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## INCOME STATEMENTS

For the year ended 30 June 2008

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>CONTINUING OPERATIONS</b>					
<b>Revenue</b>					
Sales of goods		466,662	295,196	225,731	295,196
Royalties and licences		26,530	37,972	9,466	37,972
Grant income	6 (a)	170,170	270,380	170,170	270,380
Finance income		34,955	56,425	34,955	56,425
Other income		0	1,580	0	1,580
		<u>698,317</u>	<u>661,553</u>	<u>440,322</u>	<u>661,553</u>
<b>Expenses</b>					
Cost of goods sold		(385,529)	(187,299)	(220,576)	(187,299)
Research and development		(872,484)	(672,259)	(677,477)	(672,259)
Intellectual property		(190,495)	(70,117)	(190,495)	(70,117)
Marketing and business development		(1,419,080)	(794,947)	(1,419,080)	(794,947)
Administration expenses		(407,216)	(216,623)	(291,236)	(216,623)
Loss before income tax		<u>(2,576,487)</u>	<u>(1,279,692)</u>	<u>(2,358,542)</u>	<u>(1,279,692)</u>
Income tax benefit	7	179,194	176,826	179,194	176,826
Loss after income tax		<u>(2,397,293)</u>	<u>(1,102,866)</u>	<u>(2,179,348)</u>	<u>(1,102,866)</u>
<b>Earnings per Share</b>					
Basic loss per share (cents)	8	(33.9)	(18.2)		
Diluted loss per share (cents)	8	(33.9)	(18.2)		
Dividends per share (cents)		<u>0.0</u>	<u>0.0</u>		

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

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## BALANCE SHEETS

As at 30 June 2008

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents	9	342,518	542,238	378,893	542,238
Trade and other receivables	10	349,322	205,026	255,372	205,026
Inventories	12	140,022	68,086	80,845	68,086
Other assets	11	28,872	29,543	28,872	29,543
<b>Total Current Assets</b>		<b>860,734</b>	<b>844,893</b>	<b>743,982</b>	<b>844,893</b>
<b>Non-Current Assets</b>					
Trade and other receivables	10	0	0	261,711	0
Other financial assets	13	0	0	941,198	0
Property, plant and equipment	14	136,188	73,344	52,326	73,344
Intangible assets	15	902,087	25,834	23,950	25,834
<b>Total Non-current Assets</b>		<b>1,038,275</b>	<b>99,178</b>	<b>1,279,185</b>	<b>99,178</b>
<b>TOTAL ASSETS</b>		<b>1,899,009</b>	<b>944,071</b>	<b>2,023,167</b>	<b>944,071</b>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Trade and other payables	17	643,335	246,780	554,971	246,780
Employee entitlements	18	380,148	48,387	374,725	48,387
<b>Total Current Liabilities</b>		<b>1,023,483</b>	<b>295,167</b>	<b>929,696</b>	<b>295,167</b>
<b>Non-Current Liabilities</b>					
Employee entitlements	18	41,417	0	41,417	0
<b>Total Non-Current Liabilities</b>		<b>41,417</b>	<b>0</b>	<b>41,417</b>	<b>0</b>
<b>TOTAL LIABILITIES</b>		<b>1,064,900</b>	<b>295,167</b>	<b>971,113</b>	<b>295,167</b>
<b>NET ASSETS</b>		<b>834,109</b>	<b>648,904</b>	<b>1,052,054</b>	<b>648,904</b>
<b>EQUITY</b>					
Contributed equity	19	6,145,751	3,655,467	6,145,751	3,655,467
Reserves	20	92,214	0	92,214	0
Accumulated losses	22	(5,403,856)	(3,006,563)	(5,185,911)	(3,006,563)
<b>TOTAL EQUITY</b>		<b>834,109</b>	<b>648,904</b>	<b>1,052,054</b>	<b>648,904</b>

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

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## STATEMENTS OF CHANGES IN EQUITY

For the year ended 30 June 2008

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>CONTRIBUTED EQUITY</b>	19				
Opening balance		3,655,467	2,741,125	3,655,467	2,741,125
Issue of share capital		2,490,284	914,342	2,490,284	914,342
Closing balance		6,145,751	3,655,467	6,145,751	3,655,467
<b>RESERVES</b>	20				
Opening balance		0	0	0	0
Share based payments		92,214	0	92,214	0
Closing balance		92,214	0	92,214	0
<b>ACCUMULATED LOSSES</b>	22				
Opening balance		(3,006,563)	(1,903,697)	(3,006,563)	(1,903,697)
Loss after income tax		(2,397,293)	(1,102,866)	(2,179,348)	(1,102,866)
Closing balance		(5,403,856)	(3,006,563)	(5,185,911)	(3,006,563)

The above statements of changes in equity should be read in conjunction with the accompanying notes

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**CASH FLOW STATEMENTS**

For the year ended 30 June 2008

	Note	Consolidated		Company	
		2008 \$	2007 \$	2008 \$	2007 \$
<b>Cash Flows from Operating Activities</b>					
Receipts from customers		480,577	320,683	253,471	320,683
Receipts from grant providers		170,170	297,418	170,170	297,418
Payment to suppliers and employees		(2,465,259)	(1,801,098)	(2,028,590)	(1,801,098)
Interest received		29,350	65,173	29,350	65,173
Income tax received		176,826	149,783	176,826	149,783
<b>Net Cash Flows Used in Operating Activities</b>	23	<b>(1,608,336)</b>	<b>(968,041)</b>	<b>(1,398,773)</b>	<b>(968,041)</b>
<b>Cash Flows from Investing Activities</b>					
Proceeds from sale of property, plant and equipment		0	3,913	0	3,913
Purchase of property, plant and equipment		(103,337)	(4,705)	(14,814)	(4,705)
Payment for purchase of subsidiary, net of cash acquired	16	(72,602)	0	(72,602)	0
Loan to related entity		0	0	(261,711)	0
<b>Net Cash Flows Used in Investing Activities</b>		<b>(175,939)</b>	<b>(792)</b>	<b>(349,127)</b>	<b>(792)</b>
<b>Cash Flows from Financing Activities</b>					
Proceeds from issue of shares		1,584,555	914,342	1,584,555	914,342
<b>Net Cash Flows from Financing Activities</b>		<b>1,584,555</b>	<b>914,342</b>	<b>1,584,555</b>	<b>914,342</b>
Net decrease in cash and cash equivalents		(199,720)	(54,491)	(163,345)	(54,491)
Opening cash and cash equivalents		542,238	596,729	542,238	596,729
<b>Cash and cash equivalents at end of period</b>	9	<b>342,518</b>	<b>542,238</b>	<b>378,893</b>	<b>542,238</b>

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

**NOTES TO THE FINANCIAL STATEMENTS****1. CORPORATE INFORMATION**

The financial report of Fluorotechnics Limited for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the directors on 17 October 2008. The director's have the power to amend and re-issue the financial report.

