

HarvestRoad Annual Report 2004

annual report 2004



corporate directory

Directors

Grame Barty - Executive Chairman
Hamish Giles - Non Executive Director
Michael Malbourne - Non Executive Director

Company Secretary

Mark Ashforth

Solicitors to the Company

Clayton Utz
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Perth WA 6000

Auditors

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executive chairman's report

The Financial Year 2003-2004 has represented a milestone achievement for HarvestRoad in its commercial development.

Not only did our financial performance exceed all forecasts – including record revenues of \$9.2m and a record maiden before tax and deferrals profit of \$3.2m – we cemented our position as a global leader in commercial off-the-shelf content management solutions in the education public sector, for profit higher education and corporate university markets.

In particular, the \$11.0 million Latin America CIMED Project awarded in December 2003 is currently the world's largest implementation of eLearning covering 13 Central and South American countries and integral to its success is the HarvestRoad Hive® content delivery and management strategy based on single learning objects rather than entire course packages.

Similarly, HarvestRoad achieved success in other key reference accounts globally including the Defence Academy UK, The Correspondence School in New Zealand and Portland State University, USA.

These successes were followed with a number of very important technology partnerships with Sun Microsystems, Oracle and PeopleSoft and in particular the significant invitation by IBM to become a worldwide Advanced Business Partner. HarvestRoad now plans to build on these relationships through combined research and development and co-operative marketing and selling of the HarvestRoad Hive® capability – including the potential for OEM licensing. HarvestRoad will maintain its focus on software development and look to its partners to sell and service the capability.

The Company has also been very active in the eLearning standards arena and is considered a thought leader by many. During the year the Company made a number of contributions to the Standards specifications for the development of granular object management and multiple object repositories thereby strengthening our strategy of being a large scale content engine that remains independent of any one learning delivery system.

HarvestRoad has not only been involved in 'open standard' development but has also been a strong advocate of 'open source' solutions including the integration of Linux operating systems, Apache Web Server, MySQL data base and RELOAD content assembly into HarvestRoad Hive®. Additionally, the Company is now working with the ADL Academic Co Lab collocated at the University of Wisconsin, the University of Hull in the UK and Edith Cowan University in Western Australia to fully develop a HarvestRoad Hive® interface for the rapidly emerging next generation open source Learning Management Systems.

The Company has now established offices in Perth, Sydney, Melbourne, Canberra, Mexico City and London and by the end of 2004 will have a presence in the USA from which to leverage our expansion into that market. We are also in the process of establishing exciting evaluation projects in France, Holland, Thailand and Canada and we hope to move these to a more significant commitment by early 2005.

Perhaps, most importantly, while still only a small company by many standards, there is no doubt we have created and delivered a product and capability that today exceeds the offering of most big companies.

Our challenge therefore in 2005 is to harness our technical capability and vision for the next generation of services with the strength and capability of very large global marketing organisations such as IBM, Sun Microsystems, Oracle or PeopleSoft and to match these capabilities with the demand for independent, federated, digital learning object repository systems.

We believe that this will result in increasing shareholder value and we look forward to continuing to deliver on our promise of being an established, profitable global technology company.



Grame Barty | Executive Chairman

HarvestRoad Limited

directors' report

The Directors present their report together with the financial report of HarvestRoad Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2004 and the auditor's report thereon.

directors

The Directors of the Company at any time during or since the end of the financial year are:

Name & Qualifications	Age	Experience and Special Responsibilities
Mr Grame David Barty B.A. Executive Chairman Chief Executive Officer	48	<p>Mr Barty is the founder of HarvestRoad Limited. An IT industry veteran, Mr Barty has held senior executive appointments in organisations including Fujitsu Australia, Nortel Australia and Telecom New Zealand.</p> <p>Director since 8 August 1996.</p> <p>Managing Director since inception in August 1996 to September 2001, Mr Barty was appointed Executive Chairman 12 November 2002.</p> <p>Mr Barty was a board member of the Australian Export Commission – Austrade May 2001 to May 2004.</p>
Mr Hamish Macdougall Giles, LLB, B.Econs, ATMA, FPA Independent Non-Executive Director	44	<p>Mr Giles is founder and Director of Salmon Giles Pty Ltd, a Melbourne based consultancy firm.</p> <p>Director since 29 October 1996.</p> <p>Chairman of the Audit and Compliance Review Committee and member of the Remuneration Committee.</p> <p>Mr Giles has qualifications in Law and Accounting and provides advice in relation to enterprise bargaining, innovative remuneration and incentive arrangements, business consulting and taxation planning.</p>

Name & Qualifications	Age	Experience and Special Responsibilities
<p>Mr Michael Malbourne FCPA, FCIS, FTIA Independent Non Executive Director</p>	<p>60</p>	<p>Appointed 31 January 2003. Member of the Audit and Compliance Committee and Chairman the Remuneration Committee.</p> <p>Mr Malbourne is currently an Executive Director of Australia Innovative Fund Management Pty Ltd and Austock Private Capital Ltd venture capital and consulting groups.</p> <p>Mr Malbourne has had extensive experience in senior management, marketing, finance, company management and accounting roles over more than 30 years.</p> <p>Mr Malbourne has worked for and with SIRF Ltd, Exicom Ltd, Pratt Industries Group, Caterpillar Tractor Coy, ES&A Bank Ltd and is a director and consultant to a number of high growth companies that require significant value-add to exploit and commercialise their technologies.</p>

Company Secretary	Age	Experience
<p>Mr Mark Benet Ashforth BA, LLB.</p>	<p>48</p>	<p>Mark has been with HarvestRoad since the foundation of the company in 1996. A qualified lawyer, Mark has considerable experience in a number of areas of Commercial Law.</p> <p>Prior to joining HarvestRoad, he was Senior Commercial Manager for Telecom New Zealand's Pacific Star Group in Western Australia where he gained an interest and expertise in the telecommunications and information technologies industries.</p>

directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Directors' Meetings		Audit and Compliance Review Committee		Remuneration Committee		Risk Management Committee		Board Appointments Committee	
	A	B	A	B	A	B	A	B	A	B
Mr G D Barty	6	6								
Mr H M Giles	6	6	4	4	2	2	-	-	-	-
Mr M Malbourne	6	6	3	4	2	2	-	-	-	-

A = Number of meetings attended.

B = Number of meetings held during the time the Director held office during the reporting period.

During the year the Risk Management Committee met as part of the Audit and Compliance Review Committee and the Board Appointments Committee as part of the Board.

principal activities

The principal activity of the consolidated entity is the design, development and commercialisation of specialised content management software for use in organisations and institutions that implement online learning and knowledge management systems. The software enables the collection, management, re-use and sharing of any type of content within the education, defence, government and corporate markets.

The Company's flagship product, HarvestRoad Hive®, is a highly scalable independent, federated, digital repository system. It works independently of systems that create or deliver learning content, which provides great flexibility for very large or globally dispersed organisations operating a number of systems.

HarvestRoad Hive® has been developed to comply with key e-Learning industry standards such as IMS/SCORM, it enables the collection, management, re-use and sharing of any type of learning object and is unique in the way that it enables the rapid assembly (and disassembly) of online course packages. This capability shifts the on line learning paradigm from first generation proprietary based web courses to the second generation publishing of learning objects packaged into a standards format to a final third generation learner driven capability where individual students can assemble course 'play lists' (similar to the current method of downloading music).

HarvestRoad Hive also provides a world leading integrated Advanced Copyright Engine allowing organisations the ability to quickly establish rules and management process for their intellectual capital globally which is increasingly becoming mandatory in higher education markets

For very large national level deployments such as Ministries of Education HarvestRoad Hive provides a powerful network optimisation and bandwidth saving caching capability which is ideal for small, widely dispersed and remote schools or for higher and vocational education consortiums.

The company's commitment to its market includes:

- The removal of technology as for a barrier to an institutions eLearning capabilities and globalisation
- Being a world leader in the development of robust, highly scalable, cost effective, commercial off-the-shelf applications and solutions for knowledge-based organisations
- Being a thought leader and major participant in the development of global object based leaning standards and practices.
- Supporting clients to solve a problem by delivering a solution – not just technology.

review and results of operations

financial

The net profit of the consolidated entity for the year ended 30 June 2004 after tax was \$1,913,115 (2003: Loss of (\$2,497,472)).

The Company continues to successfully transition from product development to full commercialisation with significant global marketing activity being undertaken and new orders having been received.

During the financial year to 30 June 2004 HarvestRoad has progressed with the successful implementation of major projects secured in the second half of the calendar year 2003 and market the HarvestRoad Hive® capability globally, particularly in Latin America, UK, New Zealand and the USA.

Highlights include the Mexican based ILCE (Institute for Latin American Communication in Education) e-learning project announced in December 2003. The ILCE project is possibly the world's largest e-learning deployment and the core capability of this project is the HarvestRoad Hive® Federated Digital Repository System. ILCE expect the system to be catering for the learning object needs of 5 million users within 24 months.

The second major sale was to Cranfield University in the UK who have developed the on line training capability for the UK Defence Academy and is now in full production.

