

# NOVACOAT

NOVACOAT HOLDINGS LIMITED

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[www.novacoat.com.au](http://www.novacoat.com.au)

31 October 2005

Company Announcements Office  
Australian Stock Exchange  
Level 10, 20 Bond Street  
SYDNEY NSW 2000

*By ASX Online*

*No. of pages: 41*

## **2005 ANNUAL REPORT**

Please find attached Novacoat Holdings Limited's (ASX Code: NVC) 2005 Annual Report which is being mailed to shareholders today together with the Notice of Annual General Meeting and Proxy Form.

Yours faithfully,  
NOVACOAT HOLDINGS LIMITED



Len Troncone  
**Company Secretary**

# Novacoat Holdings Limited

## Annual Report 2005

Period 1 October 2004 to 30 June 2005  
ABN 35 111 210 390

# Corporate Directory

## Directors

Mr Richard Wright (Executive Chairman)  
Mr Robert Franco (Executive Director)  
Mr Geoffrey Gander (Non Executive Director)

## Company Secretary

Mr Len Troncone

## Australian Business Number

35 111 210 390

## Registered and Principal Office

59 Belmont Avenue Belmont WA 6104  
Telephone: (08) 9262 9999  
Facsimile: (08) 9262 9998

## Operational Offices

Novacoat (WA) Pty Ltd  
60 Office Road Kwinana WA 6167  
Telephone: (08) 9439 2111  
Facsimile: (08) 9439 2115

McFee Pty Ltd – Western Region  
59 Belmont Avenue Belmont WA 6104  
Telephone: (08) 9262 9900  
Facsimile: (08) 9262 9950

McFee Pty Ltd – Eastern Region  
133 O’Riordan Street Mascot NSW 2020  
Telephone: (02) 9669 5049  
Facsimile: (02) 9693 2774

## Auditor

RSM Bird Cameron Partners  
8 St Georges Terrace Perth WA 6000

## Share Registry

Computershare Investor Services Pty Limited  
Level 2 45 St Georges Terrace Perth WA 6000  
Telephone: 1 300 557 010  
Facsimile: (08) 9323 2033

## Solicitors

Steinepreis Paganin  
Lawyers & Consultants  
Level 4, Next Building 16 Milligan Street Perth WA 6000

# Company overview

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Novacoat Holdings Limited consists of a group of companies offering a range of construction and maintenance services to resource companies and infrastructure owners.

Main activities consist of:

- workshop and site based protective coating and rubber lining; and
- site based construction and maintenance services.

The company operates throughout Australia, with established offices in Belmont and Kwinana in Western Australia, and Mascot in New South Wales.

Following its recent listing on the Australian Stock Exchange, the company focused on servicing new and existing customers in the mining and oil and gas sectors which are enjoying unprecedented growth.

# Chairman's report

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I am delighted and honoured to present the first Chairman's Report of Novacoat Holdings Limited.

Much has been achieved in the company's short existence since it de-merged from Virtualplus Holdings Limited in December 2004.

Highlights include:

- the acquisition of the Novacoat business in December 2004;
- a successful capital raising and public listing on the ASX during April 2005;
- the acquisition of the McFee business shortly after the ASX listing;
- the recruitment of an experienced management team; and
- the establishment of the necessary infrastructure, policies and procedures to support operating divisions.

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The company's abrasive blasting, industrial painting and rubber lining operations are conducted in a large workshop facility located in Kwinana by our subsidiary, Novacoat (WA) Pty Ltd. The industrial coating industry is buoyant but still competitive and Novacoat (WA) has started to broaden its current revenue base by commencing site based industrial coating services, an area that is expected to grow over the coming years.

The acquisition of McFee achieved the Board's stated objective to diversify the company into site construction and maintenance services in the resources and oil and gas sectors, industries in which McFee built an enviable 40 years track record by delivering quality, reliable and low risk projects throughout Australia and PNG.

Tendering activities for resource projects throughout Australia remain buoyant with McFee enjoying early success by securing two milestone projects to provide site-based services at Caltex's Clean Fuels Project at the Kurnell Refinery in New South Wales and for Rio Tinto Iron Ore's Paraburdoo Sustaining Works Project in the Pilbara region of Western Australia. These wins are recognition of the McFee brand in Australia and highlight the benefits of maintaining a presence on both the eastern and western seaboard.

A detailed account of operational activities is included in the Review of Operations section of this Annual Report.

As with all organisations, quality people are the key to success. The start-up phase of the company's existence has required our staff to dedicate long hours of work to lay the foundations for the future growth of the company. I take the opportunity of acknowledging the efforts made to date by our employees and by my fellow directors during this stage of the company's development.

I look forward to building on the achievements made to date, confident that the company is well positioned to deliver sustained shareholder wealth.



**Dick Wright**  
Chairman

# Review of operations

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This is the first operating period of the company since its incorporation on 1 October 2004 and under the new board and management structure. During its short history the company has progressed from a workshop based protective coating operation to a diversified group offering a range of integrated industrial services. This transition has involved a change in corporate structure, change in shareholder base, increased scope of operations, an acquisition, and the establishment of a new management team.

The company de-merged from its former parent, Virtualplus Holdings Limited (formerly mBox.com Limited), on 7 December 2004 for the purpose of acquiring the business assets of Novacoat. This transaction was completed on 8 December 2004. The company then raised additional capital during the early part of 2005 and was admitted to the Official List of the ASX effective 19 April 2005. Trading in the company's securities commenced on 22 April 2005.

The board subsequently expanded the company's operations by the combination of acquisitions, organic growth and alliances, consistent with the objectives outlined in the February 2005 prospectus.

A new management team was established to manage further expansion in key areas. New and experienced CFO/Company Secretary and General Managers for the two operating divisions, Novacoat (WA) and McFee, were appointed, as well as a number of key supporting operational staff.

### **Novacoat (WA) Pty Ltd Operations Overview**

Novacoat (WA) Pty Ltd operates the abrasive blasting, painting and rubber lining treatment facility in Kwinana which was acquired in December 2004. The operation services contractors engaged in the construction and maintenance of infrastructure projects, predominantly in the resources sector.

Key changes to the management team were made including the appointment of an experienced General Manager whose initial focus was to instil a culture of safety in the workplace and commitment to efficiently deliver quality service to the division's customer base. He has also led the organic growth in the area of site based services. The marketing of site based industrial coating services has resulted in initial sales which the Company expects to further grow in the 2005/06 financial year.

The abrasive blasting and painting services operation suffered a reduction in throughput in May and June 2005, primarily due to delays in receiving components for treatment by fabricators where capacity had been reserved. Scheduling controls have been enhanced to minimise the risk of this reoccurring.

The rubber lining operation experienced a decline in the first half of calendar 2005, mainly due to the difficulty in engaging and retaining suitable labour. The board expects improved results from the last quarter of 2005.

The emphasis on safety has shown an improvement in the number of safety incidents being reported. The board's target is a zero Lost Time Injury Frequency Rate.

The Novacoat (WA) subsidiary has targeted gaining accreditation to ISO Standards during the 2005/06 financial year with quality procedures and processes being introduced and emphasised in work practices.

Since the company's ownership from 8 December 2004, the Novacoat (WA) operations achieved revenue of \$2,610,000 with an EBITDA (before intra-group charges) of \$217,000.

Management remains focused on increasing throughput levels in the workshop and is making considerable efforts to win larger site based contracts. The board is confident that this subsidiary can achieve significantly improved trading results during the 2005/06 financial year.

