CAP-XX

08

ANNUAL REPORT 2008

CAP-XX

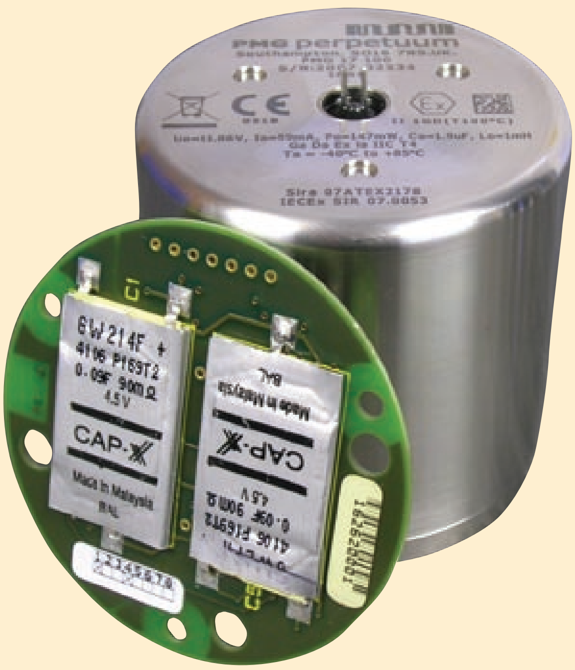
Two examples of new emerging markets which are utilising CAP-XX supercapacitors are the solid state drive (SSD) and energy harvesting markets.

Brite Power™ SSD

The value of CAP-XX supercapacitors to SSD manufacturers is driven by their high energy, high power and small dimensions (size and weight). In the SSD the supercapacitor is used to protect the memory in the event of a power loss, delivering improved performance, security and reliability. Several design wins have already been achieved.

Brite Power™ Harvesting

This battery-free, condition monitoring sensor unit uses a vibration transducer as its energy source and a CAP-XX supercapacitor to store the energy and power the device reporting the condition of remote machinery back to base on a frequent basis.



CAP-XX Limited is a world leader in the design and manufacture of revolutionary thin-form capacitors predominately for use in small portable electronic devices.

Supercapacitors can considerably extend battery run-times and provide power-hungry applications that are not possible with current battery technology.

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CORPORATE DIRECTORY

Directors	Michael Quinn Chairman
	Anthony Kongats Managing Director
	Graham Titcombe
	John Murray
	Christer Harkonen (Resigned 30 June 2008)
	Brett Sandercock
Secretary	Robert Buckingham
Notice of annual general meeting	The annual general meeting of CAP-XX Limited will be held at:
	Davidson House Forbury Square Reading RG1 3EU United Kingdom
	time: 9.30am
	date: 25 November 2008
	A formal notice of meeting is enclosed.
Registered office	Suite 126 117 Old Pittwater Road Brookvale NSW 2100 Australia
Principal place of business	Units 9 and 10 12 Mars Road Lane Cove NSW 2066 Australia
Registrars to shares	Computershare Investor Services Pty Ltd Yarra Falls 452 Johnston Street Abbotsford Victoria 3067 Australia
Registrars to depositary interests	Computershare Investor Services plc The Pavilions Bridgwater Road Bristol BS99 7NH United Kingdom

CORPORATE DIRECTORY continued

Nominated adviser and broker to the Company	Seymour Pierce Limited 20 Old Bailey London EC4M 7EN United Kingdom
Auditor	PricewaterhouseCoopers 201 Sussex Street Sydney NSW 1171 Australia
Solicitors to the Company as to Australian law	Dibbs Abbot Stillman Level 9, Angel Place 123 Pitt Street Sydney New South Wales 2000 Australia
Solicitors to the Company as to English law	Olswang Solicitors 90 High Holburn London WC1V 6XX United Kingdom
Bankers	Commonwealth Bank of Australia 120 Pitt Street Sydney, NSW 2000 Australia
Stock exchange listings	Shares are listed as Depositary Interests on AIM, a market regulated by London Stock Exchange plc under the code CPX
Website address	www.cap-xx.com

CHAIRMAN'S STATEMENT

For some time, we have remarked that CAP-XX's major objectives were to achieve a large scale design commission from a major mobile handset manufacturer and a manufacturing agreement with a world scale electronic component manufacturer. I am therefore pleased to report that on 25 May 2008, CAP-XX entered into a formal contract with Murata Manufacturing Corporation (Murata) of Japan to jointly develop and supply high performance supercapacitors for mobile handsets and other portable applications.

Under the terms of the agreement, CAP-XX will receive "up-front" licence fees associated with the technology transfer and will be entitled to a royalty based on the volume of supercapacitor sales. Both parties also agreed to work together to develop next generation products. Progress since the agreement was signed is in line with management's expectations. The technology transfer has been completed with two of the scheduled "up-front" payments being received and both Murata and CAP-XX are forecasting that manufactured product and associated sales from this agreement will commence in the second half of the next calendar year. Subsequent to the main agreement, both companies signed a Re-sale Agreement on 9 October 2008 which will allow CAP-XX a proportion of Murata's manufactured product to be sold under the CAP-XX name. Joint development programs are also currently being negotiated.

The agreement with Murata provides CAP-XX with a world-class manufacturer which is one of the largest suppliers to all of the major mobile handset manufacturers and, coupled with the CAP-XX technology, provides the necessary manufacturing quality and scale to meet the requirements for volume and integrity of supply of the major mobile handset manufacturers.

The relationships with all of the major mobile handset manufacturers, as well as the integrated circuit design houses, have continued to progress at a very satisfactory rate. The CAP-XX value proposition is well known and understood.

I am pleased to report that we have been able to achieve volume growth across our markets. This is despite tough economic conditions, especially in the key United States retail market, coupled with the loss of significant wireless card volumes due to a market shift towards USB modems. Product shipments for 2008 of 1.43 million units were up compared with 1.39 million units in 2007. Revenues of A$5.12 million for the 12 months to 30 June 2008 were negatively impacted by a strengthening Australian dollar, but were still higher than the previous year (2007: $4.98m). Despite the competitive market, Average Selling Prices were maintained primarily due to improved product mix.

Our operating result for the year to 30 June 2008, before accounting for one-off expenses, was a loss of $A9.0 Million (2007: $A9.1 million). The reported net loss was A$11.6 million (2007: loss A$9.0 million) with the major differences between the reported and operating loss being the need for provisioning on inventory and plant and machinery in the light of the production agreement with Murata.

Headcount has reduced in the past twelve months with the Lane Cove manufacturing plant reducing from two shifts to a single shift. This was due to the slowdown in sales orders in the second half of the year, especially orders to the United States customer base. However, key people areas such as Research and Development and Sales and Marketing have not been decreased and in fact additional resources have been added in Research and Development to ensure that key product development initiatives that have been commenced can be completed as soon as practicable.

The Company has commenced the new financial year in a solid fashion with sales in line with expectations. Orders from existing customers are healthy, with the key markets to be serviced continuing to be wireless, consumer and commercial applications. However, it is the enquiries from new customers which are proving to be most exciting. New markets have been identified, especially the Solid State Drive market with early investigations highlighting additional opportunities and applications for supercapacitors. While these additional opportunities will be actively pursued, they will not distract us from gaining a foothold in the mobile phone market where good progress has been made towards obtaining a mobile handset design win.

The obvious highlight for CAP-XX over the past twelve months was securing a long term manufacturing agreement with Murata. This agreement will not only "de-risk" CAP-XX but will also provide a springboard for the organisation to obtain a mobile handset design win. We firmly believe that with Murata on board, the outlook for CAP-XX has been significantly strengthened. The next twelve months will be focussed on assisting Murata with their manufacturing timetable and securing mobile handset design wins.

Michael Quinn
Chairman

28 October 2008

BUSINESS REVIEW

About CAP-XX Limited

CAP-XX Limited is a world leader in the design and manufacture of revolutionary thin-form supercapacitors predominately for use in small portable electronic devices. Supercapacitors can considerably extend battery run-times and provide power-hungry functions that are not possible with current battery technology.

CAP-XX supercapacitors have a compact, thin-form design and they can store higher volumes of energy and output higher power levels than competing supercapacitor products. These attributes are critical for current and future generation electronic devices, such as mobile phone cameras with a quality flash photography capability and high quality audio capabilities. Other potential applications include mobile phone and solid state disk power management, mobile phone accessories markets, digital still cameras, MP3 players, portable drug delivery systems, wireless sensors, uninterrupted power supplies, plant condition monitors, toll tags and location tracking devices. The Company believes fuel cells will play a part in the solution to battery limitations and believes that this offers a potential significant opportunity to CAP-XX.

Portable devices have been, and continue to be, a fast-growing segment of the electronics market. Last year, well over 1.5 billion portable electronic devices were sold, including over 1 billion mobile phones, approximately 120 million laptops, 300 million desktop and industrial computers, toys, digital cameras and MP3 players. Increasingly, the majority of mobile handsets being manufactured and sold have in-built cameras and flash technology. Many of these devices could benefit from supercapacitors.

In 2007-2008, CAP-XX supplied supercapacitors to a number of blue chip consumer electronics companies for use in current generation wireless devices such as ruggedised PDAs (personal digital assistants) and PCMCIA (personal computer memory card international association) cards. CAP-XX is now particularly focussed on the camera phone market and is in discussions with leading mobile phone manufacturers as well as other manufacturers in exciting emerging markets, such as Solid State Drives (SSD).

CAP-XX is incorporated in Australia and has its headquarters and research and development and manufacturing facilities in Sydney, Australia employing 36 staff. These facilities have ISO 9000 status. A similar but larger manufacturing facility is operated in Malaysia by Polar Twin Advance Sdn Bhd under a manufacturing agreement with CAP-XX.

Historical Milestones

In 1994, a company associated with Anthony Kongats, now Chief Executive Officer of CAP-XX Limited, entered into an agreement with CSIRO (the Australian Commonwealth Scientific and Industrial Research Organisation) to research and commercialise supercapacitor technology that had resulted from CSIRO research.

CAP-XX Limited (formerly known as Energy Storage Systems Pty Limited) was established in 1997 by Anthony Kongats as the vehicle to hold the intellectual property resulting from the partnership with CSIRO. CAP-XX received research and development grants from the Australian Government and was backed by some of the world's leading technology investors, including Intel, Acer, ABN Amro and Walden and well supported by Australian based venture capitalists Innovation Capital and Technology Venture Partners.

In 1999, the Company built a pilot production plant in Lane Cove, Sydney, Australia, and progressively improved production capacity. It began shipping supercapacitor products to customers in 2003. Customers supplied to date include Sony, Sony Ericsson, IP Wireless, Option, Sierra Wireless, Flextronics, and product shipped to Motorola, Intermec and Hand Held Products has been incorporated in field-critical devices such as those used by leading parcel delivery companies such as FedEx and UPS.

In late 2004, the Company entered into a manufacturing agreement with Polar Twin Advance Sdn Bhd ("PTA") of Malaysia to provide high volume manufacturing services. The production flow process developed in Sydney has been successfully replicated in Malaysia and PTA has consistently improved their operational efficiencies and volume of production.

CAP-XX was named a 2005 Technology Pioneer by the World Economic Forum in developing and applying innovative and transformational technology.

In February 2006, the CAP-XX technology was recognised by Frost & Sullivan's 2005 Technology Innovation of the Year Award as a "breakthrough nanotechnology process for producing supercapacitors to meet the pulse-power requirements of portable devices". This Award recognises research expected to make significant contributions to the electronics industry.