Significant events that have occurred during the period include the following:

- HarvestRoad recorded a maiden profit of \$1,913,115 on increased revenue up 520% to \$9,229,252.

- Shareholders equity has increased 7 fold during the period reflected in the net tangible asset backing per share.
- As disclosed in various announcements made during the year and as mentioned, a number of significant contracts were entered into in the Latin American, New Zealand, UK and Defence markets.
- HarvestRoad has continued to consolidate its position as a global leader in the market niche of "digital repository software for reusable learning objects" and interest from new markets and clients within existing markets is quickly evolving.
- HarvestRoad continues to consolidate worldwide partnerships to market and promote its technology.

New market business development is being undertaken in Canada, Thailand and France.

The Company has now completed Version 2.4 with significant new features associated with Copyright and the requirements for university consortiums to manage the globalisation of e-learning.

An international version with Spanish as the first language and a rapid content assembly based on the open source RELOAD tool will be released in Version 2.5, which is expected to be available for general release in September 2004.

business strategy going forward

An increasing awareness of HarvestRoad Hive® capability in the education and defence markets means the Company is now in a position to establish new partner relationships - in both the distribution and technology areas. In the immediate term, establishing new partners will be the critical activity undertaken to enhance selling capability globally - as well as providing multiple, independent sources of software licensing revenue.

The Company's objective is to generate accelerated, but reliable, cumulative annual revenue through business building on a global basis in association with its various technology partners and international standards bodies.

The Company remains focused on the continual development of its flagship product HarvestRoad Hive®, an independent, federated digital repository system for reusable knowledge objects for:

- Schools – K-12
- Vocational Education
- Higher Education
- Government and Enterprise (particularly the defence market) and
- Education Service Providers

The Company has established important, high level - global partner relationships with IBM, Sun Microsystems, Oracle and PeopleSoft.

HarvestRoad is convinced that a new wave of requirements for storing, copyrighting and reusing digital objects across the education industry, including publishers, is gaining momentum and expects to secure additional licensing contracts for its HarvestRoad Hive® federated digital repository software as new vertical and geographical markets are developed.

dividends

The Directors do not recommend that a dividend relating to the year ending 30 June 2004 be paid.

state of affairs

In a Strategic Analysis Report published in July 2004 by the Gartner Group Inc, it was reported that e-Learning will remain one of the richest sources of IT innovation over the next five years. It further reports that now that basic course management systems are ubiquitous, institutions are starting to grapple with the content creation, distribution, and management issues that make up the biggest component of online instructional delivery cost. In the same report it mentions HarvestRoad as only one of three global players in the content management 'hype cycle'.

During the financial year contributed equity increased from \$19,448,984 to \$21,835,232. The movement was largely the result of a share placement, which raised \$1,300,000, completion of a rights issue and the exercise of options, which raised \$642,600 and \$505,046, respectively.

environmental regulation

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. The Board is not aware of any significant breach of environmental requirements as they apply to the consolidated entity.

events subsequent to balance date

For reporting periods starting on or after 1 July 2005, the consolidated entity must comply with International Financial Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board. At balance date, it was not possible to quantify the effect of the convergence to IFRS as key IASs and AASBs are currently under development.

Other than the matters disclosed in note 27 in the financial statements, there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely in the opinion of the Directors of the Company, to significantly effect the operations of the consolidated entity, the results of those operations or the state of the affairs of the consolidated entity in future financial years.

likely developments

The consolidated entity will continue to pursue its policy of developing and increasing sales of its software products and related services, particularly in the education, corporate and defence market sector.

Further information about likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

unissued shares under option and shares issued on the exercise of options

Details of unissued shares under option as at 30 June 2004 and the date of this Report and shares issued during or since the end of the financial year are set out in Note 18(c) of the Financial Report.

directors and senior executives' emoluments

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance.

Details of the nature and amount of each major element of the emoluments of each Director of the Company and each of the five officers of the Company receiving the highest emoluments (who are also the specified officers) are set out in Note 25 to the accounts.

directors interests

The relevant interest of each Director in the shares and options issued by the Company, as notified by the Directors to the Australian Stock Exchange Limited in accordance with S205G(1) of the Corporations Act 2001, at the date of this report is as follows:

	HarvestRoad Limited	
	Ordinary shares	Options
Mr G Barty	4,506,495	2,977,472
Mr H Giles	406,894	1,700,000
Mr M Malbourne	1,150,000	400,000

indemnification and insurance of officers

indemnification

The Company has agreed to indemnify the following current Directors of the Company, Mr G D Barty, Mr H M Giles and Mr M Malbourne and the following former directors, Mr P R James, Mr G A Bradbury, Mr P C Harley, Mr G Rasmussen and Mr D J Price against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has also agreed to indemnify the current Directors of its controlled entities for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

The Company has agreed to indemnify executive officers and employees for all liabilities to another person (other than the Company or a related body corporate) that may arise from their position in 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 or 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.

corporate governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of the Company support and have adhered to the principles of corporate governance. The Company's corporate governance statement is contained in pages 51 to 67 of this annual report.

Signed in accordance with a resolution of the Directors:

HarvestRoad Limited



G. Barty | Executive Chairman

Perth WA,

Dated this 29th day of September 2004.



Independent Audit Report to the members of HarvestRoad Limited and its controlled entities

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both HarvestRoad Limited (the "Company") and HarvestRoad Group (the "Consolidated Entity"), for the year ended 30 June 2004. 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. We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

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

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



Independence

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

Audit opinion

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

the *Corporations Act 2001*, including:

- i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2004 and of their performance for the financial year ended on that date; and
- ii. complying with Accounting Standards in Australia and the Corporations Regulations 2001; and

other mandatory professional reporting requirements in Australia.

A handwritten signature in black ink that reads 'KPMG'. Below the signature, the word 'KPMG' is printed in a small, black, sans-serif font.

KPMG

A handwritten signature in black ink that reads 'J G Roberson' in a cursive script.

J G Roberson

Partner

Perth

Dated: 29 September 2004

director's delcaration

In the opinion of the Directors of HarvestRoad Limited:

- (a) the financial statements and notes, set out on pages 15 to 47, are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the financial position of the Company and consolidated entity as at 30 June 2004 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; 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.

Signed in accordance with a resolution of the Directors:

HarvestRoad Limited



G. Barty | Executive Chairman

Perth WA,

Dated this 29th day of September 2004

statement of financial performance

for the year ended 30 june 2004

	Note	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$
Revenue from the sale of goods	2	8,599,486	791,042	8,599,486	791,042
Revenue from rendering of services	2	379,967	273,066	379,967	241,289
Other revenue from ordinary activities	2	249,799	425,269	249,799	425,269
Total revenue	2	9,229,252	1,489,377	9,229,252	1,457,600
Cost of goods sold		(2,212,961)	(90,114)	(2,212,961)	(90,114)
Marketing expenses		(74,693)	(38,920)	(74,693)	(38,920)
Occupancy expenses		(274,082)	(362,041)	(274,082)	(362,041)
Administration expenses		(2,708,221)	(2,139,647)	(2,708,068)	(2,335,794)
Research and Development expenses		(670,028)	(1,064,418)	(670,028)	(1,064,418)
Borrowing costs expense		-	(5,472)	-	(5,472)
Other expenses from ordinary activities		(70,339)	(286,237)	(70,339)	(283,275)
Profit/ (Loss) from ordinary activities before income tax expense	3	3,218,928	(2,497,472)	3,219,081	(2,722,434)
Income tax expense	5	(1,305,813)	-	(1,305,813)	-
Net Profit/(Loss) attributable to members of the parent entity	20	1,913,115	(2,497,472)	1,913,268	(2,722,434)
Basic loss per share ordinary shares	6	0.03	(0.05)		

The statements of financial performance are to be read in conjunction with the accompanying notes to the financial statements set out on pages 18 to 47.

statement of financial position

as at 30 june 2004

	Note	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$
Current Assets					
Cash assets	8	2,284,025	725,440	2,284,025	725,440
Receivables	9	5,449,063	144,925	5,449,063	144,925
Other	10	363,655	81,207	363,655	81,207
Total Current Assets		8,096,743	951,572	8,096,743	951,572
Non-Current Assets					
Plant and equipment	11	396,433	516,895	396,433	516,742
Intangibles	12	-	-	-	-
Total Non-Current Assets		396,433	516,895	396,433	516,742
Total Assets		8,493,176	1,468,467	8,493,176	1,468,314
Current Liabilities					
Payables	13	2,023,664	361,645	2,023,664	361,645
Interest-bearing liabilities	14	-	143,308	-	143,308
Provisions	16	129,494	141,275	129,494	141,275
Other	17	872,322	28,963	872,322	28,963
Total Current Liabilities		3,025,480	675,191	3,025,480	675,191
Non-Current Liabilities					
Provisions	16	43,372	31,482	43,372	31,482
Other	17	363,167	-	363,167	-
Total Non-Current Liabilities		406,539	31,482	406,539	31,482
Total Liabilities		3,432,019	706,673	3,432,019	706,673
Net Assets		5,061,157	761,794	5,061,157	761,641
Equity					
Contributed Equity	18	21,835,232	19,448,984	21,835,232	19,448,984
Reserves	19	18,000	18,000	18,000	18,000
Accumulated losses	20	(16,792,075)	(18,705,190)	(16,792,075)	(18,705,343)
Total Equity		5,061,157	761,794	5,061,157	761,641

