CAP-XX Limited
ABN 47 050 845 291

Annual report 2010

CAP-XX Limited
30 June 2010

Annual report 2010

Contents

Corporate directory

Directors	Michael Quinn *Chairman* Anthony Kongats *Managing Director* Graham Titcombe John Murray Brett Sandercock
Secretaries	Robert Buckingham Michael Taylor
Notice of annual general meeting	The annual general meeting of CAP-XX Limited **will be held at:** : Innovation Capital Suite 401, 35 Lime Street Sydney NSW 2000 Australia **time:** 7.00pm **date:** 15th November 2010 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 6ZY 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	DibbsBarker 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 Holborn 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

CAP-XX Limited
30 June 2010

Chairman's statement

The past twelve months has seen the Company consolidate and execute previously announced strategies directed towards reaching cash break even as quickly as possible. The main focus points were cash reserves, production capacity, sales and new product development. Each of these has been progressed in the last financial year and the Company is well placed to build on this foundation. We are additionally being assisted by the upturn in the electronics market which has become apparent since the beginning of 2010.

For the fiscal year ended 30 June 2010, the Company reported total sales revenue of AUD $5.9 million (2009: AUD $7.8 million) with the year to year decline primarily due to the quantum and timing of the Murata licence payments. The Technology Transfer fees and the Research & Development Feasibility Study fee that were received in 2008/09 were only partly replaced in the 2009/10 year by the Research & Development Agreement noted previously. Product sales for 2010 of 569,000 units were down 12% compared to the previous year. However a disciplined approach to pricing led to the Average Selling Price increasing from US$2.95 to US$3.47 on a year to year basis. The operating loss for the twelve months to 30 June 2010 from trading operations was AUD $2.5 million (2009: loss of AUD $3.1 million) with the improvement being assisted by a reduction in headcount and discretionary expenditure.

During March 2010, the company undertook a capital raising with 5.906m shares being issued at 0.33 pence per share. The capital raising strengthened the cash reserves during a period of world-wide economic uncertainty and ensured that sufficient cash was available to complete the necessary product development which will enable additional applications to be completed and new markets serviced. The majority of the shares issued were acquired by existing institutional investors which now account for just over 80% of the Group's issued share capital.

We were informed by senior Murata executives that they expect to commence customer shipments of supercapacitors in the current half year Murata is promoting the CAP-XX supercapacitor strongly for mobile phones and other applications and is planning for strong growth in volumes in 2011. In parallel, CAP-XX is also taking advantage of the re-sale agreement with Murata and has begun to receive orders for the Murata manufactured product from its own customers.

In March 2010, Murata and CAP-XX formally announced that they had entered into a collaborative Research & Development Agreement to investigate the production of a second generation supercapacitor which will have the capability to be "surface mounted" using reflow solder techniques. Although the agreement was signed in March 2010, the statement of works associated with the Agreement was commenced in September 2009. CAP-XX will receive consideration of A$1.43 million over four equal instalments with the first two instalments received during the 2009/10 financial year. The remaining instalments are due to be received in the 2010/11 financial year.

In August 2009, CAP-XX announced the signing of a contract manufacturing agreement with Nationgate Technology which is located in Penang, Malaysia. Since this time, a myriad of activities have been undertaken to enable Nationgate to commence production. Plant and machinery previously installed at CAP-XX headquarters at Lane Cove has been sold to Nationgate for US$2 million, a premium to book value, with the final payment having been received in the 2010/11 financial year. This plant and machinery was successfully transferred and recommissioned during the year, and Nationgate commenced shipment of saleable product from March 2010. The transfer took place with minimum interruption to sales. Nationgate has subsequently announced a purchase order for additional equipment which will double its supercapacitor production capacity from January 2011. Polar Twin Advance, our initial contract manufacturer, is in the early stages of planning a similar manufacturing upgrade, with the additional capacity anticipated to be available in the fourth quarter of the 2010/11 financial year.

We saw an improving trend in sales volumes through the year. Sales volumes were particularly soft in the first half of the financial year as customers and distributors held off placing new orders or re-stocking product until global market sentiment improved. The first signs of change surfaced in our third quarter, when customer orders and enquiries began to increase significantly. Product sales for the second half of the year were 22% greater than in the first half.

Pleasingly, CAP-XX's traditional markets of hand held and portable devices have continued to recover with order activity at historical high levels in recent months. We are also seeing the early signs that new design wins achieved over the past twelve months with several customers will shortly move into production.

I must commend the CAP-XX team led by Anthony Kongats and Mike Taylor for consolidating their market and financial position in the face of very difficult economic conditions during the last financial year. With an improving market, coupled with initiatives directed at cost reduction, production capacity and new business opportunities now in place, the Board is looking forward to the next twelve months.

Michael Quinn
Chairman

8 October 2010

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 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 applications include mobile phone and solid state disk (SSD) power management, mobile phone accessories, digital still cameras, energy harvesting systems, e-books, portable drug delivery systems, wireless sensors, uninterrupted power supplies, plant condition monitors, toll tags and location tracking devices. Longer term, as the market for fuel cell systems develops, supercapacitors can be used to support modulated output for fuel cell systems.

In 2009-2010, CAP-XX continued to supply supercapacitors to a number of blue chip consumer electronics companies for use in current generation wireless devices such as ruggedised PDAs (personal digital assistants), SSD (solid state drives) devices and location tracking products. CAP-XX is increasingly focussed on the larger opportunities represented by SSD and energy harvesting markets whilst still strongly supporting Murata in its market expansion activities.

CAP-XX is incorporated in Australia and has its headquarters and research and development and electrode manufacturing facilities in Sydney, Australia where 23 staff are employed. These facilities have ISO 9000 status. Larger manufacturing facilities are operated in Malaysia by Polar Twin Advance Sdn Bhd and Nationgate Technologies Sdn Bhd under manufacturing agreements 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 and Flextronics. 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 like 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 was replicated successfully in Malaysia.

CAP-XX was named a 2005 Technology Pioneer by the World Economic Forum for 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.

CAP-XX has received numerous other international awards for its products and electronic circuit designs including EDN’s Top Overall Power Product for 2009 and being voted 3rd overall in Electronic Design’s Top 101 Components for 2009.

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 AUD$41million (£17.1 million) and increased the total issued share capital to 48,565,893 shares and market capitalisation (at 93 pence per share) to about AUD$108 million (£45.2 million). The issued share capital rose to 49,112,791 by 30 June 2008 as various Employee Shareholder Option Plan participants exercised their options. On 25 June 2009, a secondary capital raising was completed with 12,940,000 shares being placed at 12.5 pence per share and the total issued share capital as at

(Business review continued)

June 2009 stands at 62,052,791 shares. On 25 March 2010, a capital raising was completed with 5,906,493 shares being placed at 33 pence per share. Total shares outstanding as at June 2010 are 67,959,284 shares.

