CAP-XX

06

ANNUAL REPORT 2006

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 Limited
ABN 47 050 845 291

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Australia

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email sales@cap-xx.com
www.cap-xx.com

Contents

CORPORATE DIRECTORY

Directors	Michael Quinn Chairman
	Anthony Kongats Managing Director
	Graham Titcombe
	John Murray
	Christer Harkonen
Secretaries	Robert Buckingham
	Chris Campbell Chief Financial Officer
Notice of annual general meeting	The annual general meeting of CAP-XX Limited **will be held at** the offices of:
	Faegre & Benson LLP 7 Pilgrim Street London EC4V 6LB United Kingdom
	time: 9.30am 16 November 2006
	A formal notice of meeting is enclosed.
Registered office	Level 3 685 Pittwater Road Dee Why NSW 2099 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 VIC 3067 Australia

CORPORATE DIRECTORY
continued

Registrars to depositary interests	Computershare Investor Services plc The Pavilions Bridgwater Road Bristol BS99 7NH United Kingdom
Nominated adviser and broker to the Company	Collins Stewart Limited 9th Floor 88 Wood Street London EC2V 7 QR United Kingdom
Auditor	PricewaterhouseCoopers 201 Sussex Street Sydney NSW 1171 Australia
Solicitors to the Company as to Australian law	Dibbs Abbot Stillman Level 9, Angel Place 123 Pitt Street Sydney NSW 2000 Australia
Solicitors to the Company as to English law	Faegre & Benson LLP 7 Pilgrim Street London EC4V 6LB United Kingdom
Bankers	Commonwealth Bank of Australia 120 Pitt Street Sydney, NSW 2000 Australia
Stock exchange listings	Shares are listed as Depositary Interests on AIM, a market regulated by London Stock Exchange plc under the code CPX
Website address	www.cap-xx.com

CHAIRMAN'S STATEMENT

I am pleased to report, in the first set of full year results since its admission to trading on AIM on 20 April 2006, that CAP-XX Limited (the Company) and its controlled entities (together the Group) has performed ahead of the prior year and in line with our expectations.

Revenue for the 12 months to 30 June 2006 increased 16.2% to AUD$2.6 million (2005: AUD$2.2 million), with sales growth for the quarter ended 30 June 2006 ahead by more than 40% over the previous quarter.

Our overall result for the twelve months to 30 June 2006 was a loss of AUD $10.3 million (2005 loss of AUD $11.7 million). The operating loss from trading operations was AUD $9.7 million (2005 loss AUD $10.9 million) with negative EBITDA of AUD $6.0 million (2005 negative AUD $7.0 million).

CAP-XX has a strong balance sheet with AUD $20.1 million cash and no debt. In April, 2006 the Company raised AUD $37.5 million (net of listing costs) through the successful floatation of the Company on the Alternate Investment Market (AIM), a part of the London Stock Exchange. AUD $16.7 million of the float proceeds was used to retire debt, resulting in AUD $20.1 million cash in bank and no other financial debt on the Balance Sheet at 30 June, 2006.

Company executives have continued discussions aimed at securing business with a number of global original equipment manufacturers active in mobile phone and portable consumer electronics. Naturally, as the opportunities are considerably larger than the Company's previous experience the lead time from first discussions through to initial design wins can be many months but we are optimistic with the current outlook.

We have met financial expectations whilst making significant investments in people, and addressing infrastructure and processes to ensure the creation of long term shareholder value. In particular, we have bolstered the Company's sales and marketing capability and enhanced the Company's research and product development function. As is usually the case with early stage companies, sales and marketing spend will remain high relative to revenues for this financial year as CAP-XX establishes its customer base.

As CAP-XX is highly dependent on its unique intellectual property to establish itself in the market and generate high returns, the Company will be expending more on research and development to maintain and enhance its position. We have major programs in place with objectives that include improving the manufacturing process for higher volume manufacturing, the development of smaller devices and cost reduction.

The Company advanced its contract manufacturing strategy with the objective of being in a position to meet planned manufacturing growth. Our existing contract manufacturer continues to ramp up their production volumes and expand overall capacity at their facility in Penang, Malaysia. We are very pleased with their commitment and co-operation.

The initial public offering required a substantial restructuring of the Company to maximise future shareholder value and was accomplished with enormous enthusiasm and energy by staff. The financial team handled the corporate restructure and floatation expeditiously against tight time lines and the sales, production, and development teams did an outstanding job of maintaining their operations as well as helping the financial team where required. We are all grateful for their commitment and good humour under pressure.

The Company has commenced the new financial year with a firm order book from existing customers and we continue to see a good flow of new prospects and opportunities across all our target markets covering wireless, consumer and commercial applications. Whilst this flow remains strong across North America and Asia, we are particularly excited about a number of new prospects and opportunities emerging from Europe.

CAP-XX is well placed to benefit substantially from the increasing energy management demands of portable electronic devices and we look forward to a year of good progress.

Michael Quinn
Chairman

5 October 2006

BUSINESS REVIEW

About CAP-XX Limited

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

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

Portable devices are a fast-growing segment of the electronics market. In 2004, approximately 900 million portable electronic devices were sold, including over 600 million mobile phones, approximately 50 million laptops, and toys, digital cameras and MP3 players. Many of these devices could benefit from supercapacitors.

In 2005-2006 CAP-XX supplied supercapacitors to a number of blue chip consumer electronics companies for use in current generation wireless devices such as ruggedised PDAs (personal digital assistants) and PCMCIA (personal computer memory card international association) cards. CAP-XX is now focussing on the camera phone market and is in discussions with leading mobile phone manufacturers.

CAP-XX is incorporated in Australia and has its headquarters and research and development and manufacturing facilities in Sydney, Australia employing 48 staff. These facilities have ISO 9000 status. A similar but larger manufacturing facility is operated in Malaysia by Polar Twin Advance Sdn Bhd under a manufacturing agreement with CAP-XX.

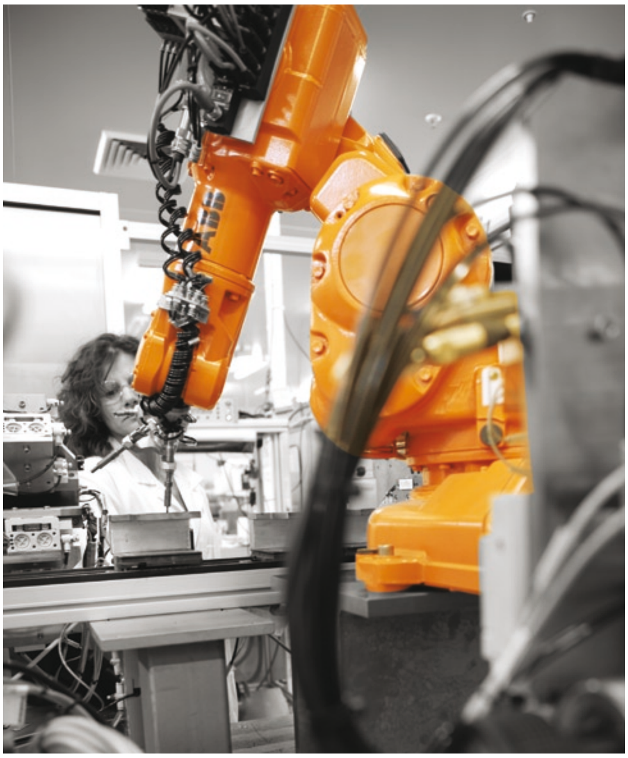
Historical Milestones

In 1994, a company associated with Anthony Kongats, now Managing Director 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 1996 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.

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

In late 2004 the company entered into a manufacturing agreement with Polar Twin Advance Sdn Bhd ("PTA") of Malaysia to provide high volume manufacturing services. The production flow process developed in Sydney has been successfully replicated in Malaysia and PTA is in the process of expanding its production capacity.



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

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

Review of Operations and Activities

The Company has continued to grow its revenue year on year since its first shipments in 2003 with revenue for the 12 months to 30 June 2006 increasing by 16.2% to AUD$2.6 million (2005: AUD$2.2 million). The overall result for the twelve months to 30 June 2006 was a loss of AUD $10.3 million (2005 loss of AUD $11.7 million).

In January 2006 the company status was changed from a proprietary company limited by shares to a public company limited by shares. On 5 April 2006 the Company demerged from its former parent CAP-XX Inc, a company incorporated in the USA and the name was changed from Energy Storage Systems Limited to CAP-XX Limited.

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 shareholding to 48,565,893 shares and market capitalisation (at 93p per share) to about AUD$108 million (£45.2 million).

The funds raised were used to pay existing debt leaving the company free of financial debt as of 30 June 2006 and with cash assets of AUD $20.1 million to fund future operations.

Business Environment

Portable devices are one of the fastest growing segments of the electronics market and provides the greatest opportunities for CAP-XX's products.

In 2004, approximately 900 million portable electronic devices were sold, including over 600 million mobile phones, approximately 50 million laptops, and toys, digital cameras and MP3 players. The number and types of portable electronic devices are expected to continue to expand rapidly. Almost all of these devices could benefit from supercapacitors to increase battery runtime and provide new functions that require higher power levels that are not possible with existing battery technology.

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

CAP-XX's products are already an established technology for current generation wireless devices, such as ruggedised PDAs and PCMCIA cards.

Opportunities

The rapidly growing camera phone market is an area of opportunity as mobile handset providers seek to provide increasingly power hungry applications, such as quality camera flash photography. At present there is a widening gap between the power these applications require and the power current battery technology can provide.

CAP-XX is ideally placed to provide an immediate solution to the issue of power in mobile devices and is in discussions with leading mobile phone handset manufacturers for the commercial deployment of its technology for camera-phone flash applications. This includes interactions with international integrated circuit (IC) companies that are developing new chips to work with supercapacitor products to provide the power required.

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

Leading players in the mobile device industry are currently attempting to redesign the power architecture of their devices based on batteries with higher energy densities. The key aim with these batteries will be to increase runtime but a side effect of this benefit will be a different voltage discharge curve, which the Company believes will require the inclusion of supercapacitors for buffering.

CAP-XX has identified possible resistance by applications designers and engineers to accepting a new technology to be a potential barrier to entry to new markets and has placed a strong focus on providing sample kits, and engineering and design support services to application developers to facilitate consideration and acceptance of CAP-XX products.

Strategies for Growth

The Company continues to have discussions aimed at securing business with a number of global original equipment manufacturers active in mobile phone and portable consumer electronics.

CAP-XX has an experienced technical sales team and sales offices in Taipei, Taiwan and in South Carolina, USA and is in the process of establishing a sales office in Europe. Most sales to date have been achieved by direct sales and the company plans to maintain direct sales contacts with key customers. To gain broader market coverage, the Company has entered into distribution agreements with a number of well-qualified distributors covering Asia (inclusive of Japan, South Korea and China) and Europe.

CAP-XX undertakes selected marketing campaigns, attends trade shows and has a website, www.cap-xx.com. In addition, CAP-XX strongly supports electronic system designers by providing engineering and design services for selection and application of supercapacitors, evaluation sample kits for experimentation and development work, and application briefs and notes including examples.

Research and Development

CAP-XX has a research facility at its headquarters in Lane Cove, Australia where a research and development team comprised of 11 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.