Since then, CAP-XX has received numerous other International awards for its products and electronic circuit designs including EDN's Top Overall Power Product for 2008 and being voted 3rd overall in Electronic Design's Top 101 Components for 2008.

On 20 April 2006, CAP-XX Limited was listed on the AIM market of the London Stock Exchange in conjunction with a placement of 18,433,333 shares at 93 pence per share, which raised gross proceeds of A$41million (£17.1 million) and increased the total shareholding to 48,565,893 shares and market capitalisation (at 93p per share) to about A$108 million (£45.2 million). Shareholding has risen to 49,112,791 by 30 June 2008 as various Employee Shareholder Option Plan participants exercised their options.

BUSINESS REVIEW *continued*

In May 2008, CAP-XX entered into a formal agreement with Murata Manufacturing Corporation (Murata) of Japan to jointly develop and supply high performance supercapacitors for mobile handsets and other peak power hungry, space constrained portable applications. Murata is recognised as one of the world's leading manufacturing companies of electronic components and is an existing supplier to all of the top mobile handset market companies. CAP-XX and Murata will work together to scale supercapacitor production to meet the anticipated demand of the global handset market. Both organisations are anticipating that volume mass production and sales from this partnership will commence in the second half of 2009. In early October 2008, the companies signed a Re-sale Agreement which provides CAP-XX with a proportion of the Murata manufactured product. This product will be sold to CAP-XX's existing and new customers under the CAP-XX name.

Review of Operations and Activities

The Company has continued to grow its revenue year on year with more than 5 million units sold since 2003. Revenue for the 12 months to 30 June 2008, increased by A$137,000 to A$5.1 million compared to A$5.0 million in 2007. Unit sales of 1.4 million were in line with the previous year The total revenue for 2007/08 does include a proportion of the Murata Technology Transfer payments which will be spread over 24 months for revenue recognition purposes. The first payment was received in June 2008. The operating result for the year to 30 June 2008, before accounting for one-off expenses, was a loss of A$9.0 million (2007: loss of A$9.1 million). The one-off expenses relate to an increase in the inventory obsolescence provision due to an excess of specific products in a market which has significantly declined and the write down of plant and machinery which is deemed to be surplus to CAP-XX's requirements in light of the Murata manufacturing agreement. The reported result for the twelve months to 30 June 2008 was a net loss of A$11.6 million (2007: loss of A$9.0 million).

Business Environment

Portable electronic devices are one of the fastest growing segments of the electronics market and provide the greatest opportunities for CAP-XX's products. Driven by customer requests, manufacturers are constantly adding to the functions and applications available on these devices, meaning that power management continues to be an increasingly important consideration. The other important factor is size, with the devices becoming smaller even though their capabilities are increasing.

CAP-XX technology provides a competitive advantage over other supercapacitor manufacturers, which include AVX, Maxwell Technologies and NEC/Tokin Corporation. Other manufacturers are unable to match the CAP-XX technology for thinness, energy density and power density. Many competitors manufacture higher-capacity, large package devices and focus on applications where the combination of thinness, energy density and power density is not an issue.

Opportunities

The growing camera phone market remains the top priority for CAP-XX. Mobile phones with a camera have become the standard offering and manufacturers are increasingly moving towards higher resolution cameras. Mobile handset providers, especially in mid tier and high end mobile phones, are including a quality camera but are not providing an effective camera flash. There is a widening gap between the power these applications require and the power current battery technology can deliver. There is also a strong move towards improving the quality of the music played through the phones and our supercapacitors can provide a vital link in achieving these goals. Good progress has been made with both mobile handset manufacturers and the international integrated circuit (IC) companies. CAP-XX is now well known for its capability and technology.

A further opportunity that materialised during the year is Solid State Drives (SSD). Due to lower prices, higher capacities, improved reliability and faster performance this product is rapidly replacing hard disks. The SSD market to date has been limited to the enterprise market segment, due largely to its high cost. Penetration is growing from a virtual zero base in many consumer segments to substantial quantities by 2009/10. We estimate this will drive SSD growth rates many times more than those of the underlying markets. To ensure system performance is not compromised, SSD will require an Uninterrupted Power Supply (UPS) to assist with the write speed required for the large volumes of meta data that are produced. The attraction of the CAP-XX supercapacitor to the SSD manufacturers is the energy storage capability, delivered power and the physical dimensions (size and weight). CAP-XX has already achieved several design wins and trials of the supercapacitor product are underway with several selected vendors.

Other potential applications include digital still cameras, MP3 players, portable drug delivery systems, wireless sensors, uninterrupted power supplies, toll tags and location tracking devices. The Company believes that fuel cells will also have a part to play in the solution to battery limitations and believes that this also offers another significant opportunity to CAP-XX.

BUSINESS REVIEW *continued*

An additional benefit of the Murata manufacturing agreement is that it will enable the CAP-XX supercapacitor to be validated as a mainstream consumer electronics technology and will increase CAP-XX's exposure to markets and customers previously not targeted due to limited resources. Association with the Murata name will help gain recognition for, and acceptance of, the capabilities of the CAP-XX supercapacitor product to support hi-power functions, and reduce misconceptions about their price and performance. Murata will not be able to meet the product type or size requirements to all markets. Murata will refer non-core customers to CAP-XX and CAP-XX will supply these markets directly using products made by contract manufacturers.

Strategies for Growth

The Company continues to have discussions aimed at securing business with a number of global original equipment manufacturers active in mobile phone and portable consumer electronics. We hold regular engineering meetings together with their integrated circuit board providers as well as strengthening our relationships across their organisations. Whilst we are unable to comment on specific progress with individual companies we can state that we are pleased with the overall progress and remain confident that the first mobile handset utilising CAP-XX technology will appear in the market in 2009.

CAP-XX opened an office outside London in 2007 which includes our mobile phone business development team. We also have a sales office in the USA whilst Asia is covered from our Sydney offices. Most sales to date have been achieved by direct sales and the Company plans to maintain direct sales contacts with key customers. To gain broader market coverage, the Company has entered into distribution agreements with a number of well-qualified distributors covering Asia (inclusive of Japan, Korea and China) US and Europe. Sales growth from this distributor network is encouraging and their experience in selling our product is steadily improving.

Research and Development

CAP-XX has a research facility at its headquarters in Lane Cove, Australia with a research and development department comprised of 10 engineers and scientists. They are ably assisted by 14 additional engineers and scientists in other departments. Development work continues to maintain CAP-XX's lead position in the engineering of electrode, separator and electrolyte material in supercapacitor devices. We have a close association with leading personnel across various research institutions. Our Scientific Advisory Board provides clear direction on the commercially relevant technologies our R&D programme should address.

The market in which the Company operates is competitive and is characterised by rapid technological change. The Company believes that it currently has a strong competitive position in all its target markets covering wireless, consumer and commercial applications with its capability to produce supercapacitors with a high energy density and power density in a small conveniently sized flat package. The CAP-XX devices are also lightweight, work over a broad temperature range and have an operating lifetime measured in years.

The Company's success depends on its ability to protect its intellectual property and prevent any infringements of its intellectual property. CAP-XX has sought to protect its intellectual property and has considerable intellectual property embodied in patents covering the design, manufacture and use of its high performance supercapacitors. The CAP-XX patent portfolio currently consists of 21 patent families, 14 granted US patents, 14 US patent applications and corresponding international patents and applications. The patents cover supercapacitive devices, components for supercapacitors, techniques for manufacturing devices and applications of the devices in electronic circuits.

Outlook

The Company had identified that a reliable large scale manufacturer needed to be secured in order to pursue the mobile phone market. With Murata, CAP-XX's long term manufacturing strategy is now in place and both the short and longer term outlooks are positive. Murata is well recognised as a worldwide components manufacturer and already supplies to large mobile handset manufacturers. Murata's worldwide distribution expertise will also assist the sales and marketing of the CAP-XX developed supercapacitor. First sales of the Murata produced supercapacitor remain on schedule and are expected in the second half of 2009.

The Company made good progress during 2008 towards its objective of large scale design commissions from mobile handset manufacturers. We also actively engaged with various suppliers and integrated circuit design houses that support the major handset manufacturers globally. These customers are expanding the array of solutions on offer using our supercapacitor as a core technology feature. Discussions are continuing with Murata on the most effective use of common resources (business development, sales and marketing) to achieve the desired outcome.

In partnership with Murata, CAP-XX will continue to focus on developing credible long-term relationships with mobile handset manufacturers, with the goals of securing mobile design wins and successful commencement of the Murata production line.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of CAP-XX Limited (the Company or CAP-XX) and the entities it controlled at the end of, or during, the year ended 30 June 2008.

Directors

The following persons were directors of CAP-XX Limited during the financial year and up to the date of this report:

Michael Quinn	Chairman
Anthony Kongats	Managing Director
John Murray	
Christer Harkonen	Resigned 30 June 2008
Graham Titcombe	
Brett Sandercock	

Principal activities

The Group's principal continuing activities during the financial year consisted of the development, manufacture and sale of supercapacitors. There have been no significant changes in the nature of the Group's activities.

Dividends

No dividends were paid, declared or recommended during the financial year or since 30 June 2008.

Review of operations

The Group experienced net losses of $11,580,106 during the year ended 30 June 2008 (2007: loss of $8,991,000). Information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 5 to 7 of this Annual Report.

Significant changes in the state of affairs

On 25 May 2008, CAP-XX entered into a formal contract with Murata Manufacturing Corporation of Japan (Murata) to jointly develop and supply high performance supercapacitors for mobile handsets and other portable applications.

There were no other significant changes in the Group's state of affairs during the financial year ended 30 June 2008.

Matters subsequent to the end of the financial year

Since 30 June 2008, CAP-XX has negotiated a joint Research & Development Feasibility Agreement with Murata.

The agreement is due to be signed by 31 October 2008.

No other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Information on likely developments in the Group's operations and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group holds an Environment Protection licence and is subject to standard waste management environmental regulations in respect of its research and manufacturing activities conducted at Lane Cove, Sydney, Australia. The licence requires discharges to air and water to be below specified levels of contaminants, and solid wastes to be removed to an appropriate disposal facility. These requirements arise under the Clean Air Act 1961, Clean Waters Act 1970, Pollution Control Act 1970, Noise Control Act 1975 and Waste Minimisation & Management Act 1995.

During the year there were no breaches of the regulatory requirements.

DIRECTORS' REPORT *continued*

Information on directors

Michael Quinn

Chairman. Age 61

Experience and qualifications

Michael became a director on 12 November 1998. He is executive chairman of venture capital fund manager, Innovation Capital Associates Pty Ltd, and was previously a co-founder of Memtec Ltd, the high technology filtration company, which was listed on the ASX, NASDAQ and then NYSE. Michael is also a director of QRxPharma Ltd, listed on the ASX, a director of ResMed Inc., which is listed on NYSE, and is on the board of two not-for-profit organisations. Prior to its acquisition, he was executive chairman of the listed company Phoenix Scientific Industries Ltd that manufactured and imported medical and scientific equipment. Michael has also held executive positions in the banking, transport and high-technology plastics industries and has been a director of numerous listed and unlisted companies. He has an MBA from Harvard.

Specific Board responsibilities

Nil.

Interests in shares and options

2,266,974 ordinary shares in CAP-XX Limited (including shares held by Innovation Capital Limited, Innovation Capital LLC and Kaylara Pty Limited).