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 for electric components and is an existing supplier to all of the top mobile handset market companies. CAP-XX and Murata will initially 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 2010. In 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. In November 2008, both companies signed a Feasibility Study Agreement for the first stage of a proposed Collaborative R&D program which concluded with the successful demonstration of a working surface mountable supercapacitor in H1 2009. On the 5 March 2010, CAP-XX and Murata signed the R&D Agreement which is an extension of the collaboration for developing supercapacitors with Murata. The new contract will now cover surface mounted devices (SMD's) which will enable manufacturers to mount supercapacitors directly onto pre-circuit boards using reflow solder techniques. These supercapacitors are particularly suitable for high volume applications.

On 30 July 2009, CAP-XX signed a contract manufacturing agreement with Nationgate Technologies of Penang, Malaysia. Under the terms of the agreement, Nationgate acquired and transferred to Penang, the supercapacitor assembly manufacturing plant, from CAP-XX's Lane Cove facility. Following the re-commissioning of the plant at its Penang facility, Nationgate began producing saleable supercapacitors in the Q1 calendar year 2010. Polar Twin Advance, also in Penang, continues as a contract manufacturer, for CAP-XX.

Review of Operations and Activities

Since CAP-XX launched its first supercapacitor in 2003, more than 7 million units have been sold. In the past 18 months, CAP-XX has established a new revenue stream with the commencement of license fees and other related payments from Murata. These will become more prevalent as the anticipated royalty stream from Murata commences in the 2010/11 financial year. Revenue for the 12 months to 30 June 2010 decreased by AUD$1.9 million to AUD$5.9 million compared to AUD$7.8 million in 2009. Unit sales of 0.6 million were on par with units sold from the previous year due to the lingering instability in world- wide markets. The second half of the year did see a pick- up in order activity and sales revenue as customer confidence began to return. As highlighted earlier, total revenue for 2009/10 includes a contribution from Murata for the Technology Transfer payments and the collaborative R&D Agreement. The operating result for the twelve months to 30 June 2010 was a loss of AUD$2.5 million (2009: loss of AUD$3.1 million). The major reasons for the positive variances being an overall reduction in the headcount and discretionary expenditure.

Business Environment

Portable electronic devices, one of the fastest growing segments of the electronics market, 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. This means that power management continues to be an increasingly important consideration. The other important factor is size. The devices are becoming smaller as their capabilities are increasing.

CAP-XX technology provides a competitive advantage over other supercapacitor manufacturers, such as 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 Solid State Disks (SSD) market remains a large and attractive opportunity for CAP-XX. As a result of lower prices, higher capacities, improved reliability and faster performance, SSDs are rapidly replacing hard disks. The SSD market to date has been limited to the enterprise market segment, due largely to higher cost. Penetration is growing from a virtual zero base in many consumer segments to substantial quantities by 2010/11. 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's will require an uninterrupted power supply (UPS) to assist with the write speed required by large volumes of meta data that are produced. The attractions of the CAP-XX supercapacitor to the SSD manufacturers are the energy storage capability, delivered power and physical dimensions (small size and weight). CAP-XX has already achieved a number of design wins and shipments have already commenced with several customers. Though 2009/10 volumes have been impacted by the economic conditions, it is expected that there will be large scale production within the 2010/11 financial year.

(Business review continued)

Other potential applications include digital still cameras, e-books, portable drug delivery systems, wireless sensors, uninterrupted power supplies, energy harvesting, hybrid automobiles, toll tags and location tracking devices.

Additional benefits of the Murata manufacturing agreement is that it has enabled rapid validation of the CAP-XX supercapacitor as a mainstream consumer electronics technology and it will increase exposure to markets and customers that were previously not targeted due to the Company's limited resources. Association with Murata is helping gain recognition for and acceptance of the capabilities of the CAP-XX supercapacitor products to support high-power functions, and reduces misconceptions about their price and performance.

While Murata is targeting key market segments, Murata is not intending to address the product type or size requirements of all markets. Murata will refer non-core customers to CAP-XX and CAP-XX will supply these markets directly using products made by its 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 portable consumer electronics. We are strengthening our relationships with these organisations and we have regular engineering meetings together with their integrated board providers. We are unable to comment on specific progress with individual companies but can state that we are pleased with overall progress and are confident that the available market for supercapacitors is increasing as manufacturers become familiar with the technology.

Most sales to date have been achieved by direct sales. 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 distributors experience in selling our product is steadily improving. Additional distributors are currently being interviewed to take advantage of significant emerging markets such as China and India. It is expected that CAP-XX will have broader coverage in these two strategic markets within the next twelve months.

The Company will explore additional opportunities to increase the product offering both through the current distributors and direct to customers. These offerings may take the form of complimentary energy storage devices and modules. Separately, the Company will explore to enter new markets by leveraging its strong intellectual property and engineering expertise. The Company believes the automotive market may offer several opportunities for growth.

Research and Development

CAP-XX has a research facility at its headquarters in Lane Cove, Australia where a research and development team comprised of 9 engineers and scientists, ably assisted by 3 other engineers and scientists, is continuing development work 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 it currently has a strong competitive position in all its target markets with its capability to produce supercapacitors with a high energy density and power density in a small conveniently sized flat package. 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 and prevent any infringements of its intellectual property. To protect its intellectual property CAP-XX 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 19 patent families, 12 granted US patents, 4 US patent applications and corresponding international patents and applications. A further 4 patent applications have yet to enter national phase. The patents cover supercapacitive devices, components for supercapacitors, techniques for manufacturing devices and applications of the devices in electronic circuits.

Outlook

The Company had recognised that several successful and reliable large scale contract manufacturers needed to be identified in order to pursue the mobile phone market and other opportunities. With the recent addition of Murata and Nationgate, CAP-XX's long term supply strategy is now in place. Access to capacity for the longer term is also in place to meet the expected increase in demand for the CAP-XX supercapacitor. 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 with the sales and marketing of the CAP-XX supercapacitor. Murata

(Business review continued)

has commissioned its production plant and has commenced sales. It is forecasting strong sales in the next calendar year. Polar Twin Advance and Nationgate are also well known in South East Asia as contract manufacturers of choice and have been operating successfully for more than 10 years. Both have impressive lists of customers.

As previously reported, Murata via its already well established supply chain interaction with the mobile handset manufacturers, has assumed the business development role in acquiring a mobile design win which would incorporate the CAP-XX supercapacitor. Although progress has been impacted by the global slowdown in the electronics market, expectations remain high. Murata has advised that it commenced shipping supercapacitors as at the second half of 2010 (calendar year) and are promoting the product strongly to mobile phone manufacturers and other applications. It is planning for strong growth in volumes in 2011. In parallel, Murata is working closely with CAP-XX in developing next generation supercapacitor solutions.