Outlook

The market in which the Company operates is competitive and is characterised by rapid technological change. There are a number of other supercapacitor manufacturers that may be able to offer new technologies and products at lower prices, or superior performance levels or with greater market acceptance, that would compete with CAP-XX supercapacitors. The Company believes that it currently has a strong competitive position in all its target markets covering wireless, consumer and commercial applications with its capability to produce supercapacitors with a high energy density and power density in a small conveniently sized flat package. Furthermore, the CAP-XX devices are lightweight, work over a broad temperature range and have an operating lifetime measured in years.

The Company's success depends on its ability to protect its intellectual property and to avoid any infringements of others' intellectual property. CAP-XX has sought to protect its intellectual property and has considerable intellectual property embodied in patents covering the design, manufacture and use of its high performance supercapacitors. The CAP-XX patent portfolio currently consists of 19 patent families, 9 granted US patents, 13 US patent applications and corresponding international patents and applications. The patents cover supercapacitive devices, techniques for manufacturing devices and applications of the devices in electronic circuits.

A significant area of uncertainty lies in the timing of expanding the production capacity to meet the anticipated substantial increased demand for supercapacitor products. Managing the scale-up of manufacturing capacity by CAP-XX or its manufacturing partner, or licensing the technology to another party to provide the production capacity required to match the growth in demand will be a critical factor in the growth of the business. By end 2006 CAP-XX contract manufacturer PTA plans to build further manufacturing capability to increase production to meet the anticipated demand for CAP-XX supercapacitors.

Overall, the Company is happy with the progress to date in building its relationships with global original equipment manufacturers, and with existing and potential manufacturing partners, and believes it is on track with plans to create long term shareholder value.

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 2006.

Directors

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

Michael Quinn	Chairman
Anthony Kongats	Managing Director
John Murray	
Christer Harkonen	Appointed 20 April 2006
Graham Titcombe	Appointed 20 April 2006
Andrew Bailey	Resigned 6 April 2006
Hock Voon Loo	Resigned 6 April 2006
Ingo Susing	Resigned 27 March 2006
Allan Aaron (alternate director to John Murray)	Resigned 6 April 2006
John Paul Kaumeyer (alternate director to Ingo Susing)	Resigned 27 March 2006

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 2006.

Review of operations

The Group experienced net losses of $10,322,000 during the year ended 30 June 2006 (2005: loss of $11,683,000). Information on the operations and financial position of the Group and its business strategies and prospects is set out on pages 5 - 7 of this Annual Report.

Significant changes in the state of affairs

Significant changes in the Group's state of affairs during the financial year were as follows:

(a) An increase in contributed equity of $34,460,000 (from $41,128,000 to $75,588,000) as a result of:

	$ ' 000
Issue of 18,433,333 fully paid ordinary shares at 93 pence each in conjunction with the admission of CAP-XX on AIM	41,017
Issue of fully paid ordinary shares at US$0.01 each upon the exercise of warrants by holders of Convertible Notes	4
Issue of 75,118 fully paid ordinary shares at $0.47 each on exercise of options granted under the 2006 Share Option Exchange	35
	41,056
Less:	
Purchase and cancellation of 932,761 ordinary shares	(2,630)
Transactional costs arising on share issue	(3,966)
	34,460

DIRECTORS' REPORT
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(b) On 5 April 2006 as part of the Demerger (see note 25(f)) holders of convertible notes in CAP-XX, Inc exchanged their convertible notes for substantially similar convertible notes of CAP-XX. This resulted in the net issue of US$6,404,000 (A$8,983,000) of additional convertible notes by CAP-XX. On 27 April 2006 the total convertible note liability inclusive of accrued interest of US$12,455,000 (A$16,671,000) was repaid out of the proceeds of the initial public offering (IPO).

(c) On 5 October 2004, the Group signed a contract for the outsourcing of volume assembly manufacturing with Polar Twin Advance (M) Sdn. Bhd. (PTA). As a result of the outsourced volume assembly manufacturing capacity at PTA, the book value of the plant and equipment held at the Group's Sydney, Australia manufacturing facility was reviewed for impairment. It was reasonably believed that by 1 July 2006 all volume assembly manufacturing would be outsourced to PTA and the affected plant and equipment remaining in Sydney, Australia would be used for product development and process improvement purposes only.

Accordingly, the Group wrote off $1,029,000 of plant and equipment at 30 June 2005 and accelerated depreciation of other plant and equipment from 1 July 2004 resulting in an increase in depreciation charges of $1,907,000 for the year ended 30 June 2006 and $1,942,000 for the year ended 30 June 2005.

Use of funds

Funds spent since the IPO have been spent in accordance with the Offer document dated 12 April 2006.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2006 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 is subject to standard waste management environmental regulations in respect of its research and manufacturing activities conducted at Lane Cove, Sydney, Australia.

Information on directors

Michael Quinn Chairman. Age 59

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, the high technology filtration company, which was listed on the ASX, NASDAQ and then NYSE. Michael is also a director of ResMed Inc., which is listed on NYSE, and is on the board of two not-for-profit organisations. Prior to its acquisition, he was executive chairman of the listed company Phoenix Scientific Industries Ltd that manufactured and imported medical and scientific equipment. Michael has also held executive positions in the banking, transport and high-technology plastics industries and has been a director of numerous listed and unlisted companies. He has an MBA from Harvard.

Special responsibilities

Chairman of audit committee.

Interests in shares and options

2,522,998 ordinary shares in CAP-XX Limited (including shares held by Innovation Capital Limited, Innovation Capital LLC and Kaylara Pty Limited)

123,864 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 48

Experience and qualifications

Anthony founded the Company in 1996. Prior to CAP-XX, he was the managing director of a manufacturer of passive components before selling the business to a competitor. Anthony previously worked as a management consultant with McKinsey & Company and held various engineering positions in Australia and Europe. He has a bachelor's degree (honours) in engineering from the University of New South Wales, a bachelor of science degree

DIRECTORS' REPORT
continued

from the University of Sydney and an MBA from the Australian Graduate School of Management.

Special responsibilities

Nil

Interests in shares and options

3,231,028 ordinary shares in CAP-XX Limited (including shares held by Ducon Management Pty Limited).
123,336 options over ordinary shares in CAP-XX Limited.

Christer Harkonen Non-executive Director. Age 49

Experience and qualifications

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

Special responsibilities

Member of audit committee.
Member of remuneration committee

Interests in shares and options

Nil

John Murray Non-executive director. Age 47

Experience and qualifications

John became a director on 18 September 2000. He has 14 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. John is a co-founder of Technology Venture Partners, 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, including Security Domain, Integrated Silicon Design and ManageSoft. He has a law degree (honours) from the University of Edinburgh and is a member of the Institute of Chartered Accountants of Scotland.

Special responsibilities

Member of audit committee.
Member of remuneration committee.

Interests in shares and options

5,230,700 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).
3,501 options over ordinary shares in CAP-XX Limited. (including options held by TVP Pty Limited)

Graham Titcombe Non-executive director. Age 64.

Experience and qualifications

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

Special responsibilities

Chairman of remuneration committee.
Senior independent director

Interests in shares and options

20,000 ordinary shares in CAP-XX Limited.

Company secretary

The company secretaries are Robert Buckingham and Chris Campbell. Chris, the Company's Chief Financial Officer, was appointed as a company secretary on 13 August 2006. 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 an associated member of Institute of Chartered Accountants in Australia and an associated member of Certified Practising Accountants in Australia.

DIRECTORS' REPORT
continued

Meetings of directors

The numbers of meetings of the Company's board of directors and of each board committee held during the year ended 30 June 2006, and the numbers of meetings attended by each director were:

	Full meetings of directors	
	A	B
Michael Quinn	11	12
Anthony Kongats	12	12
John Murray	12	12
Christer Harkonen (appointed 20 April 2006)	1	1
Graham Titcombe (appointed 20 April 2006)	1	1
Andrew Bailey (resigned 6 April 2006)	8	10
Hock Voon Loo (resigned 6 April 2006)	7	10
Ingo Susing (resigned 27 March 2006)	8	10

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

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. Listing occurred on 20 April 2006 and at year-end the committees had not met.

Directors' remuneration

Details of the remuneration of each director of CAP-XX Limited for the year ended 30 June 2006 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

	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	199,196	-	-	16,710	-	3,714	219,620
Non-executive directors							
Michael Quinn	15,219	-	-	1,369	-	3,419	20,007
John Murray	11,414	-	-	1,027	-	-	12,441
Christer Harkonen	12,441	-	-	-	-	-	12,441
Graham Titcombe	15,839	-	-	-	-	-	15,839
Andrew Bailey	-	-	-	-	-	4,302	4,302
Hock Voon Loo	-	-	-	-	-	-	-
Ingo Susing	-	-	-	-	-	-	-
Total	**254,109**	**-**	**-**	**19,106**	**-**	**11,435**	**284,650**

DIRECTORS' REPORT

continued

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 year ended 30 June 2006 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	**Options granted**
Anthony Kongats	111,327
Michael Quinn	103,170
Andrew Bailey	129,810
Other executives of CAP-XX Limited	
George Karhan	225,000
Chris Campbell	77,649
Pierre Mars	60,903
Paul Khoo	72,468
Phillip Aitchison	50,001

The options were granted under the 2006 Share Option Exchange-see note 29(a). They are the result of the application of a 3:1 split as part of the Demerger of the Company from CAP-XX, Inc on 5 April 2006 and in exchange for the surrender of unexercised options previously granted to the option holders on 1 July 2005 by CAP-XX, Inc.

Options over unissued ordinary shares of CAP-XX granted since 30 June 2006 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	***Options Granted***
Anthony Kongats	150,000
Other executives of CAP-XX Limited	
George Karhan	150,000
Chris Campbell	150,000
Pierre Mars	150,000
Paul Khoo	100,000
Phillip Aitchison	100,000

The options were granted on 19 September 2006 under the terms and conditions of the 2006 Employee Share Option Plan.

DIRECTORS' REPORT
continued

Shares under option

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

Date options granted	Expiry date	Issue price of shares	Number under option
28 August 2001	31 May 2008	$2.96	28,497
28 August 2001	29 January 2009	$11.84	13,500
28 August 2001	10 October 2009	$8.88	510
1 November 2002	30 September 2012	$15.64	48,003
1 April 2004	31 May 2008	$2.96	9,999
1 April 2004	29 January 2009	$11.84	1,509
1 April 2004	30 September 2012	$4.19	19,500
1 April 2004	30 September 2012	$15.64	14,502
30 June 2004	31 May 2014	$0.47	30,000
26 August 2004	25 July 2014	$0.23	48,000
21 March 2005	20 February 2015	$0.23	48,000
1 July 2005	31 May 2015	$0.47	1,357,711
1 July 2005	31 May 2015	$15.64	18,009
20 April 2006	20 April 2009	93 pence	503,350
20 April 2006	22 February 2011	$1.40	60,000
19 September 2006	19 September 2016	$2.38	1,760,000
			3,961,090

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

DIRECTORS' REPORT
continued

Shares issued on the exercise of options

The following ordinary shares of CAP-XX were issued during the year ended 30 June 2006 on the exercise of options granted under the 2006 Share Option Exchange. 37,413 further shares have been issued since that date. No amounts are unpaid on any of the shares.