### **McFee Pty Ltd**

The strategic acquisition of McFee on 28 April 2005 has enabled the Company to create a new division dedicated to providing on site services in construction and maintenance projects to the resources and oil and gas sectors for both greenfield and brownfield projects.

The McFee business had been operating for over 40 years with a strong track record in undertaking safe construction and maintenance activities throughout Australia and PNG. McFee specialised in supplying metal trades services for structural steel erection, mechanical installation and piping installation. Over this time, it built an enviable reputation for low risk, reliable, trustworthy and high quality performance in the delivery of projects.

McFee also built strong working relationships with blue chip companies such as Rio Tinto, BHPB, Comalco, Alcan, WMCR, Robe River, Xstrata, Zinifex, Bluescope Steel and many other large Australian mining and resource companies as well as international and local Engineering Procurement and Construction Management (EPCM) contractors.

The McFee acquisition provided the immediate vehicle to pre-qualify for submission of proposals and tenders to a range of clients for site based contracts. Within a short period of ownership by the company, the McFee subsidiary has been awarded the following contracts:

- Supply specialist labour services for the Alcoa Pinjarra efficiency upgrade project;
- Supply of specialist labour for the Worsley Alumina expansion project;
- Sub-contract from United KG on the Clatex Clean Fuels project at the Kurnell refinery; and
- Construction and shutdown maintenance works for the Channar Screen Works as part of Rio Tinto Iron Ore's Paraburdoo Sustaining Works project.

Tender activities remain high and the board remains confident of converting these to formal projects in the coming period.

The McFee subsidiary recently established a new head office in Belmont, Western Australia, and has continued operating from its eastern states office in Mascot, NSW. In the current buoyant resources sectors, recruiting and retaining quality people will continue to be a challenge for the board and management team. With a majority of work based in Western Australia and Queensland, the Board believes that the Mascot office in Sydney provides an ideal base to source eastern states based qualified personnel.

## Review of operations – continued

A new and experienced General Manager was employed for the McFee division. Also, the services of McFee's founder, Beau McFee, were retained as an advisor to facilitate the smooth transition of ownership and to pass on his wealth of experience, knowledge and business know how.

The loss of \$153,410 generated by the McFee business was the result of start-up costs consistent with those disclosed in the company's prospectus dated 14 February 2005.

### Financial Position

The Company achieved a consolidated loss of \$(473,549) for the financial year on revenue of \$2,668,341. EBITDA was \$(253,822) reflecting the costs associated with marketing, business development and start-up phase of the company's site based services business.

With progress made in the development of the company since its incorporation and the relatively buoyant market sector serviced by the company's operations, the board is confident that the 2005/06 financial year will see an improvement in operating results.

As at 30 June 2005, the Company had cash reserves of some \$1.9 million.

### Capital Structure and Corporate Developments

Following its de-merger from Virtualplus Holdings Limited and subsequent capital raising in early 2005, the total number of fully paid ordinary shares on issue were approximately 20,800,000. Following the acquisition of McFee in April 2005 and an additional capital raising in September 2005, the number of issued shares has increased to approximately 22,500,000. Of the shares on issue, approximately 9,600,000 shares are escrowed until 19 April 2007. These shares are predominantly held by the vendors of the Noavcoat business.

### Future Operations

The board is continuing to make rapid progress in establishing a sound platform capable of supporting the company's growth in the current market. As stated in its recent prospectus, the company will focus on capitalising on the opportunities available in the resources and oil and gas sectors through acquisitions, alliances and organic growth.

The market for our services is buoyant with little sign of retreating in the next 12 months. The availability of skilled labour generally in Australia remains a challenge, however McFee has established a reputation as an employer of choice and has built an extensive database of skilled workers.

The board will continue to consolidate the company's operations whilst also continuing the search for suitable acquisitions which are complimentary to our existing businesses. The board also recognises the forecast future growth in the energy sector in Australia as providing construction and maintenance opportunities in which we will be seeking to participate by either selecting a suitable experienced and recognised partner or via acquisition.

The board is pleased with progress made to date and is confident that the Company is well positioned to build a safer, stronger and diversified business to better serve our clients and deliver improved financial returns to our shareholders.



**Robert Franco**  
Chief Executive Officer

# Directors' report

Your directors present their report on the company and its controlled entities for the reporting period since the company's incorporation on 1 October 2004 to 30 June 2005.

## Directors

The names of directors in office at any time during or since the end of the reporting period are:

Mr Robert Franco	Appointed 1 October 2004
Mr Geoff Gander	Appointed 1 October 2004
Mr Richard (Dick) Wright	Appointed 7 December 2004
Mr Paul Price	Appointed 1 October 2004 and resigned 7 December 2004
Mr Tony Ammendola	Appointed 1 October 2004 and resigned 7 December 2004

Directors have been in office since the start of the reporting period to the date of this report unless otherwise stated.

## Company Secretary

The following person held the position of company secretary at the end of the reporting period:

Mr Leonard Troncone (BBus) was appointed Chief Financial Officer and Company Secretary of Novacoat Holdings Limited since 30 June 2005. Mr Troncone is a senior finance executive with 25 years' experience working with publicly listed companies in the diversified engineering, mining, mineral exploration, oil and gas, and financial services sectors.

## Principal Activities

The principal activities of the economic entity during the reporting period were:

- workshop and site based industrial coatings and rubber lining; and
- site based industrial maintenance and construction services.

The following significant change in the nature of the principal activities occurred during the reporting period:

- The business assets of McFee Holdings Pty Ltd, a long-established, eastern states based, well known and small industrial engineering, construction and maintenance group servicing the resources and energy sectors Australia-wide, were acquired on 28 April 2005.

There were no other significant change in the nature of the economic entity's principal activities during the reporting period.

## Operating Results

The consolidated loss of the economic entity after providing for income tax and eliminating outside equity interests amounted to \$473,549.

## Dividends Paid or Recommended

No dividends were paid, declared or recommended for payment.

## Review of Operations

The period under review includes the operations of the parent entity since its incorporation on 1 October 2004 through to 30 June 2005 under a new board and management structure.

Following incorporation on 1 October 2004, the parent entity de-merged from its former parent, Virtualplus Holdings Limited (formerly mBox.com Limited), on 7 December 2004 for the purpose of acquiring the business assets of Novacoat. This transaction was completed on 8 December 2004. Following the raising of additional capital in early calendar 2005, the parent entity was admitted to the Official List of the ASX on 19 April 2005 and trading in its securities commenced on 22 April 2005.

The business assets of Novacoat now reside in the parent entity's wholly owned subsidiary, Novacoat (WA) Pty Ltd, which provides protective coating treatment and rubber lining services to the resources industry. This transaction was effective from 8 December 2004.

The Novacoat business made a small trading profit of \$8,582 and recorded an EBITDA of \$217,166 for the reporting period. The volume of workflow through the Kwinana workshop has improved since the end of the reporting period and indications are that improved results should be expected during the next financial year. Novacoat has also completed a number of site based contracts, an area of its business which it expects to grow in the coming year.

Following the parent entity's listing on the ASX, the board has focused on developing a construction and maintenance business in order to service the buoyant resource sector, particularly in Western Australia. The company's newly formed wholly owned subsidiary, McFee Pty Ltd, acquired the business assets of McFee Holdings Pty Ltd on 28 April 2005 and has since invested in building an experienced team focused on business development and the establishment of procedures and processes necessary to secure contracts and delivering services to large resource companies.