132,692 options over ordinary shares in CAP-XX Limited (including options held by Innovation Capital Limited, Innovation Capital LLC and Kaylara Pty Limited).

Anthony Kongats

Managing Director. Age 50.

Experience and qualifications

Anthony founded the Company in 1997. Prior to CAP-XX, he was owner and the managing director of a manufacturer of passive components before selling the business to a competitor. Anthony previously worked as a management consultant with McKinsey & Company and held various engineering positions in Australia and Europe. He has a bachelor's degree (Honours) in engineering from the University of New South Wales, a Bachelor of Science degree from the University of Sydney and an MBA from the Australian Graduate School of Management.

Specific Board responsibilities

Nil.

Interests in shares and options

5,032,151 ordinary shares in CAP-XX Limited (including shares held by Ducon Management Pty Limited and Management Matters Pty Limited).

263,337 options over ordinary shares in CAP-XX Limited.

Christer Harkonen

Non-executive Director. Age 52. Resigned 30 June 2008

Experience and qualifications

Christer is Senior Vice President of UPM Raflatac, responsible for the Radio Frequency Identification Business. Before joining that company he held various management positions at Elcoteq, a global electronics manufacturing services company. During 2000-2004 he headed Elcoteq's largest business area, Terminal Products, and was responsible for strategic accounts. Christer has held various production, logistics and purchasing positions in the electronics industry since 1984 including with Nokia, ICL Personal Systems Oy and Espoo. He has a master's degree in engineering.

Specific Board responsibilities

Member of audit committee.
Member of remuneration committee.

Interests in shares and options

5,000 ordinary shares in CAP-XX Limited.
20,000 options over ordinary shares in CAP-XX Limited.

DIRECTORS' REPORT continued

John Murray

Non-executive director. Age 49.

Experience and qualifications

John became a director on 18 September 2000. He has 15 years experience in providing venture capital to technology companies in the Asia Pacific region with Bank of America, Australian Technology Group and Technology Venture Partners Pty Limited. John is a co-founder of Technology Venture Partners Pty Limited, one of the leading VC firms in Australia. He has been chairman of the Australian Venture Capital Association; a member of the Austrade ICT Export Advisory Panel; and a member of the 2002 Cooperative Research Centre Expert Review Panel. John has personally been involved in financing and assisting the development of a number of Australian companies which have successfully commercialised technology. He has a law degree (Honours) from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland.

Specific Board responsibilities

Member of audit committee.
Member of remuneration committee.

Interests in shares and options

4,535,238 ordinary shares in CAP-XX Limited (including shares held by TVP No 2 Fund Nominees Pty Limited and TVP No 3 Fund Nominees Pty Limited).

23,501 options over ordinary shares in CAP-XX Limited (including options held by Technology Venture Partners Pty Limited).

Graham Titcombe

Non-executive director. Age 66.

Experience and qualifications

Graham worked for Johnson Matthey plc for 42 years retiring in 2002 as group managing director. He was a member of the Johnson Matthey Board for 12 years and was responsible at various times for the Johnson Matthey group's precious metals, catalysts and ceramics divisions. He was also the Johnson Matthey board member responsible for technology. Graham's outside directorships have included Ballard Power Systems, The World Fuel Cell Council, Wagon plc and Infast Group plc. He was chairman of Infast before stepping down in July 2005. He is currently senior independent director on the board of PolyFuel Inc. which listed on AIM in June 2005, and also Talvivaara Limited, which listed on the London Stock Exchange in June 2007.

Specific Board responsibilities

Chairman of remuneration committee.
Senior independent director.

Interests in shares and options

20,000 ordinary shares.

Brett Sandercock

Non-executive director. Age 41.

Experience and qualifications

Brett Sandercock joined ResMed in 1998 and has held various senior finance positions in the company most recently as Chief Financial Officer. Brett's current role encompasses overall responsibility for group financial reporting, SOX 404 compliance, group treasury and foreign exchange hedging strategies.

Prior to joining ResMed, Brett commenced work at Price Waterhouse in 1989 and was appointed Audit Manager in 1994, specialising in audits of clients predominantly focused on distribution and manufacturing, financial services and technology. He then took a position as Group Management Accountant with Health Care of Australia (formerly a division of Mayne Group, one of the largest private hospital operators in Australia). In 1996 Brett joined Norton Abrasives (a division of the French multi-national Saint Gobain) as Manager, Financial Accounting and Group Reporting Manager.

Brett Sandercock holds a Bachelor of Economics degree from Macquarie University and is an Australian Chartered Accountant.

Specific Board responsibilities

Chairman of audit committee.

Interests in shares and options

10,000 options over ordinary shares in CAP-XX Limited.

Company Secretary

The company secretary is Robert Buckingham.

Robert is managing partner of Allan Hall Partnership, Chartered Accountants, a position he has held since 1989. He has a Bachelor of Commerce degree (Honours) from the University of New South Wales and is a member of the Institute of Chartered Accountants in Australia and an associate member of Certified Practising Accountants in Australia.

DIRECTORS' REPORT *continued*

Meetings of Directors

The number of meetings of the Company's board of directors and of each board committee held, during the year ended 30 June 2008, and the number of meetings attended by each director were:

	Full meetings of directors		Audit Committee Meetings		Remuneration Committee Meetings	
	A	B	A	B	A	B
Michael Quinn	6	6				
Anthony Kongats	6	6				
John Murray	6	6	3	3	2	2
Christer Harkonen (Resigned 30 June 2008)	5	6	3	3	2	2
Graham Titcombe	6	6			2	2
Brett Sandercock	6	6	3	3		

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

Directors' remuneration

Details of the remuneration of each director of CAP-XX Limited, for the year ended 30 June 2008, are set out in the following table. The cash bonuses are dependent on the satisfaction of performance conditions. All other elements of remuneration are not directly related to performance.

Directors of CAP-XX Limited

2008	Primary			Post-employment		Equity	
Name	Cash salary and accrued fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
Executive directors							
Anthony Kongats	288,990	-	-	26,009	-	51,272	366,271
Non-executive directors							
Michael Quinn	91,937	-	-	-	-	8,697	100,634
John Murray	68,952	-	-	-	-	6,146	75,098
Christer Harkonen	68,952	-	-	-	-	6,060	75,012
Graham Titcombe	91,937	-	-	-	-	-	91,937
Brett Sandercock	67,146	-	-	6,043	-	1,831	75,020
Total	677,914	-	-	32,052	-	74,006	783,972

CAP-XX

DIRECTORS' REPORT *continued*

Details of the remuneration of each director of CAP-XX Limited, for the year ended 30 June 2007, are set out in the following table. The cash bonuses are dependent on the satisfaction of performance conditions. All other elements of remuneration are not directly related to performance.

Directors of CAP-XX Limited

2007	Primary		Post-employment		Equity		
Name	Cash salary and accrued fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Retirement benefits $	Options $	Total $
Executive directors							
Anthony Kongats	288,990	-	-	26,009	-	49,327	364,326
Non-executive directors							
Michael Quinn	98,796	-	-	-	-	3,991	102,787
John Murray	74,104	-	-	-	-	813	74,917
Christer Harkonen	74,104	-	-	-	-	705	74,809
Graham Titcombe	98,134	-	-	-	-	-	98,134
Brett Sandercock	11,893	-	-	1,125	-	-	13,018
Total	646,021	-	-	27,134	-	54,836	727,991

Loans to directors and executives

The Group has no loans to directors and/or executives.

Share options granted to directors and the most highly remunerated officers

Options over unissued ordinary shares of CAP-XX granted during the financial year to any of the directors or the 5 most highly remunerated officers of the Company and Group as part of their remuneration were as follows:

Directors	Date Granted	Options Granted
Brett Sandercock	21 April 2008	10,000
Christer Harkonen	21 April 2008	10,000
John Murray	21 April 2008	10,000
Michael Quinn	21 April 2008	10,000
Other executives of CAP-XX Limited		
Michael Taylor	25 February 2008	150,000

The options were granted under the terms and conditions of the 2006 Employee Share Option Plan.

No options over unissued ordinary shares of CAP-XX have been granted since the end of the financial year to any of the directors or the 5 most highly remunerated officers of the Company and Group as part of their remuneration.

DIRECTORS' REPORT *continued*

Shares under option

Unissued ordinary shares of CAP-XX Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of Shares	Number under option
28 August 2001	29 January 2009	$11.84	13,500
28 August 2001	10 October 2009	$8.88	510
1 November 2002	30 September 2012	$15.64	44,502
1 April 2004	29 January 2009	$11.84	1,509
1 April 2004	30 September 2012	$4.19	4,500
1 April 2004	30 September 2012	$15.64	12,003
30 June 2004	31 May 2014	$0.47	30,000
1 July 2005	31 May 2015	$0.47	964,879
1 July 2005	31 May 2015	$15.64	9,006
20 April 2006	20 April, 2009	£0.93	503,350
20 April 2006	22 February 2011	$1.40	60,000
19 September 2006	19 September 2016	$2.38	1,450,000
15 November 2006	15 November 2016	$1.73	75,000
8 May 2007	8 May 2017	$2.58	30,000
4 June 2007	4 June 2017	£1.09	150,000
25 February 2008	25 February 2018	$0.71	150,000
21 April 2008	21 April 2018	$0.43	40,000
		Total	3,538,759

No option holder has any right under the options to participate in any other share issue of the Company or of any other entity.

Shares issued on the exercise of options

The following ordinary shares of CAP-XX were issued during the year ended 30 June 2008 on the exercise of options granted under the CAP-XX Employee Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of Shares	Number under option
26 August 2004	$0.23	48,000
21 March 2005	$0.23	48,000
1 July 2005	$0.47	90,232

DIRECTORS' REPORT *continued*

Indemnification and Insurance of Officers

Indemnification

CAP-XX has agreed to indemnify the current directors and executive officers of the Group and former directors of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses. The Company has also agreed to indemnify the former directors of CAP-XX, Inc. as part of the demerger process on similar terms as described above.

Insurance Premiums

The directors have not included details of the nature of the liabilities covered nor the amount of the premium paid in respect of the Directors' and Officers' liability insurance contracts, as such disclosure is prohibited under the terms of the contract.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 15.

Rounding of amounts

Amounts in the directors' report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Non-audit services

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided, during the year, are set out in Note 22 to the financial statements.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

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

Michael Quinn
Director

Sydney

28 October 2008

INDEPENDENCE DECLARATION

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
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SYDNEY NSW 1171
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Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

Auditor's Independence Declaration

As lead auditor for the audit of CAP-XX Limited for the year ended 30 June 2008, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of CAP-XX Limited and the entities it controlled during the period.

RL Wilkie

Partner
PricewaterhouseCoopers

Sydney
28 October 2008

CORPORATE GOVERNANCE STATEMENT

Over the past year the Board has conducted the affairs of the Company in accordance with principles of good corporate governance.

Whilst companies whose shares are listed on AIM are not formally required to comply with the Combined Code on Corporate Governance (July 2003), the Board supports the Code and applies it in so far as is practicable and appropriate for a public company of its size. The Board is committed to ensuring that high standards of corporate governance are maintained.

There is a clear division of responsibility between the Chairman and the Managing Director. The Board comprised six directors, five of whom were non-executive directors and three of whom were independent non-executive directors. None of the non-executive directors have any day-to-day involvement in the running of the business. Christer Harkonen, an independant non-executive director, has not been replaced.