The statements of financial position are to be read in conjunction with the accompanying notes to the financial statements set out on pages 18 to 47.

statements of cashflows

for the year ended 30 june 2004

	Note	Consolidated		The Company	
		2004	2003	2004	2003
		\$	\$	\$	\$
Cash flows from operating activities					
Cash receipts in the course of operations		3,716,451	1,177,558	3,716,451	1,078,654
Cash payments in the course of operations		(4,352,558)	(2,638,220)	(4,352,558)	(2,498,509)
Interest received		106,766	50,919	106,766	50,919
Interest paid		(1,553)	(3,099)	(1,553)	(3,099)
Government grants received		23,033	99,820	23,033	99,820
Net cash (used in) operating activities	23(a)	(507,861)	(1,313,022)	(507,861)	(1,272,215)
Cash flows from investing activities					
Proceeds on disposal of non-current assets		-	165,725	-	165,725
Payments for plant and equipment		(143,494)	(47,232)	(143,494)	(47,232)
Payments for Research and development		-	(1,064,418)	-	(1,064,418)
Net cash (used in) investing activities		(143,494)	(945,925)	(143,494)	(945,925)
Cash flows from financing activities					
Proceeds from issues of shares		2,353,248	493,425	2,353,248	493,425
Finance lease payments		(143,308)	(159,426)	(143,308)	(159,426)
Proceeds from restricted term deposits		-	216,657	-	216,657
Net cash (used in)/provided by financing activities		2,209,940	550,656	2,209,940	550,656
Net decrease in cash held		1,558,585	(1,708,291)	1,558,585	(1,667,484)
Cash at beginning of the financial year		725,440	2,433,731	725,440	2,392,924
Cash at the end of the financial year	23(b)	2,284,025	725,440	2,284,025	725,440

The statements of cash flows are to be read in conjunction with the notes to the financial statements set out on pages 18 to 47.

notes to the financial statements

for the year ended 30 June 2004

1 STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The significant policies which have been adopted in the preparation of this financial report are:

a) Basis of preparation

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

It has been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

These accounting policies have been consistently applied by the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year.

b) Principles of consolidation

Controlled entities

The financial statements of controlled entities are included from the date control commences until the date control ceases.

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

c) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST).

Licenses

Revenue from the sale of licences is recognised when the following conditions are met;

- Signed licence agreement entered into;
- Software delivered and installed;
- Licence fee is able to be reliably measured.

Rendering of Services

Where the licence agreement provides for provision of software maintenance support services, income attributable to these support services is deferred and brought to account on a straight line basis over the term of the software maintenance support arrangement.

Interest Revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

notes to the financial statements

for the year ended 30 june 2004

(c) Revenue recognition (continued)

Sale of non-current assets

The gross proceeds of non-current asset sales are included as revenue at the date control of the asset passes to the buyer, usually when an unconditional contract of sale is signed.

The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

Research and development grants

Where a grant is received or due to be received relating to research and development costs that have been expensed, the grant is recognised as revenue. The recognition of the grant revenue is deferred to the extent to which obligations under the grant are not performed at year end.

d) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statements of financial position.

Cash flows are included in the statements of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flows.

e) Foreign Currency

Transactions

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts receivable in foreign currencies are brought to account as exchange gains or losses in the statements of financial performance in the financial year the exchange rates change.

f) Taxation

The consolidated entity adopts the income statement liability method of tax effect accounting.

notes to the financial statements

for the year ended 30 June 2004

f) Taxation (continued)

Income tax expense is calculated on operating profit/loss adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statements of financial position as a future income tax benefit or a provision for deferred income tax.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when their realisation is virtually certain. The tax effect of capital losses is not recorded unless realisation is virtually certain.

g) Acquisition of assets

All assets acquired including plant and equipment and intangibles other than goodwill (refer note 1(l)) are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

Subsequent additional costs

Costs incurred on assets subsequent to initial acquisition are capitalised when it is probable that future economic benefits in excess of the originally assessed performance of the asset will flow to the consolidated entity in future years.

Costs that do not meet the criteria for capitalisation are expensed as incurred.

h) Receivables

The collectability of debts is assessed at balance date and provision is made for any doubtful accounts.

Trade Debtors

Trade debtors to be settled within 60 days are carried at amounts due.

i) Investments

Controlled entities

Investments in controlled entities are carried in the Company's financial statements at the lower of cost and recoverable amount.

Other entities

Investments in other entities are carried at the lower of cost and recoverable amount.

notes to the financial statements

for the year ended 30 June 2004

j) Leased assets

Leases under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Finance leases

Finance leases are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are expensed. Contingent rentals are expensed as incurred.

Operating leases

Payments made under operating leases are expensed on a straight line basis over the term of the lease, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

k) Goodwill

Goodwill represents the excess of the purchase consideration plus incidental costs over the fair value of the identifiable net assets acquired.

l) Recoverable amount of non-current assets valued on cost basis

The carrying amounts of non-current assets valued on the cost basis are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds its recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs.

In determining the recoverable amounts of non-current assets, the relevant cashflows have not being discounted to their present value.

m) Depreciation and amortisation

Useful lives

All assets, including intangibles, have limited useful lives and are depreciated/amortised using the straight line method over their estimated useful lives, with the exception of finance lease assets which are amortised over the term of the relevant lease, or where it is likely the consolidated entity will obtain ownership of the asset, the life of the asset.

Assets are depreciated from the date of acquisition.

Depreciation and amortisation rates and methods are reviewed annually for appropriateness. When changes are made, adjustments are reflected prospectively in current and future periods only. Depreciation and amortisation are expensed, except to the extent to which they are capitalised as research and development costs.

notes to the financial statements

for the year ended 30 June 2004

n) Depreciation and amortisation (continued)

The depreciation rates used for each class of asset are as follows:

	2004	2003
Plant and equipment		
Plant and equipment	20% to 40%	20% to 40%
Leasehold improvements	20%	20%
Leased plant and equipment	13.5% to 40%	13.5% to 40%

o) Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received. Trade accounts payables are normally settled within 60 days.

p) Employee Entitlements

Wages, salaries, annual leave

Liabilities for employee benefits for wages, salaries and annual leave expected to be settled within twelve months of the year end represent present obligations resulting from employees services provided to reporting date, calculated at undiscounted amounts based on remuneration, wages and salary rates that the consolidated entity expected to pay as at reporting date including related on costs.

Long Service Leave

The provision for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' services provided up to balance date.

The provision is calculated using estimated future increases in wage and salary rates including related on-costs and expected settlement dates based on turnover history and is discounted using the rates attaching to national government securities at balance date which most closely match the terms of maturity of the related liabilities.

Employee Option Plan

Where options are issued to employees as remuneration for past services, the difference between fair value of the options issued and the consideration received, if any, from the employee is expensed. The fair value of the options issued is recorded in contributed equity.

Other options issued to employees are recorded in contributed equity at the fair value of consideration received, if any.

Transaction costs associated with issuing options are recognised in equity subject to the extent of the proceeds received, otherwise expensed. Other administrative costs are expensed.

notes to the financial statements

for the year ended 30 June 2004

p) Employee Entitlements (continued)

Superannuation Plan

The Company and other controlled entities contribute to several defined contributions superannuation plans. Contributions are charged against income as they are incurred. Further information is set out in Note 24.

q) Provisions

A provision is recognised when a legal or constructive obligation exists, as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation.

If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability, except where noted below.

Surplus leased premises

Provision is made for non-cancellable operating lease rentals payable on surplus leased premises when it is determined that no substantive future benefit will be obtained by the consolidated entity from its occupancy. This arises where premises are currently leased under non-cancellable operating leases and either the premises are not occupied, are being sub-leased for lower rentals than the consolidated entity pays or there will be no substantive benefits beyond a known future date.