Fluorotechnics Limited is a company limited by shares incorporated in Australia. Its registered office is Level 6, 2 Bulletin Place, Sydney, NSW 2000 and principal place of business is R257, Building E8C, Macquarie University, North Ryde, NSW 2109.

This financial report covers both the separate financial statements of Fluorotechnics Limited as an individual entity and the consolidated financial statements for the consolidated entity consisting of Fluorotechnics Limited and its subsidiaries. The financial report is presented in the Australian currency.

The company's principal activities are the manufacture and development of fluorescent research tools for the global biotechnology and diagnostic markets.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****(a) Basis of Accounting**

The financial report is a general-purpose financial report that has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis. Comparative amounts have been reclassified where appropriate to enhance comparability.

**(b) Going Concern**

The ability of the company to continue as a going concern is dependent on it generating sufficient income and equity funding to cover costs.

The directors do not believe that the company will receive significant commercial income in the next six months. Consequently the company's ability to continue as a going concern is dependent on its ability to attract further equity funding. On 11 September 2008 the company lodged a supplementary prospectus with the Australian Securities and Investments Commission (ASIC) seeking to raise between six and twelve million dollars by issuing six to twelve million shares for one dollar a share through an Initial Public Offering (IPO). While it is too early to say how much will be raised by the IPO, at the time of lodging the supplementary prospectus the company had received a commitment from an ethical investment fund to apply for 6.25 million shares in the company. The board believes that the amount will be sufficient to allow the company to trade until it becomes cash flow positive.

As a result of the above, the board is confident the company will be able to continue as a going concern until such time as it is able to produce commercial revenue from products released to market. However, should losses continue and/or future capital raisings not be successful, the company may not be able to continue as a going concern. Furthermore, the ability of the company to continue as a going concern is subject to the ability of the company to develop and successfully commercialise the projects being developed.

**(c) Compliance with International Financial Reporting Standards (IFRS)**

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial statements and notes of Fluorotechnics Limited also comply with IFRS.

## NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(d) Principles of consolidation***Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Fluorotechnics Limited as at 30 June 2008 and the results of all subsidiaries for the period then ended. Fluorotechnics Limited and its subsidiaries together are referred to in this financial report as the Group or consolidated entity.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 2(e)).

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of identifiable net assets of the subsidiary.

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

Investments in subsidiaries are accounted for at cost in the individual financial statements of Fluorotechnics Limited.

**(e) Business combinations**

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at the fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 2 (g)). If the cost of acquisition is less than the Group's share of the fair value of identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) **Business combinations (continued)**

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

(f) **Property, plant and equipment**

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a diminishing value basis over the estimated useful life of the asset as follows:

Plant and equipment – over 3 to 5 years

(g) **Intangible assets**

*Goodwill*

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

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

*Acquired both separately and from a business combination*

Intangible assets acquired separately are capitalized at cost and from a business combination are capitalized at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortization is charged on assets with finite lives, this expense is taken to the income statement through the 'administrative expenses' line item.

Intangible assets, excluding development costs, created within the business are not capitalized and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

*Research and development costs*

Research costs are expensed as incurred.

Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured.

Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any expenditure carried forward is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) **Intangible assets (continued)**

A summary of the policies applied to the Group's intangible assets is as follows:

	Patents	Intellectual property	Contracts
Useful lives	Finite	Indefinite	Indefinite
Method used	20 years straight Line	Impairment	Impairment
Internally generated / acquired	Acquired	Acquired	Acquired
Impairment test / recoverable amount testing	Amortisation method reviewed at each financial year end; reviewed annually for indicator of impairment	Reviewed annually for indicator of impairment	Reviewed annually for indicator of impairment

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statements when the asset is derecognised.

(h) **Foreign currency translation**

Both the functional and presentation currency of the Group and Company is Australian dollars (A\$).

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction.

Amounts payable to or by the Group in foreign currency have been translated into Australian currency at the exchange rates current at balance date. Gains and losses arising from fluctuations in exchange rates are included in the profit for the year.

*Group companies*

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

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

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entities and translated at the closing rate.

(i) **Impairment of assets**

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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## NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(j) 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 is accounted for as follows:

Raw materials- purchase cost on a first-in, first-out basis.

Finished goods and work-in progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

**(k) Trade and other receivables**

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

**(l) Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statements, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(m) Trade and other payables**

Trade payables and other accounts payable are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services.

**(n) Employee benefits****i) Wages, salaries and annual leave**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in employee entitlements in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

**ii) Long service leave**

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised and measured in accordance with (i) above.

The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in employee entitlements and is measured based on remuneration rates current as at balance date for all employees with five or more years of service.

**(o) Contributed equity**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

**(p) Share-based payment transactions**

The Group provides benefits to employees (including directors) of the Group in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is currently one plan in place to provide benefits being the Employee Share Option Plan (ESOP), which provides benefits to all full time employees.

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 21.

To date the external valuer has determined that no value can be attributable to the options issued to the employees.

In valuing equity-settled transactions, no account is taken of any performance conditions.

## NOTES TO THE FINANCIAL STATEMENTS

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(q) Leases**

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statements on a straight-line basis over the lease term.

**(r) Revenue**

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

Sales of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statements over the expected useful life of the relevant asset by equal annual instalments.

Interest

Revenue is recognised as the interest accrues, using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, to the net carrying amount of the financial asset.

**(s) Income tax**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

NOTES TO THE FINANCIAL STATEMENTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**(s) Income tax (continued)**

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity.

**(t) Other taxes**

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 part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables 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 balance sheet.

Cash flows are included in the Cash Flow Statements 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 authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(u) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The director's assessment is that these new standards and interpretations (to the extent relevant to Fluorotechnics Limited) will have no impact on the financial report of the company except for the following:

*Revised AASB 101 Presentation of Financial Statements. AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 and AASB 2007-10 Further Amendments to Australian Accounting Standards Arising from AASB 101*

A revised AASB 101 is effective for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income, and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. An income statement will no longer be required. Also, if an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The company intends to apply the revised standards from 1 July 2009, i.e. for 30 June 2010 financial statements.