Date options granted	Issue price of shares	Number under option
1 July 2005	$0.47	75,118

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 and executive officers 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 15.

Rounding of amounts

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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
5 October 2006

AUDITOR'S INDEPENDENCE REPORT

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

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

Auditor's Independence Declaration

As lead auditor for the audit of CAP-XX Limited for the year ended 30 June 2006, 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.

Andrew Sneddon
Partner
PricewaterhouseCoopers

Sydney
5 October 2006

CORPORATE GOVERNANCE STATEMENT

Corporate governance statement

Over the past year the Board has conducted the affairs of the Company in accordance with principles of good corporate governance. However, the Company did not have formal governance procedures in place until listing in April 2006 whereupon a greater focus was given to this issue.

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 two 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. Between listing on 20 April 2006 and 30 June 2006 one Board meeting was 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 three non-executive directors. The terms of reference and composition of the audit and remuneration committees were determined as part of the process of the listing of the Company. At year end the committees had not met although both the audit committee and the remuneration committee have since met. Each committee is to meet at least twice a year.

The audit committee comprises Michael Quinn (Chairman), Christer Harkonen and John Murray. The remuneration committee comprises Graham Titcombe (Chairman), Christer Harkonen 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.

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.

CORPORATE GOVERNANCE STATEMENT
continued

Intellectual Property

The Board has always been vigilant in managing the Company's intellectual property (IP) portfolio which currently consists of 19 patent families, 9 granted US patents, 13 US patent applications and corresponding international patents and applications. The Company's IP strategy has been to build company value by focussing on opportunities to capture market share and exclude competition with an IP portfolio capable of generating licensing revenue.

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

FINANCIAL STATEMENTS

30 June 2006

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This financial report covers both CAP-XX Limited as an individual entity and the consolidated entity 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:

Level 3
685 Pittwater Road
Dee Why NSW 2099

A description of the nature of the consolidated entity's operations and its principal activities is included in the chairman's statement on page 4, business review on pages 5 - 7 and in the directors' report on pages 8 - 14, all of which are not part of this financial report.

The financial report was authorised for issue by the directors on 3 October 2006. The company has the power to amend and reissue the financial report.

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

Income statements

for the year ended 30 June 2006

Currency: Australian Dollars	Notes	Consolidated 2006 $ ' 000	Consolidated 2005 $ ' 000	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000
Revenue from sale of goods	5	2,581	2,222	-	-
Cost of sale of goods	7	(6,751)	(7,839)	-	-
Gross margin (loss) on sale of goods		(4,170)	(5,617)	-	-
Other revenue	5	764	479	684	405
Other income	6	176	1,214	451	-
General and administrative expenses		(2,415)	(2,263)	(137)	(15)
Selling and marketing expenses		(1,217)	(1,002)	(3)	-
Research and development expenses		(1,904)	(2,023)	(5,431)	(6,570)
Finance costs	7	(911)	(333)	(594)	(200)
Other expenses	7	(645)	(2,138)	(9,931)	(2,736)
(Loss) before income tax		(10,322)	(11,683)	(14,961)	(9,116)
Income tax benefit	8	-	-	-	-
Net (loss) for the year		**(10,322)**	**(11,683)**	**(14,961)**	**(9,116)**
(Loss) attributable to members of CAP-XX Limited		**(10,322)**	**(11,683)**	**(14,961)**	**(9,116)**
Earnings per share for (loss) attributable to the ordinary equity holders of the company		**Cents**	**Cents**		
Basic earnings per share	31	(31.1)	(38.8)		
Diluted earnings per share	31	(31.1)	(38.8)		

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

Balance sheets

as at 30 June 2006

Currency: Australian Dollars	Notes	Consolidated 2006 $ ' 000	Consolidated 2005 $ ' 000	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000
ASSETS					
Current assets					
Cash and cash equivalents	9	20,107	1,191	19,696	26
Receivables	10	850	4,722	-	3,521
Inventories	11	351	361	-	-
Other	12	126	80	43	58
Total current assets		21,434	6,354	19,739	3,605
Non-current assets					
Property, plant and equipment	13	1,678	5,428	-	-
Other	14	153	153	-	-
Total non-current assets		1,831	5,581	-	-
Total assets		**23,265**	**11,935**	**19,739**	**3,605**
LIABILITIES					
Current liabilities					
Payables	15	1,070	1,681	42	-
Borrowings	17	-	12,669	-	3,823
Provisions	16	449	482	-	-
Total current liabilities		1,519	14,832	42	3,823
Non-current liabilities					
Provisions	18	113	23	-	-
Total non-current liabilities		113	23	-	-
Total liabilities		**1,632**	**14,855**	**42**	**3,823**
NET ASSETS (DEFICIENCY)		**21,633**	**(2,920)**	**19,697**	**(218)**
EQUITY					
Contributed equity	19	75,588	41,128	75,588	41,128
Reserves	20	414	(1)	416	-
Accumulated losses	20	(54,369)	(44,047)	(56,307)	(41,346)
TOTAL EQUITY		**21,633**	**(2,920)**	**19,697**	**(218)**

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

Statements of changes in equity

for the year ended 30 June 2006

Currency: Australian Dollars	Notes	Consolidated 2006 $ ' 000	Consolidated 2005 $ ' 000	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000
Total equity at the beginning of the financial year		(2,920)	8,763	(218)	8,898
Exchange differences on translation of foreign operations		(1)	-	-	-
Net (loss) recognised directly in equity		(1)	-	-	-
(Loss) for the year		(10,322)	(11,683)	(14,961)	(9,116)
Total recognised income and expenses for the year		(10,323)	(11,683)	(14,961)	(9,116)
Transactions with equity holders in their capacity as equity holders:					
Employee share options	20	416	-	416	-
Exercise of options	19	35	-	35	-
Share buy-back	19	(2,630)	-	(2,630)	-
Contributions of equity, net of issuance costs	19	37,055	-	37,055	-
		34,876	-	34,876	-
Total equity at the end of the financial year		**21,633**	**(2,920)**	**19,697**	**(218)**

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

Cash flow statements

for the year ended 30 June 2006

		Consolidated		Parent Entity	
		2006	2005	2006	2005
Currency: Australian Dollars	**Notes**	**$ ' 000**	**$ ' 000**	**$ ' 000**	**$ ' 000**
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		1,996	2,175	-	-
Payments to suppliers and employees (inclusive of goods and services tax)		(8,814)	(8,209)	(176)	(58)
		(6,818)	(6,034)	(176)	(58)
Grants received		150	786	-	-
Interest received		289	46	250	45
Net cash (outflow) inflow from operating activities	28	**(6,379)**	**(5,202)**	**74**	**(13)**
Cash flows from investing activities					
Payments for property, plant and equipment		(839)	(1,199)	-	-
Advanced proceeds from sale of plant and equipment		-	723	-	-
Proceeds from sale of property, plant and equipment		53	583	-	-
Loans to related parties		-	-	(4,945)	(3,335)
Net cash (outflow) inflow from investing activities		**(786)**	**107**	**(4,945)**	**(3,335)**
Cash flows from financing activities					
Proceeds from issue of shares		41,056	-	41,056	-
Payments for issuance costs of shares		(3,606)	-	(3,606)	-
Proceeds from issue of convertible notes		3,783	3,378	3,783	3,378
Payments for issuance costs of convertible notes		(21)	(40)	(21)	(40)
Repayment of convertible notes including accrued interest		(16,671)	-	(16,671)	-
Loans from related parties		1,540	2,736	-	-
Net cash inflow from financing activities		**26,081**	**6,074**	**24,541**	**3,338**
Net increase (decrease) in cash and cash equivalents		18,916	979	19,670	(10)
Cash and cash equivalents at the beginning of the financial year		1,191	212	26	36
Cash and cash equivalents at the end of the financial year	9	**20,107**	**1,191**	**19,696**	**26**
Financing arrangements	17				
Non-cash financing and investing activities	25				

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

Notes to the financial statements

30 June 2006

Contents of the notes to the financial statements

Note 1 Summary of significant accounting policies

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

On 20 January 2006 the Company changed its status from a proprietary company limited by shares to a public company limited by shares and on 5 April 2006 it changed its name from Energy Storage Systems Limited to CAP-XX Limited.

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 equivalents to International Financial Reporting Standards (AIFRSs), 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 AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes comply with International Financial Reporting Standards (IFRSs). The parent entity financial statements and notes also comply with IFRSs except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 Financial Instruments: Presentation and Disclosure.

Application of AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first CAP-XX Limited financial statements to be prepared in accordance with AIFRSs. AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of CAP-XX Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing CAP-XX Limited 2006 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 32.

Historical cost convention

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

Critical accounting estimates

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

(b) Continuation as a going concern

The Group has experienced significant recurring operating losses and negative cash flows from operating activities since its inception. During the year the Group has undergone significant restructuring including rationalisation of the Group's operations, completion of its listing on the Alternative Investment Market (AIM) on the London Stock Exchange and the raising of funds via the Initial Public Offering.

The directors have considered the significance and possible effects of these circumstances in order to determine the suitability of adopting the going concern basis for the preparation of this financial report.

Having carefully assessed the financial and operating implications of the above matters, the directors consider that the company will be able to pay its debts as and when they fall due for at 12 least months following the date of these financial statements and that it is appropriate for the accounts to be prepared on a going concern basis.

(c) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of CAP-XX Limited ("company" or "parent entity") as at 30 June 2006 and the results of all subsidiaries for the year then ended. CAP-XX Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

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

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

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

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

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

(d) Segment reporting

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

(e) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

(iii) Group companies

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

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

When a foreign operation is sold or borrowings repaid, 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.

A sale is recorded when goods have been delivered to the customer, the customer has accepted the goods and collectibility of the related receivables is probable.

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. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

(h) Income tax

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

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

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

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

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

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

Tax consolidation legislation

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

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

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

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

(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) Business combinations

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

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

(k) Impairment of assets

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

(l) Cash and cash equivalents

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

(m) Trade receivables

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

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

(n) Inventories

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

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

(o) Fair value estimation

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

(p) Property, plant and equipment

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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:

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

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

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

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

(q) Intangibles

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

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

Expenditure on patents are capitalised when the patent is of a significant value. Otherwise, the expenditure is recognised in the income statement as an expense when it is incurred. No significant patents have been capitalised as the time between achieving technical feasibility and the general availability of the Group's product has been relatively short.

(r) 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.

(s) Borrowings

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

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

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

(t) Borrowing costs

Borrowing costs are expensed.

(u) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not 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.

(v) Employee benefits

(i) Wages and salaries and annual leave

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

(ii) Long service leave

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

(iii) Retirement benefit obligations

The Group does not maintain a Group superannuation plan. The Group makes 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 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 and the 2006 Employee Share Option Plan. Information relating to these schemes is set out in note 29.

Shares options granted before 7 November 2002 and/or vested before 1 January 2005

No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005

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

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

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

(v) Bonus plans

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

(w) Contributed equity

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

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

(x) 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.