CAP-XX continues to pursue other business opportunities in addition to mobile handset manufacturers and good progress has been made especially in the SSD, energy harvesting and location tracking markets. Sales volumes in the second half of the 2009/10 financial year were steadily increasing but are modest. Early indicators such as an increase in customer orders and new customer queries would suggest that the electronics manufacturing market is in a state of recovery and the Company remains confident of rapid growth in the newly identified CAP-XX markets. The major short term focus for CAP-XX will be ensuring sufficient capacity is in place at the Malaysian contract manufacturers and Murata to satisfy sales demand; distributors are in place to capture the demand from the emerging markets; assisting where necessary with discussions with mobile phone manufacturers; and ensuring the new business opportunities identified above are aggressively pursued.

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 2010.

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	
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 2010.

Review of operations

The Group experienced net losses of $2,512,333 during the year ended 30 June 2010 (2009: loss of $3,114,032). Information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 6 to 9 of this Annual Report.

Significant changes in the state of affairs

There were no significant changes in the Group's state of affairs during the financial year ended 30 June 2010.

Matters subsequent to the end of the financial year

On the 14th September, 2010 Cap-XX received US$1 million which represents the final payment from Nationgate Technologies associated with the sale of the supercapacitor assembly line which has been transferred to Nationgate's premises in Penang, Malaysia. The plant is operational and is producing and shipping CAP-XX supercapacitors.

No other matter or circumstance has arisen, since 30 June 2010, 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 the 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 63.*

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 co-founder of Memtec Ltd, which is a high technology filtration company, which was listed on the ASX, NASDAQ and then NYSE. Michael is also a director of QRxPharma Ltd, which is 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 ASX 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
2,333,974 ordinary shares in CAP-XX Limited (including shares held by Innovation Capital Limited, Innovation Capital LLC and Kaylara Pty Limited).

220,498 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 52.*

Experience and qualifications
Anthony founded the Company in 1997. Prior to CAP-XX, he was the managing director of a manufacturer of passive components before selling the business to a competitor. Previously, Anthony worked as a management consultant with McKinsey & Company and held various engineering positions in Australia and Europe. He has a Bachelor of Engineering 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
5,232,151 ordinary shares in CAP-XX Limited (including shares held by Ducon Management Pty Limited and Management Matters Pty Limited).

661,828 options over ordinary shares in CAP-XX Limited.

John Murray *Non-executive director. Age 51*

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
2,535,238 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).

118,501 options over ordinary shares in CAP-XX Limited (including options held by Technology Venture Partners Pty Limited).

Directors' report (continued)

Graham Titcombe *Non-executive director. Age 68.*

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 ,Infast Group plc and PolyFuel Inc. He was chairman of Infast before stepping down in July 2005. He is currently deputy chairman of 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
120,000 ordinary shares.

Brett Sandercock *Non-executive director. Age 43.*

Experience and qualifications
Brett joined ResMed in 1998 and has held various senior finance positions in the Company. He is currently the Chief Financial Officer which 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 became 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. He has 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
105,000 options over ordinary shares in CAP-XX Limited.

Company Secretaries

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 CPA Australia.

On 25 November 2008, Michael Taylor, Chief Financial Officer, was appointed as Co-Company Secretary.
Michael graduated from Kuring-Gai College with a Bachelor of Business and from Macquarie University with a Master of Applied Finance. He is a member of CPA 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 2010, 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	4	4	2	2
Graham Titcombe	6	6			2	2
Brett Sandercock	6	6	4	4		

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 2010, 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

2010	**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	289,857	-	-	26,087	-	67,289	383,233
Non-executive directors							
Michael Quinn	56,718	-	-	-	-	4,798	61,516
John Murray	42,539	-	-	-	-	4,798	47,337
Graham Titcombe	57,755	-	-	-	-	-	57,755
Brett Sandercock	42,539	-	-	3,828	-	4,798	51,165
Total	489,408	-	-	29,915	-	81,683	601,006

Directors' report (continued)

Details of the remuneration of each director of CAP-XX Limited, for the year ended 30 June 2009, 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

2009	**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	273,673	62,250	-	30,233	-	54,797	420,953
Non-executive directors							
Michael Quinn	86,863	-	-	-	-	12,428	99,291
John Murray	65,148	-	-	-	-	9,464	74612
Christer Harkonen	-	-	-	-	-	(6,765)	(6,765)
Graham Titcombe	86,863	-	-	-	-	-	86,863
Brett Sandercock	65,148	-	-	5,864	-	2,210	73,222
Total	577,695	62,250	-	36,097	-	72,134	748,176

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 2010	10,000
John Murray	21 April 2010	10,000
Michael Quinn	21 April 2010	10,000
Brett Sandercock	6 April 2010	75,000
John Murray	6 April 2010	75,000
Michael Quinn	6 April 2010	75,000
Anthony Kongats	6 April 2010	250,000
Other executives of CAP-XX Limited		
Jean Pierre Mars	6 April 2010	250,000
Ritchie Bloomfield	6 April 2010	250,000
Michael Taylor	6 April 2010	250,000
Phil Aitchison	6 April 2010	250,000
Alex Bilyk	6 April 2010	175,000

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
1 November 2002	30 September 2012	$15.64	29,502
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	528,451
1 July 2005	31 May 2015	$15.64	8,004
20 April 2006	22 February 2011	$1.40	60,000
19 September 2006	19 September 2016	$2.38	875,000
8 May 2007	8 May 2017	$2.58	20,000
25 February 2008	25 February 2018	$0.71	160,000
21 April 2008	21 April 2018	$0.43	30,000
19 December 2008	19 December 2014	£0.25	1,205,000
12 January 2009	12 January 2015	£0.20	40,000
1 March 2009	1 March 2015	£0.20	50,000
21 April 2009	21 April 2009	$0.35	30,000
6 April 2010	6 April 2016	£0.56	2,450,000
21 April 2010	21 April 2010	$0.35	30,000
			5,557,960

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

No ordinary shares of CAP-XX were issued during the year ended 30 June 2010 on the exercise of options granted under the CAP-XX Employee Option Plan. No other shares under option have been issued since that date. No amounts are unpaid on any of the shares.

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.

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 17.

Directors' report (continued)

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
8 October 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au

Auditor's Independence Declaration

As lead auditor for the audit of Cap-XX Limited for the year ended 30 June 2010, 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
8 October 2010

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 comprises five directors, four of whom are non-executive directors and three of whom are independent non-executive directors. None of the non-executive directors have any day-to-day involvement in the running of the business.

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 2010, 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 both consisting of two 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 2010, four audit committee and two remuneration committee meetings were held. Each committee is to meet at least twice a year.

The audit committee comprises Brett Sandercock (Chairman), and John Murray. The remuneration committee comprises Graham Titcombe (Chairman), and John Murray.

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 communications with its shareholders. In addition to presentations after 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 19 patent families, 12 granted US patents, 4 US patent applications and a further 4 patent applications which have yet to enter national phase. 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, has given the Company a strong and focused IP portfolio.

CAP-XX Limited
Financial statements
– 30 June 2010

Contents

Page

This financial report covers 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 5, business review on pages 6 to 9 and in the directors' report on pages 10 to 16, all of which are not part of this financial report.

The financial report was authorised for issue by the directors on 8 October 2010. 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.