Given McFee's start-up phase, it incurred a trading loss of \$153,410. McFee has successfully qualified for eligibility to tender on many resource-based projects where activities remain buoyant.

## Financial Position

The company was incorporated on 1 October 2004 and its business assets and subsidiaries were acquired during this first reporting period to 30 June 2005, therefore there are no comparative values.

The economic entity's net assets as at 30 June 2005 stood at approximately \$5.3 million with cash assets of some \$1.9 million. The economic entity is virtually debt free with interest bearing liabilities comprising finance leases.

### Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the reporting period:

- i. On 7 December 2004 the holding company de-merged from its former parent entity, Virtualplus Holdings Limited, for the purpose of acquiring the business assets of Novacoat and issued 6,476,670 shares in specie to Virtualplus Holdings Limited's shareholders.
- ii. On 8 December 2004 the company issued 9,000,000 ordinary shares at \$0.30 each to acquire the business assets of Novacoat.
- iii. The company raised approximately \$1.6 million (before costs) through the issue of 5,330,183 ordinary shares at \$0.30 each via a public offer prospectus dated 14 February 2005. The company was admitted to the Official List of the ASX on 19 April 2005 and the shares allotted effective from that date.
- iv. On 28 April 2005 the company issued 666,666 ordinary shares at \$0.30 each and 500,000 options exercisable at \$0.30 each and expiring on 31 December 2008 as part consideration for the purchase of the business assets of McFee.

### After Balance Date Events

On 30 August 2005 the company announced that it had raised \$380,000 (before costs) via the issue of 950,000 ordinary shares at \$0.40 each through a private placement.

### Future Developments, Prospects and Business Strategies

To further improve the economic entity's profit and maximise shareholder wealth, the directors are considering further acquisitions in the near term to complement current business activities focused in the resources sector. The acquisitions would also broaden the company's assets base and provide a diversified source of revenue, albeit largely resources and industrial based.

These developments, together with the current strategy of continuous improvement and an adherence to quality control in existing markets, are expected to assist in the achievement of the economic entity's long-term goals and development of new business opportunities in the resources sector.

### Environmental Issues

The economic entity's operations are subject to environmental regulation under the laws of the Commonwealth and State. The economic entity has a licence to operate a blasting, spray painting and rubber lining facility. There have been no non-compliance incidents by the economic entity during the reporting period.

### Information on Directors

<b>Dick Wright</b>	— Executive Chairman
Qualifications	— BSc. (Mech. Tech.), University of NSW Postgraduate course in business from the Hass Business School, Berkley Campus, University of California
Experience	— Appointed as a director and Executive Chairman on 7 December 2004. Mr Wright has over 35 years' experience in the resource engineering, construction and maintenance industry. Recent positions held by Mr Wright include Executive Chairman of ADrail Pty Ltd which was responsible for the design and construction of the Alice Springs to Darwin rail project, and prior to that he was Managing Director of Flour Daniel Australia, a wholly owned subsidiary of an international engineering, construction and maintenance group.
Interest in Shares	— 620,000 ordinary shares in Novacoat Holdings Limited
<b>Robert Franco</b>	— Managing Director
Qualifications	— Bachelor of Engineering (Hons) and Bachelor of Commerce, University of Western Australia
Experience	— Appointed as a director on 1 October 2004 and Managing Director on 7 December 2004. Mr Franco worked as an engineering consultant for a major multi-disciplinary engineering firm until 2001 working on commercial developments for the resource and commercial industries. Mr Franco most recently held business development and financial roles with Fero Industries Pty Ltd, a rapidly expanding company in the mining services industry.
Interest in Shares	— 7,046,189 ordinary shares in Novacoat Holdings Limited
<b>Geoff Gander</b>	— Non-Executive Director
Qualifications	— Bachelor of Commerce, University of Western Australia
Experience	— Appointed as a director on 1 October 2004. Mr Gander has 20 years' experience in the information technology industry where he has held various senior and general management roles. Mr Gander now works as an industry consultant to various public and private companies.

Interest in Shares — 200,000 ordinary shares in Novacoat Holdings Limited

Directorships held in other listed entities — Current non-executive director of Virtualplus Holdings Limited, Jupiter Energy Limited, Entek Energy Limited and Acuity Investment Management Limited.

## REMUNERATION REPORT

This report details the nature and amount of remuneration for each director of Novacoat Holdings Limited.

Other than the directors of the company, there were no executives employed by the economic entity as at 30 June 2005.

### Remuneration Policy

The remuneration policy of Novacoat Holdings Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the economic entity's financial results. The board of Novacoat Holdings Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain experienced executives and directors to run and manage the economic entity.

The board's policy for determining the nature and amount of remuneration for board members and senior executives of the economic entity is as follows:

Given the economic entity's current size, there is no remuneration committee. The full board of directors sets the remuneration policy and has developed the terms and conditions of employment for the executive directors and other senior executives.

Certain executives receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and other performance incentives. The board reviews executive packages periodically by reference to the economic entity's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed with each executive and is based predominantly on the forecast growth of the economic entity's profits and shareholders' value.

All bonuses and incentives must be linked to predetermined performance criteria. The board may, however, exercise its discretion in relation to approving incentives, bonuses and options. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract high calibre executives and reward them for performance that results in long-term growth in shareholder wealth.

The directors will seek approval from shareholders for an employee share option plan at the next general meeting.

Executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Where options are given to directors and executives, they are valued using either the Black-Scholes or Binomial Option Pricing methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The board determines payments to non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the annual general meeting. Fees for non-executive directors are not linked to the performance of the economic entity, however, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

### Performance Based Remuneration

It is the board's intention to introduce as part of each executive director and executives remuneration package a performance-based component, consisting of key performance indicators (KPIs). The intention of this program will be to facilitate goal congruence between directors/executives with that of the business and shareholders. The KPIs will be set annually, with a certain level of consultation with directors/executives to ensure buy-in. The measures will be specifically tailored to the areas each director/executive is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short- and long-term goals. The level set for each KPI will be based on budgeted figures for the group and respective industry standards.

In determining whether or not a KPI has been achieved, Novacoat Holdings Limited will base the assessment on audited figures.

### Company Performance, Shareholder Wealth and Directors' and Executives' Remuneration

The remuneration policy has been tailored to increase goal congruence between shareholders and directors and executives. There have been two methods applied in achieving this aim, the first being a performance based bonus based on key performance indicators, and the second being the intended issue of options to all directors (subject to shareholder approval at the next general meeting) and selected executives to encourage the alignment of personal and shareholder interests. The company believes this policy will be effective in increasing shareholder wealth over the coming years.

### Details of Remuneration for Reporting Period Ended 30 June 2005

The remuneration for each director during the reporting period was as follows:

Directors	Salary, Fees & Commissions \$	Superannuation Contribution \$	Non-cash Benefits \$	Total \$
Dick Wright	67,500	—	—	67,500
Robert Franco	61,135	5,650	—	66,785
Geoff Gander	26,650	—	—	26,650
	155,285	5,650	—	160,935

### Performance Income as a Proportion of Total Remuneration

No performance based bonuses were paid during the reporting period.

### Options Issued as Part of Remuneration During the Reporting Period Ended 30 June 2005

No options were issued to either directors or executives as part of their remuneration. Approval will be sought from shareholders to issue options to directors at the next general meeting. The options will not be issued based on performance criteria but will be issued to increase goal congruence between executives, directors and shareholders.