(y) Goods and Services Tax (GST)

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

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

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

(z) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(aa) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2006 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) UIG 4 Determining whether an Asset Contains a Lease

UIG 4 is applicable to annual periods beginning on or after 1 January 2006. The Group has not elected to adopt UIG 4 early. It will apply UIG 4 in its 2007 financial statements and the UIG 4 transition provisions. The Group will therefore apply UIG 4 on the basis of facts and circumstances that existed as of 1 July 2006. Implementation of UIG 4 is not expected to change the accounting for any of the Group's current arrangements.

(ii) UIG 5 Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

The Group does not have interests in decommissioning, restoration and environmental rehabilitation funds. This interpretation will not affect the Group's financial statements.

(iii) AASB 2005 9 Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]

AASB 2005 9 is applicable to annual reporting periods beginning on or after 1 January 2006. The amendments relate to the accounting for financial guarantee contracts. The Group has not elected to adopt the amendments early. It will apply the revised standards in its 2007 financial statements. Application of the revised rules may result in the recognition of financial liabilities in the financial statements of the parent entity under guarantees given in respect of amounts payable by wholly owned subsidiaries. An assessment of the fair value of these guarantees has not yet been performed. The new rules will be implemented retrospectively with a restatement of the comparatives as required by AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors.

(iv) AASB 7 Financial Instruments: Disclosures and AASB 2005 10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005 10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Group has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's financial instruments.

(v) UIG 6 Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

UIG 6 is applicable to annual reporting periods beginning on or after 1 December 2005. The Group has not sold any electronic or electrical equipment on the European market and has not incurred any associated liabilities. This interpretation will not affect the Group's financial statements.

(vi) AASB 2006 1 Amendments to Australian Accounting Standards [AASB 121]

AASB 2006-1 is applicable to annual reporting periods ending on or after 31 December 2006. The amendment relates to monetary items that form part of a reporting entity's net investment in a foreign operation. It removes the requirement that such monetary items had to be denominated either in the functional currency of the reporting entity or the foreign operation. CAP-XX Limited does not have any monetary items forming part of a net investment in a foreign operation. The amendment to AASB 121 will therefore have no impact on the Group's financial statements.

Note 2 Financial risk management

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

(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 has to date managed this risk by selling US dollars when foreign exchange rates have been favourable and capping exposures through foreign exchange "stop-loss" sell orders. Forward currency contracts are also used to manage foreign exchange risk.

(ii) Price risk

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

(iii) Fair value interest rate risk

Refer to (d) below.

(b) Credit risk

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

Notes to the financial statements 30 June 2006 continued

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through the ability to close-out market positions. The Group has experienced recurring operating losses and operating cash outflows since inception to 30 June 2006 as the Group is transitioning from a 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) Cash flow and fair value interest rate risk

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

The Group's interest rate risk also arose from borrowings. These borrowings had been issued at fixed rates exposing the Group to fair value interest rate risk. As at 30 June 2006, the Group has no borrowings.

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 and accelerated depreciation plant and equipment

The Group signed a contract for the outsourcing of volume assembly manufacturing with Polar Twin Advance (M) Sdn. Bhd. (PTA) on 5 October 2004. With the introduction of the outsourced volume assembly manufacturing capacity at PTA, the book value of the plant and equipment held at the Group's Sydney, Australia manufacturing facility was reviewed for impairment in accordance with the accounting policy stated in note 1(k) and 1(p). It was reasonably believed that by 1 July 2006 all volume assembly manufacturing will be outsourced to PTA and the affected plant and equipment remaining in Sydney, Australia will be used for product development and process improvement purposes only. Accordingly, assets with a written down value of $896,000 and capital works in progress of $133,000 were written down to nil at 30 June 2005 and other assets have been subjected to accelerated depreciation from 1 July 2004 resulting in an increase depreciation charges of $1,907,000 for the year ended 30 June 2006 and $1,942,000 for the year ended 30 June 2005.

As at 30 June 2005 the Group has also recognised a loss on the sale of a certain item of plant and equipment to PTA. The Group was originally contracted to supply a second hand machine to PTA under the outsourced Manufacturer Agreement dated 5 October 2004. Subsequent to this date the Group elected to supply to PTA a new machine which was more technically advanced and efficient for high volume manufacturing than the proposed second hand machine. The new machine was under construction and was completed in August 2005 and the Group agreed to bear the loss. The new machine has been installed at PTA and is now fully operational. As at 30 June 2005 PTA had paid for the machine and the sale proceeds are included in note 15. As at 30 June 2005 the Group also wrote down the new machine to its recoverable amount, being the advanced sale proceeds, which resulted in an impairment loss of $708,000.

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

	$ ' 000
Year ended 30 June 2005	
Impairment loss assets due to outsourcing manufacturing capacity	1,029
Impairment machine to its net realisable value, being its proceeds	708
Impairment loss	1,737
Accelerated depreciation plant and equipment	1,942
Total one-off charges	3,679
Year ended 30 June 2006	
Accelerated depreciation plant and equipment	1,907
Total one-off charges	1,907

Note 4 Segment information

(a) Description of segments

Business segments - primary reporting

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

Geographical segments - secondary reporting

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

Geographical segments can be summarised as follows:

	Segment revenues from sales to external customers		**Segment assets**	
	2006	**2005**	**2006**	**2005**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
Australia	-	-	22,235	7,202
Asia	1,017	1,266	400	176
North America	1,007	783	454	4,540
Europe	557	173	176	17
	2,581	**2,222**	**23,265**	**11,935**

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

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

(i) Accounting policies

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

Notes to the financial statements 30 June 2006
continued

(ii) Inter-segment transfers

Segment revenues include transfers between segments. Such transfers are priced on an "arm's-length" basis and are eliminated on consolidation and not disclosed in this note.

(iii) Acquisitions of property, plant and equipment, intangibles and other non-current segment assets.

The acquisitions of non-current segment assets (refer note 13 and 14) relate to the Australian segment.

Note 5 Revenue

	Consolidated		Parent Entity	
	2006	**2005**	**2006**	**2005**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
Sales revenue				
Sale of goods	2,581	2,222	-	-
Other revenue				
Management and other fees	339	379	-	-
Licence fees	-	-	322	322
Interest	425	100	362	83
	764	479	684	405
Total revenue	**3,345**	**2,701**	**684**	**405**

Note 6 Other Income

	Consolidated		Parent Entity	
	2006	**2005**	**2006**	**2005**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
Net gain on disposal of property, plant and equipment	26	237	-	-
Foreign exchange gains (net)	-	191	451	-
Government grants (note (a))	150	786	-	-
	176	**1,214**	**451**	**-**

(a) Government grants

Export market development grants of $150,000 (2005: $150,000) and research and development start grants of $Nil (2005: $636,000) were recognised as other income by the Group during the year ended 30 June 2006. There are no unfulfilled conditions attaching to these grants.

The research and development start grants are subject to a limited discretionary right to "claw-back" a proportion of funding on a sliding scale for up to 5 years from the completion of the project. The research and development start grant received totalling $3,172,000 was completed on 30 March 2005 and no claim for "claw-back" has been made on the Group.

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

Notes to the financial statements 30 June 2006
continued

	Consolidated		Parent Entity	
	2006	**2005**	**2006**	**2005**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
Note 7 Expenses				
Loss before income tax includes the following specific expenses:				
Cost of sale of goods				
Direct materials and labour	1,958	2,387	-	-
Indirect manufacturing expenses	4,793	5,452	-	-
Total cost of sale of goods	**6,751**	**7,839**	**-**	**-**
Depreciation				
Plant and equipment	3,685	4,341	-	-
Furniture and fittings	4	4	-	-
Leasehold improvements	151	123	-	-
Total depreciation	**3,840**	**4,468**	**-**	**-**
Finance costs – net				
Convertible note issuance costs	21	40	21	40
Amortisation of convertible note issuance costs	39	38	39	38
Interest and finance charges payable	872	295	555	162
	932	373	615	240
Amount capitalised	(21)	(40)	(21)	(40)
Finance costs expensed	**911**	**333**	**594**	**200**
Other expenses				
Demerger costs	602	-	580	-
Foreign exchange losses (refer note 6 for net gains)	58	-	-	84
Provision for non recovery related parties loans / (write-back)	(401)	401	9,351	2,652
Impairment loss on plant and equipment (refer note 3(b))	-	1,737	-	-
Impairment loss on goodwill	386	-	-	-
	645	**2,138**	**9,931**	**2,736**
Rental expense relating to operating leases				
Minimum lease payments	388	377	-	-
Employee benefits expense	3,828	4,532	-	-

Notes to the financial statements 30 June 2006 continued

	Consolidated 2006 $ ' 000	Consolidated 2005 $ ' 000	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000

Note 8 Income Tax Benefit

(a) Income tax benefit

	Consolidated 2006 $ ' 000	Consolidated 2005 $ ' 000	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000
Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-

(b) Numerical reconciliation of income tax benefit to prima facie tax benefit

	Consolidated 2006 $ ' 000	Consolidated 2005 $ ' 000	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000
(Loss) before income tax benefit	(10,322)	(11,683)	(14,961)	(9,116)
Tax at the Australian tax rate of 30%	(3,097)	(3,505)	(4,488)	(2,735)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Goodwill impairment	116	-	-	-
Share based payments	17	-	17	-
Sundry items	11	15	-	-
	(2,953)	(3,490)	(4,471)	(2,735)
Benefit arising from temporary differences not recognised	(91)	238	2,804	784
Benefit arising from tax losses not recognised	3,044	3,252	1,667	1,951
Income tax benefit	**-**	**-**	**-**	**-**

(c) Tax losses

	Consolidated 2006 $ ' 000	Consolidated 2005 $ ' 000	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000
Unused tax losses for which no deferred tax asset has been recognised	52,946	42,800	52,946	42,800
Potential tax benefit @ 30%	15,884	12,840	15,884	12,840

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 consolidated entity 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 consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and

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

(d) Unrecognised temporary differences

	Consolidated 2006 $ ' 000	Consolidated 2005 $ ' 000	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000
Temporary difference for which no deferred tax asset has been recognised	798	1,101	23,971	14,623
Potential tax benefit @ 30%	239	330	7,191	4,387

(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		Parent Entity	
	2006	2005	2006	2005
	$ ' 000	$ ' 000	$ ' 000	$ ' 000

Note 9 - Current assets - Cash and cash equivalents

Cash at bank and on hand	384	117	5	3
Cash on deposits	19,723	1,074	19,691	23
	20,107	**1,191**	**19,696**	**26**

(a) Cash at bank and on hand

These are bearing floating interest rates between 0% and 3% (2005: 0% and 2.5%).

(b) Deposits at call

The deposits are bearing floating interest rates between 3% and 5.8% (2005: 1.5% and 5.3%). These deposits have an average maturity of 30 to 60 days.

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$ ' 000	$ ' 000	$ ' 000	$ ' 000

Note 10 Current assets – Receivables

Trade receivables	886	300	-	-
Provision for doubtful receivables	(38)	(17)	-	-
	848	283	-	-
Amounts due from related parties	-	4,757	24,014	18,183
Provision for doubtful receivables	-	(401)	(24,014)	(14,662)
	-	4,356	-	3,521
Other receivables	2	83	-	-
	850	**4,722**	**-**	**3,521**

(a) Bad and doubtful trade receivables

The Group has recognised a loss of $21,000 (2005: $17,000) in respect of bad and doubtful trade receivables during the year ended 30 June 2006. The loss has been included in "General and administrative expenses" in the income statement. The parent entity has recognised a loss of $9,351,000 (2005: $2,652,000) in respect of doubtful amounts due from related parties during the year ended 30 June 2006. The loss has been included in "Other expenses" in the income statement.