CAP-XX Limited
Income statement
For the year ended 30 June 2010

		Consolidated	
		2010	2009
Currency: Australian Dollars	**Notes**	**$**	$
Revenue from continuing operations	5	**5,889,531**	7,826,198
Cost of sale of goods & services	7	**(3,567,381)**	(3,605,889)
Gross margin on sale of goods & services		**2,322,150**	4,220,309
Other revenue	5	**54,610**	69,292
Other income	6	**148,617**	439,609
General and administrative expenses		**(2,107,262)**	(3,091,449)
Process and engineering expenses		**(592,194)**	(986,653)
Selling and marketing expenses		**(385,664)**	(1,148,693)
Research and development expenses		**(1,577,420)**	(1,833,732)
Other expenses	7	**(375,170)**	(782,715)
(Loss) before income tax		**(2,512,333)**	(3,114,032)
Income tax benefit / (expense)	8	-	-
Net (loss) for the year		**(2,512,333)**	(3,114,032)
(Loss) attributable to members of CAP-XX Limited		**(2,512,333)**	(3,114,032)
Earnings per share for (loss) attributable to the ordinary equity holders of the Company		**Cents**	**Cents**
Basic earnings/(loss) per share	30	**(4.0)**	(6.3)
Diluted earnings/(loss) per share	30	**(4.0)**	(6.3)

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

CAP-XX Limited
Statement of comprehensive income
For the year ended 30 June 2010

Currency: Australian Dollars	Notes	Consolidated 2010 $	2009 $
Loss for the year		**(2,512,333)**	(3,114,032)
Other comprehensive income			
Exchange differences on translation of foreign operations	20	**26,146**	(69,281)
Other comprehensive income for the year, net of tax		**26,146**	(69,281)
Total comprehensive income for the year attributable to owners of CAP-XX Limited		**(2,486,187)**	(3,183,313)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

CAP-XX Limited
Balance sheet
As at 30 June 2010

Currency: Australian Dollars	Notes	Consolidated 2010 $	2009 $
ASSETS			
Current assets			
Cash and cash equivalents	9	**4,113,970**	4,060,241
Receivables	10	**368,906**	293,218
Inventories	11	**1,031,873**	1,455,715
Other	12	**58,448**	36,195
Total current assets		**5,573,197**	5,845,369
Non-current assets			
Property, plant and equipment	13	**981,230**	1,695,338
Other	14	**208,233**	208,233
Total non-current assets		**1,189,463**	1,903,571
Total assets		**6,762,660**	7,748,940
LIABILITIES			
Current liabilities			
Payables	15	**1,157,646**	1,189,679
Provisions	16	**531,949**	409,644
Other	17	**1,149,653**	2,894,214
Total current liabilities		**2,839,248**	4,493,537
Non-current liabilities			
Provisions	18	**119,441**	158,520
Total non-current liabilities		**119,441**	158,520
Total liabilities		**2,958,689**	4,652,057
Net assets		**3,803,971**	3,096,883
EQUITY			
Contributed equity	19	**81,878,750**	78,906,340
Reserves	20	**2,491,744**	2,244,733
Accumulated losses	20	**(80,566,523)**	(78,054,190)
TOTAL EQUITY		**3,803,971**	3,096,883

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

CAP-XX Limited
Statement of changes in equity
For the year ended 30 June 2010

	Notes	Contributed Equity $	Reserves $	Accumulated losses $	Total $
		Consolidated			
Balance at 1 July 2008		75,786,603	1,733,786	(74,940,158)	2,580,231
Total comprehensive income for the year as reported in the 2009 financial statements		-	(69,280)	(3,114,032)	(3,183,312)
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	19	3,119,737	-	-	3,119,737
Employee share options - value of employee services	20	-	580,227	-	580,227
		3,119,737	580,227	-	3,699,964
Balance at 30 June 2009		**78,906,340**	**2,244,733**	**(78,054,190)**	**3,096,883**
Total comprehensive income for the year		-	**26,146**	**(2,512,333)**	**(2,486,187)**
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs and tax	19	2,972,410	-	-	2,972,410
Employee share options - value of employee services	20	-	220,865	-	220,865
		2,972,410	220,865	-	3,193,275
Balance at 30 June 2010		**81,878,750**	**2,491,744**	**(80,566,523)**	**3,803,971**

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

CAP-XX Limited
Cash flow statement
For the year ended 30 June 2010

		Consolidated	
		2010	2009
Currency: Australian Dollars	**Notes**	**$**	$
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**6,456,817**	7,762,358
Payments to suppliers and employees (inclusive of goods and services tax)		**(9,554,890)**	(9,519,118)
		(3,098,073)	(1,756,760)
Grants received		**148,617**	35,000
Interest received		**54,610**	69,292
Net cash (outflow) from operating activities	27	**(2,894,846)**	(1,652,468)
Cash flows from investing activities			
Payments for property, plant and equipment		**(23,835)**	(890,862)
Proceeds from sale of property, plant and equipment		**-**	2,774
Net cash (outflow) from investing activities		**(23,835)**	(888,088)
Cash flows from financing activities			
Proceeds from issue of shares (net of costs)	19	**2,972,410**	3,119,737
Net cash inflow from financing activities		**2,972,410**	3,119,737
Net increase in cash and cash equivalents		**53,729**	579,181
Cash and cash equivalents at the beginning of the financial year		**4,060,241**	3,481,060
Cash and cash equivalents at the end of the financial year	9	**4,113,970**	4,060,241

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

Contents of the notes to the financial statements

Note 1 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of 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 Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRSs
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) as issued by the International Accounting Standards Board (IASB).

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

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

Financial statement presentation
The group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Continuation as a going concern

During the year ended 30 June 2010, 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. However, 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:

i) The continuation of the strong relationship between CAP-XX and Murata including:
   a) CAP-XX's completion of its obligations under the Research and Development agreement which will result in additional funding to the Group;
   b) Murata's commencement of shipment of finished product within the next 3 months, which are estimated to substantially grow in value over the next 12 months. These shipments will generate a product royalty payable to the Group.

ii) The Group's operating results will continue to depend on increased sales volumes from 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;

iii) The ability of both our contract manufacturers, Polar Twin Advance and Nationgate Technologies, to provide sufficient manufacturing capacity commensurate with the Groups' expected increase in sales demand.

iv) 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 a 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.

Note 1 Summary of significant accounting policies (continued)

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 2010.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CAP-XX Limited ("Company") as at 30 June 2010 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.

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.

(d) Segment reporting

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

Change in accounting policy

The group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting.* The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. Comparatives for 2009 have been restated.

(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.

(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:

Note 1 Summary of significant accounting policies (continued)

- 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.

Sale of goods are recognised when products have been delivered to the customer. 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.

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.

(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 is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity. In this case, the tax is 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.

Note 1 Summary of significant accounting policies (continued)

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.

(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 the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables.

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) 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.

(k) Cash and cash equivalents

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

(l) 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 45 days from the date of recognition.

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

(m) 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.