### Employment Contracts of Directors and Senior Executives

The employment conditions of the Executive Chairman, Mr Dick Wright, and the Managing Director, Mr Robert Franco, and senior executives are formalised in contracts of employment. All executives, including the Managing Director, are permanent employees of either Novacoat Holdings Limited or of one of its wholly owned subsidiaries.

The employment contracts stipulate a range of one month to three months resignation periods. The company may terminate an employment contract without cause by providing the applicable written notice or making payment in lieu of notice, based on the individual's remuneration package together with a discretionary redundancy payment. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time. Any options not exercised before or on the date of termination will lapse.

### Meetings of Directors

During the reporting period 21 meetings of directors were held. The relatively high number of meetings was as a result of the company's formation, initial public offering to raise capital and the acquisitions of businesses detailed earlier in this Directors' Report. Given the company's and board's sizes, no committees were formed by the board during the reporting period. Attendances by each director during the reporting period were as follows:

Director	Number Eligible to Attend	Number Attended
Dick Wright	20	20
Robert Franco	21	21
Geoff Gander	21	21
Paul Price	1	1
Tony Ammendola	1	1

The company also held a two day strategy meeting immediately after the acquisition of the McFee business. The meeting was attended by all board members, its advisers and company executives. The meeting was facilitated by an external consultant. The strategy meeting was held to facilitate the integration of the newly acquired McFee business and to develop strategies and plans for the economic entity going forward. It is expected that strategy meetings will continue to be held on at least an annual basis.

### Indemnifying Officers

During or since the end of the reporting period the company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the following directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a willful breach of duty in relation to the company. The total annual premium was \$20,399:

Dick Wright  
Robert Franco  
Geoff Gander

### Options

At the date of this report, the unissued ordinary shares of Novacoat Holdings Limited under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number under Option
28 April 2005	31 December 2008	\$0.30	500,000
30 June 2005	31 December 2010	\$0.40	750,000
30 June 2005	31 December 2010	\$0.50	250,000
			1,500,000

No options were exercised during the reporting period and no further shares have been issued since that date.

No person entitled to exercise options had or has any right by virtue of the option to participate in any share issue of any other body corporate.

### Proceedings on Behalf of Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the reporting period.

### Non-audit Services

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid to the external auditors during the reporting period ended 12 June 2005:

Independent accountant's report           \$7,500

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2005 has been received and can be found on page 12 of this report.

Signed in accordance with a resolution of the Board of Directors.



**R Franco**  
Director

*Dated this 12th day of September 2005*

# Auditor's independence declaration

## Under section 307c of the Corporations Act 2001

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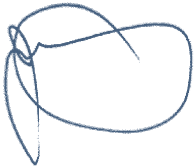
### TO THE DIRECTORS OF NOVACOAT HOLDINGS LIMITED

I declare that, to the best of my knowledge and belief, during the reporting period ended 30 June 2005 there have been:

- i. no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

*RSM Bird Cameron Partners*

**RSM Bird Cameron Partners**  
Chartered Accountants



**J A Komninos**  
Partner

Perth, Western Australia  
*Dated this 12th day of September 2005*

# Corporate governance statement

## Corporate Governance

Unless disclosed in the table below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the reporting period ended 30 June 2005.

Table of Non-Compliance with ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations

Recommendation	Company's Practice	
2.1	The majority of the board should consist of independent directors.	The company has three directors, two of which are not considered to be independent. The board has determined that the services of an experienced Executive Chairman, as well as a Managing Director, are appropriate at this developmental stage of the company. Furthermore, the skills and experience that the two executive directors contribute to the Company make it appropriate for them to remain on the board.
2.2	The chairperson should be an independent director.	As stated at recommendation 2.1 above, the board considers it appropriate that the Chairman act in an executive role at this early developmental stage of the company.
2.4	The board should establish a nomination committee.	The board is of the view that due to the nature and size of the company's current operations that the functions normally performed by a nomination committee can adequately be performed by the full board.
4.2, 4.3 and 4.4	The board should establish an audit committee, that the audit committee be structured appropriately with a formal audit committee charter.	The board is of the view that due to the nature and size of the company's current operations that the functions normally performed by an audit committee can adequately be performed by the full board.
9.2	The board should establish a remuneration committee.	The board is of the view that due to the nature and size of the company's current operations that the functions normally performed by a remuneration committee can adequately be performed by the full board.

## Board Composition

The skills, experience and expertise relevant to the position of each director who is in office at the date of the annual report and their term of office are detailed in the Director's Report.

The name of the independent director of the company is:

Mr Geoff Gander

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- less than 5% of company shares are held by the director and any entity or individual directly or indirectly associated with the director;
- no sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and

- none of the director's income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

Independent directors have the right to seek independent professional advice at the company's expense in the furtherance of their duties as directors. Written approval must be obtained from the chairman prior to incurring any expense on behalf of the company.

### Trading Policy

The company's policy regarding directors and employees trading in its securities is set by the board. The policy restricts directors and employees from acting on material information until it has been released to the market and adequate time has been given for this to be reflected in the securities' prices.

### Performance Evaluation

It is the board's intention that the performance of the board and its members will be reviewed periodically but at least annually. This may involve facilitation by an independent consultant. Any appropriate recommendation to improve performance will be submitted for consideration by the full board at which time an action plan will be developed to implement the recommendations and set the performance criteria and goals for the next year.

### Remuneration Policies

The remuneration policy, which sets the terms and conditions for the chief executive officer and other senior executives, was developed by the board. All executives receive a base salary, superannuation, fringe benefits and, where appropriate, performance incentives.

The board reviews executive packages periodically by reference to company performance, executive performance, comparable information from industry sectors and other listed companies and independent advice. The performance of executives is measured against agreed criteria based on the forecast growth of the company's profits and shareholder value. The policy is designed to attract high calibre executives and reward them for performance which results in long-term growth in shareholder value.

The directors will seek approval from shareholders to an employee share option plan at the next general meeting.

The amount of remuneration for all directors, including all monetary and non-monetary components, is detailed in the Note 5 to the financial report. All remuneration paid to executives is valued at the cost to the company and expensed. Options are valued using either the Black-Scholes or Binomial Option Pricing methodology.

The board expects that the remuneration structure implemented will result in the company being able to attract and retain experienced executives to manage the affairs of the economic entity. It will also provide executives with the necessary incentives to work to grow long-term shareholder value.

The payment of bonuses, stock options and other incentive payments are reviewed by the board periodically as part of the review of executive remuneration and a recommendation is put to the board for approval. All bonuses, options and incentives are linked to predetermined performance criteria. The board can exercise its discretion in relation to approving incentives, bonuses and options.

### Other Information

Further information relating to the company's corporate governance practices and policies has been made publicly available on the company's web site at <[www.novacoat.com.au](http://www.novacoat.com.au)>.