(b) Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group. Collateral is not normally obtained.

(c) Interest rate risk and credit risk

With the exception of some amounts due from related parties, 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. Refer to note 2 for more information on the risk management policy of the Group.

Notes to the financial statements 30 June 2006 continued

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Note 11 Current assets - Inventories				
Raw materials and stores - at cost	206	245	-	-
Finished goods - at cost	-	116	-	-
Finished goods - at net realisable value	145	-	-	-
	145	116	-	-
Development materials - at net realisable value	-	-	-	-
	351	**361**	**-**	**-**

(a) Inventory expense

Inventories recognised as expense during the year ended 30 June 2006 amounted to $455,000 (2005: $388,000).

Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2006 amounted to $83,000 (2005: $238,000). The expense for finished goods has been included in 'cost of sale of goods' in the income statement. The expense for development materials has been included in 'research and development expenses' in the income statement.

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Note 12 Current assets - Other				
Prepayments	126	62	43	40
Convertible note issuance costs	-	56	-	56
Amortisation of issuance costs	-	(38)	-	(38)
	-	18	-	18
	126	**80**	**43**	**58**

	Consolidated		Parent Entity	
	2006	**2005**	**2006**	**2005**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**

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

	2006 $ ' 000	2005 $ ' 000	2006 $ ' 000	2005 $ ' 000
Plant and equipment at cost	12,515	12,259	-	-
Accumulated depreciation	(11,187)	(7,502)	-	-
Net book amount	1,328	4,757	-	-
Capital works in progress	283	449	-	-
Furniture and fittings at cost	64	64	-	-
Accumulated depreciation	(29)	(25)	-	-
Net book amount	35	39	-	-
Leasehold improvements at cost	437	437	-	-
Accumulated depreciation	(405)	(254)	-	-
Net book amount	32	183	-	-
Total property, plant and equipment	13,299	13,209	-	-
Total accumulated depreciation	(11,621)	(7,781)	-	-
Total net book amount	**1,678**	**5,428**	**-**	**-**

Movement in classes of assets: Consolidated	**Plant and equipment $ ' 000**	**Capital works in progress $ ' 000**	**Furniture and fittings $ ' 000**	**Leasehold improvements $ ' 000**	**Total $ ' 000**
Year ended 30 June 2005					
Opening net book amount	9,824	670	43	243	10,780
Additions	-	1,136	-	63	1,199
Transfers from capital works in progress	516	(516)	-	-	-
Disposals	(346)	-	-	-	(346)
Write off of assets[1]	(896)	(841)	-	-	(1,737)
Depreciation charge	(4,341)	-	(4)	(123)	(4,468)
Closing net book amount	**4,757**	**449**	**39**	**183**	**5,428**
Year ended 30 June 2006					
Opening net book amount	4,757	449	39	183	5,428
Additions	-	840	-	-	840
Transfers to plant and equipment	256	(256)	-	-	-
Disposals	-	(750)	-	-	(750)
Depreciation	(3,685)	-	(4)	(151)	(3,840)
Closing net book amount	1,328	283	35	32	1,678

[1] The write off of assets is a result of the review for impairment together with the write down of assets under construction to their net realisable value as described in note 3(b).

Parent entity

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

Note 14 Non-current assets - Other

	Consolidated 2006 $ ' 000	Consolidated 2005 $ ' 000	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000
Rental bond	153	153	-	-
Shares in subsidiaries (note 26)	-	-	-	-
Goodwill (note 26)	-	-	-	-
	153	**153**	**-**	**-**

Note 15 Current liabilities - Payables

	Consolidated 2006 $ ' 000	Consolidated 2005 $ ' 000	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000
Trade payables	841	636	42	-
Other creditors and accrued expenses	229	322	-	-
Advance payment on sale of plant and equipment[2]	-	723	-	-
	1,070	**1,681**	**42**	**-**

[2] This liability is described in note 3(b).

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$ ' 000	$ ' 000	$ ' 000	$ ' 000

Note 16 Current liabilities - Provisions

Employee benefits	287	377	-	-
Product returns and warranties	162	105	-	-
	449	**482**	**-**	**-**

(a) 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; however management considers it prudent to maintain a provision against any estimated product returns and warranty claims.

(b) Movements in provisions

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

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Carrying amount at start of year	105	23	-	-
Additional provisions recognised during the year	57	82	-	-
Carrying amount at end of year	**162**	**105**	**-**	**-**

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$ ' 000	$ ' 000	$ ' 000	$ ' 000

Note 17 Current liabilities - Borrowings

Unsecured				
Convertible notes	-	3,823	-	3,823
Secured				
Amounts due to related parties	-	8,846	-	-
	-	**12,669**	**-**	**3,823**

(a) Convertible notes

The following convertible notes have been issued in US dollars and can be summarised as follows:

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	US$ ' 000	US$ ' 000	US$ ' 000	US$ ' 000
CAP-XX Limited A-Notes – 19 April 2004	-	170	-	170
CAP-XX Limited A-Notes – 17 September 2004	-	113	-	113
CAP-XX Limited A-Notes – 7 February 2005	-	2,500	-	2,500
Convertible A-Notes	-	2,783	-	2,783
Accrued interest *	-	124	-	124
Total convertible note liability in US dollars	-	2,907	-	2,907
	A$ ' 000	**A$ ' 000**	**A$ ' 000**	**A$ ' 000**
Total convertible note liability in Australian dollars (using the closing rate)	**-**	**3,823**	**-**	**3,823**

* interest expense is calculated by applying the effective interest rate of 10% to the liability component.

Movements in the convertible note liability during the financial year are set out below:

Consolidated and parent entity	**US$ ' 000**	**A$ ' 000**
Balance as at 30 June 2005	2,907	3,823
B-Notes - 4 January 2006	1,659	2,270
B-Notes - 17 February 2006	1,106	1,513
A & B-Notes - 5 April 2006	6,404	8,983
Accrued interest charges	379	510
Foreign exchange gains	-	(428)
	12,455	16,671
Less: Repayment on 27 April 2006	(12,455)	(16,671)
Balance as at 30 June 2006	**-**	**-**

Initial and Second Closings

On 19 April 2004, CAP-XX, Inc and CAP-XX Limited collectively sold US$5,000,000 of convertible notes to participating stockholders of CAP-XX, Inc (the "Note Financing"), of which US$3,000,000 of convertible notes were issued at an Initial Closing that occurred on 19 April 2004 and US$2,000,000 of convertible notes were issued at the Second Closing that occurred on 17 September 2004 raising A$3,992,000 and A$2,880,000 respectively. At both the Initial and Second Closings, CAP-XX Limited issued and sold A-Notes to two stockholders and CAP-XX, Inc issues and sold A-Notes and B-Notes to other stockholders. The Stockholders who purchased Notes were issued A-Warrants and B-Warrants.

Both the A-Notes and B-Notes were due to mature on 19 May 2005, unless otherwise accelerated upon occurrence of certain events of default. The noteholders agreed on 7 February 2005 to amend the maturity date until no earlier than 31 January 2006.

Supplemental issue

On 7 February 2005, CAP-XX, Inc and CAP-XX Limited collectively sold a further US$3,271,000 of convertible notes as a supplemental issue raising A$4,207,000. A-Notes only were issued the terms of which were the same as the previous A-Notes (as amended) and were due to mature no earlier than 31 January 2006 unless otherwise accelerated upon occurrence of certain events of default. On maturity, the notes (inclusive of accrued interest of 10% per annum compounding monthly) at the option of the noteholder may have, either be due and payable or be converted into Series B Preferred Stock of CAP-XX, Inc. No obligation to repay the notes outstanding existed on or after that date unless notice from at least 65% of the aggregate of all notes outstanding (inclusive of 3 noteholders who held Series B Preferred Stock in CAP-XX, Inc as defined) was received.

Second supplemental issue

On 4 January 2006, CAP-XX Limited sold a further US$2,766,000 (A$3,783,000) of convertible B-notes as a second supplemental issue. US$1,659,000 (A$2,270,000) of convertible notes were issued at the Initial Closing on 4 January 2006 and US$1,106,000 (A$1,513,000) of convertible notes were issued at the Second Closing that occurred on 17 February 2006.

These B-Notes carried liquidation and repayment preferences that ranked above the previous A & B-Notes issued by CAP-XX, Inc or CAP-XX Limited. Otherwise the terms are the same as the previous B-Notes (as amended) and were due to mature no earlier than 30 June 2006 unless otherwise accelerated upon occurrence of certain events of default. On maturity, the notes (inclusive of accrued interest of 10% per annum compounding monthly) at the option of the noteholder may either be due and payable or be converted into Series B Preferred Stock of CAP-XX, Inc. No obligation to repay the notes outstanding existed on or after that date unless notice from at least 65% of the aggregate of all notes outstanding (inclusive of 3 noteholders who held Series B Preferred Stock in CAP-XX, Inc as defined) was received.

Demerger and IPO

On 5 April 2006 as part of Demerger (see note 25(f)) holders of convertible notes in CAP-XX, Inc exchanged their convertible notes for substantially similar convertible notes of CAP-XX Limited. This resulted in the net issue of US$6,404,000 (A$8,983,000) of additional convertible notes by CAP-XX Limited. On 27 April 2006 the total convertible note liability inclusive of accrued interest of US$12,455,000 (A$16,671,000) was repaid out of the proceeds of the IPO.

A-Warrants and B-Warrants

As detailed above, CAP-XX, Inc and/or CAP-XX Limited issued A-Warrants and B-Warrants in the Note Financings. The warrants were exercisable at any time after the earlier to occur of (X) the Second Closing, (Y) fifteen (15) days preceding the closing date of any liquidation event or deemed liquidation event involving the Company, or (Z) 30 November 2004, up to the earlier to occur of (i) the date of the closing of CAP-XX, Inc initial public offering pursuant to a registration statement under the US Securities Act, (ii) ten (10) days preceding the closing date of any deemed liquidation event involving CAP-XX, Inc, (iii) the ten (10) year anniversary of the date of issuance of the warrants, or (iv) the date of the closing of the AIM listing, such dates being the respective dates of the various Closings.

The A-Warrants entitle the holders thereof to receive upon exercise such number of shares of Series B Preferred equal to dividing (X) the product obtained by multiplying the aggregate amount of A-Notes purchased by the holder by 0.2, by (Y) the lower of the then effective conversion price for the Series B Preferred or the price per share at which CAP-XX, Inc issues equity securities in a new equity financing (as defined) (the "Stock Purchase Price"). The B-Warrants entitle the holders thereof to receive upon exercise such number of shares of Series B Preferred equal to dividing (X) the product obtained by multiplying the aggregate amount of B-Notes purchased by the holder by 0.4, by (Y) the Stock Purchase Price.

The shares of Series B Preferred issuable pursuant to the A-Warrants and B-Warrants were exercisable at a price of US$0.01 per share. On 5 April 2006 as part of Demerger holders of existing warrants of CAP-XX, Inc exchanged their warrants for substantially similar warrants of CAP-XX Limited adjusted for a 3:1 share split that occurred on Demerger. These warrants were fully exercised by all noteholders for Series B preferred shares of CAP-XX Limited on 20 April 2006.