The Board is responsible for overall strategy, the policy and decision-making framework in which this strategy is implemented, approval of budgets, monitoring performance, and risk management.

The Board meets at regular scheduled intervals and follows a formal agenda. It also meets as and when required. During the year ended 30 June 2008, six Board meetings were held.

The directors may take independent professional advice at the Company's expense.

Board Committees

The Company has an audit committee and a remuneration committee. During the year both consisted of three non-executive directors. The terms of reference and composition of the audit and remuneration committees were determined as part of the process of the listing of the Company. During the year ended 30 June 2008, three audit committee and two remuneration committee meetings were held. Each committee is to meet at least twice a year.

The audit committee comprised Brett Sandercock (Chairman), Christer Harkonen and John Murray. The remuneration committee comprised Graham Titcombe (Chairman), Christer Harkonen and John Murray. Christer Harkonen resigned on 30 June 2008 and has not been replaced.

The audit committee reviews the financial statements of the Company and monitors the integrity of the financial statements. The audit committee also keeps under review the effectiveness of the Company's internal controls and risk management systems.

The remuneration committee determines, agrees and reviews with the Board the framework or broad policy for the remuneration of the Company's Chairman and executives and within the terms of the agreed policy (in consultation with the Chairman and/or chief executive as appropriate) determines the total individual remuneration package of each senior executive. The remuneration committee also reviews and notes annually the remuneration trends across the Group.

Code of Conduct

The Company has a policy in place that complies with its obligations under Rule 21 of the AIM listing rules which provides that "the Company must ensure that its directors and applicable employees do not deal in any of its AIM securities during a closed period".

Relationships with Shareholders

The Board understands the need for clear communication with its shareholders. In addition to presentations after the publication of results and the annual general meeting, meetings are held with fund managers, analysts, and institutional investors. Information is posted on the Company's web site, www.cap-xx.com.

Intellectual Property

The Board has always been vigilant in managing the Company's intellectual property (IP) portfolio which currently consists of 21 patent families, 14 granted US patents, 14 US patent applications and corresponding international patents and applications. The Company's IP strategy has been to build company value by focusing on opportunities to capture market share and exclude competition with an IP portfolio capable of generating licensing revenue.

The directors believe comprehensive embodiments and interlocking patent groups, combined with a 'quick to file, quick to abandon' policy, have given the Company a strong and focused IP portfolio.

FINANCIAL STATEMENTS *30 June 2008*

Contents **Page**

This financial report covers both CAP-XX Limited as an individual entity and the Group consisting of CAP-XX Limited and its subsidiaries. The financial report is presented in the Australian currency.

CAP-XX Limited is a company limited by shares, incorporated and domiciled in Australia. Its principal place of business is:

Units 9-10
12 Mars Road
Lane Cove NSW 2066

Its registered office is:

Suite 126
117 Old Pittwater Road
Brookvale NSW 2100

A description of the nature of the Group's operations and its principal activities is included in the Chairman's statement on page 4, the Business Review on pages 5 to 7 and in the Directors' Report on pages 8 to 14, all of which are not part of this financial report.

The financial report was authorised for issue by the directors on 28 October 2008. The Company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the Company. All press releases, financial reports and other information are available at our Investors' Centre on our website: www.cap-xx.com.

Income statements

For the year ended 30 June 2008

		Consolidated		Parent Entity	
		2008	2007	2008	2007
Currency: Australian Dollars	**Notes**	**$ ' 000**	**$ ' 000**	**$ ' 000**	**$ ' 000**
Revenue from sale of goods & services	5	5,120	4,983	-	-
Cost of sale of goods	7	(6,275)	(5,162)	-	-
Gross margin (loss) on sale of goods		**(1,155)**	**(179)**	**-**	**-**
Other revenue	5	372	926	689	1,272
Other income	6	90	150	-	-
General and administrative expenses		(4,028)	(3,968)	(1,580)	(1,551)
Process and engineering expenses		(1,302)	(964)	-	-
Selling and marketing expenses		(1,608)	(1,650)	-	-
Research and development expenses		(1,888)	(2,840)	(8,603)	(4,354)
Impairment loss on plant & equipment	3(b)	(1,623)	-	-	-
Other expenses	7	(438)	(466)	(324)	(6,067)
(Loss) before income tax		(11,580)	(8,991)	(9,818)	(10,700)
Income tax benefit / (expense)	8	-	-	-	-
Net (loss) for the year		**(11,580)**	**(8,991)**	**(9,818)**	**(10,700)**
(Loss) attributable to members of CAP-XX Limited		**(11,580)**	**(8,991)**	**(9,818)**	**(10,700)**
Earnings per share for (loss) attributable to the ordinary equity holders of the Company		Cents	Cents		
Basic earnings/(loss) per share	31	(23.6)	(18.5)		
Diluted earnings/(loss) per share	31	(23.6)	(18.5)		

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

Balance sheets

As at 30 June 2008

Currency: Australian Dollars	Notes	Consolidated 2008 $ ' 000	Consolidated 2007 $ ' 000	Parent Entity 2008 $ ' 000	Parent Entity 2007 $ ' 000
ASSETS					
Current assets					
Cash and cash equivalents	9	3,481	10,744	883	9,846
Receivables	10	360	958	7	39
Inventories	11	1,087	920	-	-
Other	12	110	94	14	5
Total current assets		5,038	12,716	904	9,890
Non-current assets					
Property, plant and equipment	13	1,597	2,779	-	-
Other	14	208	153	-	-
Total non-current assets		1,805	2,932	-	-
Total assets		**6,843**	**15,648**	**904**	**9,890**
LIABILITIES					
Current liabilities					
Payables	15	2,018	1,622	163	142
Provisions	16	559	507	-	-
Other	17	1,532	-	-	-
Total current liabilities		4,109	2,129	163	142
Non-current liabilities					
Provisions	18	154	124	-	-
Total non-current liabilities		154	124	-	-
Total liabilities		**4,263**	**2,253**	**163**	**142**
Net assets		**2,580**	**13,395**	**741**	**9,748**
EQUITY					
Contributed equity	19	75,787	75,722	75,787	75,722
Reserves	20	1,734	1,033	1,780	1,032
Accumulated losses	20	(74,941)	(63,360)	(76,826)	(67,007)
TOTAL EQUITY		**2,580**	**13,395**	**741**	**9,748**

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

Statements of changes in equity

For the year ended 30 June 2008

		Consolidated		Parent Entity	
		2008	2007	2008	2007
Currency: Australian Dollars	**Notes**	**$ ' 000**	**$ ' 000**	**$ ' 000**	**$ ' 000**
Total equity at the beginning of the financial year		**13,395**	**21,633**	**9,748**	**19,697**
Exchange differences on translation of foreign operations	20	(46)	2	-	-
Net income (loss) recognised directly in equity		(46)	2	-	-
(Loss) for the year		**(11,580)**	**(8,991)**	**(9,818)**	**(10,700)**
Total recognised income and expenses for the year		**(11,626)**	**(8,989)**	**(9,818)**	**(10,700)**
Transactions with equity holders in their capacity as equity holders:					
Employee share options	20	747	617	747	617
Exercise of options	19	64	134	64	134
		811	**751**	**811**	**751**
Total equity at the end of the financial year		2,580	13,395	741	9,748

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

Cash flow statements

For the year ended 30 June 2008

		Consolidated		Parent Entity	
		2008	2007	2008	2007
Currency: Australian Dollars	**Notes**	**$ ' 000**	**$ ' 000**	**$ ' 000**	**$ ' 000**
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		7,486	4,974	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		(13,945)	(13,728)	(1,177)	(917)
		(6,459)	(8,754)	(1,177)	(917)
Grants received		90	150	-	-
Interest received		372	926	342	922
Net cash (outflow) inflow from operating activities	28	**(5,997)**	**(7,678)**	**(835)**	**5**
Cash flows from investing activities					
Payments for property, plant and equipment		(1,330)	(1,819)	-	-
Loans to related parties		-	-	(8,192)	(9,989)
Net cash (outflow) inflow from investing activities		**(1,330)**	**(1,819)**	**(8,192)**	**(9,989)**
Cash flows from financing activities					
Proceeds from issue of shares	19	64	134	64	134
Net cash inflow from financing activities		64	134	64	134
Net increase (decrease) in cash and cash equivalents		(7,263)	(9,363)	(8,963)	(9,850)
Cash and cash equivalents at the beginning of the financial year		10,744	20,107	9,846	19,696
Cash and cash equivalents at the end of the financial year	9	**3,481**	**10,744**	**883**	**9,846**

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

Notes to the financial statements 30 June 2008

Contents of the notes to the financial statements

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied consistently to all the years presented, unless otherwise stated. The financial report includes separate financial statements for CAP-XX Limited, an individual entity, and the Group consisting of CAP-XX Limited and its subsidiaries.

All amounts shown are in Australian Dollars unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001.

Compliance with IFRS

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

Historical cost convention

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

Critical accounting estimates

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

(b) Continuation as a going concern

During the year ended 30 June 2008, the Group incurred an operating loss before tax and net cash outflows from operating activities as disclosed in the income statement and the cash flow statement, respectively. The ability of the Group and the Company to continue as a going concern and to meet their debts and commitments as they fall due is dependent upon the following factors:

- The Group being able to sell, to its contract manufacturing partner, excess production plant and machinery at an agreed market value. This is also dependent on the ongoing financial viability of its contract manufacturing partner;
- Continuity of production from internal and external manufacturing resources. The Group will continue to rely on its contract manufacturing partner to produce the majority of its products;
- The successful completion of the Feasibility Study with Murata which will lead to both parties entering a collaborative Research & Development Agreement and provide additional funding to the Group;
- The Group's operating results are likely to continue to depend on a small number of customers who operate in both mature and emerging markets. The customers ability to sell their own products in competitive and volatile markets which incorporate the Group's products to end users is an identifiable risk;
- The ability of the Group to raise additional funds from its shareholders, new investors or from other funding sources should the need arise.

As a result of these matters, there remains significant uncertainty whether the Company will continue as a going concern and, therefore, whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The financial report contains no adjustment relating to the recoverability and classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary if the Company does not continue as a going concern.

However, the directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis. At this time, the directors are of the opinion that no asset is likely to be realised for an amount less than the amount at which it is recorded in the financial report as at 30 June 2008.

Note 1 Summary of significant accounting policies (continued)

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CAP-XX Limited ("Company" or "parent entity") as at 30 June 2008 and the results of all subsidiaries for the year then ended. CAP-XX Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(j)).

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

Investments in subsidiaries are accounted for at cost less impairment in the individual financial statements of the parent entity.

(d) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Note 1 Summary of significant accounting policies (continued)

(e) Foreign currency translation (continued)

(iii) Group companies

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

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

When a foreign operation is sold, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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.

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid.

Sales of services are recognised in the accounting period in which the services are rendered. For fixed term contracts revenue is recognised under the percentage of completion method, based on the actual service provided as a proportion of the total services provided. Where this cannot be reliably measured revenue is spread evenly over the contract term.

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

(g) Government grants

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

Notes to the financial statements 30 June 2008 continued

Note 1 Summary of significant accounting policies (continued)

(h) Income tax

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Tax consolidation legislation

CAP-XX Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002.

The head entity, CAP-XX Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, CAP-XX Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Tax funding agreements are currently not in place. Amounts assumed are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

Note 1 Summary of significant accounting policies (continued)

(i) Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at lease inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 24). Payments made under operating leases are charged to the income statement on a straight line basis over the period of the lease.