**(v) Early adoption of standards**

The entity has elected to apply the following pronouncement to the annual reporting period beginning 1 January 2009: AASB 8 Operating Segments. No adjustments to any of the financial statements were required for the above pronouncement, but certain disclosures are no longer required and have therefore been omitted.

## NOTES TO THE FINANCIAL STATEMENTS

## 3. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The Group and Company hold the following financial instruments:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Financial Assets</b>				
Cash and cash equivalents	342,518	542,238	378,893	542,238
Trade and other receivables – current	349,322	205,026	255,372	205,026
Trade and other receivables – non-current	0	0	261,711	0
Other financial assets	0	0	941,198	0
	<b>691,840</b>	<b>747,264</b>	<b>1,837,174</b>	<b>747,264</b>
<b>Financial Liabilities</b>				
Trade and other payables	643,335	295,167	554,971	295,167
	<b>643,335</b>	<b>295,167</b>	<b>554,971</b>	<b>295,167</b>

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group does not use derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures.

The Group has policies in place to manage the risk attached to each of the instruments noted in the table above. Risk management is the responsibility of the Chief Financial Officer under guidelines set by the board. Financial counterparties are selected only with approval from the board. The board monitors cash management at each meeting. Financial risk management is reviewed annually as part of the group's broader risk management processes.

## (a) Market Risk

The Group's market risk exposure is monitored on an ongoing basis by the Chief Financial Officer in accordance with parameters set by the board. There has been no change in this approach from the previous period.

## (i) Foreign Exchange Risk

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

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities that are denominated in a currency that is not the entity's functional currency.

Management has set up a policy requiring group companies to manage their foreign exchange risk against their functional currency.

At year end the Group held a US dollar bank account totalling A\$10,773 (2007 - A\$13,736) in funds and two Euro bank accounts which were net overdrawn totalling A\$13,354 (2007 - A\$0). There were no finance facilities at balance date or during the year.

## NOTES TO THE FINANCIAL STATEMENTS

## 3. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Trade receivables held by the Group and Company at year were held in the following currencies (AUD equivalent):

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Australian Dollars	291	3,341	291	3,341
US Dollars	6,520	3,804	6,520	3,804
European Union Euros	48,431	3,427	9,902	3,427
British Pounds	1,119	3,510	1,119	3,510
Singapore Dollars	112	0	112	0
<b>Total trade receivables</b>	<b>56,473</b>	<b>14,082</b>	<b>17,944</b>	<b>14,082</b>

Trade payables held by the Group and Company at year were held in the following currencies (AUD equivalent):

Australian Dollars	356,034	47,661	356,035	47,661
US Dollars	852	0	852	0
European Union Euros	73,939	7,129	9,757	7,129
British Pounds	8,741	0	8,741	0
Canadian Dollars	2,156	2,339	2,156	2,339
<b>Total trade payables</b>	<b>441,722</b>	<b>57,129</b>	<b>377,541</b>	<b>57,129</b>

There were no other foreign currency monetary assets or liabilities held by the Group.

Sensitivity

Based on the financial instruments held at 30 June 2008, had the Australian dollar weakened/strengthened by 10% against the US dollar or Euro with all other variables held constant, the Group's (and Company's) post-tax profit for the year would have been less than \$10,000 lower / higher (2007 – less than \$10,000 higher / lower), mainly as a result of foreign exchange gains/losses on translation of US dollar or Euro denominated financial instruments as detailed in the above table. A 10% movement in the British Pound, Canadian Dollar or Singapore Dollar (up or down) would not have a material impact on the Group's (and Company's) post tax profit for the year.

## (ii) Price Risk

The Group is not exposed to price risk, including exposure to commodity and equity securities price risk.

## (iii) Cashflow and Interest Rate Risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and term deposit holdings. The Group's policy is to manage its interest revenue using a mix of fixed and variable rates. The Group's policy is to keep any cash excess to immediate working capital requirements in term deposits maturing every 30, 60 and 90 days. As at reporting date the Group (and Company) had the following cash and term deposit holdings:

	Consolidated		Company		Weighted Average Effective Interest Rate	
	Fixed / Floating Interest	Fixed / Floating Interest	Fixed / Floating Interest	Fixed / Floating Interest	2008	2007
	2008	2007	2008	2007	2008	2007
	\$	\$	\$	\$	%	%
<b>Financial assets</b>						
Cash and cash equivalents	342,518	378,893	378,893	542,238	5.48%	6.10%

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## NOTES TO THE FINANCIAL STATEMENTS

## 3. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

Sensitivity

During the year ended 30 June 2008, if interest rates had changed by +/- 80 basis points from the prevailing rates, with all other variables held constant, the Group's (and Company's) post-tax profit for the year would have been \$3,000 lower/higher (2007 – \$5,000 lower/higher), mainly as a result of higher/lower interest income from cash and cash equivalents.

## (b) Credit Risk

Credit risk for the Group is associated with deposits with banks and exposure to customers. For banks, only independently rated parties with a minimum rating of 'A' are accepted. For customers sales are generally made on 30 to 60 day settlement terms.

The Group policy is to trade only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group assesses their credit quality, taking into account their financial position, past experience and other factors.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets as shown at the start of this note.

The Group invests surplus funds only with banks approved by the board. Currently funds are held with two different banks. Otherwise there are no significant concentrations of credit risk within the Group. Since the Group trades only with recognised third parties, there is no requirement for collateral.

Receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. The group has not experienced any default event in respect of its cash or receivables instruments.

There has been no change in this approach from the previous period.

The amount of trade debtors outstanding as at 30 June 2008 was \$56,473 (2007 – \$14,082).

All past due but not impaired amounts have been received subsequent to year end.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Cash at Bank and Short Term Deposits</b>				
AA (S&P)	342,518	542,238	378,893	542,238
	<b>342,518</b>	<b>542,238</b>	<b>378,893</b>	<b>542,238</b>

## (c) Liquidity Risk

The Group relies on surplus cash holdings to fund its working capital needs. Any surplus cash not required to meet immediate working capital needs is invested in 30, 60 or 90 day bank term deposits as appropriate.

The Group does not carry debt or loan or overdraft facilities. The only financial instrument liabilities are trade and other payables which are typically payable in accordance with normal commercial terms.

The Chief Financial Officer ensures that sufficient funds are on hand to meet short term commitments to pay creditors. The board is apprised regularly of forecast cash demands and the ability of the company to meet those demands from its cash reserves.

There has been no change in this approach from the previous period.