Any necessary provision is calculated on the basis of discounted net future cash flows, using the interest rate implicit in the lease or an estimate thereof.

r) Research and development costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is capitalised.

notes to the financial statements

for the year ended 30 june 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
2 REVENUE FROM ORDINARY ACTIVITIES				
Sale of goods revenue from operating activities	8,599,486	791,042	8,599,486	791,042
Rendering of services revenue from operating activities	379,967	273,066	379,967	241,289
	8,979,453	1,064,108	8,979,453	1,032,331
Other revenue from ordinary activities:				
From operating activities:				
Interest:				
Other parties	106,766	50,919	106,766	50,919
From outside operating activities:				
Gross proceeds from sale of non-current assets	-	165,725	-	165,725
Export market development grant	143,033	53,800	143,033	53,800
R&D Start Grant	-	147,256	-	147,256
Other income	-	7,569	-	7,569
Total other revenue from ordinary activities	249,799	425,269	249,799	425,269
Total revenue from ordinary activities	9,229,252	1,489,377	9,229,252	1,457,600

3 PROFIT/ (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE

(a) Profit /(Loss) from ordinary activities before income tax expense has been arrived at after charging/(crediting) the following items:

Depreciation of:				
Plant and equipment	120,914	174,436	120,761	178,305
Amortisation of:				
Goodwill	-	114,777	-	-
Other intangibles	-	1,634	-	1,634
Leased plant and equipment	18,066	25,996	18,066	25,996
Leasehold improvements	60,020	73,300	60,020	73,300
Total depreciation and amortisation	199,000	390,143	198,847	279,235
Write down in value of investment in unlisted shares	-	-	-	253,893
Research and Development costs expensed	670,028	1,064,418	670,028	1,064,418
Finance charges on capitalised leases	1,553	3,099	1,553	3,099

notes to the financial statements

for the year ended 30 june 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
3 PROFIT/ (LOSS) FROM ORDINARY ACTIVITIES BEFORE INCOME TAX EXPENSE (continued)				
Net bad and doubtful debts expense including movements in provision for doubtful debts	-	(2,651)	-	(2,651)
Net expense/(gain) from movement in provision for:				
Employee entitlements	(7,960)	(104,549)	(7,960)	(91,185)
Redundancy	-	(94,674)	-	(94,674)
Surplus lease space	7,851	(91,638)	7,851	(91,638)
Operating lease rental expense:				
Minimum lease payments	156,405	182,189	156,405	182,189
Net (gain)/loss on disposal of non-current assets:				
Investments	-	(165,725)	-	(165,725)
Plant & equipment	64,955	(1,359)	64,955	(1,359)
4. AUDITORS' REMUNERATION				
Audit Services:				
Audit and review of financial reports – KPMG	32,053	20,495	32,053	20,495
Other Services:				
Auditors of the Company – KPMG taxation and assurance services	40,776	2,050	40,776	2,050
	<u>72,829</u>	<u>22,545</u>	<u>72,829</u>	<u>22,545</u>
5. TAXATION				
Income Tax Expense				
Prima facie income tax expense/(benefit) calculated at 30% (2003: 30%) on the profit/(loss) from ordinary activities	965,678	(749,242)	965,724	(816,730)
(Increase)/decrease in income tax benefit due to:				
Research and development concession uplift.	(120,000)	-	(120,000)	-
Amortisation of intangible assets	-	34,923	-	480
Entertainment	773	938	773	938

notes to the financial statements

for the year ended 30 june 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
5. TAXATION (continued)				
Income tax expense/(benefit) on operating profit/(loss)	846,451	(713,381)	846,497	(815,312)
Future income tax benefit not brought to account	459,362	713,381	459,316	815,312
Income tax expense attributable to operating profit/loss	1,305,813	-	1,305,813	-

Deferred tax assets

Future income tax benefit

Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% (2003: 30%) on the following items:

Provisions and accrued employee entitlements not currently deductible	51,860	51,827	51,860	51,827
Grants receivable	(36,000)	-	(36,000)	-
Provision for doubtful debts	1,500	1,500	1,500	1,500
Accruals	11,211	28,408	11,211	28,408
Capitalised leases	(11,484)	26,089	(11,484)	26,089
Unearned revenue	-	8,689	-	8,689
Future income tax benefit not brought to account	(17,087)	(116,513)	(17,087)	(116,513)
	-	-	-	-

Future income tax benefit not brought to account

Tax losses and foreign tax credits carried forward at 30% (2003: 30%)	5,924,142	4,901,978	5,924,142	5,111,652
Timing differences	17,087	116,513	17,087	116,513
	5,941,229	5,018,491	5,941,229	5,228,165

The potential future income tax benefit will only be obtained if:

- (i) the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised;
- (ii) the relevant company and/or the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iii) no changes in tax legislation adversely affect the relevant company and/or the consolidated entity in realising the benefit.

notes to the financial statements

for the year ended 30 June 2004

	Consolidated	
	2004	2003
	No.	No.

6. EARNINGS PER SHARE

Weighted average number of ordinary shares used in the calculation of basic earnings per share

67,658,955 49,931,757

The amount used as the numerator in calculating basic EPS is the same as the net loss reported in the statement of financial performance.

There are no dilutive potential ordinary shares therefore dilutive EPS has not been calculated or disclosed.

7. SEGMENT INFORMATION

The Consolidated Entity operates predominantly in one business segment, being the provision of content management software, in two geographical segments, being Mexico and the rest of the world (Other).

(a) Primary Segment

Geographical Segments	Mexico	Other	Consolidated
	2004	2004	2004
	\$	\$	\$
Revenue			
Segment Revenue	7,850,677	1,378,575	9,229,252
Unallocated Revenue	-	-	-
Total segment revenue	7,850,677	1,378,575	9,229,252
Result			
Segment result	5,253,225	(2,034,297)	3,218,928
Unallocated revenues and expenses	-	-	-
Profit from ordinary activities before related income tax expense	5,253,225	(2,034,297)	3,218,928
Income tax expense	1,305,813	-	1,305,813
Net profit/(loss)	3,947,412	(2,034,297)	1,913,115
Segment assets	5,179,209	3,313,966	8,493,176
Segment liabilities	(3,060,346)	(371,673)	(3,432,019)
Other Segment Information			
Depreciation	-	120,914	120,914
Amortisation	-	78,086	78,086
Acquisitions of property plant and equipment	-	143,494	143,494

notes to the financial statements

for the year ended 30 june 2004

	Mexico 2003 \$	Other 2003 \$	Consolidated 2003 \$	
7. SEGMENT INFORMATION (continued)				
(a) Primary Segment				
Geographical Segments				
Revenue				
Segment Revenue	-	1,489,377	1,489,377	
Unallocated Revenue	-	-	-	
Total segment revenue	-	1,489,377	1,489,377	
Result				
Segment result	-	(2,497,472)	(2,497,472)	
Unallocated revenues and expenses	-	-	-	
Profit from ordinary activities before related income tax expense	-	(2,497,472)	(2,497,472)	
Income tax expense	-	-	-	
Net profit/(loss)	-	(2,497,472)	(2,497,472)	
Segment assets	-	1,468,314	1,468,314	
Segment liabilities	-	(706,673)	(706,673)	
Other Segment Information				
Depreciation	-	174,436	174,436	
Amortisation	-	215,707	215,707	
Acquisitions of property plant and equipment	-	47,232	47,232	
	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$

8 CASH ASSETS

Cash	53,303	249,966	53,303	249,966
Bank short term deposits, maturing within 30 days and interest at a weighted average interest rate of 5.3% (2003: 4.63%)	2,230,722	475,474	2,230,722	475,474
	2,284,025	725,440	2,284,025	725,440

notes to the financial statements

for the year ended 30 June 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
9 RECEIVABLES				
Current				
Trade debtors (i)	5,166,911	111,515	5,166,911	111,515
Less: Provision for doubtful trade debtors	(5,000)	(5,000)	(5,000)	(5,000)
	<u>5,161,911</u>	<u>106,515</u>	<u>5,161,911</u>	<u>106,515</u>
Other receivables	287,152	38,410	287,152	38,410
	<u>5,449,063</u>	<u>144,925</u>	<u>5,449,063</u>	<u>144,925</u>
<p>(i) Included in trade debtors as at 30 June 2004 is an amount of USD\$3.5 million (\$5,020,259) due from the Institute for Latin American Communication in Education (ILCE). This amount was received in full on 3 September 2004.</p>				
10 OTHER CURRENT ASSETS				
Prepayments	<u>363,655</u>	<u>81,207</u>	<u>363,655</u>	<u>81,207</u>
11 PLANT AND EQUIPMENT				
Plant and equipment				
At cost	1,117,114	990,911	1,117,114	990,441
Accumulated depreciation	<u>(828,374)</u>	<u>(724,751)</u>	<u>(828,374)</u>	<u>(724,434)</u>
	<u>288,740</u>	<u>266,160</u>	<u>288,740</u>	<u>266,007</u>
Leased plant and equipment				
At capitalised cost	353,931	354,937	353,931	354,937
Accumulated amortisation	<u>(315,653)</u>	<u>(298,593)</u>	<u>(315,653)</u>	<u>(298,593)</u>
	<u>38,278</u>	<u>56,344</u>	<u>38,278</u>	<u>56,344</u>
Leasehold improvements				
At cost	231,692	566,172	231,692	566,172
Accumulated depreciation	<u>(162,277)</u>	<u>(371,781)</u>	<u>(162,277)</u>	<u>(371,781)</u>
	<u>69,415</u>	<u>194,391</u>	<u>69,415</u>	<u>194,391</u>
Total plant and equipment net book value	<u>396,433</u>	<u>516,895</u>	<u>396,433</u>	<u>516,742</u>