(j) 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, shares 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 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 their 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. If the cost of acquisition is less than the fair value of the 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.

(k) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(l) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(m) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement no more than 30 days from the date of recognition.

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

Note 1 Summary of significant accounting policies (continued)

(n) Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of inventory on a basis of first in first out. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Raw materials held for development purposes are also stated at the lower of cost and net realisable value, hence are generally recognised in the income statement as an expense when received.

(o) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

(p) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges),
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges), or
- hedges of a net investment in a foreign operation (net investment hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity using a recalculated effective interest rate.

Note 1 Summary of significant accounting policies (continued)

(p) Derivatives and hedging activities (continued)

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement and are included in other income or other expenses.

(q) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Capital work in progress is not depreciated until the asset is installed ready for use.

Depreciation on assets is calculated using the straight-line method to allocate their cost amounts, net of their residual values over their estimated useful lives as follows:

Leasehold improvements	2-5 years
Furniture and fittings	2-10 years
Plant and equipment – Manufacturing	2-10 years
Plant and equipment – Research & Development	2-10 years

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Note 1 Summary of significant accounting policies (continued)

(r) Intangibles

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

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost over the period of the expected benefit. The directors believe the Group has not incurred development expenditure that met the conditions for capitalisation.

Expenditure on patents are capitalised when technical feasibility is achieved. Otherwise, the expenditure is capitalised or expensed on a similar basis as for development activities.

(s) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 55 days of recognition.

(t) Borrowings

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

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity, net of income tax effects. The directors determined that there is no remainder of proceeds which could be allocated to the conversion option.

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

(u) Borrowing costs

Borrowing costs are currently expensed. The Company has decided not to early adopt AASB123 and will only apply when the standard comes into effect from January 2009 - see note 1 (ab) (iii). Under this standard, borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs will be expensed.

(v) Provisions

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

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

Note 1 Summary of significant accounting policies (continued)

(w) Employee benefits

(i) Wages and 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 other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave

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

(iii) Retirement benefit obligations

The Group does not maintain a Group superannuation plan. The Group makes defined fixed percentage contributions for all Australian resident employees to complying third party superannuation funds. The Group's legal or constructive obligation is limited to these contributions.

Contributions to the defined contribution complying third party superannuation funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the 2006 Share Option Exchange Plan and the 2006 Employee Share Option Plan. Information relating to these schemes is set out in note 29.

The fair value of options granted under the 2006 Share Option Exchange Plan and the 2006 Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non market vesting conditions (for example, profitability and sales growth targets). Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses where contractually obliged or where there is a past practice that has created a constructive obligation.

(x) Contributed equity

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

If the entity reacquires its own equity instruments, e.g. as the result of a share buy back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

Note 1 Summary of significant accounting policies (continued)

(y) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

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

(z) Goods and Services Tax (GST)

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

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

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

(aa) Rounding of amounts

Amounts in the financial report have been rounded off to the nearest thousand dollars, or in certain cases, the nearest dollar.

(ab) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The Group has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

(ii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 and is applicable 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. 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 Group intends to apply the revised standard from 1 July 2009.

(iii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to qualifying assets.

Note 2 Financial risk management

The Group's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate 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.

In general, the Group only uses derivative financial instruments to hedge the effect of foreign currency risk of large receipts or payments. The finance team will hedge financial risk as and when they arise.

The Group and the parent entity hold the following financial instruments:

	Consolidated		Parent entity	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Financial assets				
Cash and cash equivalents	3,481	10,744	883	9,846
Trade and other receivables	360	958	7	39
	3,841	11,702	890	9,885
Financial liabilities				
Trade and other payables	2,018	1,622	163	142
	2,018	1,622	163	142

(a) Market risk

(i) Foreign exchange risk

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

The Group operates internationally and is exposed to foreign exchange risk arising particularly from currency exposures to the US dollar. The Group sells its products in US dollars, buys the majority of its raw materials and pays its contract tolling fees in US dollars. Its USA operations are financed out of the net proceeds. The unhedged positions were relatively small. Forward currency contracts are used to manage foreign exchange risk where the exposures are significant.

Sensitivity analysis

The Group's after tax profit for the year and equity would have been $155,690 lower/$171,259 higher (2007 – $108,036 lower/$118,839 higher) had the Australian dollar strengthened/weakened by 10% against the US dollar, mainly as a result of foreign exchange gains/losses on the translation of US dollar denominated sales and purchases of goods and services.

The Group's exposure to foreign currency risk at the reporting date was as follows:

	2008			2007		
	USD	**EUR**	**GBP**	**USD**	**EUR**	**GBP**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Cash and cash equivalents	817	180	63	781	-	-
Trade receivables	232	-	-	729	-	-
Trade payables	498	-	-	399	-	-

Note 2 Financial risk management (continued)

The carrying amounts of the parent entity's financial assets and liabilities are denominated in Australian dollars except as set out below:

	2008			2007		
	USD	EUR	GBP	USD	EUR	GBP
	$'000	$'000	$'000	$'000	$'000	$'000
Cash and cash equivalents	83	180	63	33	197	96
Forward exchange contracts						
- buy foreign currency (cash flow hedges)	200	-	-	-	-	-
- sell foreign currency (cash flow hedges)	(200)	-	-	-	-	-

(ii) Price risk

The Group is not exposed to equity securities price risk nor to commodity price risk.

(iii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

The Group has some concentrations of credit risk. The Group has policies in place to ensure that sales of products are made to customers with an appropriate credit history. The Group has no credit exposure to any financial institution.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, to ensure debts are paid as and when they fall due. The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2008 as the Group is transitioning from development stage. Due to the negative cash flow position the Group has not committed to any credit facilities and instead has relied upon equity and debt financing through private and public equity investors.

(d) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from interest bearing assets, with the Group's income and operating cash flows exposed to changes in market interest rates. The interest bearing assets have been predominantly deposited at short term fixed rates exposing the Group to cash flow interest rate risk.

Sensitivity analysis

At 30 June 2008, if interest rates had changed by +/-1% from the average interest rate received with all other variables held constant, post-tax profit for the year and equity would have been $3,700 higher/ $3,400 lower (2007: $9,200 higher/ $8,400 lower), mainly as a result of higher/ lower interest income from cash and cash equivalents.

As at 30 June 2008, the Group has no borrowings.

(e) Fair value estimation

The carrying amount of financial assets and liabilities recorded in the financial statements represents their respective net fair value unless otherwise noted, determined in accordance with the accounting policies disclosed in note 1.

Note 3 Critical accounting estimates and judgements

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

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Apart from the going concern assumption as discussed in note 1(b), the estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(b) Critical judgements in applying the entity's accounting policies

Impairment loss and accelerated depreciation on plant and equipment

The Group has continued to use the Sydney, Australia manufacturing site for the production of electrode material and selected supercapacitor product lines, whilst the larger volume supercapacitor product lines are outsourced. In assessing the carrying value of its plant and equipment, the Group considers whether previous impairment write downs remain adequate and the current depreciation rates fairly reflect the carrying value of such assets.

As a result of the agreement with Murata to bring additional volume manufacturing capacity on-line, in the next 12-18 months, the Group has reviewed the carrying value of its current plant and equipment adjusted accordingly. In the year ended 30 June 2008, the Group recognised a one-off impairment loss on plant & equipment of $1,622,607 (2007: $Nil).

In summary the Group incurred the following one-off charge:

	$'000
Year ended 30 June 2008	1,623
Year ended 30 June 2007	-

Note 4 Segment information

(a) Description of segments

Business segments – primary reporting

The Group operates in a single business segment which is the development, manufacture and sale of supercapacitors.

Geographical segments – secondary reporting

Although the Group is managed on a global basis, it operates in 3 main geographical areas being Asia Pacific, North America and Europe.

Geographical segments can be summarised as follows:

	Segment revenues from sales to external customers		**Segment assets**	
	2008	**2007**	**2008**	**2007**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
Australia	-	-	5,798	13,945
Asia Pacific	3,230	2,735	731	1,058
Europe	1,338	734	63	408
North America	552	1,514	251	237
	5,120	**4,983**	**6,843**	**15,648**

Segment revenues are allocated based on the country in which the customer is located. Segment assets and capital expenditure are allocated based on where the assets are located.

Note 4 Segment information (continued)

(b) Notes to and forming part of the segment information

Accounting policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1 and accounting standard AASB 114 Segment Reporting. Segment revenues and assets are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories and property, plant and equipment, net of related provisions. Segment assets do not include income taxes.

Note 5 Revenue

	Consolidated		Parent Entity	
	2008	**2007**	**2008**	**2007**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
Sales revenue				
Sale of goods	4,552	4,983	-	-
Sale of services	568	-	-	-
	5,120	4,983	-	-
Other revenue				
Licence fees	-	-	347	350
Interest	372	926	342	922
	372	926	689	1,272
Total revenue	**5,492**	**5,909**	**689**	**1,272**

Note 6 Other Income

	Consolidated		Parent Entity	
	2008	**2007**	**2008**	**2007**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
Other income				
Government grants (note 1 (g))	90	150	-	-
	90	**150**	**-**	**-**

(a) Government grants

An export market development grant of $90,000 (2007: $150,000) was recognised as other income by the Group during the year ended 30 June 2008. There are no unfulfilled conditions attaching to these grants.

The Group did not benefit directly from any other forms of government assistance.

Notes to the financial statements 30 June 2008 continued

Note 7 Expenses

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Loss before income tax includes the following specific expenses:				
Cost of sale of goods				
Direct materials and labour	3,582	3,636	-	-
Inventory write downs/(back)	917	(138)		
Indirect manufacturing expenses	1,776	1,664	-	-
Total cost of sale of goods	**6,275**	**5,162**	**-**	**-**
Depreciation				
Plant and equipment	748	681	-	-
Furniture and fittings	4	4	-	-
Leasehold improvements	-	32	-	-
Total depreciation	**752**	**717**	**-**	**-**
Other expenses				
Foreign exchange losses	123	205	43	141
Engineering concept design fees	(5)	261	-	-
Consultants	94	-	-	-
Provision for credit notes / doubtful debts	(26)	-	-	-
Provision for make good on premises	40	-	-	-
Provision for diminution in recoverable value - withholding taxes	212	-	1	-
Provision for non-recovery related parties loans	-	-	280	5,926
	438	**466**	**324**	**6,067**
Impairment loss on plant and equipment (refer note 3(b))	1,623	-	-	-
Rental expense relating to operating leases				
Minimum lease payments	427	417	-	-
Employee benefits expense	5,775	4,326	-	-
Share-based payments	747	617	747	617

Note 8 Income tax expenses

	Consolidated 2008 $ ' 000	Consolidated 2007 $ ' 000	Parent Entity 2008 $ ' 000	Parent Entity 2007 $ ' 000
(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-
(b) Numerical reconciliation of income tax benefit to prima facie tax benefit				
(Loss) before income tax benefit	(11,580)	(8,991)	(9,819)	(10,700)
Tax at the Australian tax rate of 30%	(3,474)	(2,697)	(2,946)	(3,210)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Share-based payments	224	185	224	185
Research & development additional claims	(400)	(270)	-	-
Sundry items	-	18	-	-
	(3,650)	(2,764)	(2,721)	(3,025)
Adjustments for current tax of prior periods	(215)	(265)	-	(36)
Benefit arising from temporary differences not recognised	511	495	261	1,721
Benefit arising from tax losses not recognised	3,354	2,534	2,461	1,340
Income tax benefit	-	-	-	-
(c) Tax losses				
Unused tax losses for which no deferred tax asset has been recognised	72,557	60,372	72,557	60,372
Potential tax benefit @ 30%	21,768	18,112	21,768	18,112

All unused tax losses were incurred by Australian entities. The deferred tax assets in relation to the tax losses will only be obtained if:

i) the Group derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised; and

ii) the Group continues to comply with the conditions for deductibility imposed by tax legislation; and

iii) no changes in tax legislation adversely affect the Group in realising the benefit from the deductions for the losses.