NOTES TO THE FINANCIAL STATEMENTS

3. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Fair Value estimation

The board believes that the carrying amount of the financial assets and financial liabilities in the balance sheet (summarised at the beginning of this note) is a reasonable approximation of fair value. The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short term nature.

4. DIVIDENDS

No amounts have been paid, declared or recommended by the company by way of dividend since the commencement of the year (2007 nil). The franking account balance is nil (2007 nil).

5. CHANGE IN COMPOSITION OF ENTITY

In October 2007 Fluorotechnics Limited acquired 100% of the voting shares in ETC Elektrophorese-Technik GmbH. In August 2008 Fluorotechnics Limited changed status from a private Australian company to an unlisted public Australian company and associated with this changed its name to Fluorotechnics Limited.

There has been no other change in the composition of the entity.

6. REVENUE AND EXPENSES

	Consolidated		Company	
	2008 \$	2007 \$	2008 \$	2007 \$
<b>(a) Grant Income</b>				
Government grants released	170,170	270,380	170,170	270,380
A Commonwealth Government grant has been received for ongoing research activities within Australia, to develop new fluorescent consumable products. A Commonwealth Government grant has been received in relation to the Groups Australian export activities. Contingencies attaching to these grants are explained in Note 26.				
<b>(b) Employment Expenses</b>				
Wages and salaries	1,415,951	836,389	1,234,010	836,389
Employee allowances	70,739	4,301	70,739	4,301
Superannuation	95,205	60,106	83,216	60,106
Other	71,614	30,968	70,537	30,968
	1,653,509	931,764	1,458,502	931,764

7. INCOME TAX

Reconciliation of Income Tax Expense to Prima Facie Tax Payable:

Loss before income tax	(2,576,487)	(1,279,692)	(2,358,542)	(1,279,692)
Tax (benefit) at the Australian tax rate of 30%	(772,946)	(383,908)	(707,563)	(383,908)
Add tax effect of:				
Other items	0	(679)	0	(679)
Other non-allowable items	67,029	1,618	1,646	1,618
Less tax effect of:				
Timing Differences not brought to account	526,723	206,143	526,723	206,143
	(179,194)	(176,826)	(179,194)	(176,826)
Deferred Tax Asset not brought to account	0	0	0	0
Income tax expense (benefit) reported in income statement	(179,194)	(176,826)	(179,194)	(176,826)

## NOTES TO THE FINANCIAL STATEMENTS

## 7. INCOME TAX (CONTINUED)

**Income Tax Losses**

The Group has tax losses arising in Australia of \$2,633,040 that are available indefinitely for offset against taxable profits of the company in which those losses arose.

**Franking Credits**

The Company has no franking credits available for distribution as no income tax has been paid to date.

## 8. EARNINGS PER SHARE

Basic earnings per share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects of dilutive options, if any).

	Consolidated	
	2008	2007
	\$	\$
Loss after income tax	(2,397,293)	(1,102,866)
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share:	7,069,493	6,049,220
Effect of dilutive securities:	0	0
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share:	7,069,493	6,049,220

Share options have been excluded from the calculation of the number of diluted securities as they have an anti dilutive effect on the earnings per share calculation.

## 9. CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash at bank	142,518	142,238	178,893	142,238
Short-term deposits	200,000	400,000	200,000	400,000
	342,518	542,238	378,893	542,238

Cash at bank earns interest at floating rates based on daily bank deposit rates.

Short-term deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates.

The fair value of cash and cash equivalents is:

	342,518	542,238	378,893	542,238
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## NOTES TO THE FINANCIAL STATEMENTS

## 10. TRADE AND OTHER RECEIVABLES

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Current</b>				
Trade receivables	56,473	14,082	17,944	14,082
Other receivables	292,849	190,944	237,428	190,944
	<u>349,322</u>	<u>205,026</u>	<u>255,372</u>	<u>205,026</u>
<b>Non-Current</b>				
Loan to controlled entity - ETC Elektrophorese-Technik GmbH	0	0	261,711	0

## 11. OTHER ASSETS

Prepayments	<u>28,872</u>	<u>29,543</u>	<u>28,872</u>	<u>29,543</u>
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## 12. INVENTORIES

Finished goods – at cost	<u>140,022</u>	<u>68,086</u>	<u>80,845</u>	<u>68,086</u>
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## 13. OTHER FINANCIAL ASSETS

Shares in controlled entities - unlisted	0	0	941,198	0
Less: Allowance for write down	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Investments	<u>0</u>	<u>0</u>	<u>941,198</u>	<u>0</u>

**Interests in Subsidiaries**

ETC Elektrophorese-Technik GmbH is the only trading entity controlled by the Company as at 30 June 2008. This entity has been included in the consolidated accounts of the Group from 1 November 2007.

ETC GmbH is a German based company and was acquired at 31 October 2008, with the initial value at cost comprising shares and the costs of acquisition to a total value of \$940,152. The underlying assets and business of ETC GmbH were fair valued at the time of acquisition and are recorded at these values at year end.

In May 2008 the Group incorporated a non-trading company in Delaware, USA. This company, Fluorotechnics Inc. did not trade from the date of incorporation to the end of the financial year. This entity has been included in the consolidated accounts of the Group from the date of incorporation. The initial value at cost comprising shares was a total value of \$1,046.

## NOTES TO THE FINANCIAL STATEMENTS

## 14. PROPERTY, PLANT &amp; EQUIPMENT

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Plant and equipment				
At cost	698,222	509,473	524,287	509,473
Accumulated depreciation	(562,034)	(436,129)	(471,961)	(436,129)
	136,188	73,344	52,326	73,344
Leasehold improvements				
At cost	175,740	175,740	175,740	175,740
Accumulated depreciation	(175,740)	(175,740)	(175,740)	(175,740)
	0	0	0	0
Total property, plant & equipment	136,188	73,344	52,326	73,344

Reconciliation

Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year:

Carrying amount at beginning	73,344	130,741	73,344	130,741
Acquisitions	103,337	4,705	14,814	4,705
Disposals	0	(2,333)	0	(2,333)
Depreciation	(40,493)	(59,769)	(35,832)	(59,769)
Net carrying amount	136,188	73,344	52,326	73,344

## 15. INTANGIBLE ASSETS

Patents at Cost	37,601	37,601	37,601	37,601
Accumulated amortisation	(13,651)	(11,767)	(13,651)	(11,767)
Total Patents	23,950	25,834	23,950	25,834
Intellectual property at Cost	686,557	0	0	0
Accumulated amortisation	0	0	0	0
Total Intellectual Property	686,557	0	0	0
Contracts at Cost	191,580	0	0	0
Accumulated amortisation	0	0	0	0
Total Contracts	191,580	0	0	0
Total Intangible Assets	902,087	25,834	23,950	25,834