Note 1 Summary of significant accounting policies (continued)

(n) 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.

(o) Property, plant and equipment

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

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 estimate useful lives as follows:

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(j)).

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

(p) 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.

(q) 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.

(r) 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.

Note 1 Summary of significant accounting policies (continued)

(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.

(s) 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.

(t) 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.

(u) 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.

(v) 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.

Note 1 Summary of significant accounting policies (continued)

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.

(w) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)
AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The group is yet to assess its full impact. The Group will apply the amended Standard from 1 July 2013.

(x) Parent entity financial information

The financial information for the parent entity, Cap-XX Limited, disclosed in note 31 has been prepared on the same basis as the consolidated financial statements, except as set out below:

(i) Investments in subsidiaries
Investments in subsidiaries are accounted for at cost in the financial statements of Cap-XX Limited.

Note 2 Financial risk management

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

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 hedges financial risks as and when they arise.

The Group holds the following financial instruments:

	Consolidated	
	2010	2009
	$	$
Financial assets		
Cash and cash equivalents	**4,113,970**	4,060,241
Trade and other receivables	**368,906**	293,218
	4,482,876	4,353,459
Financial liabilities		
Trade and other payables	**1,157,646**	1,189,679
	1,157,646	1,189,679

(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 most of its products and services 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.

Sensitivity analysis
The Group's after tax profit and equity for the year would have been $80,812 lower/ $88,893 higher (2009: $59,712 lower/$65,683 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 end of the reporting period, as expressed in Australian dollar, was as follows:

	2010			2009		
	USD	**GBP**	**Other**	USD	GBP	Other
	$	**$**	**$**	$	$	$
Cash and cash equivalents	**566,765**	**109,144**	**5,380**	280,845	2,659,806	5,891
Trade receivables	**370,832**	**-**	**-**	299,831	-	-
Trade payables	**395,452**	**22,844**		350,074	13,336	-

Note 2 Financial risk management (continued)

(ii) Price risk

The Group is not exposed to equity securities price risk or to commodity price risk.

(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. Cash and cash equivalents are placed in financial institutions with good credit ratings.

(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 2010 as the Group is transitioning from development stage. Due to the negative cash flow position the Group has not committed to any credit facilities rather relied upon equity and debt financing through private and public equity investors.

(d) 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.

The Group's exposure to interest-rate risk is immaterial in terms of the possible impact on profit or loss or equity. It has therefore not been included in the sensitivity analysis.

As at 30 June 2010, the Group had 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

(i)Impairment loss 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.

The Group has reviewed the carrying value of its current plant and equipment. Taking into account the 2008 agreement with Murata and the 2009 agreement with Nationgate, to bring on-line additional volume manufacturing capacity, no impairment is required for the year ended 30 June 2010.

(ii) Fair value of share options

Share-based compensation benefits are provided to employees via the 2006 Share Option Exchange Plan and the 2006 Employee Share Option Plan. 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 the Black-Scholes option pricing model. The key inputs and assumptions used in the model is set out in note 28.

Note 4 Segment information

(a) Description of segments

Management has determined the operating segment based on the reports reviewed by the Board that are used to make strategic decisions. Management has identified one reportable segment which is the development, manufacture and sale of supercapacitors.

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

(b) Other segment information

(i) Segment revenue

Revenues from external customers are derived from the sale of supercapacitors and related services.

Segment revenue reconciles to revenue from sale of goods and services as follows:

	Segment revenues from sales to external customers	
	2010	2009
	$	$
Asia Pacific	**4,952,007**	6,947,218
Europe	**594,363**	453,765
North America	**343,161**	425,215
Total revenue from sale of goods and services (note 5)	**5,889,531**	7,826,198

The entity is domiciled in Australia. The amount of its revenue from external customers in Australia is $29,157 (2009: $ Nil) and the total revenue from external customers in other countries is $5,860,373 (2009: $7,826,198). Segment revenues are allocated based on the country in which the customer is located.

(ii) Segment assets

Segment assets and capital expenditure are allocated based on the physical location of the asset.

Reportable segment assets are reconciled to total assets as follows:

	Segment assets	
	2010	**2009**
	$	**$**
Asia Pacific	**6,378,621**	7,562,522
Europe	**76,431**	53,208
North America	**307,608**	133,209
Total assets as per balance sheet	**6,762,660**	7,748,939

The total of non-current assets located in Australia is $1,189,464 (2009: $1,903,570) and the total of non-current assets located in other countries is $ Nil (2009: $ Nil).

Note 5 Revenue

	Consolidated	
	2010	2009
	$	$
Sales revenue		
Sale of goods	**2,242,879**	2,519,828
Sale of services	**3,646,652**	5,306,370
	5,889,531	7,826,198
Other revenue		
Interest	**54,610**	69,292
Total revenue	**5,944,141**	7,895,490

Note 6 Other income

	Consolidated	
	2010	2009
	$	$
Foreign exchange gains (net)	-	404,609
Government grants (note 1(g))	**148,617**	35,000
	148,617	439,609

(a) Government grants

An export market development grant of $148,617 (2009: $Nil) was recognised as other income by the Group during the year ended 30 June 2010. There are no unfulfilled conditions attached to this grant.

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

Note 7 Expenses

Loss before income tax includes the following specific expenses:

	Consolidated	
	2010	2009
	$	$
Cost of sale of goods		
Direct materials and labour	**2,190,954**	2,346,647
Indirect manufacturing expenses	**1,376,427**	1,259,242
Total cost of sale of goods	**3,567,381**	3,605,889
Depreciation		
Plant and equipment	**732,869**	669,257
Furniture and fittings	**4,192**	4,192
Total depreciation	**737,061**	673,449
Other expenses		
Net foreign exchange losses (net gain in 2009 - see note 6)	**324,470**	-
Net loss on disposal of plant and equipment	**882**	704
Consultants	-	237,850
Provision for credit notes / doubtful debts	**(6,183)**	24,617
Provision for make good on premises	**40,000**	40,000
Provision for returns and rework	**16,001**	51,589
Provision for diminution in recoverable value - withholding taxes	**-**	427,955
	375,170	782,715
Rental expense relating to operating leases		
Minimum lease payments	**388,546**	385,621
Employee benefits expense	**2,505,653**	3,976,246
Share based payments	**220,865**	580,227

Note 8 Income tax expense

	Consolidated	
	2010	2009
	$	$

(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	**(2,512,333)**	(3,114,032)
Tax at the Australian tax rate of 30%	**(753,700)**	(934,210)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payments	**66,260**	174,068
Research & Development additional claims	**(650,000)**	-
Sundry items	**-**	-
	(1,337,440)	(760,141)
Adjustments for current tax of prior periods	**(838,325)**	(25,503)
Benefit arising from temporary differences not recognised	**355,893**	35,103
Benefit arising from tax losses not recognised	**1,819,872**	750,541
Income tax benefit	**-**	**-**

(c) Tax losses

Unused tax losses for which no deferred tax asset has been recognised	**84,407,216**	75,058,800
Potential tax benefit @ 30%	**25,322,165**	22,517,640

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

Temporary difference for which no deferred tax asset has been recognised	**2,076,129**	3,262,441
Potential tax benefit @ 30%	**622,839**	978,732

(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.