(d) Unrecognised temporary differences

	Consolidated 2008 $ ' 000	Consolidated 2007 $ ' 000	Parent Entity 2008 $ ' 000	Parent Entity 2007 $ ' 000
Temporary difference for which no deferred tax asset has been recognised	4,150	2,449	30,578	29,709
Potential tax benefit @ 30%	1,246	735	9,174	8,913

(e) Tax consolidation legislation

CAP-XX Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2002. The accounting policy in relation to this legislation is set out in note 1(h). CAP-XX Limited has not recognised any tax consolidation distribution from or to wholly owned tax consolidated entities.

Notes to the financial statements 30 June 2008 continued

Note 9 Current assets – Cash and cash equivalents

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Cash at bank and on hand	2,621	556	23	111
Cash on deposit	860	10,188	860	9,736
	3,481	**10,744**	**883**	**9,846**

(a) Cash at bank and on hand

These are bearing floating interest rates between 0% and 3% (2007: 0% and 3%).

(b) Deposits at call

The deposits are bearing floating interest rates between 3% and 7.7% (2007: 3% and 6.5%). These deposits have an average maturity of 60 to 90 days.

Note 10 Current Assets – Receivables

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Trade receivables	250	895	-	-
Provision for doubtful receivables	(8)	(34)	-	-
	242	861	-	-
Amounts due from related parties	-	-	30,221	29,940
Provision for doubtful receivables	-	-	(30,221)	(29,940)
	-	-	-	-
Other receivables	118	97	7	39
	360	**958**	**7**	**39**

(a) Impaired trade receivables

There were no impaired trade receivables for the Group in 2008 or 2007. The parent entity has recognised a loss of $280,460 (2007: $5,926,000) in respect of impaired amounts due from related parties, during the year ended 30 June 2008. The loss has been included in “Other expenses” in the income statement.

(b) Past due but not impaired

As at 30 June 2008, trade receivables of $136,944 (2007: $285,230) were past due but not impaired.

These relate to a number of independent customers for whom there is no recent history of default.

The ageing analysis of these trade receivables is as follows:

Up to 3 months	11	264	-	-
3 to 6 months	-	21	-	-
	11	285	-	-

Note 10 Current Assets – Receivables (continued)

(c) Other receivables

As at 30 June 2008, other receivables of $67,945 (2007: $18,608) were past due but not impaired. Based on the credit history of these other classes, it is expected that these amounts will be received. These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Up to 3 months	22	-	-	-
3 to 6 months	46	19	-	-
	68	19	-	-

(d) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying value is assumed to approximate their fair value. The current receivables are non-interest bearing. Further information relating to amounts due from related parties is set out in note 25. There is some concentration of credit risk with respect to current receivables, as the Group has a limited number of customers, internationally dispersed.

(e) Foreign exchange and interest rate risk

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

Note 11 Current assets – Inventories

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Raw materials and stores - at cost and net realisable value	583	426	-	-
Finished goods - at cost	425	429	-	-
Finished goods - at net realisable value	79	65	-	-
	504	494	-	-
	1,087	**920**	**-**	**-**

(a) Inventory expense

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2008 amounted to $916,543 (2007: $137,631). The expense for finished goods has been included in 'cost of sale of goods' in the income statement.

Note 12 Current assets – Other

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Prepayments	**110**	**94**	**14**	**5**

Notes to the financial statements 30 June 2008 continued

Note 13 Non-current assets – Property, plant and equipment

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Plant and equipment at cost	13,335	13,010	-	-
Accumulated depreciation	(12,616)	(11,868)	-	-
Net book amount	719	1,142	-	-
Capital works in progress	2,472	1,606	-	-
Impairment	(1,623)	-	-	-
Net book amount	849	1,606	-	-
Furniture and fittings at cost	67	64	-	-
Accumulated depreciation	(38)	(33)	-	-
Net book amount	29	31	-	-
Leasehold improvements at cost	437	437	-	-
Accumulated depreciation	(437)	(437)	-	-
Net book amount	-	-	-	-
Total cost or fair value	14,688	15,117	-	-
Total accumulated depreciation	(13,091)	(12,338)	-	-
Total net book amount	**1,597**	**2,779**	**-**	**-**

Movement in classes of assets: Consolidated	**Plant and equipment**	**Capital works in progress**	**Furniture and fittings**	**Leasehold improvements**	**Total**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**	**$ ' 000**
Year ended 2008					
Opening net book amount	1,142	1,606	31	-	2,779
Additions	-	1,330	-	-	1,330
Transfers to plant and equipment	325	(327)	2	-	-
Disposals	-	(137)	-	-	(137)
Impairment	-	(1,623)	-	-	(1,623)
Depreciation	(748)	-	(4)	-	(752)
Closing net book amount	**719**	**849**	**29**	**-**	**1,597**
Year ended 2007					
Opening net book amount	1,328	283	35	32	1,678
Additions	-	1,818	-	-	1,818
Transfers to plant and equipment	495	(495)	-	-	-
Disposals	-	-	-	-	-
Depreciation	(681)	-	(4)	(32)	(717)
Closing net book amount	1,142	1,606	31	-	2,779

Plant & equipment impairment loss (note 3(b)).

Parent entity

There were no movements in property, plant and equipment in the parent entity.

Notes to the financial statements 30 June 2008 continued

Note 14 Non-current assets – Other

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Rental bond	**208**	**153**	**-**	**-**

Note 15 Current liabilities – Payables

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Trade payables	1,302	1,055	79	69
Other payables and accrued expenses	716	567	84	73
	2,018	**1,622**	**163**	**142**

Note 16 Current liabilities – Provisions

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Employee benefits	456	450	-	-
Product returns and warranties	63	57	-	-
Other provisions	40	-	-	-
	559	**507**	**-**	**-**

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

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

Annual leave obligation expected to be settled after 12 months	196	195	-	-

(b) Risk exposure

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

Notes to the financial statements 30 June 2008 continued

Note 16 Current liabilities – Provisions (continued)

(c) Product returns and warranties

Provision is made for estimated product returns and warranty claims in respect of products sold. The Group provides a one year warranty on products sold to customers. The Group has to date experienced minimal product returns and warranty claims.

(d) Movements in provisions

Movements in the product returns and warranties provision during the financial years are set out below:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Carrying amount at start of year	57	162	-	-
Additional / (write-back) of provisions	13	(23)	-	-
Claims paid during year (includes compensation paid to contract manufacturer for rework)	(7)	(82)	-	-
Carrying amount at end of year	63	57	-	-

Note 17 Current liabilities – Other Liabilities

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Deferred revenue – Service contracts (note 1(f))	**1,532**	**-**	**-**	**-**

Note 18 Non-current liabilities – Provisions

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Employee benefits – long service leave	**154**	**124**	**-**	**-**

Note 19 Contributed equity

	Parent Entity		Parent Entity	
	2008	2007	2008	2007
	Shares	Shares	$ ' 000	$ ' 000
(a) Share capital				
Fully paid ordinary shares (no par value)	**49,112,791**	**48,926,559**	**75,787**	**75,722**

Note 19 Contributed equity (continued)

(b) Movement in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	$ ' 000
1 July 2007	Opening balance		48,926,559		75,722
1 July 2007	Exercise of stock options		2,147	$0.47	1
6 July 2007	Exercise of stock options		7,437	$0.47	4
7 November 2007	Exercise of stock options		96,000	$0.23	22
11 December 2007	Exercise of stock options		68,648	$0.47	32
19 December 2007	Exercise of stock options		12,000	$0.47	6
30 June 2008	Balance		49,112,791		75,787

Date	Details	Notes	Number of shares	Issue price	$ ' 000
1 July 2006	Opening balance		48,641,011		75,588
20 July 2006	Exercise of stock options		14,437	$0.47	7
21 July 2006	Exercise of stock options		8,250	$0.47	4
22 September 2006	Exercise of stock options		14,726	$0.47	7
14 November 2006	Exercise of stock options		71,250	$0.47	34
17 May 2007	Exercise of stock options		20,125	$0.47	9
25 May 2007	Exercise of stock options		20,125	$0.47	9
1 June 2007	Exercise of stock options		35,880	$0.47	17
1 June 2007	Exercise of stock options		25,755	$0.47	12
14 June 2007	Exercise of stock options		75,000	$0.47	35
30 June 2007	Balance		48,926,559		75,722

(c) Ordinary shares

At 30 June 2008, there were 49,112,791 (2007: 48,926,559) issued ordinary shares which were fully paid, with no par value. Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held.

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

(d) Options

Information relating to the 2006 Share Option Exchange and 2006 Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 29.

Notes to the financial statements 30 June 2008 continued

Note 20 Reserves and accumulated losses

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
(a) Reserves				
Foreign currency translation reserve (note 20(c)(i))	(46)	-	-	-
Share-based payments reserve	1,780	1,033	1,780	1,033
	1,734	**1,033**	**1,780**	**1,033**
Movements:				
Foreign currency translation reserve				
Balance 1 July	-	(2)	-	-
Currency translation differences arising during the year	(46)	2	-	-
Balance 30 June	(46)	-	-	-
Share-based payments reserve				
Balance 1 July	1,033	416	1,033	416
Option expense	747	617	747	617
Balance 30 June	1,780	1,033	1,780	1,033
(b) Accumulated losses				
Movements in accumulated losses were as follows:				
Balance 1 July	(63,360)	(54,369)	(67,007)	(56,307)
Net (loss) for the year	(11,580)	(8,991)	(9,819)	(10,700)
Balance 30 June	**(74,940)**	**(63,360)**	**(76,826)**	**(67,007)**

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

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

(ii) Share-based payments reserve

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

Note 21 Key management personnel disclosures

(a) Directors

The names of the directors who have held office during the financial year are as follows:

Executive director

Anthony Kongats (Managing Director)

Non-executive directors

Michael Quinn (Chairman)

Christer Harkonen (Resigned on 30 June 2008)

John Murray

Brett Sandercock

Graham Titcombe

(b) Key management and personnel compensation

Key management personnel compensation is set out below. The key management personnel include all the directors of the Company and those executives that report directly to the Managing Director, including:

Vaclav George Karhan, Chief Operations Officer (Resigned 4 July 2008)

Jean Pierre Mars, VP Applications Engineering

Michael Taylor, Chief Financial Officer (Commenced 25 February 2008)

Stim Robinson, Acting Chief Financial Officer (Replaced 25 February 2008)

Thomas Boesen, VP Sales & Business Development

Peter Buckle, VP Sales & Marketing Asia

Warren King, Chief Technical Officer

Key management and personnel compensation	Consolidated		Parent Entity	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Short-term benefits	1,737,840	1,534,655	388,924	357,031
Post-employment benefits	93,343	96,769	6,043	1,125
Share-based payments	300,330	258,318	22,734	5,509
Total	**2,131,513**	**1,889,742**	**417,701**	**363,665**

(c) Other transactions with key management personnel or entities related to them

There were no other transactions with key management personnel.