Reconciliation of the carrying amounts of Intangible Assets at the beginning and end of the current financial year:

Carrying amount at beginning	25,834	27,718	25,834	27,718
Purchase of intellectual property	686,557	0	0	0
Purchase of contracts	191,580	0	0	0
Amortisation of patents	(1,884)	(1,884)	(1,884)	(1,884)
Net carrying amount	902,087	25,834	23,950	25,834

## NOTES TO THE FINANCIAL STATEMENTS

## 16. ACQUISITION OF ENTITIES

During the year Fluorotechnics Limited purchased the percentage voting shares in the following entities:

Acquisition	Date Acquired	% Voting Shares Acquired	Business Activities
ETC Elektrophoresis-Technik GmbH	31 October 2007	100	Biotechnology

The above acquisition cumulatively contributed revenues of \$261,080 and net loss of \$227,201 to the Group from 31 October 2007 to 30 June 2008. These amounts have been calculated using the Group's accounting policies.

If the acquisition had occurred on 1 July 2007, consolidated revenue and consolidated loss for the year ended 30 June 2008 would have been \$847,876 and \$2,403,542 respectively. These amounts have been calculated using the Group's accounting policies.

*Impairment tests for Intellectual Property and Contracts*

Intellectual Property and contracts has arisen on the acquisition of an entity during the period. The Intellectual Property is attributable to the new product/ manufacturing processes developed of the acquired business. Assets and liabilities acquired are at fair value. No provisions on acquisition were created. There were no acquisitions during the year ending 30 June 2007.

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a three-year period. Cash flows beyond the three-year period are extrapolated using the estimated growth rates stated below.

Key assumptions used for valuing this calculation are as follows:

- Revenue growth – varying from year to year from 170% in year one to 5% in year ten.
- Discount rate applied – 70% per annum

Management does not consider a change in any of the key assumptions to be reasonably possible.

## Assets and liabilities acquired

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

	2008
	\$
Cash Paid to vendors	0
Amount paid to vendors (as equity)	869,565
Direct costs relating to the acquisition	70,587
	<hr/>
Total purchase consideration	940,152
Fair value of net identifiable assets acquired	(940,152)
	<hr/>
Goodwill	0
	<hr/>
Cash consideration	70,587
Add: Balances acquired in shares	869,565
	<hr/>
Total consideration	940,152
	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

16. ACQUISITION OF ENTITIES (CONTINUED)

The assets and liabilities arising from the acquisition are as follows:

	2008
	\$
<b>Acquirer's carrying amounts at fair value</b>	
Cash (bank overdraft)	(2,015)
Trade receivables	43,668
Inventories	49,953
Plant & equipment	5,058
Intellectual property	686,557
Licence agreements	191,580
Other assets	4,782
Trade payables	(7,390)
Other payables	(32,041)
	<hr/>
Net identifiable assets acquired	<u>940,152</u>

17. TRADE AND OTHER PAYABLES

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Trade payables	441,722	57,129	377,541	57,129
Other payables	201,613	189,651	177,430	189,651
	<hr/>	<hr/>	<hr/>	<hr/>
	643,335	246,780	554,971	246,780

18. EMPLOYEE ENTITLEMENTS

Current	380,148	48,387	374,725	48,387
Non Current	41,417	0	41,417	0
	<hr/>	<hr/>	<hr/>	<hr/>
	421,565	48,387	416,142	48,387

19. CONTRIBUTED EQUITY

CONTRIBUTED EQUITY				
Ordinary shares	6,145,751	3,655,467	6,145,751	3,655,467
	<hr/>	<hr/>	<hr/>	<hr/>
	2008		2007	
	\$	Number	\$	Number
<b>MOVEMENTS IN ISSUED CAPITAL</b>				
<b>Ordinary shares on issue</b>				
Balance at 1st July	3,655,467	6,049,220	2,741,125	5,218,000
Issued during the period:				
Placement – September 2006	0	0	914,342	831,220
Placement – October 2007	552,347	502,134	0	0
Issue – October 2007	36,164	32,876	0	0
Issue – ETC acquisition – October 2007	869,565	572,542	0	0
Placement – March 2008	1,032,208	825,767	0	0
	<hr/>	<hr/>	<hr/>	<hr/>
	6,145,751	7,982,539	3,655,467	6,049,220

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## NOTES TO THE FINANCIAL STATEMENTS

## 19. CONTRIBUTED EQUITY (CONTINUED)

*Terms and Conditions*

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

In the event of a winding up of the company, ordinary shareholders rank after creditors and are entitled to any proceeds of liquidation in proportion to the number of and amounts paid on shares held.

The company has one share option scheme under which options to subscribe for the company's shares have been granted to all full time employees (refer note 21).

In March 2008 the Group completed a capital raising of \$1,032,208 from the issue of 825,767 new ordinary shares to existing and new shareholders.

These shares were issued on the following terms:

The issue price per Share will be a dollar amount equal to 75% of the issue price of the shares in the Company in the event that the Company is subject to an initial public offering (IPO).

In the event that the proposed IPO does not occur by 31 October 2008, the Issue Price per Rights Issue Share will be \$1.25.

On the date a prospectus is lodged by the Company with the Australian Securities and Investments Commission in respect of the proposed IPO or 31 October 2008 whichever is earlier (or such other date as determined by the Company), the Company will deliver to each successful applicant a notice setting out the Issue Price calculated.

If the Issue Price is determined to be greater than \$1.25, the directors of the Company will make a call upon the holders of these Shares in respect of any money unpaid on these Shares.

Each applicable Shareholder shall, upon receiving at least 14 days' notice specifying the time and place of payment, pay to the Company at the time and place so specified in that notice the amount called on these Shares.

Capital Risk Management

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

At this stage of the Group's development, the board does not feel that it is appropriate to raise debt, or to pay dividends to shareholders. There is no debt on the Group's balance sheet. Hence the gearing ratio is 0%. In order to satisfy the capital requirements of the business, the Group may issue new equity as considered appropriate.

## 20. RESERVES

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Share based payments reserve	92,214	0	92,214	0
Movements:				
Balance at start of the financial year	0	0	0	0
Shares to be issued in the future as compensation for salaries foregone	92,214	0	92,214	0
Closing balance	92,214	0	92,214	0

## NOTES TO THE FINANCIAL STATEMENTS

## 20. RESERVES (CONTINUED)

On 5 October 2007, the Company employed Mr Guenter Thesseling in the role of Chief Sales and Marketing Officer based in Germany.