notes to the financial statements

for the year ended 30 June 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
11 PLANT AND EQUIPMENT (continued)				
Reconciliations				
Reconciliations of the carrying amounts for each class of plant and equipment are set out below:				
Plant and equipment				
Carrying amount at beginning of the year	266,160	394,530	266,007	383,491
Additions	143,494	47,382	143,494	62,137
Disposals	-	(1,316)	-	(1,316)
Depreciation	(120,914)	(174,436)	(120,761)	(178,305)
Carrying amount at end of year	288,740	266,160	288,740	266,007
Leased Plant and equipment				
Carrying amount at beginning of the year	56,344	85,998	56,344	85,998
Disposals	-	(3,658)	-	(3,658)
Amortisation	(18,066)	(25,996)	(18,066)	(25,996)
Carrying amount at end of year	38,278	56,344	38,278	56,344
Leasehold Improvements				
Carrying amount at beginning of the year	194,391	267,691	194,391	267,691
Disposals	(64,956)	-	(64,956)	-
Amortisation	(60,020)	(73,300)	(60,020)	(73,300)
Carrying amount at end of year	69,415	194,391	69,415	194,391
12 INTANGIBLES				
Goodwill – at cost	-	788,131	-	546,497
Accumulated amortisation	-	(363,078)	-	(121,444)
Write down in carrying amount	-	(425,053)	-	(425,053)
	-	-	-	-
Trademarks – at cost	-	6,750	-	6,750
Accumulated amortisation	-	(6,750)	-	(6,750)
	-	-	-	-

notes to the financial statements

for the year ended 30 june 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
13 PAYABLES				
Trade creditors	120,774	163,636	120,774	163,636
Other creditors and accruals	1,902,890	198,009	1,902,890	198,009
	<u>2,023,664</u>	<u>361,645</u>	<u>2,023,664</u>	<u>361,645</u>

14 INTEREST BEARING LIABILITIES

Current

Lease liabilities (note 22) – secured	-	143,308	-	143,308
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15 AMOUNTS RECEIVABLE/ PAYABLE IN FOREIGN CURRENCIES

The Australian dollar equivalents of unhedged amounts receivable/(payable) in foreign currencies, calculated at year end exchange rates, are as follows:

Receivables

English Pounds

Current	64,144	-	64,144	-
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US Dollars

Current	5,070,259	30,000	5,070,259	30,000
	<u>5,134,403</u>	<u>30,000</u>	<u>5,134,403</u>	<u>30,000</u>

Payables

US Dollars

Current	1,521,078	-	1,521,078	-
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16 PROVISIONS

Current

Employee entitlements – Note 24	129,494	133,424	129,494	133,424
Surplus leased premises	-	7,851	-	7,851
	<u>129,494</u>	<u>141,275</u>	<u>129,494</u>	<u>141,275</u>

Non-Current

Employee entitlements – Note 24	43,372	31,482	43,372	31,482
Reconciliations				
Surplus leased premises – current				
Carrying amount at beginning of year	7,851	99,489	7,851	99,489
Payments made during the year	(7,851)	(91,638)	(7,851)	(91,638)
Carrying amount at end of year	<u>-</u>	<u>7,851</u>	<u>-</u>	<u>7,851</u>

notes to the financial statements

for the year ended 30 june 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
17 OTHER CURRENT LIABILITIES				
Current				
Unearned revenue	872,322	28,963	872,322	28,963
Non-Current				
Unearned revenue	363,167	-	363,167	-

Unearned Revenue represents amounts received for annual maintenance fees, which are brought to account as revenue over the maintenance period.

18 CONTRIBUTED EQUITY

Issued and paid-up share capital

70,573,957 (2003 : 55,384,907) ordinary shares, fully paid

21,835,232	19,448,984	21,835,232	19,448,984
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a) Movements during the year

Ordinary shares

Balance at the beginning of year	19,448,984	18,925,558	19,448,984	18,925,558
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Shares issued

- 393,750 (2003: 300,000) issued in respect

to services rendered	33,000	30,000	33,000	30,000
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- 4,000,000 (2003: 4,666,000) issued in respect

to share placement	1,300,000	279,960	1,300,000	279,960
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- 8,032,500 (2003: 3,359,816) issued in respect

to Rights Issue Prospectus	642,600	268,785	642,600	268,785
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- 2,762,800 issued in respect to options exercised

Less transaction costs	(94,368)	(55,319)	(94,368)	(55,319)
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Balance at end of year	21,835,232	19,448,984	21,835,232	19,448,984
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b) Terms and conditions of contributed equity

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

In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

notes to the financial statements

for the year ended 30 june 2004

18 CONTRIBUTED EQUITY (continued)

c) Share Options

Unissued shares

At the end of the year there were 13,178,113 (2003: 12,264,291) options over unissued shares. The options are detailed as follows:

- 5,959,831 (2003: 8,039,291) unlisted options (Employee Share Plan) to subscribe for 5,959,831 ordinary shares. The options are exercisable between 30 August 1999 and 28 February 2007 and have an exercise price between 10 cents and \$1.10 per share for each ordinary share (refer to Note 24);
- 50,000 (2003: Nil) unlisted options to subscribe for 50,000 ordinary shares. The options are exercisable on or before 8 June 2007 at an exercise price of 30 cents for each ordinary share (refer to Note 25(c));
- 3,900,000 (2003: Nil) unlisted options to subscribe for 3,900,000 ordinary shares. The options are exercisable between 29 November 2003 and 28 November 2008 and have an exercise price between 36 cents and 50 cents per share for each ordinary share (refer to Note 25 (c));
- 2,000,000 (2003: 2,000,000) unlisted options to subscribe for 2,000,000 ordinary shares. The options are exercisable on or before 30 August 2005 at an exercise price of 20 cents for each ordinary share;
- 75,000 (2003: 75,000) unlisted options to subscribe for 75,000 ordinary shares. The options are exercisable on or before 28 February 2007 at an exercise price of 20 cents for each ordinary share;
- 300,000 (2003: 300,000) unlisted options to subscribe for 300,000 ordinary shares. The options are exercisable on or before 25 April 2006 at an exercise price of 30 cents for each ordinary share;
- 400,000 (2003: 500,000) unlisted options to subscribe for 400,000 ordinary shares. The options are exercisable on or before 25 April 2006 at an exercise price of 40 cents for each ordinary share; and
- 400,000 (2003: 500,000) unlisted options to subscribe for 500,000 ordinary shares. The options are exercisable on or before 25 April 2006 at an exercise price of 60 cents for each ordinary share.

Each option entitles the holder to be issued with one ordinary share in the capital of the Company subject to payment of the relevant issue price and satisfaction of applicable conditions (if any).

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

During the financial period 3,950,000 unlisted options were issued, 1,100,000 unlisted options exercised and 500,000 unlisted options lapsed. In addition there were 1,662,800 Employee Options exercised and 416,660 Employee Options were forfeited under the terms of the Employee Share Plan (Refer to Note 24).

During the year the company issued 2,762,800 ordinary shares as a result of the exercise of options, raising \$505,016.

Subsequent to the end of the year there have been no options issued, lapsed or exercised.

notes to the financial statements

for the year ended 30 june 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
19 RESERVES				
Share option	18,000	18,000	18,000	18,000
20 ACCUMULATED LOSSES				
Accumulated losses at beginning of year	(18,705,190)	(16,207,718)	(18,705,343)	(15,982,909)
Net profit/(loss) attributable to members of parent entity	1,913,115	(2,497,472)	1,913,268	(2,722,434)
Accumulated losses at end of year	(16,792,075)	(18,705,190)	(16,792,075)	(18,705,343)

21 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE

a) Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average rate for classes of financial assets and liabilities is set out below:

	Note	Fixed interest maturing in:				Total	Weighted average interest rate
		1 year or less	Over 1 to 5 years	Floating interest	Non-interest bearing		
		\$	\$	\$	\$	\$	
2004							
<i>Financial assets</i>							
Term Deposit	8	-	-	2,230,722	-	2,230,722	5.30%
Cash	8	-	-	53,003	300	53,303	2.70%
Receivables	9	-	-	-	5,449,063	5,449,063	-
Total financial assets		-	-	2,283,725	5,449,363	7,733,088	
<i>Financial liabilities</i>							
Payables	13	-	-	-	2,023,664	2,023,664	-
Employee entitlements	16	-	-	-	172,866	172,866	-
Total financial liabilities		-	-	-	2,196,530	2,196,530	

notes to the financial statements

for the year ended 30 June 2004

21 ADDITIONAL FINANCIAL INSTRUMENTS DISCLOSURE (continued)

	Note	Fixed interest maturing in:			Non-interest bearing	Total	Weighted average interest rate
		1 year or less	Over 1 to 5 years	Floating interest			
		\$	\$	\$	\$	\$	
2003							
<i>Financial assets</i>							
Term Deposit	8	-	-	475,474	-	475,474	4.63%
Cash	8	-	-	249,266	700	249,266	2.90%
Receivables	9	-	-	-	144,925	144,925	-
Total financial assets		-	-	724,740	145,625	869,665	
<i>Financial liabilities</i>							
Payables	13	-	-	-	361,645	290,892	-
Lease liabilities	14	143,308	-	-	-	302,734	8.33%
Employee entitlements	16	-	-	-	164,906	164,906	-
Total financial assets		143,308	-	-	526,551	758,532	

(b) Credit risk exposures

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

Recognised financial instruments

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position, is the carrying amount, net of any provision for doubtful debts. The consolidated entity was exposed at 30 June 2004 to an amount of \$5,070,259 (2003:\$nil), which was included in Trade Debtors (note 9). This amount was due and payable from ILCE a Mexico based authority and was received in full on 3 September 2004. The consolidated entity is not materially exposed to any other individual overseas country of individual customer.