	Consolidated	
	2010	2009
	$	$

Note 9 Current assets – Cash and cash equivalents

Cash at bank and on hand	**669,224**	799,286
Cash on deposit	**3,444,746**	3,260,955
	4,113,970	4,060,241

	Consolidated	
	2010	2009
	$	$

Note 10 Current assets – Receivables

Trade receivables	**333,162**	313,464
Provision for doubtful receivables	**(25,477)**	(31,702)
	307,685	281,762
Other receivables	**61,221**	11,456
	368,906	293,218

(a) Impaired trade receivables

There were no impaired trade receivables for the Group in 2010 or 2009.

(b) Past due but not impaired

As at 30 June 2010, trade receivables of $48,486 (2009: $108,208) 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:

	Consolidated	
	2010	2009
	$	$
Up to 3 months	**48,486**	108,208
3 to 6 months	**-**	-
	48,486	108,208

(c) Other receivables

As at 30 June 2010, other receivables of $ Nil (2009: $Nil) were past due but not impaired.

	Consolidated	
	2010	2009
	$	$
Up to 3 months	**-**	-
3 to 6 months	**-**	-
	-	-

Note 10 Current assets – Receivables (continued)

(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. The total amount outstanding is comprised of 17 customers with the top 3 making up 61% of the total balance.

(e) Foreign exchange and interest rate risk

Information about the Group's and the 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 2010 $	Consolidated 2009 $
Raw materials and stores - at cost and net realisable value	**715,327**	909,216
Finished goods - at cost	**316,546**	546,499
	1,031,873	1,455,715

Note 12 Current assets – Other

	Consolidated 2010 $	Consolidated 2009 $
Prepayments	**45,617**	24,904
Other	**12,831**	11,291
	58,448	36,195

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

	Consolidated 2010 $	Consolidated 2009 $
Plant and equipment at cost	**15,945,684**	15,933,677
Accumulated depreciation	**(14,985,253)**	(14,263,330)
Net book amount	**960,431**	1,670,347
Furniture and fittings at cost	**66,779**	66,779
Accumulated depreciation	**(45,980)**	(41,788)
Net book amount	**20,799**	24,991
Leasehold improvements at cost	**436,877**	436,877
Accumulated depreciation	**(436,877)**	(436,877)
Net book amount	**-**	-
Total property, plant and equipment	**16,449,340**	16,437,333
Total accumulated depreciation	**(15,468,110)**	(14,741,995)
Total net book amount	**981,230**	1,695,338

Note 13 Non-current assets – Property plant and equipment (continued)

Movement in classes of assets: Consolidated	**Plant and equipment $**	**Capital works in progress $**	**Furniture and fittings $**	**Total $**
Year ended 2010				
Opening net book amount	1,670,347		24,991	1,695,338
Additions	-	23,835	-	23,835
Transfers to plant and equipment	23,835	(23,835)	-	-
Disposals	(882)	-	-	(882)
Impairment	-	-	-	-
Cost recovery on fixed assets	-	-	-	-
Depreciation	(732,869)	-	(4,192)	(737,061)
Closing net book amount	960,431	-	20,799	981,230

Movement in classes of assets: Consolidated	**Plant and equipment $**	**Capital works in progress $**	**Furniture and fittings $**	**Total $**
Year ended 2009				
Opening net book amount	718,610	849,425	29,183	1,597,218
Additions	-	890,861	-	890,861
Transfers to plant and equipment	1,652,999	(1,652,999)	-	-
Disposals	(3,477)	(87,287)	-	(90,764)
Impairment	-	-	-	-
Cost recovery on fixed assets	(28,528)	-	-	(28,528)
Depreciation	(669,257)	-	(4,192)	(673,449)
Closing net book amount	1,670,347	-	24,991	1,695,338

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

Note 14 Non-current assets – Other

	Consolidated 2010 $	**Consolidated 2009 $**
Rental bond	**208,233**	208,233

A term of the current lease agreement for the Lane Cove premises is a requirement for CAP-XX to have a bank guarantee in place as security for the landlord against loss or damage from any event of default. The rental bond of $208,233 represents the current value of this bank guarantee.

Note 15 Current liabilities – Payables

	Consolidated 2010 $	**Consolidated 2009 $**
Trade payables	**920,786**	861,379
Other payables and accrued expenses	**236,860**	328,300
	1,157,646	1,189,679

	Consolidated	
	2010	2009
	$	$

Note 16 Current liabilities – Provisions

Employee benefits – annual leave	**342,692**	276,387
Product returns and warranties	**69,257**	53,257
Make good provision	**120,000**	80,000
	531,949	409,644

(a) Make good provision

CAP-XX Ltd is required to restore the leased premises of its office/warehouse to their original condition at the end of the respective lease term. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements.

(b) 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:

	Consolidated	
	2010	2009
	$	$
Annual leave obligation expected to be settled after 12 months	**133,458**	135,739

(c) Risk exposure

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

(d) 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.

(e) Movements in provisions

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

	Consolidated	
	2010	2009
	$	$
Carrying amount at start of year	**53,257**	63,285
Charged/(credited) to profit or loss		
- additional provisions recognised	**16,001**	51,589
Amounts used during the period	**-**	(61,617)
Carrying amount at end of year	**69,258**	53,257

Movements in the make good on premises provision during the financial year is set out below:

Note 16 Current liabilities - Provisions (continued)

	Consolidated	
	2010	2009
	$	$
Carrying amount at start of year	**80,000**	40,000
Charged/(credited) to profit or loss		
- additional provisions recognised	**40,000**	40,000
Carrying amount at end of year	**120,000**	80,000

Note 17 Current liabilities – Other liabilities

	Consolidated	
	2010	2009
	$	$
Advance payment on sale of plant and equipment	**1,149,653**	-
Deferred revenue – Service contracts (note 1(f))	**-**	2,894,214
	1,149,653	2,894,214

Note 18 Non-current liabilities – Provisions

	Consolidated	
	2010	2009
	$	$
Employee benefits – long service leave	**119,441**	158,520

Note 19 Contributed equity

(a) Share capital

	Consolidated	
	2010	2009
	Shares	Shares
Fully paid ordinary shares (no par value)	**67,959,284**	62,052,791

(b) Movement in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	$
1 July 2008	Opening balance		49,112,791		75,786,603
25 June 2009	Allotment of shares		12,940,000	$0.25	3,283,598
25 June 2009	Share issuance costs				(163,861)
30 June 2009	Balance		62,052,791		78,906,340
1 July 2009	Opening balance		62,052,791		78,906,340
25 March 2010	Allotment of shares		5,906,493	$0.54	3,197,937
25 March 2010	Share issuance costs				(225,527)
30 June 2010	Balance		67,959,284		81,878,750

Note 19 Contributed equity (continued)

(c) Ordinary shares

At 30 June 2010, there were 67,959,284 (2009: 62,052,791) 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 28.