During the period from commencement to the proposed successful capital raising or twelve months, whatever happens first, the employee agrees that his net salary will be paid as ordinary shares in the Company. These shares will be issued on the following terms:

- (a) The number of shares issued under this clause will be calculated by the share price applied in the ETC acquisition.
- (b) The shares will be issued at the earlier date of completing a successful capital raising or on the first anniversary date of this agreement,
- (c) The shares are issued under the terms of our shareholders agreement.
- (d) The issued shares are subject to shareholder approval.

*Employee equity benefits reserve*

This employee share option and share plan reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to note 21 for further details of these plans.

## 21. EMPLOYEE SHARE OPTION PLAN

The Company has an employee share options plan (ESOP) for the granting of non-transferable options to all full time employees with more than twelve months' service.

On 30 April 2004 the shareholders approved the following share option plan:

	Options for year ended 30 June 2004	Options for year ended 30 June 2005	Options for year ended 30 June 2006	Total options
Total	43,039	45,191	47,450	135,680

In 2004 the Directors granted 31,551 share options from the first tranche in respect of the year ended 30 June 2004. However, with staff resignations throughout the period the number of granted options available to be exercised at 30 June 2008 was 24,322.

In 2005 the Directors granted 26,361 share options from the second tranche in respect of the year ended 30 June 2005. However, with staff resignations throughout the period the number of granted options available to be exercised at 30 June 2008 was 22,753.

In 2006 the Directors granted 31,597 share options from the third tranche in respect of the year ended 30 June 2006. However, with staff resignations throughout the period the number of granted options available to be exercised at 30 June 2008 was 26,470.

At 30 June 2008 the total options available to be exercised is as follows:

	30 June 2004	30 June 2005	30 June 2006	Total options
Total	24,322	22,753	26,470	73,545

During the year ended 30 June 2008 and the years ended 30 June 2007, 30 June 2006 and 30 June 2005, no options granted were exercised over ordinary shares.

Independent valuations were performed on the share options at the time of being issued and all share options have been valued at \$Nil.

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## NOTES TO THE FINANCIAL STATEMENTS

## 21. EMPLOYEE SHARE OPTION PLAN (CONTINUED)

The terms and conditions of the options are as follows:

- a. Each employee must be a current employee of the company at the time of vesting for the options to vest.
- b. The ultimate granting of the options by the Board of Directors is discretionary but will be based on the successful achievement of certain projects that will be pre-agreed annually between the Holder and the Chief Executive Officer of the Company.
- c. No amount is payable on issue of the options and the exercise price is \$2.20 per ordinary share
- d. Each employee may exercise all vested Fluorotechnics Options at any time within five (5) years from the date of issue of such options and any options that are not exercised prior to this time will automatically expire.
- e. These options can not be transferred or assigned.
- f. The exercise of the options can only be completed if each employee enters into a Deed of Accession agreeing to be bound by the Shareholders Agreement, dated 19 July 2002.

## 22. ACCUMULATED LOSSES

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Opening balance	(3,006,563)	(1,903,697)	(3,006,563)	(1,903,697)
Loss after income tax	(2,397,293)	(1,102,866)	(2,179,348)	(1,102,866)
Closing balance	(5,403,856)	(3,006,563)	(5,185,911)	(3,006,563)

## 23. NOTE TO THE CASH FLOW STATEMENTS

Reconciliation of loss after tax to the net cash from operating activities:

Loss after income tax	(2,397,293)	(1,102,866)	(2,179,348)	(1,102,866)
<b>Adjustments for:</b>				
Depreciation	40,493	59,769	35,832	59,769
Amortisation of Patent	1,884	1,884	1,884	1,884
Salaries paid as equity	128,378	0	128,378	0
Profit on disposal of property plant and equipment	0	(1,580)	0	(1,580)
<b>Changes in assets and liabilities</b>				
(Increase)/decrease in trade and other receivables	(143,625)	(42,125)	(49,675)	(42,125)
(Increase)/decrease in inventories	(71,936)	7,258	(12,759)	7,258
(Decrease)/increase in trade and other payables	460,585	109,619	309,160	109,619
(Decrease)/increase in employee entitlements	373,178	0	367,755	0
Net cash used in operating activities	<b>(1,608,336)</b>	<b>(968,041)</b>	<b>(1,398,773)</b>	<b>(968,041)</b>

**Financing Facilities**

At balance date there were no finance facilities arranged with the Group.

## NOTES TO THE FINANCIAL STATEMENTS

## 24. EMPLOYEE BENEFITS AND SUPERANNUATION COMMITMENTS

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accrued salaries (current)	309,636	22,318	304,213	22,318
Employee entitlements (current)	55,391	26,069	55,391	26,069
Accrued superannuation (current)	15,121	0	15,121	0
Employee entitlements (non-current)	41,417	0	41,417	0
	421,565	48,387	416,142	48,387

## 25. DIRECTOR AND EXECUTIVE DISCLOSURES

## Directors and Executives

## 1) Specified directors

- Mr R H Taylor Chairman (non-executive)
- Dr D A Veal Director and Chief Executive Officer
- Professor P Bergquist Director (non-executive)
- Mr J Fletcher Director (non executive) - Appointed 15 March 2008
- Mr D Weber Director (non executive) - Appointed 15 March 2008
- Mr G Thesseling Director and Chief Sales and Marketing Officer – Appointed 30 October 2008

## 2) Specified executives

- Dr P H Karuso Chief Scientific Officer (part time)
- Mr J D Walker Chief Financial and Operating Officer and Company secretary

*Remuneration of Specified Directors and Specified Executives*Remuneration Policy

No fees are currently paid to non-executive directors.

Directors will not be entitled to a retirement benefit.

Directors will not participate in share or option plans except with the approval of the shareholders.

Senior Executives

Remuneration packages will generally be set to be competitive to both retain and attract high quality executives to the Group. The Group will assess the appropriateness of the nature and amount of emoluments on a periodic basis by reference to relevant employment market conditions. Executives 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 payments plans. The manner of payment chosen should be optimal for the recipient without creating undue cost for the Group.

Short term incentives will comprise a fixed (cash) element and variable incentive components and will be subject to various performance measures linked to the short term objectives of the Group.

Long term incentives will be through participation in an option plan or an issue of options, the exercise of which will be subject to achievement of major performance milestones.