(c) Financing arrangements

Details of convertible notes are noted above. The Group does not have access to any other lines of credit.

(d) Interest rate risk exposure

The interest rate was fixed at 10% per annum compounded monthly. Interest commenced from the date of each issue and continued on the outstanding principal amount until the note was paid.

(e) Fair value

The carrying amount of convertible notes approximates the fair value as they were not readily traded on organised markets in standardised form.

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Note 18 Non-current liabilities – Provisions				
Employee benefits – long service leave	**113**	**23**	**-**	**-**

	Parent Entity 2006 Shares	Parent Entity 2005 Shares	Parent Entity 2006 $ ' 000	Parent Entity 2005 $ ' 000

Note 19 Contributed equity

(a) Share capital

	2006 Shares	2005 Shares	2006 $ ' 000	2005 $ ' 000
Fully paid ordinary shares (no par value)	**48,641,011**	**3,017,039**	**75,588**	**41,128**

(b) Movement in ordinary share capital:

Date	Details	Notes	Number of shares	Issue price	$ ' 000
1 July 2004	Opening balance		3,394,169	-	41,128
4 February 2005	Share consolidation on 45:40 basis	(d)	(377,130)	-	-
30 June 2005	**Balance**		**3,017,039**	-	41,128
5 April 2006	Share buy-back	(e)	(932,761)	$2.82	(2,630)
5 April 2006	Share consolidation	(d)	(2,084,277)	-	-
5 April 2006	Share issue	(f)	6,785,312	-	-
20 April 2006	Conversion of Series A Preferred Shares	(f)	3,920,744	-	-
20 April 2006	Conversion of Series B Preferred Shares	(f)	19,426,503	-	4
20 April 2006	Share issue through IPO	(g)	18,433,333	$2.23	41,017
27 June 2006	Exercise of stock options	(h)	75,118	$0.47	35
					79,554
	Less: Cost of 20 April 2006 share issue				(3,966)
30 June 2006	**Balance**		**48,641,011**		**75,588**

(c) Ordinary shares

At 30 June 2006, there were 48,641,011 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) Share consolidation

On 5 February 2005, the Company completed a consolidation of ordinary shares on a 45:40 basis. Then on 5 April 2006, the Company completed another consolidation of ordinary shares to reduce all outstanding ordinary shares to one ordinary share.

(e) Share buy-back

On 5 April 2006 the Company purchased and cancelled 932,761 ordinary shares off market in order to settle amounts due from related parties as described in note 25(f) for $2,630,000.

(f) Share issue, exercise of warrants and conversion of preferred shares

On 5 April 2006, the Company distributed ordinary shares and preferred shares to the existing stockholders of CAP-XX, Inc in such numbers to replicate in the Company the equity ownership structure of the stockholders in CAP-XX, Inc which was also inclusive of a 3:1 share split. Subsequently, as described in note 25(f) on 20 April, 2006 preferred shares issued by the company were converted to ordinary shares with A preferred shares converted on basis of 1:2.872397 and B preferred shares converted on basis of 1:3.828762. Furthermore, as detailed in note 17 on 20 April 2006 the holders of Convertible Notes exercised all warrants outstanding at US$0.01 netting additional share capital of $4,000.

(g) Share issue through IPO

As described in note 25(f) the Company completed an initial public offering (IPO) on the Alternative Investment Market (AIM), a part of the London Stock Exchange on 20 April 2006 whereon CAP-XX Limited issued 18,433,333 ordinary shares raising new capital of $37,051,000 (net of listing costs of $3,966,000). Included in the listing costs is $360,000 of share based payments, refer to note 29 for further details.

(h) Options

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

Note 20 Reserves and accumulated losses

(a) Reserves

	Consolidated		Parent Entity	
	2006 $ ' 000	2005 $ ' 000	2006 $ ' 000	2005 $ ' 000
Foreign currency translation reserve	(2)	(1)	-	-
Share-based payments reserve	416	-	416	-
	414	**(1)**	**416**	**-**
Movements:				
Foreign currency translation reserve				
Balance 1 July	(1)	(1)	-	-
Currency translation differences arising during the year	(1)	-	-	-
Balance 30 June	(2)	(1)	-	-
Share-based payments reserve				
Balance1 July	-	-	-	-
Option expense	416	-	416	-
Balance 30 June	416	-	416	-

(b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated		Parent Entity	
	2006 $ ' 000	2005 $ ' 000	2006 $ ' 000	2005 $ ' 000
Balance 1 July	(44,047)	(32,364)	(41,346)	(32,230)
Net (loss) for the year	(10,322)	(11,683)	(14,961)	(9,116)
Balance 30 June	**(54,369)**	**(44,047)**	**(56,307)**	**(41,346)**

(c) Nature and purpose of reserves

(i) Foreign currency translation reserve

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

(ii) Share-based payments reserve

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

Note 21 Key management personnel disclosures

(a) Directors

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

Executive director

Anthony Kongats (Managing Director)

Non-executive directors

Michael Quinn (Chairman)	
John Murray	
Graham Titcombe	(appointed 20 April 2006)
Christer Harkonen	(appointed 20 April 2006)
Hock Voon Loo	(resigned 6 April 2006)
Ingo Susing	(resigned 27 March 2006)
Andrew Bailey	(resigned 6 April 2006)
Allan Aaron (alternate director to John Murray)	(resigned 6 April 2006)
John Paul Kaumeyer (alternate director to Ingo Susing)	(resigned 27 March 2006)

(b) Key management and personnel compensation

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

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$
Short-term benefits	474,078	416,999	54,913	-
Post-employment benefits	38,907	35,100	2,396	-
Share-based payments	21,176	-	7,721	-
Total	**534,161**	**452,099**	**65,030**	**-**

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

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

The Company had entered into a management incentive agreement with key management and other executives for a bonus payment if the company was successful with a trade sale of the Group before 30 June 2006. This agreement has not been extended and expired on 30 June 2006. No expense has been recognised.

There are no other transactions with key management personnel.

Notes to the financial statements 30 June 2006 continued

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$	$	$	$

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:

(a) Assurance services

	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Audit services				
PricewaterhouseCoopers Australian firm				
Audit of financial report	77,500	58,200	-	-
Audit of financial reports of CAP-XX, Inc. for the purpose of the IPO	120,000	-	120,000	-
Audit of AIFRS opening balance sheets	20,000	-	20,000	-
Total remuneration for audit services	**217,500**	**58,200**	**140,000**	**-**

(b) Taxation services

	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	54,527	146,905	-	-
International tax consulting and tax advice on demerger and Company restructure	278,665	-	278,665	-
Related practices of PricewaterhouseCoopers Australian firm				
Tax compliance services, including review of company income tax returns	50,934	46,700	-	-
International tax consulting and tax advice on demerger and Company restructure	98,106	-	98,106	-
Total remuneration for taxation services	**482,232**	**193,605**	**376,771**	**-**

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

Note 23 Contingencies

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

A letter of comfort dated 5 April 2006 was provided by the Company to CAP-XX, Inc as part of the Demerger (refer note 25 (f)). Pursuant to the letter of comfort, the Company undertakes to support the financial commitments of CAP-XX, Inc. The undertaking is limited for 12 months from the date of the letter and is capped at US$100,000.

Note 24 Commitments

(a) Capital commitments

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

	Consolidated		Parent Entity	
	2006 $ ' 000	2005 $ ' 000	2006 $ ' 000	2005 $ ' 000
Property, plant and equipment				
Within one year	555	507	-	-
Later than one year but not later than 5 years	-	-	-	-
Later than 5 years	-	-	-	-
	555	**507**	**-**	**-**

(b) Lease commitments: Group / company as lessee

The Group leases factory space with an office and warehouse under a non-cancellable operating lease due to expire on 3 October 2007. The Group has a renewal right option which expires 6 months before the expiration of the lease. On renewal, the terms of the lease are renegotiated.

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

	Consolidated		Parent Entity	
	2006 $ ' 000	2005 $ ' 000	2006 $ ' 000	2005 $ ' 000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	310	328	-	-
Later than one year but not later than 5 years	89	-	-	-
Later than 5 years	-	-	-	-
	399	**328**	**-**	**-**

Note 25 Related party transactions and demerger

(a) Parent entity

Since 5 April 2006 the ultimate parent entity within the Group is CAP-XX Limited. Prior to 5 April 2006, the Company was a wholly-owned subsidiary of CAP-XX, Inc, a Delaware company incorporated in the United States of America. As part of the demerger process, all the issued shares of CAP-XX Limited were consolidated into a single Ordinary Share on 5 April 2006, which was subsequently transferred to Anthony Kongats, upon which the company issued further Ordinary Shares as described in note 19.

(b) Subsidiaries

Interests in subsidiaries are set out in note 26.

Notes to the financial statements 30 June 2006 continued

(c) Key management personnel

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

(d) Transactions with related parties and outstanding balances

	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
The following transactions occurred with related parties other than key management personnel or entities related to them:				
Expenses				
Research and development services from subsidiaries	-	-	5,116,131	6,319,978
Interest expense from ultimate holding company	361,172	132,493	-	-
Management and sales support fees from other related parties	768,919	561,528	-	-
Revenue				
Sale of goods to other related party	890,607	563,405	-	-
Management fees to ultimate holding company	238,024	379,912	-	-
Licence fees from subsidiaries	-	-	321,873	321,695
Interest income from ultimate holding company	136,260	37,392	112,221	25,416
Interest income from other related parties	31,999	16,344	21,136	12,442
The amounts outstanding at the reporting dated together with their movements during the year can be summarised as follows:				
Loans to subsidiaries				
Beginning of year	-	-	14,203,761	20,527,387
Net loans advanced / (paid)	-	-	4,959,504	(82,400)
Loan set-off (non-cash)	-	-	9,946,320	-
Revenue charges and credits received	-	-	321,873	321,695
Expense charges and costs incurred applied	-	-	(6,082,250)	(6,562,921)
Transfer from other related parties	-	-	664,668	-
	-	-	24,013,876	14,203,761
Provision for doubtful debts	-	-	(24,013,876)	(14,203,761)
End of year	-	-	-	-