(c) Net fair values of financial assets and liabilities

Valuation approach

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

Recognised financial instruments

The net fair value of investments in unlisted shares in other corporations is determined by reference to the underlying net assets and an assessment of future maintainable earnings and cash flows of the respective corporations.

The carrying amounts of cash and short term deposits, trade debtors, other debtors, payables, lease liabilities and employee entitlements approximate net fair value.

notes to the financial statements

for the year ended 30 june 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
22 COMMITMENTS				
Non cancellable operating lease commitments				
Future operating leases rentals not provided for in the financial statements and payable:				
Within one year	122,108	19,823	122,108	19,823
One year or later but not later than five years	30,527	-	30,527	-
	<u>152,635</u>	<u>19,823</u>	<u>152,635</u>	<u>19,823</u>
Non cancellable operating lease commitments				
Future operating lease rentals provided for in financial statements as surplus lease space				
Within one year	-	7,891	-	7,891
	<u>-</u>	<u>7,891</u>	<u>-</u>	<u>7,891</u>
<p>The consolidated entity leases property under non-cancellable operating leases expiring within two years. Leases generally provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount plus an incremental contingent rental. Contingent rentals are based on either movements in the Consumer Price Index or operating criteria.</p>				
Finance lease payment commitments				
Finance lease commitments are payable as follows:				
Within one year	-	149,445	-	149,445
Less: Future lease finance charges	-	6,137	-	6,137
	<u>-</u>	<u>143,308</u>	<u>-</u>	<u>143,308</u>
Lease liabilities provided for in the financial statements				
Current (note 14)	-	143,308	-	143,308
Total lease liability	<u>-</u>	<u>143,308</u>	<u>-</u>	<u>143,308</u>

notes to the financial statements

for the year ended 30 June 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
23 NOTES TO THE STATEMENTS OF CASHFLOWS				
(a) Reconciliation of profit/(loss) from ordinary activities after income tax to net cash used in operating activities				
Profit/(loss) from ordinary activities after income tax	1,913,115	(2,497,472)	1,913,268	(2,722,434)
Add/(less) items classified as investing/financing activities:				
(Profit)/Loss on sale of non-current assets	64,955	(167,084)	64,955	(167,084)
Research & development expenditure classified as investing activities	-	1,064,418	-	1,064,418
Add/(less) non-cash items:				
Depreciation	120,914	174,436	120,761	178,305
Amortisation	78,086	215,707	78,086	100,930
Expenses settled through the issue of shares	33,000	-	33,000	-
Write down in value of investments	-	-	-	253,893
Non-cash employee expense	-	49,600	-	-
Net cash provided by/(used in) operating activities before change in assets and liabilities	2,210,070	(1,160,394)	2,210,070	(1,291,972)
Change in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:				
(Increase) /decrease in net receivables	(5,304,138)	170,405	(5,304,138)	180,032
(Increase)/decrease in prepayments	(282,448)	1,029	(282,448)	146,029
Increase/(decrease) in payables and unearned revenue	2,860,913	(33,201)	2,860,913	(28,807)
Increase/(decrease) in provisions	7,742	(290,861)	7,742	(277,497)
Net cash used in operating activities	(507,861)	(1,313,022)	(507,861)	(1,272,215)

notes to the financial statements

for the year ended 30 June 2004

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$

23 NOTES TO THE STATEMENTS OF CASHFLOWS (continued)

(b) Reconciliation of Cash

For the purposes of the statements of cash flows, cash includes cash on hand and at bank and short term deposits at call. Cash as at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash – Note 8	53,303	249,966	53,303	249,966
Short term deposits – Note 8	2,230,722	475,474	2,230,722	475,474
	<u>2,284,025</u>	<u>725,440</u>	<u>2,284,025</u>	<u>725,440</u>

24 EMPLOYEE ENTITLEMENTS

Aggregate liability for employee entitlements,
including on-costs

Current – Note 16	129,494	133,424	129,494	133,424
Non-current – Note 16	43,372	31,482	43,372	31,482
	<u>172,866</u>	<u>164,906</u>	<u>172,866</u>	<u>164,906</u>

The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:

Assumed rate of increase in salary rates	5.0%	5.0%	5.0%	5.0%
Average Discount rate	5.75%	5.75%	5.75%	5.75%
Settlement term (years)	15	15	15	15

Number of employees

Number of employees at year end	24	20	24	20
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Employee Option plan

The Company has an Employee Option Plan. Options are issued at the discretion of the Directors at no consideration. Each option is convertible to one ordinary share. There are no voting rights attached to the unissued ordinary shares. Voting rights will be attached to the unissued ordinary shares when the options have been exercised. All options expire on the earlier of their expiry date or termination of the employee's employment. Options vest one third one year, one third two years and one third three years from the grant date.

Details of options over unissued ordinary shares at the beginning and ending of the reporting date and movements during the year are set out on the following pages. 2,762,800 options were exercised during the 2004 financial year. No options were exercised during the 2003 financial year.

The market value of shares under options at 30 June 2004 was \$0.30 (2003: \$0.06).

notes to the financial statements

for the year ended 30 June 2004

Consolidated and Company 2004

Grant date	Expiry Date	Exercise Price	Number of options at beginning of year	Options granted	Options cancelled	Options exercised	Number of options at end of year on issue	Number of options at end of year vested	Proceeds on Exercise of options	Fair Value per share	Fair Value Aggregate
30 August 1999	30 August 2005	\$0.20	2,026,656	-	-	1,240,000	786,656	786,656	248,000	\$0.35	434,000
20 December 1999	20 December 2004	\$0.90	600,000	-	-	-	600,000	600,000	-	-	-
14 February 2001	14 February 2006	\$0.60	1,688,333	-	-	-	1,688,333	1,688,333	-	-	-
14 February 2001	14 February 2006	\$0.72	665,933	-	-	-	665,933	665,933	-	-	-
24 February 2001	24 February 2006	\$0.10	300,000	-	150,000	-	150,000	150,000	-	-	-
24 February 2001	24 February 2006	\$0.30	300,000	-	116,660	-	183,340	183,340	-	-	-
24 February 2001	24 February 2006	\$0.40	400,000	-	-	-	400,000	400,000	-	-	-
24 February 2001	24 February 2006	\$0.60	468,325	-	150,000	-	318,325	318,325	-	-	-
9 July 2001	9 July 2006	\$0.22	900,000	-	-	72,800	827,200	527,200	16,016	\$0.36	26,208
9 July 2001	9 July 2006	\$0.10	615,044	-	-	350,000	265,044	265,044	35,000	\$0.32	112,000
28 February 2002	28 February 2007	\$0.20	75,000	-	-	-	75,000	75,000	-	-	-
			8,039,291				5,959,831	5,659,831	299,016		572,208

Consolidated and Company 2003

Grant date	Expiry Date	Exercise Price	Number of options at beginning of year	Options granted	Options cancelled	Options exercised	Number of options at end of year on issue	Number of options at end of year vested	Proceeds on Exercise of options	Fair Value per share	Fair Value Aggregate
30 August 1999	30 August 2005	\$0.20	4,425,000	-	2,398,344	-	2,026,656	2,026,656	-	-	-
20 December 1999	20 December 2004	\$0.90	600,000	-	-	-	600,000	600,000	-	-	-
14 February 2001	14 February 2006	\$0.60	1,688,333	-	-	-	1,688,333	1,125,555	-	-	-
14 February 2001	14 February 2006	\$0.72	3,000,000	-	2,334,067	-	665,933	443,955	-	-	-
24 February 2001	24 February 2006	\$0.10	300,000	-	-	-	300,000	-	-	-	-
24 February 2001	24 February 2006	\$0.30	300,000	-	-	-	300,000	-	-	-	-
24 February 2001	24 February 2006	\$0.40	400,000	-	-	-	400,000	-	-	-	-
24 February 2001	24 February 2006	\$0.60	1,000,000	-	531,675	-	468,325	312,217	-	-	-
9 July 2001	9 July 2006	\$0.22	900,000	-	-	-	900,000	300,000	-	-	-
9 July 2001	9 July 2006	\$0.10	615,044	-	-	-	615,044	615,044	-	-	-
7 December 2001	7 December 2006	\$0.20	400,000	-	400,000	-	-	-	-	-	-
7 December 2001	7 December 2006	\$0.30	400,000	-	400,000	-	-	-	-	-	-
7 December 2001	7 December 2006	\$0.40	200,000	-	200,000	-	-	-	-	-	-
28 February 2002	28 February 2007	\$0.20	75,000	-	-	-	75,000	25,000	-	-	-
			14,303,377				8,039,291	5,448,427			

notes to the financial statements

for the year ended 30 June 2004

24 EMPLOYEE ENTITLEMENTS (continued)

Superannuation plans

The Company and its controlled entities contribute to several defined contribution employee superannuation plans.