# Statement of financial performance

For the period 1 October 2004 to 30 June 2005

	Note	Economic Entity 2005 \$	Parent Entity 2005 \$
Revenues from ordinary activities	2	2,668,341	257,895
Cost of sales		(1,897,130)	—
Administrative expenses		(1,023,333)	(374,437)
Amortisation of goodwill		(26,920)	—
Borrowing costs expense	3	(1,700)	(27)
Depreciation and amortisation of property, plant and equipment	3	(192,807)	(381)
Profit from ordinary activities before income tax expense		(473,549)	(116,950)
Income tax expense relating to ordinary activities	4	—	—
Net profit from ordinary activities after related income tax expense		(473,549)	(116,950)
Net profit attributable to outside equity interests		—	—
Net profit attributable to members of the parent entity		(473,549)	(116,950)
Total changes in equity other than those resulting from transactions with owners as owners		(473,549)	(116,950)
Basic earnings per share (cents per share)	7	(3.30)	
Diluted earnings per share (cents per share)	7	(3.27)	

*The accompanying notes form part of these financial statements*

# Statement of financial position

As at 30 June 2005

	Note	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>CURRENT ASSETS</b>			
Cash assets	8	1,942,188	1,535,072
Receivables	9	776,554	—
Inventories	10	90,653	—
Other assets	11	177,908	51,518
<b>TOTAL CURRENT ASSETS</b>		<b>2,987,303</b>	<b>1,586,590</b>
<b>NON-CURRENT ASSETS</b>			
Receivables	9	—	801,634
Investments	12	—	3,448,259
Property, plant and equipment	13	2,025,500	30,105
Intangible assets	14	1,351,335	—
<b>TOTAL NON-CURRENT ASSETS</b>		<b>3,376,835</b>	<b>4,279,998</b>
<b>TOTAL ASSETS</b>		<b>6,364,138</b>	<b>5,866,588</b>
<b>CURRENT LIABILITIES</b>			
Payables	15	862,161	227,866
Interest-bearing liabilities	16	86,290	—
Provisions	17	61,231	5,003
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,009,682</b>	<b>232,869</b>
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing liabilities	16	77,336	—
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>77,336</b>	<b>—</b>
<b>TOTAL LIABILITIES</b>		<b>1,087,018</b>	<b>232,869</b>
<b>NET ASSETS</b>		<b>5,277,120</b>	<b>5,633,719</b>
<b>EQUITY</b>			
Contributed equity	18	5,750,669	5,750,669
Retained profits	19	(473,549)	(116,950)
<b>TOTAL EQUITY</b>		<b>5,277,120</b>	<b>5,633,719</b>

The accompanying notes form part of these financial statements

# Statement of cash flows

For the period 1 October 2004 to 30 June 2005

	Note	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers		2,112,501	—
Payments to suppliers and employees		(2,545,155)	(79,639)
Interest received		57,751	54,669
Borrowing costs		(1,700)	(27)
Net cash provided by (used in) operating activities	22a	(376,603)	(24,997)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment		(73,400)	(30,488)
Purchase of investments		(395,000)	(395,000)
Inter-company borrowings		—	(801,634)
Net cash provided by (used in) investing activities		(468,400)	(1,227,122)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from issue of shares		2,999,055	2,999,055
Cost of capital raising		(211,864)	(211,864)
Net cash provided by (used in) financing activities		2,787,191	2,787,191
Net increase in cash held		1,942,188	1,535,072
Cash at the beginning of operations		—	—
Cash at 30 June 2005	8	1,942,188	1,535,072

*The accompanying notes form part of these financial statements*

# Notes to the financial statements

For the period 1 October 2004 to 30 June 2005

## Note 1: Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers the economic entity of Novacoat Holdings Limited and controlled entities, and Novacoat Holdings Limited as an individual parent entity. Novacoat Holdings Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

### a. Principles of Consolidation

A controlled entity is any entity controlled by Novacoat Holdings Limited. Control exists where Novacoat Holdings Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Novacoat Holdings Limited to achieve the objectives of Novacoat Holdings Limited. A list of controlled entities is contained in Note 12 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

### b. Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### c. Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on the basis of weighted average costs.

### d. Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

#### Plant and equipment

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the asset's employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

#### Depreciation

The depreciable amount of all fixed assets including building and capitalised lease assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the economic entity commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to depreciation. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rates
Plant and equipment	Between 10% and 30%
Computer equipment	Between 30% and 33%
Motor vehicles	22.5%
Leased computer equipment	33%
Leased motor vehicles	22.5%

#### **e. Leases**

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity, are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

#### **f. Investments**

Non-current investments are measured on the cost basis. The carrying amount of non-current investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the quoted market value for listed investments or the underlying net assets for other non-listed investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

#### **g. Intangibles**

Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business or for an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over the period of 20 years. The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

#### **h. Employee Benefits**

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and long service leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

#### **i. Cash**

For the purpose of the statement of cash flows, cash includes:  
— cash on hand and at call deposits with banks or financial institutions, net of bank overdrafts; and  
— investments in money market instruments with less than 30 days to maturity.

#### **j. Revenue**

Revenue from the sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customers.

All revenue is stated net of the amount of goods and services tax (GST).

#### **k. Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

#### **l. Comparative Figures**

The company was incorporated on 1 October 2004 and therefore no comparative figures apply.

### Note 1: Statement of Significant Accounting Policies – continued

#### m. Impact of Adoption of Australian Equivalents to International Financial Reporting Standards

The company is preparing and managing the transition to Australian Equivalents to International Financial Reporting Standards (AIFRS) effective for the financial years commencing from 1 January 2005. The adoption of AIFRS will be reflected in the economic entity's and the parent entity's financial statements for the year ending 30 June 2006. On first time adoption of AIFRS, comparatives for the financial year ended 30 June 2005 are required to be restated. The majority of the AIFRS transitional adjustments will be made retrospectively against retained earnings at 1 July 2004.

The economic entity's management has assessed the significance of the expected changes and is preparing for their implementation. The impact of the alternative treatments and elections under AASB 1: First Time Adoption of Australian Equivalents to International Financial Reporting Standards has been considered where applicable.

The directors are of the opinion that the key material differences in the economic entity's accounting policies on conversion to AIFRS and the financial effect of these differences, where known, are as follows. Users of the financial statements should note, however, that the amounts disclosed could change if there are any amendments by standard-setters to the current AIFRS or interpretation of the AIFRS requirements changes from the continuing work by the economic entity's management.

##### i. Goodwill on Consolidation

Under AASB 3: Business Combinations, goodwill is capitalised to the statement of financial position and subjected to an annual impairment test. Amortisation of goodwill is prohibited. Current accounting policy of the entity is to amortise goodwill on a straight-line basis over a period of 20 years.

Impairment testing as at 1 July 2005 confirmed no impairment of the \$1,378,255 goodwill less accumulated amortisation of \$26,920 as disclosed in the economic entity's financial statements at 30 June 2005. The previously amortised goodwill of \$26,920 will, therefore, be reversed resulting in a corresponding increase in profit amounting to \$26,920 for the year ended 30 June 2005.

##### ii. Share-based Payments

Under current Australian Accounting Standards, no expense is recognised for options issued to employees. Under AASB 2: Share-based Payments, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. AASB 2 is not limited to options and also extends to other forms of equity-based remuneration.

It applies to all share-based payments issued after 7 November 2002 which have not vested as at 1 January 2004. On transition, no adjustments are expected to arise in the company.

##### iii. Income Tax

Currently, the economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the accounting profit adjusted for any permanent differences. Timing differences are currently brought to account as either a provision for deferred income tax or future income tax benefit. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

Under AASB 112: Income Taxes, the entity will be required to adopt a balance sheet approach under which temporary differences are identified for each asset and liability rather than the effects of the timing and permanent differences between taxable income and accounting profit. Also, the test for bringing income tax balances to account will be based on the probability of realisation rather than virtual certainty of realisation.

Given that there is a reasonable probability that the economic entity will be able to utilise its tax losses, the resultant adjustments will be a reduction in the consolidated loss for the year ended 30 June 2005 of \$131,510 (parent entity: \$49,474) and the creation of a future income tax benefit of \$131,510 (parent entity: \$49,474) as at 30 June 2005.