Notes to the financial statements 30 June 2006
continued

	Consolidated 2006 $	Consolidated 2005 $	Parent Entity 2006 $	Parent Entity 2005 $
Amounts due to other related parties				
Beginning of year	400,786	395,048	458,804	492,437
Loan set-off (non-cash)	178,337	-	178,337	-
Revenue charges and credits received applied	890,607	563,405	-	-
Expense charges and costs incurred applied	(832,380)	(573,614)	(3,213)	-
Interest charged	31,999	16,344	21,136	12,442
Foreign exchange variance	34,325	(397)	9,604	(46,075)
Transfer to subsidiaries	(703,674)	-	(664,668)	-
	-	400,786	-	458,804
Provision for doubtful debts	-	(400,786)	-	(458,804)
End of year	**-**	**-**	**-**	**-**
Loans to ultimate holding company (CAP-XX, Inc)				
Beginning of year	4,355,871	586,060	3,520,570	58,692
Net loans advanced / (paid)	(15,616)	3,417,451	(14,066)	3,417,451
Convertible note exchange (non-cash)	8,983,123	-	8,983,123	-
Loan set-off (non-cash)	(11,031,373)	-	(10,124,657)	-
Share buy-back (non-cash)	(2,630,386)	-	(2,630,386)	-
Revenue charges and credits received applied	-	379,912	-	-
Expense charges and costs incurred applied	-	(34,147)	-	-
Interest charged	136,260	37,392	112,221	25,416
Foreign exchange variance	202,121	(30,797)	153,195	19,011
	-	4,355,871	-	3,520,570
Provision for doubtful debts	-	-	-	-
End of year	**-**	**4,355,871**	**-**	**3,520,570**
Loans from ultimate holding company (CAP-XX, Inc)				
Beginning of year	(8,845,996)	(2,911,163)	-	-
Net loans (advanced) / paid	(1,524,809)	(6,153,460)	-	-
Loan set-off (non-cash)	10,853,036	-	-	-
Revenue charges and credits received applied	-	(27,615)	-	-
Expense charges and costs incurred applied	449,393	2,745	-	-
Interest charged	(361,172)	(132,493)	-	-
Foreign exchange variance	(570,452)	375,990	-	-
	-	(8,845,996)	-	-
Provision for doubtful debts	-	-	-	-
End of year	**-**	**(8,845,996)**	**-**	**-**

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

Notes to the financial statements 30 June 2006 continued

(e) Terms and conditions

There are no fixed terms for the repayment of amounts due / loans between entities and unless otherwise stated amounts due / loans are unsecured and repayable in cash. A loan of $10,853,036 (2005: $nil) advanced by Parent to a subsidiary is secured by a fixed and floating charge over the assets of that subsidiary. A loan of $nil (2005: $8,845,996) advanced by CAP-XX, Inc to a related party was secured by a fixed and floating charge over the assets of that related party.

No interest is charged on amounts due / loans between entities within Australia. The average interest rate on amounts due / loans with overseas entities during the year was 4% (2005:3%).

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

(f) Demerger and Initial Public Offering

The Board of Directors recommended and Stockholders of CAP-XX, Inc (the "former parent entity") agreed in March 2006, that to fund the future growth of the CAP-XX Group, it was in the best interest of the Stockholders that CAP-XX, Inc affect an initial public offering (IPO) on the Alternate Investment Market (AIM), a part of the London Stock Exchange. It was deemed that the listing of ordinary shares of CAP-XX Limited, a then wholly owned subsidiary of CAP-XX, Inc represented the best prospects for an IPO on AIM and on 5 April 2006 the demerger ("Demerger") of CAP-XX Limited from CAP-XX, Inc was effected. The admission of CAP-XX Limited on AIM was completed on 20 April, 2006 whereon CAP-XX Limited issued 18,433,333 ordinary shares raising new capital of $37,050,901 (net of listing costs of $3,966,126). Included in the listing costs is $359,671 of share based payments, refer to note 29 for further details.

The following transactions, among others, were completed in connection with Demerger and the IPO:

(i) CAP-XX Limited distributed ordinary shares and preferred shares to the existing stockholders of CAP-XX, Inc in such numbers to replicate in CAP-XX Limited the equity ownership structure of the stockholders in CAP-XX, Inc which was also inclusive of a 3:1 share split;
(ii) holders of convertible notes ("Notes") in CAP-XX, Inc exchanged their Notes for substantially similar notes of CAP-XX Limited;
(iii) holders of existing warrants of CAP-XX, Inc exchanged their warrants for substantially similar warrants of CAP-XX Limited;
(iv) holders of options to purchase Common Stock ("Options") pursuant to the CAP-XX, Inc 2001 Stock Option Exchange Plan and 2002 Stock Incentive Plan exchanged their Options for substantially similar options of CAP-XX Limited;
(v) CAP-XX, Inc transferred all of its equity interests in CAP-XX USA, Inc., a wholly-owned subsidiary to CAP-XX Limited;
(vi) a set-off of various inter-company loans between CAP-XX, Inc and its wholly-owned subsidiaries was completed together with the buy-back (the "Buy-Back") by CAP-XX Limited of a certain number of ordinary shares held by CAP-XX, Inc;
(vii) investment agreements of CAP-XX, Inc relating to prior financings did not envisage the AIM listing with respect to the conversion rights of the Preferred Stock of CAP-XX, Inc (the "Preferred Stock") to Common Stock of CAP-XX, Inc (the "Common Stock"). Certain holders of Preferred Stock and Common Stock of CAP-XX, Inc, negotiated a conversion methodology for the preferred shares on IPO that generally followed the commercial intention of the investment agreements, with allowance for practical issues, and protection of parties in the event of market fluctuations and fairness. The Preferred Stock conversion on IPO of A preferred shares was 1:2.872397 and B preferred shares - 1:3.828762. The protection of parties is supported by the grant of Call Options by the former preferred shareholders of CAP-XX Limited in favour of certain ordinary shareholders (inclusive of optionholders) of CAP-XX Limited which was subject to and conditional upon the completion of IPO;
(viii) on 20 January 2006 the Parent Entity changed its status from a "private" to "public" company and changed its name from Energy Storage Systems Pty Limited to Energy Storage Systems Limited and subsequently on 5 April 2006 to CAP-XX Limited.

CAP-XX

Note 26 Subsidiaries

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

Name of entity	**Country of incorporation**	**Class of shares**	**Equity holding ***	
			30 June 2006	30 June 2005
			%	%
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	-
CAP-XX (Australia) Pty Ltd (Taiwan Branch)	Taiwan			

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

** On 5 April 2006, the parent entity acquired 100% of the issued share capital of CAP-XX USA, Inc, the US sales operation of the CAP-XX Group, from CAP-XX, Inc. The acquired business did not contribute material revenues nor profits to the Group. If the acquisition had occurred on 1 July 2005, revenues and results would also not have resulted in a material change.

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

	$ ' 000
Trade receivables	230
Trade payables	(90)
Amounts due to related parties	(526)
Net identifiable assets acquired	(386)
Purchase consideration – cash	-
Goodwill	**386**

Given the acquired business has no track record of year on year profits, management have performed an assessment of the recoverable amount of the goodwill based on historical results. This resulted in expensing the goodwill arising on acquisition directly in the income statement of $386,000.

Note 27 Events occurring after the balance sheet date

No significant events have occurred after balance sheet date which would have a material impact on the financial results of the Company.

Notes to the financial statements 30 June 2006
continued

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

	Consolidated		Parent Entity	
	2006	**2005**	**2006**	**2005**
	$ ' 000	**$ ' 000**	**$ ' 000**	**$ ' 000**
Net loss	(10,322)	(11,683)	(14,961)	(9,116)
Depreciation and amortisation	3,840	4,468	-	-
Profit on sale of plant and equipment	(26)	(237)	-	-
Impairment loss on plant and equipment	-	1,737	-	-
Non-cash employee benefit expense – share based payments	56	-	56	-
Accrued finance shares on convertible notes	510	162	510	162
Provision for non recovery of related party loans	(401)	401	9,351	2,652
Write-off goodwill on consolidation	386	-	-	-
Net unrealised exchange loss/(gains)	(61)	(286)	(580)	85
Changes in assets and liabilities:				
(Increase)/decrease in receivables	(484)	(61)	-	-
(Increase)/decrease in inventories	11	99	-	-
(Increase)/decrease in amounts with related parties	(32)	(232)	5,620	6,203
(Increase)/decrease in other assets	(25)	61	37	(1)
Increase in provisions	57	115	-	-
Increase/(decrease) in payables	112	254	41	2
Net cash (outflow) inflow from operating activities	**(6,379)**	**(5,202)**	**74**	**(13)**

Note 29 Share-based payments

(a) 2006 Share Option Exchange

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

Notes to the financial statements 30 June 2006 continued

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

Grant Date	Expiry date	Exercise price[3]	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2006								
28 August 2001	31 May 2008	$2.96	9,499	18,998	-	-	28,497	28,497
28 August 2001	29 January 2009	$11.84	4,500	9,000	-	-	13,500	13,500
28 August 2001	10 October 2009	$8.88	170	340	-	-	510	510
1 November 2002	30 September 2012	$15.64	16,000	32,003	-	-	48,003	48,003
1 April 2004	31 May 2008	$2.96	3,333	6,666	-	-	9,999	9,999
1 April 2004	29 January 2009	$11.84	503	1,006	-	-	1,509	1,509
1 April 2004	30 September 2012	$4.19	6,500	13,000	-	-	19,500	19,408
1 April 2004	30 September 2012	$15.64	4,835	9,667	-	-	14,502	13,713
30 June 2004	31 May 2014	$0.47	10,000	20,000	-	-	30,000	22,500
26 August 2004	25 July 2014	$0.23	16,000	32,000	-	-	48,000	48,000
21 March 2005	20 February 2015	$0.23	16,000	32,000	-	-	48,000	48,000
1 July 2005	31 May 2015	$0.47	-	1,500,117	(88,680)[4]	-	1,411,437	1,018,559
1 July 2005	31 May 2015	$15.64	-	20,511	-	-	20,511	18,341
			87,340	**1,695,308**	**(88,680)**	**-**	**1,693,968**	**1,290,539**
Weighted Average Exercise Price			**$5.31**	**$1.16**	**$0.47**	**$ -**	**$1.40**	**$1.66**

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2005								
28 August 2001	31 May 2008	$8.88	9,499	-	-	-	9,499	9,499
28 August 2001	29 January 2009	$35.52	4,500	-	-	-	4,500	4,500
28 August 2001	10 October 2009	$26.64	170	-	-	-	170	170
1 November 2002	30 September 2012	$46.92	16,000	-	-	-	16,000	15,802
1 April 2004	31 May 2008	$8.88	3,333	-	-	-	3,333	3,333
1 April 2004	29 January 2009	$35.52	503	-	-	-	503	503
1 April 2004	30 September 2012	$12.57	6,500	-	-	-	6,500	5,111
1 April 2004	30 September 2012	$46.92	4,835	-	-	-	4,835	4,169
30 June 2004	31 May 2014	$1.41	10,000	-	-	-	10,000	5,000
26 August 2004	25 July 2014	$0.69	-	16,000	-	-	16,000	16,000
21 March 2005	20 February 2015	$0.69	-	16,000	-	-	16,000	16,000
			55,340	32,000	-	-	87,340	80,087
Weighted Average Exercise Price			**$24.75**	**$0.69**	**$ -**	**$ -**	**$15.93**	**$16.56**

[3] As detailed in note 25(f) on 5 April 2006 as part of Demerger existing share capital was subject to a 3:1 split resulting in the issue of 1,179,391 additional share options over ordinary share and the adjustment of the exercise price being the exercise price per ordinary share prior to Demerger divided by the split factor of 3.

[4] During the year 75,118 share options were exercised in CAP-XX Limited with the balance exercised in CAP-XX, Inc prior to Demerger.

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.

Apart from the 3:1 split, share options of 500,039 (after 3:1 split 1,500,117 share options with exercise price $0.47) and 6,837 (after 3:1 split 20,511 share options with exercise price of $15.64) were issued on 1 July 2005. No share options were forfeited during the years covered by the above tables.