Details of contributions to the defined contribution plans during the year and contributions payable at 30 June 2003 are as follows:

	Consolidated		The Company	
	2004	2003	2004	2003
	\$	\$	\$	\$
Employer contributions to the plans	142,199	167,275	142,199	167,275
Employer contributions payable to the plans at balance date	15,166	13,806	15,166	13,806

25 DIRECTORS AND EXECUTIVES DISCLOSURES

a) Details of Specified Directors and Specified Executives

(i) Specified Directors

Grame Barty	Executive Chairman
Hamish Giles	Non Executive Director
Michael Malbourne	Non Executive Director

(ii) Specified Executives

Mark Ashforth	Company Secretary
Lynda Masterman	GM Business Service
Jamie Street	GM Sales
AryIn Bartel	Product Development Manager
Allyn Radford	GM Knowledge Enterprise Solutions

There are no other specified executives within the Company and or its controlled entities at 30 June 2004.

b) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Remuneration Committee is responsible for making recommendations to the Board on remuneration policies and packages applicable to the Board members and senior executives of the Company. The broad remuneration policy is to ensure the remuneration package properly reflects the person's duties and responsibilities and level of performance; and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

To assist in achieving these objectives, the Remuneration Committee links the nature and amount of executive directors' and officers' emoluments to the company's financial and operational performance.

notes to the financial statements

for the year ended 30 June 2004

25 DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

(i) Remuneration Policy (continued)

Senior executives are engaged under written contracts of employment which include provision for payment of salary and benefits as disclosed in this reports, payments of statutory leave and superannuation benefits and provide for between one and three months notice of termination.

(ii) Remuneration of Specified Directors and Specified Executives

	Salary & Fees	Cash Bonus	Non Monetary benefits	Super	Retirement benefits	Options	Total
Specified Directors	\$	\$	\$	\$	\$	\$	\$
Grame Barty							
2004	160,000	-	3,600	14,400	-	309,063	487,063
2003	93,000	-	3,336	3,075	-	-	99,411
Hamish Giles							
2004	27,500	-	810	-	-	133,021	161,331
2003	16,667	-	10,310	-	-	-	26,977
Michael Malbourne							
2004	27,500	-	-	-	-	48,510	76,010
2003	10,415	-	-	-	-	-	10,415
Total Remuneration Specified Directors							
2004	215,000	-	4,410	14,400	-	490,594	724,404
2003	120,082	-	13,646	3,075	-	-	136,803
Specified Executives							
Mark Ashforth							
2004	92,010	-	1,440	8,281	-	-	101,731
2003	67,035	-	1,440	6,033	-	-	74,508
Lynda Masterman							
2004	87,500	-	3,600	7,875	-	-	98,975
2003	87,500	157	1,777	7,875	-	-	97,309
Allyn Radford							
2004	119,215	48,550	15,841	9,009	-	9,500	205,115
2003	-	-	-	-	-	-	-
Jamie Street							
2004	116,264	-	-	-	-	-	116,264
2003	68,691	-	-	-	-	-	68,691
Aryln Bartel							
2004	85,000	-	3,600	7,650	-	-	96,250
2003	84,167	-	3,600	7,575	-	-	95,342
Total Remuneration Specified Executives							
2004	499,989	48,707	24,481	32,815	-	9,500	615,492
2003	307,393	-	6,817	21,483	-	-	335,850

notes to the financial statements

for the year ended 30 june 2004

25 DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

During the year the Company also paid consultancy fees to entities associated with Non Executive Directors, Mr Hamish Giles and Mike Malbourne. Refer to Note 25(g).

Options - The fair value of the options is calculated at the date of grant using a Black and Scholes model and allocated to each reporting period evenly over the period from grant date to vesting date. The value disclosed above is the proportion of the fair value of the options allocated to the reporting period. Further details of options are set out at 25(C).

c) Remuneration options: Granted and vested during the year

	Granted Number	Grant Date	Vested Number	Value of vested Options measured at Grant Date (\$)	Exercise Price per Share \$	First Exercise	Last Exercise
Specified Directors							
Grame Barty	2,500,000	28/11/2003	1,000,000	\$309,063	1,000,000 @ 36 cents 750,000 @ 43 cents 750,000 @ 50 cents	29/11/2003 29/11/2004 29/11/2005	8/11/2006 28/11/2007 28/11/2008
Hamish Giles	1,000,000	28/11/2003	500,000	\$133,021	500,000 @ 36 cents 250,000 @ 43 cents 250,000 @ 50 cents	29/11/2003 29/11/2004 29/11/2005	28/11/2006 28/11/2007 28/11/2008
Michael Malbourne	400,000	28/11/2003	150,000	\$48,510	150,000 @ 36 cents 125,000 @ 43 cents 125,000 @ 50 cents	29/11/2003 29/11/2004 29/11/2005	28/11/2006 28/11/2007 28/11/2008
Specified Executives							
Allyn Radford	50,000	8/6/2004	50,000	\$9,500	50,000 @ 30 cents	8/6/2007	8/6/2007
Total	3,950,000		1,700,000				

During the year options were granted as equity compensation benefits to certain specified directors and specified executives as disclosed above. The options were issued free of charge.

The valuations are based on a valuation methodology using the Black Scholes Option Valuation Model and based on the following data:

Underlying security spot price	36 cents
Exercise price	Tranche 1, 36 cents Tranche 2, 43 cents Tranche 3, 50 cents
Risk Free Rate	5.18%
Issue Date	26/11/2003
Expiry Date	25/11/2006
Standard deviation of Returns (annualised)	83.14%

The option valuation has been discounted to reflect the need for the exercise price to remain at the average price plus for 10 consecutive days in order for the options to be exercised.

notes to the financial statements

for the year ended 30 June 2004

25 DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

The key terms of the specified director's options are:

Director	Tranche 1	Tranche 2	Tranche 3	Total Options
	Exercise Price	Exercise Price	Exercise Price	
	Average Price	Average Price plus	Average Price plus	
		20%	40%	
Grame Barty	1,000,000	750,000	750,000	2,500,000
Hamish Giles	500,000	250,000	250,000	1,000,000
Mike Malbourne	150,000	125,000	125,000	400,000

Average Price means the average weighted price on which HarvestRoad shares close for the last 10 trading days up to and including the last trading day before the 2003 AGM rounded up to the nearest cent.

The options issued to Allyn Radford vest immediately, each of the options has an exercise price of \$0.30 each and expiry date of 8 June 2007. The options were valued based on the Black and Scholes valuation model using the following assumptions.

Underlying security spot price	31 cents
Exercise price	30 cents
Risk Free Rate	5.18%
Issue Date	8/6/2004
Expiry Date	8/6/2007
Standard deviation of Returns (annualised)	83.14%

d) Shares issued on exercise of remuneration options

	Shares issued Number	Paid Per Share \$	Unpaid per Share \$
Specified Directors			
Grame Barty	1,000,000	\$0.20	Nil
Total	<u>1,000,000</u>		

e) Option holdings of Specified Directors and Specified Executives

	Balance at Beginning of Period	Granted as Remuneration of Period	Options exercisable	Options Exercised	Balance at End of Period	Vested at 30 June 2004		
						Total	Not exercisable	Exercisable
Specified Directors								
Grame Barty	1,477,472	2,500,000	3,977,472	(1,000,000)	2,977,472	2,977,472	1,500,000	1,477,472
Hamish Giles	700,000	1,000,000	1,200,000	-	1,700,000	1,700,000	500,000	1,200,000
Mike Malbourne	-	400,000	150,000	-	400,000	400,000	350,000	50,000

notes to the financial statements

for the year ended 30 June 2004

25 DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

e) Option holdings of Specified Directors and Specified Executives (continued)

	Balance at Beginning	Granted as Remuneration of Period	Options exercisable	Options Exercised	Balance at End of Period	Vested at 30 June 2004		
						Total	Not exercisable	Exercisable
Specified Executives								
Mark Ashforth	820,000	-	820,000	-	820,000	370,000	-	370,000
Lynda Masterman	550,000	-	550,000	-	550,000	100,000	-	100,000
Jamie Street	650,000	-	650,000	-	650,000	650,000	-	650,000
Aryln Bartel	275,000	275,000	275,000	(200,000)	75,000	75,000	-	75,000
Allyn Radford	-	50,000	50,000	-	50,000	50,000	-	50,000
Total	5,445,000	4,225,000	7,145,000	(1,200,000)	6,695,000	5,795,000	3,000,000	2,795,000

f) Shareholdings of Specified Directors and Specified Executives

	Balance	Granted as	On Exercise of	Net Change	Balance
	1 July 2003	Remuneration	Options	Other	30 June 2004
Specified Directors					
Grame Barty	4,156,495	-	1,000,000	(650,000)	4,506,495
Hamish Giles	756,894	-	-	(350,000)	406,894
Michael Malbourne	1,150,000	-	-	-	1,150,000
Specified Executives					
Mark Ashforth	140,400	-	-	-	140,000
Lynda Masterman	25,000	-	-	-	25,000
Jamie Street	940,000	-	-	(330,290)	609,710
Aryln Bartel	-	-	200,000	(200,000)	-
Allyn Radford	-	-	-	-	-
	7,168,789	-	1,200,000	(1,530,290)	6,838,099

g) Other Transactions and Balances with Specified Directors and Specified Executives