	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Reconciliation of Net Profit</b>		
Net loss reported under Australian Accounting Standards	(473,549)	(116,950)
Key transitional adjustments:		
— Reversal of amortisation of goodwill (i)	26,920	—
— Income tax expense — future income tax movement (iii)	131,510	49,474
Total transitional adjustments	158,430	49,474
Net loss under AIFRS	(315,119)	(67,476)
<b>Reconciliation of Equity</b>		
Total equity reported under Australian Accounting Standards	5,277,120	5,633,719
Decrease in current year loss resulting from transition to AIFRS	158,430	49,474
Total equity under AIFRS	5,435,550	5,683,193

## Notes to the financial statements – continued

	Note	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>Note 2: Revenue</b>			
Operating activities			
— sale of goods		2,610,590	—
— interest received	2a	57,751	54,669
		2,668,341	54,669
Non-operating activities			
— intra-group corporate charges		—	203,226
		—	203,226
Total Revenue		2,668,341	257,895
a. Interest revenue from:			
— other persons and/or corporations		57,751	54,669
Total interest revenue		57,751	54,669
<b>Note 3: Profit from Ordinary Activities</b>			
Profit from ordinary activities before income tax has been determined after the following expenses:			
Cost of sales		1,897,130	—
Borrowing costs:			
— other persons and/or corporations		1,700	27
Total borrowing costs		1,700	27
Depreciation of non-current assets:			
— plant and equipment		187,619	381
— leased plant and equipment		5,188	—
Total depreciation		192,807	381
Amortisation of non-current assets:			
— goodwill		26,920	—
Total amortisation		26,920	—
Bad and doubtful debts:			
— trade debtors		15,289	—
Total bad and doubtful debts		15,289	—

	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>Note 4: Income Tax Expense</b>		
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax expense as follows:		
Prima facie future income tax benefit on loss from ordinary activities before income tax at 30%	(142,065)	(35,085)
Tax effect of the following permanent difference:		
— Non-deductible depreciation and amortisation	8,076	—
Less:		
Tax effect of the following timing differences not brought to account:		
— deductible portion of capital raising costs	(15,890)	(15,890)
— movements in provisions	18,369	1,501
Tax losses not brought to account	131,510	49,474
Income tax expense attributable to loss from ordinary activities before income tax	—	—

## Note 5: Directors' and Executives' Remuneration

### a. Names and positions held of Parent Entity Directors and Specified Executives in office at any time during the financial year are:

#### Parent Entity Directors

Richard (Dick) Wright	Chairman — Executive	
Robert Franco	Managing Director — Executive	
Geoff Gander	Director — Non-Executive	
Paul Price	Director — Non-Executive	– resigned 7 December 2004
Tony Ammendola	Director — Non-Executive	– resigned 7 December 2004

#### Specified Executives

There were no specified executives employed as at 30 June 2005.

### b. Parent Entity Directors' Remuneration

2005	Salary, Fees & Commissions \$	Primary Superannuation Contribution \$	Non-Cash Benefits \$	Total \$
Dick Wright	67,500	—	—	67,500
Robert Franco	61,135	5,650	—	66,785
Geoff Gander	26,650	—	—	26,650
Paul Price	—	—	—	—
Tony Ammendola	—	—	—	—
	155,285	5,650	—	160,935

## Notes to the financial statements – continued

### Note 5: Directors' and Executives' Remuneration – continued

#### c. Shareholdings

Number of Shares Held by Parent Entity Directors and Specified Executives

	Opening Balance	Received as Remuneration	Options Exercised	Net Change Other*	Balance 30.6.2005
<b>Parent Entity Directors</b>					
Dick Wright	—	—	—	620,000	620,000
Robert Franco	—	—	—	7,046,189	7,046,189
Geoff Gander	—	—	—	200,000	200,000
Total	—	—	—	7,866,189	7,866,189

\* Net change other refers to shares purchased or sold during the financial year.

#### d. Remuneration Practices

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows:

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future other than seeking to issue incentive options subject to shareholder approval at the next general meeting of shareholders.

Upon retirement specified directors and executives are paid employee benefit entitlements accrued to date of retirement. The company may terminate the contracts without cause by providing one month's written notice or making payment in lieu of notice based on the individual's annual salary component together with a discretionary redundancy payment. Termination payments are generally not payable on resignation or dismissal for serious misconduct. In the instance of serious misconduct the company can terminate employment at any time.

### Note 6: Auditors' Remuneration

Remuneration of the auditor of the parent entity for:

	Economic Entity 2005 \$	Parent Entity 2005 \$
— auditing or reviewing the financial report	24,500	24,500
— other services	7,500	7,500
	32,000	32,000

	<b>Economic Entity 2005 \$</b>	
<b>Note 7: Earnings Per Share</b>		
a. Reconciliation of earnings to net profit or loss		
Net loss	(473,549)	
Net profit attributable to outside equity interest	—	
Earnings used in the calculation of basic EPS	(473,549)	
After tax earnings from dilutive potential ordinary shares	—	
Earnings used in the calculation of dilutive EPS	(473,549)	
b. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	14,361,530	
Weighted average number of options outstanding	117,216	
Weighted average number of ordinary shares outstanding during the year used in calculation of dilutive EPS	14,478,746	
c. Classification of securities		
The following securities have been classified as potential ordinary shares and are included in determination of dilutive EPS:		
— options outstanding		
	<b>Economic Entity 2005 \$</b>	<b>Parent Entity 2005 \$</b>
<b>Note 8: Cash Assets</b>		
Cash at bank	1,942,188	1,535,072
Reconciliation of Cash		
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:		
Cash	1,942,188	1,535,072
<b>Note 9: Receivables</b>		
<b>CURRENT</b>		
Trade debtors	778,550	—
Provision for doubtful debts	(1,996)	—
	776,554	—
<b>NON-CURRENT</b>		
Amounts receivable from:		
— wholly-owned entities	—	801,634
	—	801,634

## Notes to the financial statements – continued

	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>Note 10: Inventories</b>		
<b>CURRENT</b>		
At cost		
Raw materials and stores	90,653	—
	90,653	—
<b>Note 11: Other Assets</b>		
<b>CURRENT</b>		
Prepayments	100,134	14,724
Other	77,774	36,794
	177,908	51,518

## Note 12: Controlled Entities

### a. Controlled Entities

	Country of Incorporation	Percentage Owned 2005
Parent Entity:		
Novacoat Holdings Limited	Australia	
Subsidiaries of Novacoat Holdings Limited:		
Novacoat (WA) Pty Limited	Australia	100%
Novacoat Workforce Pty Limited	Australia	100%
McFee Pty Limited	Australia	100%
McFee Engineering Pty Limited	Australia	100%

### b. Controlled Entities Acquired

On 10 December 2004 the parent entity acquired 100% of Novacoat (WA) Pty Limited, with Novacoat Holdings Limited entitled to all profits earned from the date of acquisition, for a purchase consideration of \$2,822,979.

On 10 December 2004 the parent entity acquired 100% of Novacoat Workforce Pty Limited, with Novacoat Holdings Limited entitled to all profits earned from the date of acquisition, for a purchase consideration of \$1.

On 28 April 2005 the parent entity acquired 100% of McFee Pty Limited, with Novacoat Holdings Limited entitled to all profits earned from the date of acquisition, for a purchase consideration of \$625,278.