No share options have expired during the years covered by the above tables. The weighted average remaining contractual life of share options outstanding at the end of the period was 8.7 years (2005: 8.5 years).

(b) 2006 Employee Share Option Plan

On 12 April 2006 the Board approved the 2006 Employee Share Option Plan (the "2006 Plan"), which 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 Option 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 plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable end of the year
		A$	Number	Number	Number	Number	Number	Number
Consolidated and parent entity - 2006								
20 April 2006	22 February 2011	$1.40	-	60,000	-	-	60,000	-
			-	60,000	-	-	60,000	-
Weighted Average Exercise Price			**$ -**	**$1.40**	**$ -**	**$ -**	**$1.40**	**$ -**

The Stock Options are governed by their original terms and conditions and will continue to vest pursuant to the same vesting schedule.

No share options were forfeited during the year covered by the above tables.

No share options have expired during the year covered by the above tables.

The weighted average remaining contractual life of share options outstanding at the end of the period was 4.8 years

(c) Collins Stewart Limited Share Option Deed

In consideration of covenants and obligations that Collins Stewart Limited ("Collins Stewart") agreed under the Company AIM Placing Agreement and its services provided thereunder, the Board on 12 April 2006 approved the Collins Stewart Limited Share Option Deed (the "CS Deed"). The CS Deed provided for the grant of share options of up to 1% of the issued ordinary share capital of the Company on a fully diluted basis immediately following admission to AIM, conditional upon admission occurring no later than 4 May 2006. As detailed in note 25(f) admission was completed on 20 April 2006 whereon the Company issued the below detailed share options to Collins Stewart. The options were fully vested at date of grant and can be exercised over a 3 year period through to 20 April 2009, with the option exercise price being 93 pence (A$2.23).

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

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Forfeited during the year	Balance at end of the year	Exercisable end of the year
		GBP	Number	Number	Number	Number	Number	Number
Consolidated and parent entity - 2006								
20 April 2006	20 April 2009	93 pence	-	503,350	-	-	503,350	503,350
			-	503,350	-	-	503,350	503,350
Weighted Average Exercise Price				**93 pence**	**-**	**-**	**93 pence**	**93 pence**

The Stock Options are governed by their original terms and conditions.

No share options were forfeited during the year covered by the above tables.

No share options have expired during the year covered by the above tables.

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.8 years

Fair value of options granted

The assessed fair value at grant date of options granted during the year ended 30 June 2006 under the 2006 Plan and the CS Deed were AUD1.49 and AUD0.72 per option respectively. The fair value at grant date is independently 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 during the year ended 30 June 2006 included:

(a) options are granted for no consideration, have a:
- 3 year life and fully vested on the date of grant (CS Deed)
- 5 year life and will vest on satisfaction of certain performance criteria (2006 Plan)
- 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.

(b) exercise price: refer tables above
(c) grant date: refer tables above
(d) expiry date: refer tables above
(e) share price at grant date: GBP0.93 (2005: US$0.50)
(f) expected price volatility of the company's shares: 60% (2005: 60%)
(g) no expected dividend yield
(h) risk-free interest rate: 5.5% (2005: 5.5%)

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

(d) Expenses arising from share-based payment transactions

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

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Options issued under 2006 Share Option Exchange	53	-	53	-
Options issued under 2006 Employee Share Option Plan	3	-	3	-
	56	-	56	-

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

	Consolidated		Parent Entity	
	2006	2005	2006	2005
	$ ' 000	$ ' 000	$ ' 000	$ ' 000
Options issued under Collins Stewart Limited Share Option Deed	360	-	360	-

Note 30 Economic dependency

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

Note 31 Earnings per share

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

	Consolidated 2006 Cents	Consolidated 2005 Cents
(a) Basic earnings per share		
(Loss) attributable to the ordinary equity holders of the company	(31.1)	(38.8)
(b) Diluted earnings per share		
(Loss) attributable to the ordinary equity holders of the company	(31.1)	(38.8)

	Consolidated 2006 Number	Consolidated 2005 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	33,204,782	30,132,560
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	33,204,782	30,132,560

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 32 Explanation of transition to Australian equivalents of IFRSs

(a) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRSs (AIFRS)

The adoption of AIFRSs has not resulted in any material adjustments to the net assets.

(b) Reconciliation of (loss) for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the income statement.

(c) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

CAP-XX Limited
Directors' declaration
30 June 2006

In the directors' opinion:

(a) the financial statements and notes set out on pages 18 - 60 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 consolidated entity's financial position as at 30 June 2006 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; and

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

5 October 2006

PRICEWATERHOUSECOOPERS

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Independent audit report to the members of CAP-XX Limited

Matters relating to the electronic presentation of the audited financial report

This audit report relates to the financial report of CAP-XX Limited (the Company) and the CAP-XX Group (defined below) for the financial year ended 30 June 2006 included on CAP-XX Limited's web site. The Company's directors are responsible for the integrity of the CAP-XX Limited web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

Audit opinion

In our opinion, the financial report of CAP-XX Limited:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of CAP-XX Limited and the CAP-XX Group (defined below) as at 30 June 2006, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

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

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statements, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both CAP-XX Limited (the company) and the CAP-XX Group (the consolidated entity), for the year ended 30 June 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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

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

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

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

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

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

Independence

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

PricewaterhouseCoopers

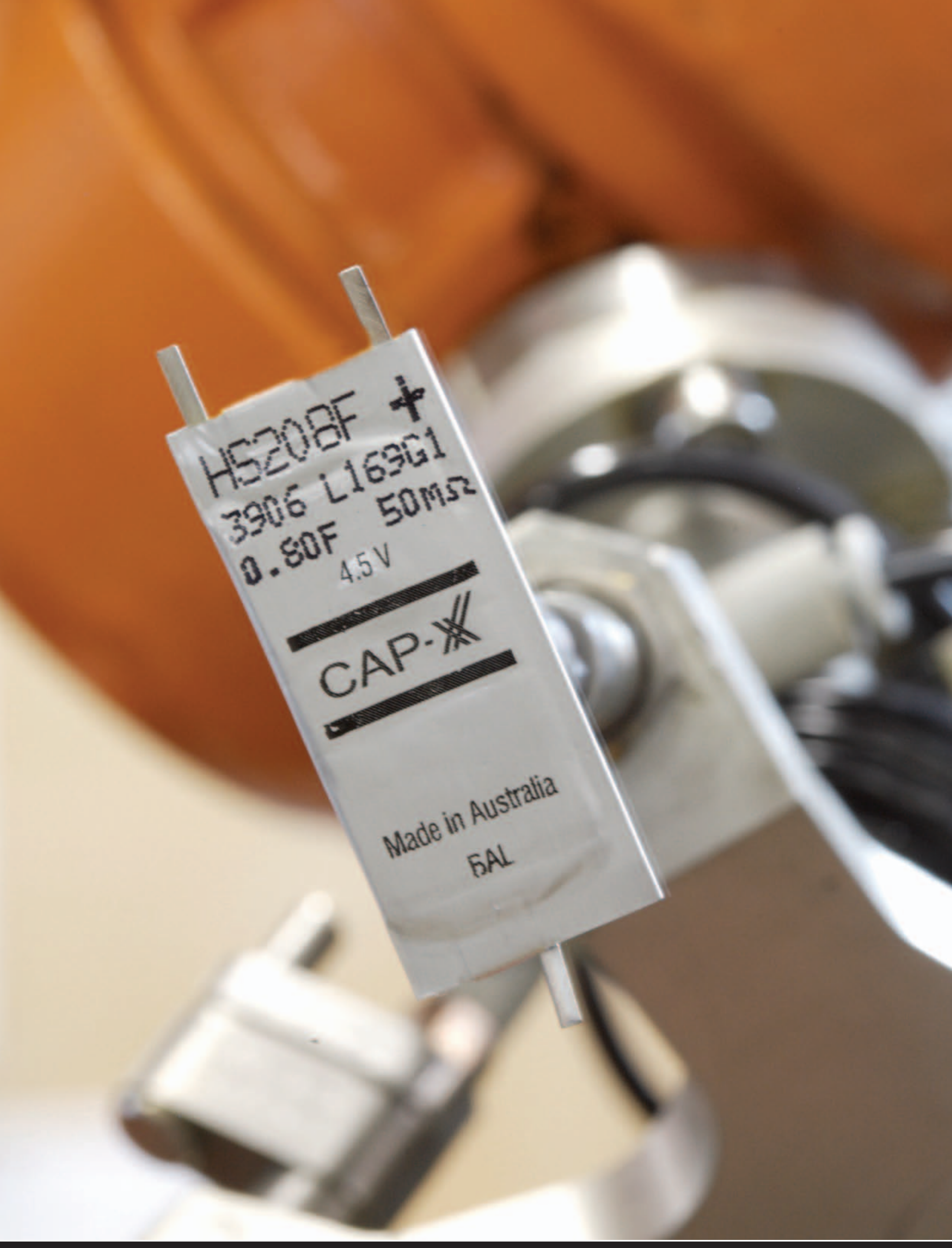
PricewaterhouseCoopers

Andrew Sneddon

Andrew Sneddon
Partner

Sydney
5 October 2006

Notes



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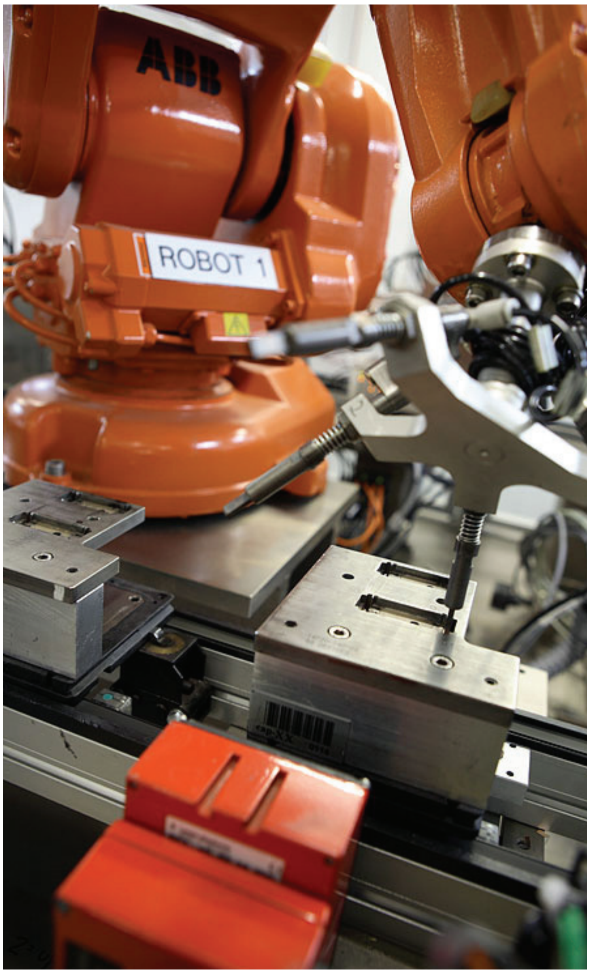

CAP-XX Limited is a world leader in the design and manufacture of revolutionary thin-form supercapacitors predominately for use in small portable electronic devices. Supercapacitors can considerably extend battery run-times and provide power-hungry functions that are not possible with current battery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

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