Note 20 Reserves and accumulated losses

	Consolidated	
	2010	2009
	$	$
(a) Reserves		
Foreign currency translation reserve note 20(c)(i)	**(89,116)**	(115,262)
Share-based payments reserve	**2,580,860**	2,359,995
	2,491,744	2,244,733
Movements:		
Foreign currency translation reserve		
Balance 1 July	**(115,262)**	(45,981)
Currency translation differences arising during the year	**26,146**	(69,281)
Balance 30 June	**(89,116)**	(115,262)
Share-based payments reserve		
Balance 1 July	**2,359,995**	1,779,767
Option expense	**220,865**	580,228
Balance 30 June	**2,580,860**	2,359,995

(b) Accumulated losses

Movements in accumulated losses were as follows:

Balance 1 July	**(78,054,190)**	(74,940,158)
Net (loss) for the year	**(2,512,333)**	(3,114,032)
Balance 30 June	**(80,566,523)**	(78,054,190)

(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.

Note 20 Reserves and accumulated losses (continued)

(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)
John Murray
Brett Sandercock
Graham Titcombe

(b) Key management 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:

Jean Pierre Mars, VP Applications Engineering
Michael Taylor, Chief Financial Officer
Robert Schuster, VP Operations (Resigned December 2009)
Peter Buckle, VP Sales & Marketing Asia (Resigned August 2009)
Ritchie Bloomfield , VP Sales & Marketing
Warren King, Chief Technical Officer
Phil Aitchison, VP Research

	Consolidated	
	2010	2009
	$	$
Short-term benefits	**1,349,232**	1,852,582
Post-employment benefits	**107,300**	119,769
Share-based payments	**258,667**	166,177
Total	**1,715,199**	2,138,528

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

There were no other transactions with key management personnel.

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	
	2010	2009
	$	$
(a) PricewaterhouseCoopers Australia		
Audit services		
Audit and review of financial statements	**102,500**	98,000
Additional services re audit of 2008 financial report	**-**	32,500
Additional services re audit of 2009 financial report	**3,408**	-
Total remuneration for audit services	**105,908**	130,500
Taxation services		
Tax compliance services, including review of company income tax returns , employee share scheme and R&D Tax concession	**38,000**	57,150
International tax consulting and tax advice on demerger and company restructure	**-**	1,500
Total remuneration of PricewaterhouseCoopers Australia	**38,000**	58,650
(b) Related practices of PricewaterhouseCoopers Australia		
Taxation services		
Tax compliance services, including review of company income tax returns	**24,639**	34,950
Total remuneration for related practices of PricewaterhouseCoopers Australia	**24,639**	34,950

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 Commitments

(a) 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 under cancellable operating leases. The Group is required to give 3 months notice for termination of these leases.

Note 23 Commitments (continued)

	Consolidated	
	2010	2009
	$	$
Commitments for minimum lease payments in relation to operating leases are payable as follows:		
Within one year	**390,960**	356,777
Later than one year but not later than 5 years	**12,905**	373,017
Later than 5 years	-	-
	403,865	729,794

Note 24 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 25.

(c) Key management personnel

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

Note 25 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 2010	30 June 2009
			%	%
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

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

Note 26 Events occurring after the balance sheet date

On the 14th September, 2010 Cap-XX received US$1 million which represents the final payment from Nationgate Technologies associated with the sale of the supercapacitor assembly line which has been transferred to Nationgate's premises in Penang, Malaysia. The plant is operational and is producing saleable supercapacitors

No other matter or circumstance has arisen since 30 June 2010 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 27 Reconciliation of profit after tax to net cash (outflow) from operating activities

	Consolidated	
	2010	2009
	$	$
Net loss	**(2,512,333)**	(3,114,032)
Depreciation and amortisation	**737,061**	673,449
Non-cash employee benefit expense – share based payments	**220,865**	580,227
Loss on disposal of plant and equipment	**-**	704
Disposal of fixed assets	**882**	87,287
Cost recovery on fixed assets	**-**	28,528
Net unrealised exchange (loss)/gain	**26,146**	(69,281)
Changes in assets and liabilities:		
(Increase) decrease in receivables	**(75,688)**	67,222
Decrease (increase) in inventories	**423,842**	(368,706)
(Increase) decrease in other assets	**(22,253)**	72,841
(Decrease) increase in payables	**(1,776,594)**	534,377
Increase (decrease) in provisions	**83,226**	(145,084)
Net cash (outflow) from operating activities	**(2,894,846)**	(1,652,468)

Note 28 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 on 5 April 2006. The 2006 Exchange provides for the issuance of stock options for the purchase of ordinary shares of the Company's 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 2006 Exchange:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited & expired during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated – 2010								
28 August 2001	10 October 2009	$8.88	510	-	-	(510)	-	-
1 November 2002	30 September 2012	$15.64	40,002	-	-	(10,500)	29,502	29,502
1 April 2004	30 September 2012	$4.19	4,500	-	-	(4,500)	-	-
1 April 2004	30 September 2012	$15.64	12,003	-	-	-	12,003	12,003
30 June 2004	31 May 2014	$0.47	30,000	-	-	-	30,000	30,000
1 July 2005	31 May 2015	$0.47	645,919	-	-	(117,468)	528,451	528,451
1 July 2005	31 May 2015	$15.64	8,004	-	-	-	8,004	8,004
			740,938	-	-	(132,978)	607,960	607,960
Weighted Average Exercise Price			**$1.73**	**-**	**-**	**$1.83**	**$1.71**	**$1.71**

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited & expired during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated – 2009								
28 August 2001	29 January 2009	$11.84	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	-	-	(4,500)	40,002	-
1 April 2004	29 January 2009	$11.84	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	12,003	-	-	-	12,003	12,003
30 June 2004	31 May 2014	$0.47	30,000	-	-	-	30,000	30,000
1 July 2005	31 May 2015	$0.47	964,879	-	-	(318,960)	645,919	645,919
1 July 2005	31 May 2015	$15.64	9,006	-	-	(1,002)	8,004	8,004
			1,080,409	**-**	**-**	**(339,471)**	**740,938**	**700,936**
Weighted Average Exercise Price			**$1.57**	**-**	**-**	**$1.22**	**$1.73**	**$0.93**

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.

339,471 share options were forfeited during the year ended 30 June 2010 (2009: 324,462).

Note 28 Share-based payments (continued)

15,009 share options expired during the year ended 30 June 2010 (2009: 15,009). The weighted average remaining contractual life of share options outstanding at the end of the period was 4.7 years (2009: 5.7 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.