Notes to the financial statements 30 June 2008 continued

Note 22 Remuneration of auditors

During the year the following fees were paid or payable for services provided by the auditor of the Group, its related practices and non-related audit firms:

	Consolidated		Parent Entity	
	2008	**2007**	**2008**	**2007**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
(a) Assurance services				
Audit services				
PricewaterhouseCoopers Australian firm				
Audit of financial report	98,000	117,750	98,000	117,750
Total remuneration for assurance services	**98,000**	**117,750**	**98,000**	**117,750**
(b) Taxation services				
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns and ATO risk review response	97,251	83,232	-	-
International tax consulting and tax advice on demerger and company restructure	24,150	132,828	-	20,592
Related practices of PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	32,156	38,669	-	-
International consulting and tax advice on demerger and company restructure	1,987	19,460	-	-
Total remuneration for taxation services	**155,544**	**274,189**	**-**	**20,592**

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

Note 23 Contingencies

While no claims have been made as yet, the research and development start grants are subject to a limited discretionary right of the Australian government to "claw-back" a proportion of the funding on a sliding scale for up to five years from 30 March 2005. The directors believe that the Company has met all conditions attached to the grants.

As part of the 2006 Demerger, a letter of comfort, dated 5 April 2006, was provided by the Company to CAP-XX, Inc. Pursuant to the letter of comfort, the Company undertakes to support the financial commitments of CAP-XX, Inc. The undertaking is limited for 12 months from the date of the letter and is capped at US$100,000. The undertaking was extended for a further 24 months. CAP-XX, Inc. was dissolved on 27 December 2006.

Note 24 Commitments

(a) Capital commitments

Capital expenditure contracted for at reporting date but not recognised as liabilities is as follows:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Property, plant and equipment				
Within one year	633	411	-	-
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	633	**411**	**-**	**-**

(b) Lease commitments: Group / company as lessee

The Group leases factory space with an office and warehouse under a non-cancellable operating lease due to expire on 30 June 2011. The lease was entered into effective 1 July 2007.

The Group also leases office equipment and office space under cancellable operating leases. The Group is required to give 3 months notice for termination of these leases.

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	353	287	-	-
Later than one year but not later than 5 years	722	923	-	-
Later than 5 years	-	-	-	-
	1,075	**1,210**	**-**	**-**

Note 25 Related party transactions

(a) Parent entity

The ultimate parent entity within the Group is CAP-XX Limited.

(b) Subsidiaries

Interests in subsidiaries are set out in note 26.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 21.

Notes to the financial statements 30 June 2008 continued

Note 25 Related party transactions (continued)

(d) Transactions with related parties and outstanding balances

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
The following transactions occurred with related parties other than key management personnel or entities related to them:				
Expenses				
Research and development services from subsidiaries	-	-	8,232,356	4,000,000
Revenue				
Licence fees from subsidiaries	-	-	346,243	350,250
Interest income from other related parties	-	-	10,653	30,304
The amounts outstanding at the reporting date together with their movements during the year can be summarised as follows:				
Loans to subsidiaries				
Beginning of year	-	-	(29,940,290)	24,013,876
Net loans advanced / (paid)	-	-	10,196,482	11,230,861
Loan repayments received	-	-	(2,004,317)	(1,242,194)
Revenue charges and credits received	-	-	346,243	350,250
Expense charges and costs incurred applied	-	-	(8,232,356)	(4,354,027)
Interest charged	-	-	10,653	30,304
Foreign exchange variance	-	-	(36,245)	(88,780)
	-	-	30,220,750	29,940,290
Provision for doubtful debts	-	-	(30,220,750)	(29,940,290)
End of year	-	-	-	-

Provisions raised for doubtful debts have been disclosed above. Expenses recognised in respect of bad or doubtful debts due from related parties are disclosed in note 7.

(e) Terms and conditions

There were no fixed terms for the repayment of amounts due / loans between entities and unless otherwise stated amounts due / loans were unsecured and repayable in cash. A loan of $10,853,036 (2007: $10,853,036) advanced by Parent to a subsidiary is secured by a fixed and floating charge over the assets of that subsidiary.

No interest is charged on amounts due / loans between entities within Australia. The average interest rate on amounts due / loans with overseas entities during the year was 3.4% (2007: 4.4%).

All other transactions within the Group were made on normal commercial terms and conditions and at market rates.

Notes to the financial statements 30 June 2008 continued

Note 26 Subsidiaries

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

Name of entity	Country of incorporation	Class of shares	Equity holding *	
			30 June 2008	30 June 2007
			%	%
CAP-XX (Australia) Pty Ltd	Australia	Ordinary	100	100
CAP-XX Research Pty Ltd	Australia	Ordinary	100	100
CAP-XX USA, Inc *	United States	Ordinary	100	100
CAP-XX (Australia) Pty Ltd (Taiwan Branch)	Taiwan			
CAP-XX (Australia) Pty Ltd (UK Branch)	United Kingdom			

* The proportion of ownership interest is equal to the proportion of voting power held.

Note 27 Events occurring after the balance sheet date

Since 30 June 2008, CAP-XX has negotiated a joint Research & Development Feasibility Agreement with Murata.

The agreement is due to be signed by 31 October 2008.

No other matter or circumstance has arisen since 30 June 2008 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or
(b) the results of those operations in future financial years, or
(c) the Group's state of affairs in future financial years.

Note 28 Reconciliation of profit after tax to net cash (outflow) from operating activities

	Consolidated		Parent Entity	
	2008	**2007**	**2008**	**2007**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
Net loss	(11,580)	(8,991)	(9,818)	(10,700)
Depreciation and amortisation	752	717	-	-
Impairment loss on plant and equipment	1,623	-	-	-
Write off fixed assets	83	-	-	-
Non-cash employee benefit expense – share based payments	747	617	747	617
Provision for non recovery of related party loans	-	-	280	5,926
Net unrealised exchange (loss)/gain	(46)	3	-	-
Changes in assets and liabilities:				
(Increase)/decrease in receivables	597	(108)	32	(39)
(Increase) in inventories	(167)	(570)	-	-
(Increase)/decrease in amounts with related parties	-	-	7,912	4,062
(Increase)/decrease in other assets	(16)	33	(9)	39
Increase in provisions	82	69	-	-
Increase/(decrease) in payables	1,928	552	21	100
Net cash (outflow) from operating activities	**(5,997)**	**(7,678)**	**(835)**	**5**

Notes to the financial statements 30 June 2008 continued

Note 29 Share-based payments

(a) 2006 Share Option Exchange

The establishment of the 2006 Share Option Exchange (the "2006 Exchange") was approved by the Company's Board of Directors with effect from 5 April 2006. The 2006 Exchange provides for the issuance of stock options for the purchase of ordinary shares of the Company in exchange for the surrender of options previously granted but unexercised in CAP-XX, Inc. The 2006 Exchange provides for the grant of share options for the purchase of shares of the Company's ordinary shares by officers, employees, independent contractors, consultants, advisers and directors of the Company and/or any of its subsidiaries. The Board is responsible for administration of the 2006 Exchange.

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

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2008								
28 August 2001	31 May 2008	$2.96	28,497	-	-	(28,497)	-	-
28 August 2001	29 January 2009	$11.84	13,500	-	-	-	13,500	13,500
28 August 2001	10 October 2009	$8.88	510	-	-	-	510	510
1 November 2002	30 September 2012	$15.64	44,502	-	-	-	44,502	44,502
1 April 2004	31 May 2008	$2.96	9,999	-	-	(9,999)	-	-
1 April 2004	29 January 2009	$11.84	1,509	-	-	-	1,509	1,509
1 April 2004	30 September 2012	$4.19	4,500	-	-	-	4,500	4,500
1 April 2004	30 September 2012	$15.64	14,502	-	-	(2,499)	12,003	12,003
30 June 2004	31 May 2014	$0.47	30,000	-	-	-	30,000	30,000
26 August 2004	25 July 2014	$0.23	48,000	-	(48,000)	-	-	-
21 March 2005	20 February 2015	$0.23	48,000	-	(48,000)	-	-	-
1 July 2005	31 May 2015	$0.47	1,075,111	-	(90,232)	(20,000)	964,879	963,124
1 July 2005	31 May 2015	$15.64	17,508	-	-	(8,502)	9,006	9,006
			1,336,138	**-**	**(186,232)**	**(69,497)**	**1,080,409**	**1,078,654**
Weighted Average Exercise Price			**$1.54**	**-**	**$0.35**	**$4.25**	**$1.57**	**$1.57**

Note 29 Share-based payments (continued)

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2007								
28 August 2001	31 May 2008	$2.96	28,497	-	-	-	28,497	28,497
28 August 2001	29 January 2009	$11.84	13,500	-	-	-	13,500	13,500
28 August 2001	10 October 2009	$8.88	510	-	-	-	510	510
1 November 2002	30 September 2012	$15.64	48,003	-	-	(3,501)	44,502	44,502
1 April 2004	31 May 2008	$2.96	9,999	-	-	-	9,999	9,999
1 April 2004	29 January 2009	$11.84	1,509	-	-	-	1,509	1,509
1 April 2004	30 September 2012	$4.19	19,500	-	-	(15,000)	4,500	4,500
1 April 2004	30 September 2012	$15.64	14,502	-	-	-	14,502	14,338
30 June 2004	31 May 2014	$0.47	30,000	-	-	-	30,000	30,000
26 August 2004	25 July 2014	$0.23	48,000	-	-	-	48,000	48,000
21 March 2005	20 February 2015	$0.23	48,000	-	-	-	48,000	48,000
1 July 2005	31 May 2015	$0.47	1,411,437	-	(285,548)	(50,778)	1,075,111	995,675
1 July 2005	31 May 2015	$15.64	20,511	-	-	(3,003)	17,508	16,679
			1,693,968	**-**	**(285,548)**	**(72,282)**	**1,336,138**	**1,255,709**
Weighted Average Exercise Price			**$1.40**	**-**	**$0.47**	**$2.61**	**$1.54**	**$1.59**

Except for the adjustment to the exercise price and number of ordinary shares subject to the share option, the share options are governed by their original terms and conditions and will continue to vest pursuant to the same vesting schedule.

31,001 share options were forfeited during the year ended 30 June 2008 (2007: 72,282).

38,496 share options expired during the year ended 30 June 2008 (2007: Nil). The weighted average remaining contractual life of share options outstanding at the end of the period was 6.6 years (2007: 7.5 years).

(b) 2006 Employee Share Option Plan

The 2006 Employee Share Option Plan (the “2006 Plan”), provides for the grant of share options for the purchase of ordinary shares of the Company by officers, employees, consultants, advisors and directors of the Company or a related body corporate. The Board is responsible for administration of the 2006 Plan. The Board determines the term of each option, the option exercise price, and the number of shares for which each option is granted and the rate at which each option is exercisable. Unless otherwise determined by the Board an offer of Options must not provide for an exercise price that is less than the volume weighted average sale price of a share traded on AIM over a defined period.