On 28 April 2005 the parent entity acquired 100% of McFee Engineering Pty Limited, with Novacoat Holdings Limited entitled to all profits earned from the date of acquisition, for a purchase consideration of \$1.

	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>Note 13: Property, Plant and Equipment</b>		
<b>PLANT AND EQUIPMENT</b>		
Plant and equipment:		
At cost	2,091,894	30,486
Accumulated depreciation	(187,619)	(381)
	1,904,275	30,105
Leased plant and equipment:		
Capitalised leased assets	126,413	—
Accumulated depreciation	(5,188)	—
Total Plant and Equipment	121,225	—
Total Property, Plant and Equipment	2,025,500	30,105

#### Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning of the period and the end of the current reporting period

	Plant and Equipment \$	Leased Plant and Equipment \$	Total \$
Economic Entity:			
Balance at the beginning of year	—	—	—
Additions	73,400	126,413	199,813
Additions through acquisition of entity	2,018,494	—	2,018,494
Depreciation expense	(187,619)	(5,188)	(192,807)
Carrying amount at the end of year	1,904,275	121,225	2,025,500
Parent Entity:			
Balance at the beginning of year	—	—	—
Additions	30,486	—	30,486
Depreciation expense	(381)	—	(381)
Carrying amount at the end of year	30,105	—	30,105

## Notes to the financial statements – continued

	Note	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>Note 14: Intangible Assets</b>			
Goodwill at cost		1,378,255	—
Accumulated amortisation		(26,920)	—
		1,351,335	—
<b>Note 15: Payables</b>			
<b>CURRENT</b>			
Unsecured liabilities			
Trade creditors		613,249	42,440
Sundry creditors and accrued expenses		248,912	185,426
		862,161	227,866
<b>Note 16: Interest Bearing Liabilities</b>			
<b>CURRENT</b>			
Unsecured liabilities			
Lease liability	20	42,345	—
Premium funding liability	20	43,945	—
		86,290	—
<b>NON-CURRENT</b>			
Unsecured liabilities			
Lease liability	20	77,336	—
		77,336	—
<b>Note 17: Provisions</b>			
<b>CURRENT</b>			
Employee entitlements		61,231	5,003
		61,231	5,003
Number of employees at year end		25	2

	Note	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>Note 18: Contributed Equity</b>			
21,473,519 fully paid ordinary shares	18a	5,750,669	5,750,669
<b>a. Ordinary shares</b>			
At the beginning of the reporting period		—	—
Shares issued during the year			
— 1 on incorporation on 1 October 2004		1	1
— 6,476,669 on 21 October 2004		1,399,999	1,399,999
— 9,000,000 on 7 December 2004		2,700,000	2,700,000
— 5,330,183 on 18 April 2005		1,599,055	1,599,055
— 666,666 on 28 April 2005		200,000	200,000
Transaction costs relating to share issues		(211,864)	(211,864)
At reporting date		5,687,191	5,687,191
Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held.			
At shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.			
<b>b. Options</b>			
At the beginning of the reporting period		—	—
Options issued during the year			
— 500,000 on 28 April 2005		30,278	30,278
— 1,000,000 on 30 June 2005		33,200	33,200
At reporting date		63,478	63,478
At 30 June 2005, there were 1,500,000 unissued ordinary shares for which options were outstanding as follows:			
— 500,000 exercisable at 30 cents each expiring on 31 December 2008			
— 750,000 exercisable at 40 cents each expiring on 31 December 2010			
— 250,000 exercisable at 50 cents each expiring on 31 December 2010			
<b>Note 19: Retained Losses</b>			
Retained losses at the beginning of the reporting period		—	—
Net loss attributable to the members of the parent entity		(473,549)	(116,950)
Retained losses at the end of the reporting period		(473,549)	(116,950)

## Notes to the financial statements – continued

	Note	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>Note 20: Capital and Leasing Commitments</b>			
<b>a. Finance Lease Commitments</b>			
Payable			
—		45,403	—
—		94,673	—
Minimum lease payments		140,076	—
Less future finance charges		(20,395)	—
Total Lease Liability	16	119,681	—
<b>b. Premium Funding Commitments</b>			
Payable			
—		46,866	—
Minimum lease payments		46,866	—
Less future finance charges		(2,921)	—
Total Premium Funding Liability	16	43,945	—
<b>c. Operating Lease Commitments</b>			
Non-cancellable operating leases contracted for but not capitalised in the financial statements			
Payable			
—		205,745	—
—		1,158,276	—
—		987,283	—
		2,351,304	—

The property lease for Novacoat (WA) Pty Ltd's Kwinana workshop is a non-cancellable lease with a ten-year term, with rent payable monthly in advance. Rental provisions within the lease agreement require the minimum lease payments to be increased by CPI each year with market reviews performed initially after two years and then each five years thereafter. Options exist to renew the lease at the end of the ten-year term for an additional term of five years with a further five year term after the initial option period.

## Note 21: Segment Reporting

The economic entity derives its revenue from industrial services to the resource sector. The services comprise industrial coatings, rubber lining, on-site construction and maintenance services using the company and third party equipment and intellectual property. Services are performed entirely in Australia.

	Note	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>Note 22: Cash Flow Information</b>			
<b>a. Reconciliation of Cash Flow from Operations with Loss from Ordinary Activities after Income Tax</b>			
Loss from ordinary activities after income tax		(473,549)	(116,950)
Non-cash flows in profit from ordinary activities			
Amortisation		26,920	—
Depreciation		192,807	381
Consulting fees paid via issue of options		33,200	33,200
Insurance expense funded by external premium funding		40,771	—
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries			
(Increase)/decrease in trade and term debtors		(776,554)	—
(Increase)/decrease in inventories		(12,704)	—
(Increase)/decrease in other current assets		(177,908)	(51,518)
Increase/(decrease) in trade creditors and accruals		739,182	104,887
Increase/(decrease) in provisions		31,232	5,003
Cash flow from operations		(376,603)	(24,997)
<b>b. Acquisition of Entities</b>			
i. During the year 100% of the controlled entity Novacoat (WA) Pty Ltd was acquired. Details of this transaction are:			
Purchase consideration		2,822,979	2,822,979
Reconciled by:			
Cash consideration		—	—
Issue of shares	22c	2,700,000	2,700,000
Trade payable		122,978	122,978
Total purchase consideration		2,822,978	2,822,978
Assets and liabilities held at acquisition date:			
Inventories		77,950	77,950
Property, plant and equipment		2,022,051	2,022,051
Provisions		(30,000)	(30,000)
		2,070,001	2,070,001
Goodwill on consolidation		752,977	752,977
Contribution to consolidated net loss after income tax		8,582	—

## Notes to the financial statements – continued

	Note	Economic Entity 2005 \$	Parent Entity 2005 \$
<b>Note 22: Cash Flow Information – continued</b>			
ii. During the year 100% of the controlled entity McFee Pty Ltd was acquired. Details of this transaction are:			
Purchase consideration		625,278	625,278
Reconciled by:			
Cash consideration		395,000	395,000
Issue of shares and options	22c	230,278	230,278
Total purchase consideration		625,278	625,278
No material assets and liabilities were acquired		—	—
Goodwill on consolidation		625,278	625,278
Contribution to consolidated net loss after income tax		(153,410)	—

### c. Non-cash Financing and Investing Activities

#### i. Share issues

— 9,000,000 fully paid ordinary shares at \$0.30 each were issued in consideration for the acquisition of Novacoat (WA) Pty Ltd.	2,700,000	2,700,000
— 666,666 fully paid ordinary shares at \$0.30 each were issued as part consideration for the acquisition of McFee Pty Ltd.	200,000	200,000
— 500,000 options to acquire ordinary shares exercisable at 30 cents each and expiring on 31 December 2008 were issued as part of the consideration for the acquisition of McFee Pty Ltd.	30,278	30,278

#### ii. Finance Lease

Finance leases to acquire motor vehicles and office equipment	126,413	126,413
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### Note 23: Events Subsequent to Reporting Date

On 30 August 2005 the company announced that it had raised \$380,000 (before costs) via the issue of 950,000 ordinary shares at a price of \$0.40 each through a private placement.