Set out below is a summary of options granted under the 2006 Plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited & expired during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated – 2010								
20 April 2006	22 February 2011	$1.40	60,000	-	-	-	60,000	-
19 September 2006	19 September 2016	$2.38	1,145,000	-	-	(270,000)	875,000	827,654
15 November 2006	15 November 2016	$1.73	75,000	-	-	(75,000)	-	-
08 May 2007	08 May 2017	$2.58	20,000	-	-	-	20,000	20,000
04 June 2007	04 June 2017	£1.09	150,000	-	-	(150,000)	-	-
25 February 2008	25 February 2018	$0.71	160,000				160,000	93,918
21 April 2008	21 April 2018	$0.43	30,000	-	-	-	30,000	30,000
19 December 2008	19 December 2014	£0.25	1,910,000			(705,000)	1,205,000	461,051
12 January 2009	12 January 2015	£0.25	40,000	-	-	-	40,000	14,658
01 March 2009	01 March 2015	£0.20	50,000	-	-	-	50,000	50,000
21 April 2009	21 April 2019	£0.167	30,000	-	-	-	30,000	30,000
06 April 2010	06 April 2016	£0.56	-	2,450,000	-	-	2,450,000	-
21 April 2010	21 April 2020	£0.33	-	30,000	-	-	30,000	30,000
			3,670,000	**2,480,000**	**-**	**(1,200,000)**	**4,950,000**	**1,557,281**
Weighted Average Exercise Price			**$1.18**	**$0.98**	**-**	**$2.25**	**$1.08**	**$1.51**

Note 28 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 & expired during the year	Balance at end of the year	Exercisable at end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated – 2009								
20 April 2006	22 February 2011	$1.40	60,000	-	-	-	60,000	-
19 September 2006	19 September 2016	$2.38	1,450,000	-	-	(305,000)	1,145,000	796,795
15 November 2006	15 November 2016	$1.73	75,000	-	-	-	75,000	49,264
08 May 2007	08 May 2017	$2.58	30,000	-	-	(10,000)	20,000	20,000
04 June 2007	04 June 2017	£1.09	150,000	-	-	-	150,000	31,875
25 February 2008	25 February 2018	$0.71	150,000	20,000	-	(10,000)	160,000	53,918
21 April 2008	21 April 2018	$0.43	40,000	-	-	(10,000)	30,000	30,000
19 December 2008	19 December 2014	£0.25	-	1,910,000	-	-	1,910,000	-
12 January 2009	12 January 2015	£0.25	-	40,000	-	-	40,000	-
01 March 2009	01 March 2015	£0.20	-	50,000	-	-	50,000	50,000
21 April 2009	21 April 2019	£0.167	-	30,000	-	-	30,000	30,000
			1,955,000	**2,050,000**	**-**	**(335,000)**	**3,670,000**	**1,061,852**
Weighted Average Exercise Price			**$2.15**	**$0.51**	**-**	**$2.28**	**$1.22**	**$2.06**

The Stock Options are governed by their original terms and conditions and will continue to vest pursuant to the same vesting schedule. 1,200,000 share options were forfeited during the year ended 30 June 2010 (2009: 335,000). 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 5.6 years (2009: 6.1 years).

Fair value of options granted

The assessed fair value at grant date of options granted, during the year ended 30 June 2010, under the 2006 Plan were A$0.36 on 6 April 2010 and A$0.31 on 21 April 2010 per option, respectively. The assessed fair value at grant date of options granted, during the year ended 30 June 2009, under the 2006 Plan were A$0.51 on 19 December 2008, A$0.51 on 12 January 2009, A$0.41 on 1 March 2009 and A$0.35 on 21 April 2009 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 are granted for nil consideration, have a:

- 6-10 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: 40% (2009: 4%)

(g) no expected dividend yield

(h) risk-free interest rate: 2.813% (2009: 1.54%)

Note 28 Share-based payments (continued)

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.

(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 there under, 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 could be exercised over a 3 year period through to 20 April 2009, with the option exercise price being 93 pence (A$2.23). The options expired on 20 April 2009.

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 & expired during the year	Balance at end of the year	Exercisable at end of the year
		GBP	Number	Number	Number	Number	Number	Number
Consolidated – 2010								
20 April 2006	20 April 2009	£0.93	-	-	-	-	-	-
			-	-	-	-	-	-
Weighted Average Exercise Price			-	-	-	-	-	-

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited & expired during the year	Balance at end of the year	Exercisable at end of the year
		GBP	Number	Number	Number	Number	Number	Number
Consolidated – 2009								
20 April 2006	20 April 2009	£0.93	503,350	-	-	(503,350)	-	-
			503,350	**-**	**-**	**(503,350)**	**-**	**-**
Weighted Average Exercise Price			**£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. 503,350 share options expired the previous as year covered by the above tables. The weighted average remaining contractual life of share options outstanding at the end of the period was Nil years (2009: Nil years).

(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 2010 $	Consolidated 2009 $
Options issued under 2006 Share Option Exchange	**-**	47,646
Options issued under 2006 Employee Share Option Plan	**220,866**	532,563
	220,866	580,209

Note 28 Share-based payments (continued)

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	
	2010	2009
	$	$
Options issued under Collins Stewart Limited Share Option Deed	**-**	-
	-	-

Note 29 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 30 Earnings per share

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

	Consolidated	
	2010	2009
	Cents	Cents
(a) Basic earnings per share		
(Loss) attributable to the ordinary equity holders of the Company	**(4.0)**	(6.3)
(b) Diluted earnings per share		
(Loss) attributable to the ordinary equity holders of the Company	**(4.0)**	(6.3)

	Consolidated	
	2010	2009
	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	**63,638,644**	49,325,503
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**63,638,644**	49,325,503

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.

Note 31 Parent Entity

(a) Summary financial information

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

	2010	2009
	$	$
Balance sheet		
Current assets	**3,544,046**	3,751,528
Total assets	**3,545,087**	3,752,569
Current liabilities	**237,247**	230,172
Total liabilities	**237,247**	230,172
Net Assets	**3,307,840**	3,522,397
Shareholders' equity		
Issued capital	**81,878,750**	78,906,340
Reserves		
Share-based payments	**2,096,377**	2,359,995
Retained earnings ***(i)***	**(80,667,287)**	(77,743,939)
Loss for the year	**(3,407,831)**	(918,278)
Total comprehensive income	**(3,407,831)**	(918,278)

(i) Reconciliation to prior year retained earnings

Balance at beginning of period 1/07/2009	(77,743,939)
Net loss for the year	(3,407,831)
Forfeiture of vested options	484,483
Balance at end of period 30/06/2010	**(80,667,287)**

Directors' declaration

In the directors' opinion:

(a) the financial statements and notes set out on pages 19 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 2010 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.

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

The directors have been given the declarations by the chief executive officer and chief financial officer 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
8 October 2010

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

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 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year 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 controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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

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

PRICEWATERHOUSECOOPERS

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

In our opinion:

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

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

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

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

Emphasis of matter

Significant Uncertainty Regarding Continuation as a Going Concern

Without qualification of our opinion, we draw attention to Note 1(b) in the financial report which comments that the Company incurred an operating loss and net cash outflows during the year ended 30 June 2010. Accordingly, there is 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
8 October 2010