NOTES TO THE FINANCIAL STATEMENTS

25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Remuneration of Specified Directors and Specified Executives

	Primary			Post Employment		Share Based Payment	Total
	Salary & Fees	Cash Bonus	Non Monetary benefits	Super-annuation <sup>(1)</sup>	Retirement benefits	Options	

**2008**

**Specified Directors**

R H Taylor	0	0	0	0	0	0	0
D A Veal (2)	45,784	0	0	4,121	0	0	49,905
P Bergquist	0	0	0	0	0	0	0
J Fletcher	0	0	0	0	0	0	0
D Weber	0	0	0	0	0	0	0
G Thesseling	61,003	0	128,378	13,565	0	0	202,946

**Specified Executives**

P H Karuso (2)	6,500	0	0	585	0	0	7,085
J D Walker	172,375	0	0	15,514	0	0	187,889
	285,662	0	128,378	33,785	0	0	447,825

	Primary			Post Employment		Share Based Payment	Total
	Salary & Fees	Cash Bonus	Non Monetary benefits	Super-annuation <sup>(1)</sup>	Retirement benefits	Options	

**2007**

**Specified Directors**

R H Taylor	0	0	0	0	0	0	0
D A Veal (2)	44,450	0	0	4,001	0	0	48,451
P Bergquist	0	0	0	0	0	0	0

**Specified Executives**

P H Karuso (2)	6,190	0	0	557	0	0	6,747
J D Walker	167,354	0	0	15,062	0	0	182,416
	217,994	0	0	19,620	0	0	237,614

1. Superannuation in 2008 was paid to the following funds: Veal Superannuation Fund – DA Veal, Unisuper – PH Karuso and Kirri Cove Superannuation Fund – JD Walker. Superannuation in 2007 was paid to the following funds: UniSuper – DA Veal and PH Karuso and Kirri Cove Superannuation Fund for JD Walker.
2. Additional remuneration arrangements for DA Veal and PH Karuso are included in note 26.

## NOTES TO THE FINANCIAL STATEMENTS

## 25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

## Shareholdings of Specified Directors and Specified Executives

	Balance 1 July 07 Ordinary	Acquired During Year	Granted as Salary Sacrifice	Balance at 30 June 08 Ordinary	Registered Holder
<b>2008</b>					
<b>Directors</b>					
R H Taylor	798,291	0	0	798,291	R H Taylor
	236,364	41,410	0	277,774	Smart Richard Super Fund
D A Veal	51,696	0	0	51,696	D A Veal
	845,281	25,250	0	870,531	C Veal
P Bergquist	9,546	9,000	0	18,546	P Bergquist
J Fletcher	200,000	243,000	0	443,000	Kannatax Pty Ltd
D Weber	0	219,829	0	219,829	DA Weber Trust
G Thesseling	0	82,876	0	82,876	G Thesseling
<b>Key Management Personnel</b>					
PH Karuso	256,120	0	0	256,120	PH Karuso
JD Walker	176,746	25,250	0	201,996	Kirri Cove Pty Ltd
<b>Total</b>	<b>2,574,044</b>	<b>646,615</b>	<b>0</b>	<b>3,220,659</b>	
<b>2007</b>					
<b>Directors</b>					
R H Taylor	798,291	0	0	798,291	R H Taylor
	190,910	45,454	0	236,364	Smart Richard Super Fund
D A Veal	51,696	0	0	51,696	D A Veal
	818,008	27,273	0	845,281	C Veal
P Bergquist	5,000	4,546	0	9,546	P Bergquist
<b>Key Management Personnel</b>					
PH Karuso	256,120	0	0	256,120	PH Karuso
JD Walker	154,019	22,727	0	176,746	Kirri Cove Pty Ltd
<b>Total</b>	<b>2,274,044</b>	<b>100,000</b>	<b>0</b>	<b>2,374,044</b>	

All equity transactions with specified directors and specified executives have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

**Loans to Specified Directors and Specified Executives**

No loans to specified directors and specified executives were provided during the reporting period.

**Other Transactions and Balances with Specified Directors and Specified Executives**

No other transactions to specified directors and specified executives were provided during the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

**Remuneration Options: granted and vested during the period**

During the financial period no options were granted. The existing options may only be exercised provided that certain performance milestones have been achieved, and expire five years after vesting.

	Total Granted Number	Vested Number	Unvested Number	Terms and Conditions for Each Grant					
				Post Employments	Equity	Other	Total		
				Grant Date	Value per Option at Grant Date	Exercise Price per Share	First Exercise Date	Last Exercise Date	
Year to 30 June 2008				(\$)	(\$)				
<b>Specified Directors</b>									
R H Taylor	0	0	0	n/a	n/a	n/a	n/a	n/a	n/a
D A Veal	19,422	19,422	0	23/07/04	\$0.00	\$2.20	Current	23/07/09	
P Bergquist	0	0	0	n/a	n/a	n/a	n/a	n/a	n/a
G Thesseling	0	0	0	n/a	n/a	n/a	n/a	n/a	n/a
<b>Year to 30 June 2007</b>									
R H Taylor	0	0	0	n/a	n/a	n/a	n/a	n/a	n/a
D A Veal	19,422	19,422	0	23/07/04	\$0.00	\$2.20	Current	23/07/09	
P Bergquist	0	0	0	n/a	n/a	n/a	n/a	n/a	n/a
G Thesseling	0	0	0	n/a	n/a	n/a	n/a	n/a	n/a

**Shares issued on exercise of remuneration options**

No remuneration options were exercised during the half year.

**Option holding of specified directors and specified executives**

Year to 30 June 2008	Balance at Beginning of Period	Granted as Remun- eration	Options Exercised	Net Change Other	Balance at End of Period	Vested at 30 June 2008		
	1 July 2007				30 June 2008	Total	Not Exercisable	Exercisable
R H Taylor	0	0	0	0	0	0	0	0
D A Veal	19,422	0	0	0	19,422	19,422	0	19,422
P Bergquist	0	0	0	0	0	0	0	0
G Thesseling	0	0	0	0	0	0	0	0
P H Karuso	3,872	0	0	0	3,872	3,872	0	3,872
J D Walker	24,376	0	0	0	24,376	24,376	0	24,376
<b>Total</b>	47,670	0	0	0	47,670	47,670	0	47,670

NOTES TO THE FINANCIAL STATEMENTS

25. DIRECTOR AND EXECUTIVE DISCLOSURES (CONTINUED)

Year to 30 June 2007	Balance at Beginning of Period	Granted as Remuneration	Options Exercised	Net Change Other	Balance at End of Period	Vested at 30 June 2007		
	1 July 2006				30 June 2007	Total	Not Exercisable	Exercisable
R H Taylor	0	0	0	0	0	0	0	0
D A Veal	19,422	0	0	0	19,422	19,422	0	19,422
P Bergquist	0	0	0	0	0	0	0	0
G Thesseling	0	0	0	0	0	0	0	0
P H Karuso	3,872	0	0	0	3,872	3,872	0	3,872
J D Walker	24,376	0	0	0	24,376	24,376	0	24,376
<b>Total</b>	<b>47,670</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>47,670</b>	<b>47,670</b>	<b>0</b>	<b>47,670</b>

26. RELATED PARTY TRANSACTIONS

**Ultimate Parent**

Fluorotechnics Limited is the ultimate parent company of the Group.