## Note 24: Related Party Transactions

Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

Transactions with related parties:

i. Ultimate Parent Company

Intra-group corporate recharges

—

203,226

ii. Director-related Entities

Rent of workshop premises used by Novacoat (WA) Pty Ltd was paid to Emmerick Pty Ltd, a company in which Mr Robert Franco has an indirect beneficial interest.

103,378

—

Service fees paid by the parent entity to Longbow Holdings Pty Ltd, a company in which Mr Richard Wright has a controlling interest.

67,500

67,500

Director's fees paid by the parent entity to Symdean Pty Ltd, a company in which Mr Geoff Gander has a controlling interest. The parent entity also has an arrangement with Symdean Pty Ltd whereby Symdean Pty Ltd may provide consulting fees to the parent entity on a time and materials basis for pre-approved projects. No fees were paid to Symdean Pty Ltd pursuant to this latter arrangement.

26,650

26,650

**Economic Entity**  
**2005**  
**\$**

**Parent Entity**  
**2005**  
**\$**

## Notes to the financial statements – continued

### Note 25: Financial Instruments

#### a. Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

	Weighted Average Effective Interest Rate 2005	Floating Interest Rate \$ 2005	Fixed Interest Rate Maturing			Non-interest Bearing \$ 2005	Total \$ 2005
			Within Year \$ 2005	1 to 5 Years \$ 2005	Over 5 Years \$ 2005		
Financial Assets:							
Cash	5.2%	1,942,188	—	—	—	—	1,942,188
Receivables	—	—	—	—	—	776,554	776,554
<b>Total Financial Assets</b>		<b>1,942,188</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>776,554</b>	<b>2,718,742</b>
Financial Liabilities:							
Trade and sundry creditors	—	—	—	—	—	862,161	862,161
Lease liabilities	7.6%	—	42,345	77,336	—	—	119,681
Premium funding liabilities	7.0%	—	43,945	—	—	—	43,945
<b>Total Financial Liabilities</b>		<b>—</b>	<b>86,290</b>	<b>77,336</b>	<b>—</b>	<b>862,161</b>	<b>1,025,787</b>

#### b. Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for doubtful debts of those assets, as disclosed in the statement of financial position and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the economic entity.

#### c. Net Fair Values

For all financial assets and liabilities, the net fair value approximates their carrying value.

### Note 26: Company Details

The registered office of the company is:

Novacoat Holdings Limited  
59 Belmont Avenue, Belmont, Western Australia

The principal places of business are:

Novacoat (WA) Pty Ltd and Novacoat Workforce Pty Ltd  
— Industrial Coating Division  
60 Office Road, Kwinana, Western Australia

McFee Pty Ltd and McFee Engineering Pty Ltd

— Industrial Services Division  
59 Belmont Avenue, Belmont, Western Australia

# Directors Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 7 to 34 are in accordance with the Corporations Act 2001 and:
  - a. comply with Accounting Standards and the Corporations Regulations 2001; and
  - b. give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and economic entity;
2. the Chief Executive Officer and Chief Finance Officer have each declared that:
  - a. the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
  - b. the financial statements and notes for the financial year comply with the Accounting Standards; and
  - c. the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion 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 Board of Directors.



**R Franco**  
Director

*Dated this 12th day of September 2005*

# Independent audit report

## To the members of Novacoat Holdings 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 Novacoat Holdings Limited (the company) and the entities it controlled (the consolidated entity) during the reporting period ended 30 June 2005.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report 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 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 judgment, 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 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.

### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 12 of the financial report has not changed as at the date of providing our audit opinion.

### Audit Opinion

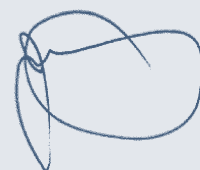
In our opinion, the financial report of Novacoat Holdings Limited is in accordance with:

- a. the Corporations Act 2001, including:
  - i. Giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2005 and of their performance for the reporting period ended on that date; and
  - ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- b. other mandatory professional reporting requirements in Australia.



#### RSM Bird Cameron Partners

Chartered Accountants



#### J A Komninos

Partner

Perth, Western Australia

Dated this 12th day of September 2005

# Additional Information

## For public listed companies

Additional information required by Australian Stock Exchange Limited and not shown elsewhere in this report is as follows.

This information is made up as at 30 September 2005.

### 1. Substantial shareholders

The names of substantial shareholders listed on the company's register are:

Shareholder	Shares	%
L, M & R Franco – LMR Franco Unit A/C	4,120,000	18.37
Delauney Pty Ltd –The Franco Family A/C	2,300,000	10.26
Fairview Pty Ltd – Ernesto Franco Family A/C	2,300,000	10.26

### 2. Distribution of shareholdings

Range of Holding	No. of Shareholders	No. of Ordinary Shares	%
1 – 1,000	1,067	485,170	2.16
1,001 – 5,000	290	737,411	3.29
5,001 – 10,000	150	1,228,394	5.48
10,001 – 100,000	188	6,328,522	28.22
100,001 and over	15	13,644,022	60.85
Total	1,710	22,423,519	100.00

The number of shareholders with less than a marketable parcel is 913 holding in total 910 shares.

### 3. Voting rights

All ordinary shares issued by Novacoat Holdings Limited carry one vote per share without restriction.

### 4. Twenty largest shareholders

The names of the twenty largest shareholders of ordinary shares in the company are:

Name	No. of Ordinary Fully Paid Shares Held	%
L, M & R Franco – LMR Franco Unit A/C	4,120,000	18.37
Delauney Pty Ltd –The Franco Family A/C	2,300,000	10.26
Fairview Pty Ltd – Ernesto Franco Family A/C	2,300,000	10.26
McFee Holdings Pty Ltd	666,666	2.97
Larchmont Services Limited	638,345	2.85
Invia Custodian Pty Ltd – R & A Wright Family S/F A/C	620,000	2.76
R A Black & A C Black – Black Super Fund A/C	600,000	2.68
M R, R M and L M Franco	600,000	2.68
Lando Pty Ltd	450,000	2.01
Cunningham Securities Pty Ltd	429,667	1.92
Clodene Pty Ltd	299,344	1.33
Flag Holdings Pty Ltd	220,000	0.98
Eagle River Holdings Pty Ltd	200,000	0.89
Bontempo Nominees Pty Ltd – Bontempo Family A/C	180,000	0.80
I Goodilich	120,000	0.54
C W Johnston Pty Ltd – C W Johnston Super Fund A/C	100,000	0.45
G A Gander – The Gander Super A/C	100,000	0.45
R M Ferguson-Gander	100,000	0.45
J Giorgiades – Bugsy A/C	100,000	0.45
P A Lomma	100,000	0.45
Total	14,244,022	63.52

**Novacoat** Holdings Limited

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