Notes to the financial statements 30 June 2008 continued

Note 29 Share-based payments (continued)

Set out below is a summary of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2008								
20 April 2006	22 February 2011	$1.40	60,000	-	-	-	60,000	-
19 September 2006	19 September 2016	$2.38	1,532,500	-	-	(82,500)	1,450,000	646,538
15 November 2006	16 November 2016	$1.73	75,000	-	-	-	75,000	30,514
8 May 2007	8 May 2017	$2.58	30,000	-	-	-	30,000	30,000
4 June 2007	4 June 2017	£1.09	150,000	-	-	-	150,000	40,377
25 February 2008	25 February 2018	$0.71	-	150,000	-	-	150,000	-
21 April 2008	21 April 2018	$0.43	-	40,000	-	-	40,000	40,000
			1,847,500	**190,000**	**-**	**(82,500)**	**1,955,000**	**787,429**
Weighted Average Exercise Price			**$2.35**	**$0.65**	**-**	**$2.38**	**$2.15**	**$2.26**
Consolidated and parent entity – 2007								
20 April 2006	22 February 2011	$1.40	60,000	-	-	-	60,000	-
19 September 2006	19 September 2016	$2.38	-	1,655,000	-	(122,500)	1,532,500	37,500
15 November 2006	16 November 2016	$1.73	-	75,000	-	-	75,000	-
8 May 2007	8 May 2017	$2.60	-	30,000	-	-	30,000	30,000
4 June 2007	4 June 2017	£1.09	-	150,000	-	-	150,000	-
			60,000	**1,910,000**	**-**	**(122,500)**	**1,847,500**	**67,500**
Weighted Average Exercise Price			**$1.40**	**$2.37**	**-**	**$2.38**	**$2.34**	**$2.47**

The Stock Options are governed by their original terms and conditions and will continue to vest pursuant to the same vesting schedule. 82,500 share options were forfeited during the year ended 30 June 2008 (2007: 122,500). No share options expired during the years covered by the above tables. The weighted average remaining contractual life of share options outstanding at the end of the period was 8.3 years (2007: 8.9 years).

(c) Collins Stewart Limited Share Option Deed

In consideration of covenants and obligations that Collins Stewart Limited ("Collins Stewart") agreed under the Company AIM Placing Agreement and its services provided thereunder, the Board on 12 April 2006 approved the Collins Stewart Limited Share Option Deed (the "CS Deed"). The CS Deed provided for the grant of share options of up to 1% of the issued ordinary share capital of the Company on a fully diluted basis immediately following admission to AIM, conditional upon admission occurring no later than 4 May 2006. Admission was completed on 20 April 2006 whereon the Company issued the below detailed share options to Collins Stewart. The options were fully vested at date of grant and can be exercised over a 3 year period through to 20 April 2009, with the option exercise price being 93 pence (A$2.23).

Note 29 Share-based payments (continued)

Set out below is a summary of options granted under the deed:

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable at end of the year
		GBP	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2008								
20 April 2006	20 April 2009	£0.93	503,350	-	-	-	503,350	503,350
			503,350	**-**	**-**	**-**	**503,350**	**503,350**
Weighted Average Exercise Price			**£0.93**	**-**	**-**	**-**	**£0.93**	**£0.93**
Consolidated and parent entity – 2007								
20 April 2006	20 April 2009	£0.93	503,350	-	-	-	503,350	503,350
			503,350	**-**	**-**	**-**	**503,350**	**503,350**
Weighted Average Exercise Price			**£0.93**				**£0.93**	**£0.93**

The Stock Options are governed by their original terms and conditions. No share options were forfeited during the year covered by the above tables. No share options have expired during the year covered by the above tables. The weighted average remaining contractual life of share options outstanding at the end of the period was 0.8 years (2007: 1.8 years).

Fair value of options granted

The assessed fair value at grant date of options granted, during the year ended 30 June 2008, under the 2006 Plan were A$0.71 on 25 February 2008, A$0.43 on 21 April 2008 per option, respectively. The assessed fair value at grant date of options granted, during the year ended 30 June 2007, under the 2006 Plan were A$2.38 on 19 September 2006, A$1.13 on 15 November 2006, A$1.46 on 8 May 2007 and A$1.69 on 4 June 2007 per option, respectively.

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted included:

(a) options granted for no consideration, have a:
  - 10 year life and 25% vest 12 months after the Vesting Commencement Date, and 1/48 of Total Option shall vest on each monthly anniversary of the Vesting Commencement Date thereafter;
  - specific vesting criteria in some minor instances.

(b) exercise price: refer tables above

(c) grant date: refer tables above

(d) expiry date: refer tables above

(e) share price at grant date

(f) expected price volatility of the Company's shares: 43% (2007: 60%)

(g) no expected dividend yield

(h) risk-free interest rate: 3.5% (2007: 5.5%)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

Note 29 Share-based payments (continued)

(d) Expenses arising from share-based payment transactions

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

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Options issued under 2006 Share Option Exchange	43	53	53	53
Options issued under 2006 Employee Share Option Plan	704	563	563	563
	747	617	617	617

Total expenses arising from share-based payment transactions recognised during the period as part of cost of issue on new capital were as follows:

	Consolidated		Parent Entity	
	2008	2007	2008	2007
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Options issued under Collins Stewart Limited Share Option Deed	-	-	-	-

Note 30 Economic dependency

The Group is highly dependent upon a small number of customers and potential customers. Alternative sources of revenue are being sought to reduce future dependency on any particular entity.

The Group is also highly dependent upon a Malaysian contract manufacturer to fulfill a large proportion of sales orders.

Note 31 Earnings per share

Earnings per share (loss) attributable to the ordinary equity holders of the Company

	Consolidated	
	2008	2007
	Cents	Cents
(a) Basic earnings per share		
(Loss) attributable to the ordinary equity holders of the Company	(23.6)	(18.5)
(b) Diluted earnings per share		
(Loss) attributable to the ordinary equity holders of the Company	(23.6)	(18.5)

	Consolidated	
	2008	2007
	Number	Number
(c) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	49,042,674	48,731,654
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	49,042,674	48,731,654

Options are considered to be potential ordinary shares. The options are not included in the calculation of diluted earnings per share because they are antidilutive. These options could potentially dilute basic earnings per share in the future.

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 17 to 55 are in accordance with the Corporations Act 2001, including:

  (i) complying with Accounting Standards, the Corporations Regulations 2001 and mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Company's and Group's financial position as at 30 June 2008 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

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

Michael Quinn

Director

Sydney

28 October 2008

Independent Auditors Report to Members of CAP-XX Limited

PRICEWATERHOUSECOOPERS

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Independent auditor's report to the members of CAP-XX Limited

Report on the financial report

We have audited the accompanying financial report of CAP-XX 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, other explanatory notes and the directors' declaration for both CAP-XX Limited and the CAP-XX Limited Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control 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 1, 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 procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

PRICEWATERHOUSECOOPERS

For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

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

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

Independence

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

Auditor's opinion on the financial report

In our opinion:

(a) the financial report of CAP-XX Limited is in accordance with the *Corporation Act 2001*, including:

 (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and

 (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

This opinion must be read in conjunction with the rest of our audit report.

Emphasis of Matter

Significant Uncertainty Regarding Continuation as a Going Concern

Without qualification of our opinion, we draw attention to Note 1 in the financial report which indicates that the Company incurred an operating loss and net cash outflows during the year ended 30 June 2008. This condition, along with other matters as set forth in Note 1, indicates the existence of a significant uncertainty whether the Company will continue as a going concern and therefore realise its assets and extinguish its liabilities in the normal course of business and at the amount stated in the financial report.

PricewaterhouseCoopers

PricewaterhouseCoopers

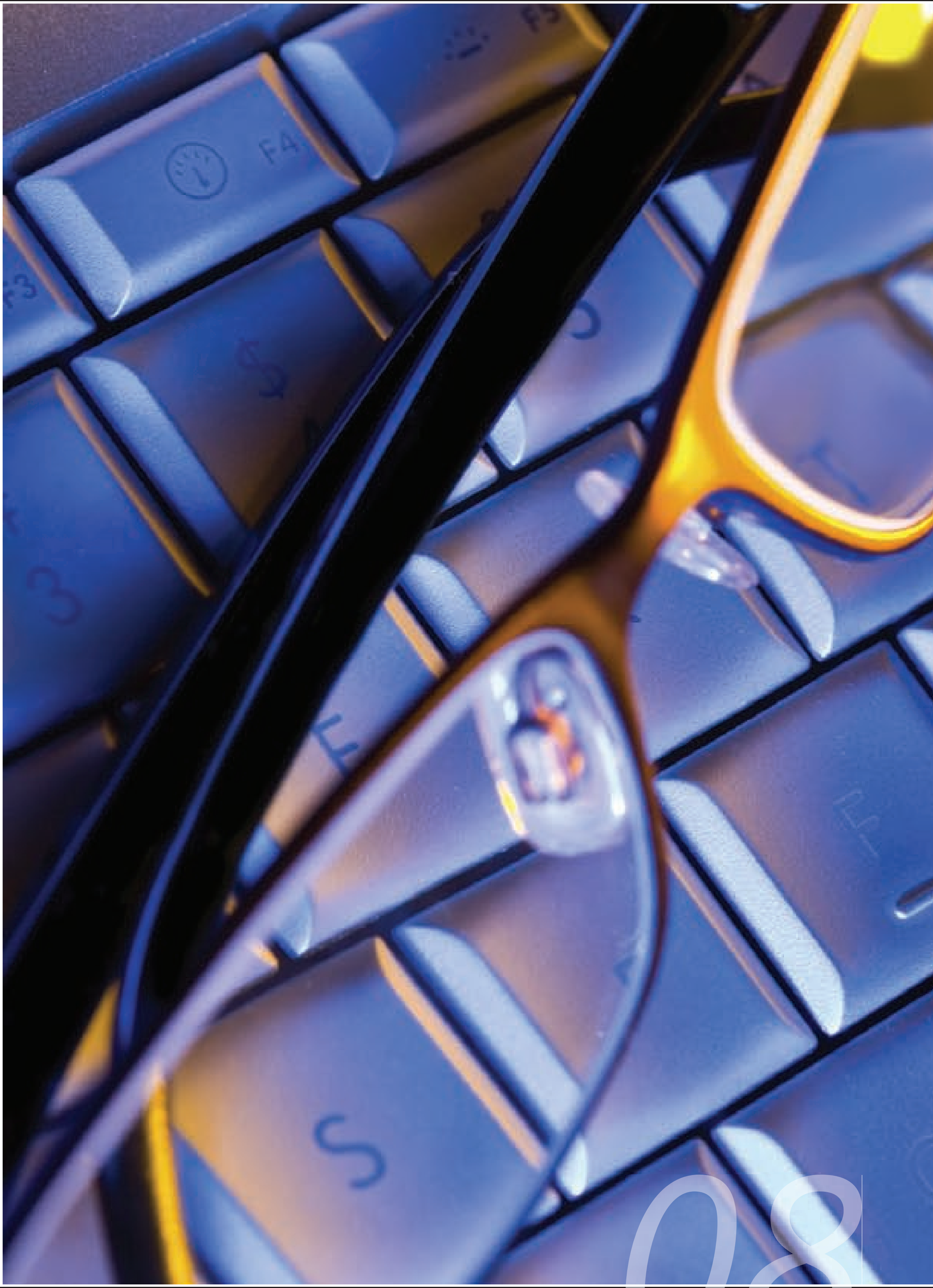
RL Wilkie
Partner

Sydney
28 October 2008

CAP-XX

Leading brand mobile phones without a CAP-XX supercapacitor

Leading brand mobile phone with a CAP-XX supercapacitor



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