-
10,001 - 100,000	1,099	49,829,847	-	-
100,001 - and over	594	725,321,126	-	-
<b>Total</b>	<b>2,385</b>	<b>780,556,026</b>	-	-

The number of shareholders holding less than a "marketable parcel" of shares as at 15 September 2005 (being 11,905 shares) was 715. These shareholders held a total of 5,661,584 fully paid ordinary shares in the Company as at that date, representing approximately 0.84 percent of the total issued ordinary share capital of the Company as at that date.

### Quotation Of Securities

The Company's fully paid ordinary shares are included on the Official List of the Australian Stock Exchange Limited (code: INT). None of the 111,970,000 outstanding options over ordinary shares in the Company are quoted on ASX.

### Voting Rights

Subject to the rights or restrictions attached to any shares, on a show of hands every shareholder present at a general meeting in person or by proxy or attorney or by his or her duly appointed representative shall have one vote. Refer *Note 24* for further details.

### Tax Status

The Company is taxed as a public company.

**TWENTY LARGEST ORDINARY SHAREHOLDERS**

(as at 15 September 2005)

		Listed ordinary shares	
		No. of shares	% of ordinary shares
1	Australon Enterprises Pty Ltd	203,331,922	26.05
2	Austral System SDN BHD	98,386,669	12.60
3	Allemar Investments Limited	32,500,000	4.16
4	Newpage Pty Ltd	30,788,751	3.94
5	ANZ Nominees Ltd	26,151,556	3.35
6	Citicorp Nominees Pty Limited	9,913,052	1.27
7	Idameneo No 62 Pty Limited	9,595,161	1.23
8	Mr. Frank Rotar & Mr. Lindo Rotar	9,107,143	1.17
9	Mr. Michael Hynes	6,250,000	0.80
10	Mr. Andrew John Roberts	6,000,000	0.77
11	Dr. Leon Eugene Pretorius	5,460,000	0.70
12	MLW Computer Services Pty Limited	5,457,024	0.70
13	Mr. Lindo Rotar	5,193,201	0.67
14	Mr. Geoffrey Mark Cottle	4,128,000	0.53
15	Karakoram No. 2 Pty Ltd	4,032,222	0.52
16	Dr. Leon Eugene Pretorius	4,000,000	0.51
17	Cherdan Nominees Pty Limited	3,750,000	0.48
18	Drumoak Pty Limited	3,750,000	0.48
19	UBS Private Clients Australia Nominees P/L	3,618,005	0.46
20	Cocoon Nominees Pty Limited	3,520,196	0.45
<b>Totals</b>		<b>474,932,902</b>	<b>60.84</b>