**Subsidiaries**

The subsidiaries of Fluorotechnics Limited are:

	Incorporated	% Owned	Date Acquired	Status
ETC Elektrophorese-Technik GmbH	Germany	100%	31 October 2008	Trading
Fluorotechnics Inc.	USA	100%	27 May 2008	Dormant

**Transactions with wholly owned group**

During the year, Fluorotechnics Limited recognised a gross receivable of \$261,711 (2007: \$Nil) from its wholly-owned subsidiaries for capital purchases and to meet day to day funding requirements. Loans outstanding between the Company and its wholly owned subsidiaries are at call and are non-interest bearing.

**Other related party transactions**

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Purchases of Services from Shareholders</b>				
Macquarie University	159,398	161,446	159,398	161,446

Fluorotechnics Ltd and Macquarie University entered into a six year shareholder agreement in July 2002. This agreement governs Fluorotechnics use of Macquarie University personnel, facilities and equipment, including the services of DA Veal and PH Karuso.

All transactions were made on normal terms and conditions and at market rates.

NOTES TO THE FINANCIAL STATEMENTS

27. AUDITORS REMUNERATION

Amounts charged by HLB Mann Judd (NSW Partnership) the auditors of the Company:

	Consolidated		Company	
	2008	2007	2008	2007
	\$	\$	\$	\$
Audit/Review of Financial Statements	21,725	13,909	21,725	13,909
Other services in relation to the Company:				
Grant audits	775	775	775	775
	<u>22,500</u>	<u>14,684</u>	<u>22,500</u>	<u>14,684</u>

28. CONTINGENT ASSETS AND LIABILITIES

The Group has no known contingent assets as at the date of this report.

Acquisition of subsidiary – ETC Electrophesis-Technik GmbH (ETC)

On 31 October 2007 Fluorotechnics acquired 100% of the share capital of ETC.

The acquisition of ETC allows for the original ETC shareholders to receive additional shares in Fluorotechnics on the achievement of certain revenue targets over a three year period.

On 100% achievement of these targets an additional 873,126 ordinary shares in the company will be required to be issued. The agreement includes a sliding scale starting from 50% achievement, whereby 218,282 ordinary shares in the company will be issued. Fluorotechnics has not recorded this potential liability in the accounts of the company as it is of the view that these shares will not be required to be issued.

Government Grant

On 14 April 2003 Fluorotechnics entered a Biotechnology Innovation Fund (BIF) Grant Agreement with the Australian Government. The maximum grant received under this agreement was \$250,000 and was for the period 14 April 2003 to 31 December 2004.

On 7 January 2004 Fluorotechnics entered a R&D Start Program (R&D) Grant Agreement with the Australian Government. The maximum grant received under this agreement was \$1,040,768 and is for the period 7 January 2004 to 31 December 2007.

A condition of these agreements is that Fluorotechnics must obtain written approval from the Australian Government prior to a change in control of the company or ownership of the intellectual property associated with these projects before 31 December 2009 for the BIF Grant and 30 April 2012 for the R&D Grant. If prior approval is not obtained the grant funds or a portion thereof may be required to be repaid.

The Directors are not aware of any current circumstances requiring such Government approval.

29. EXPENDITURE COMMITMENTS

There were no capital or expenditure commitments contracted at 30 June 2008 (30 June 2007 – nil).

30. EVENTS SUBSEQUENT TO BALANCE DATE

In September 2008 the Group lodged a supplementary prospectus to raise between \$6,000,000 and \$12,000,000 by listing on the Australian Securities Exchange.

Should this listing be successful, under the terms of the reconstruction contemplated in the supplementary prospectus, the number of shares issued in the March 2008 placement (refer note 19) will become 1,738,400 and an additional \$200,000 will be received by the Company.

There have been no other significant events occurring subsequent to balance date.

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In the directors' opinion:

- (a) the financial statements and notes set out on pages 2 to 30 present fairly the company's and the consolidated entity's financial position as at 30 June 2008 and their performance for the financial year ended on that date in accordance with Accounting Standards (including the Australian Accounting Interpretations); 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.

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



Rick Taylor

Chairman

Sydney

17 October 2008

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**FLUOROTECHNICS LIMITED**

**ACN 000 022 319**

**INDEPENDENT AUDITOR'S REPORT**

To the members of Fluorotechnics Limited:

We have audited the accompanying financial report of Fluorotechnics Limited ("the company"), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes for both the company and the Fluorotechnics Limited Group ("the consolidated entity") as set out on pages 2 to 31. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

***Directors' Responsibility for the Financial Report***

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations). This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 2(c), the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

***Auditor's Responsibility***

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

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

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


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

**HLB Mann Judd (NSW Partnership) ABN 34 482 821 289**

Level 19 207 Kent Street Sydney NSW 2000 Australia | DX 10313 SSE | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190

Email: mailbox@hlbnsw.com.au | Website: www.hlb.com.au

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**FLUOROTECHNICS LIMITED**  
**ACN 000 022 319**  
**INDEPENDENT AUDITOR'S REPORT**  
**(CONTINUED)**

***Independence***

In conducting our audit, we have complied with the independence requirements of the Australian professional accounting bodies.

***Auditor's Opinion***

In our opinion:

- (a) the financial report presents fairly, in all material respects, the financial position of Fluorotechnics Limited and the consolidated entity as at 30 June 2008, and their performance and their cash flows for the year then ended in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations); and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(c).

***Inherent Uncertainty Regarding Continuation of Going Concern***

Without qualification to the statement expressed above, attention is drawn to the following matter. As a result of the matters described in Note 2(b) "Going Concern" to the financial statements, there is significant uncertainty whether the company and the consolidated entity will be able to continue as going concerns and therefore whether they will be able to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. 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.



**HLB MANN JUDD**  
**(NSW Partnership)**  
**Chartered Accountants**



**M D MULLER**  
**Partner**

**Sydney**

**17 October 2008**

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