Services

The Company used the services of Salmon Giles Pty Ltd and Elmside Pty Ltd through the period for corporate advisory work. The companies are related entities of Hamish Giles and Mike Malbourne respectively. The amounts disclosed include any out of pocket expenses, but exclude directors fees which are disclosed in Note 25b(ii). Amounts recognised at the reporting date in relation to the transactions with Salmon Giles Pty Ltd and Elmside Pty Ltd:

notes to the financial statements

for the year ended 30 June 2004

25 DIRECTORS AND EXECUTIVES DISCLOSURES (continued)

	Hamish Giles		Mike Malbourne	
	2004	2003	2004	2003
	\$'000	\$'000	\$'000	\$'000
Amounts included in Statement of Financial Position				
Current liabilities				
Trade creditors	20	55	(20)	-
Non current liabilities	-	-	-	-
Total liabilities	20	55	(20)	-
Amounts include in the Statement of Financial Performance				
Expenses	(12)	(15)	(12)	-
Total Expenses	(12)	(15)	(12)	-

26 CONTROLLED ENTITIES

Particulars in relation to controlled entities	Ordinary Share Consolidated Entity Interest	
	2004	2003
	%	%
Name		
HarvestRoad Limited		
Controlled entities		
Prism Unit Trust	100	100
Prism Group Pty Ltd	100	100

Omani Pty Ltd was deregistered on 29 December 2002.

27 EVENTS SUBSEQUENT TO BALANCE DATE

Receipt of Payment Under Agreement with ILCE

On 3 September 2004, the Company received payment of USD\$3.5m under its agreement with, the Latin American Institute for Communication in Education ("ILCE").

Tax Consolidation

The Government announced that it plans to amend the tax consolidation legislation. Details of the proposed changes are not yet available. The effects of any change will be brought to account when the legislation is substantively enacted and the entity can assess the impact.

notes to the financial statements

for the year ended 30 june 2004

27 EVENTS SUBSEQUENT TO BALANCE DATE (continued)

International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with International Reporting Standards (IFRS) as issued by the Australian Accounting Standards Board.

This financial report has been prepared in accordance with Australian accounting standards and other financial reporting requirements (Australian GAAP). The differences between Australian GAAP and IFRS identified to date as potentially having a significant effect on the consolidated entity's financial performance and financial position are summarised below. The summary should not be taken as a exhaustive list of all the differences between Australian GAAP and IFRS. No attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transaction or events are presented.

The consolidated entity has not quantified the effects of the differences discussed below. Accordingly, there can be no assurances that the consolidated financial performance and financial positions as disclosed in this financial report would not be significantly different if determined in accordance with IFRS.

Regulatory bodies that promulgate Australian GAAP and IFRS have significant ongoing projects that could affect the differences between Australian GAAP and IFRS described below and the impact of these differences relative to the consolidated entity's financial reports in the future. The potential impacts on the consolidated entity's financial performance and financial position of the adoption of IFRS, including system upgrades and other implementation costs which may be incurred, have not been quantified as at the transition date of 1 July 2004 due to the short timeframe between finalisation of the IFRS standards and the date of preparing this report. The impact on future years will depend on the particular circumstances prevailing in those years. An IFRS Steering Committee has been established to oversee the progress of IFRS and make recommendations.

The key potential implications of the conversion to IFRS on the consolidated entity are as follows:

- financial instruments must be recognised in the statement of financial position and all derivatives and most financial assets must be carried at fair value.
- income tax will be calculated based on the "balance sheet" approach, which may result in more deferred tax assets and liabilities and, as tax effects follow the underlying transaction, some tax effects will be recognised in equity and temporary differences and tax losses may be brought to account as deferred tax assets where their realisation is possible.
- intangible assets:
 - internally generated intangible assets (except development phase expenditure in certain circumstances) will not be recognised.
 - Intangible assets can only be revalued if there is an active market.
- Goodwill and intangible assets with indefinite useful lives will be tested for impairment annually and will not be amortised.
- Impairments of assets will be determined on a discounted basis, with strict tests for determining whether goodwill and cash-generating operations have been impaired.

notes to the financial statements

for the year ended 30 June 2004

27 EVENTS SUBSEQUENT TO BALANCE DATE (continued)

- Equity-based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services.
- Changes in accounting policies will be recognised by restating comparatives rather than making current year adjustments with note disclosure of prior year effect.

The Company's implementation of conversion to IFRS consists of three phases as described below:

Assessment and planning phase – includes the high level identification of the key differences in accounting policies and disclosures that are expected to arise from adopting IFRS. The Company considers the assessment and planning phase to be complete in most respects as at 30 June 2004.

Design Phase – formulate the changes required to existing accounting policies and procedures and systems and processes in order to transition to IFRS. The Company commenced its design phase and expects to complete during the upcoming financial year.

Implementation Phase – includes the implementation of identified changes to accounting and business procedures of AASB 1 as it progresses through its transition to IFRS. The Company has not yet commenced the implementation phase. However the Company expects this phase to be substantially completed by 30 June 2005.

ASX additional information

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report is set out below.

SHAREHOLDINGS (as at 27 September 2004)

(a) Substantial Shareholders

The number of shares held by the substantial shareholders and their associated interests are set out below:

	<u>Ordinary</u>
National Nominees Ltd	7,002,531
Parmelia Pty Ltd	5,283,533
Ainslie Rd Pty Ltd	4,327,309

(b) Voting Rights

Ordinary shares

The voting rights set out in clause 14.1 of The Company's Constitution are:

"Subject to any rights or restrictions for the time being attached to any class or classes of shares –

- (a) at meetings of members or classes of members each member entitled to vote may vote in person or by proxy or attorney; and
- (b) on a show of hands every person who is a member has one vote and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held."

Options

There are no voting rights attached to options.

(c) Distribution of equity security holders

<u>Category</u>	<u>Number of equity security holders</u>
1 – 1,000	163
1,001 – 5,000	665
5,001 – 10,000	379
10,001 – 100,000	587
100,001 and over	106
	<u>1,900</u>

The number of shareholders holding less than a marketable parcel at 31 August 2004 was 251.

ASX additional information

Twenty largest shareholders

Name	Number of Ordinary shares	Percentage of capital held
National Nominees Ltd	7,002,331	9.92
Parmelia Pty Ltd	5,283,533	7.49
Ainslie Rd Pty Ltd	4,327,309	6.13
J P Morgan Nominees Australia Ltd	1,810,000	2.56
Mr Jonathan Edward Moore	1,539,346	2.18
Tribulation Pty Ltd	1,223,756	1.74
Elmside Pty Ltd	1,150,000	1.63
Hammond Royce Corporation Pty Ltd	865,417	1.23
Siab Investments Pty Ltd	800,000	1.13
Cyber International Pty Ltd	689,710	0.98
Christine James Funds Management Pty Ltd	629,000	0.89
Heath Super Pty Ltd	575,781	0.82
Estelville Nominees Pty Ltd	500,000	0.71
Beresford Securities Pty Ltd	500,000	0.71
Mrs Stephen and Mrs Deborah Danne	459,456	0.65
Pinnaburra Pty Ltd	454,000	0.64
Mr Loui and Mrs Denise Silvestro	425,888	0.60
Mrs Jennifer May Chamberlain	400,000	0.57
Dr Gary Garside	400,000	0.57
Bell-Allen Holdings Pty Ltd	382,710	0.54
TOTAL	29,418,237	41.69

(e) Statement on Use of Cash and Assets in a Form Readily Convertible to Cash

Since admission to the Australian Stock Exchange on 7 September 1999, the Company has used the cash and assets in a form readily convertible to cash that it had at the time of admission in a manner consistent with its business objectives.

(f) Share Registry

Computershare Registry Services Pty Ltd
Level 2, 45 St George's Terrace
Perth WA 6000

(g) Registered Office

Level 6, 10 William Street
Perth WA 6000

ASX additional information

(h) Company Secretary

Mark Ashforth

(i) Stock Exchange

The Company is listed on the Australian Stock Exchange. The Home Exchange is Perth.

(j) Other Information

HarvestRoad Ltd is incorporated and domiciled in Australia, is a publicly listed company limited by shares.

(k) Differences in Financial Statements Compared to the ASX Appendix 4E

The following differences arise from the Statement of Financial Position at 30 June 2004 reported compared to the Statement of Financial Position released as part of the Company's Preliminary Final Report (ASX Appendix 4E):

Unearned Revenue

Note 17 to the Notes to the Financial Statements disclose that an amount of Unearned Revenue of \$1,235,489 has been split between Current Liability (\$872,322) and Non- Current Liability (\$363,167). In the Company's Preliminary Final Report (Appendix 4E), the aggregate amount of unearned revenue of \$1,235,489 was disclosed as being all Current Liability. The Non- Current amount represents revenues, which have been received in advance of services which are deliverable over the period 1/7/05 to 30/06/06.

corporate governance statement

This statement outlines the main Corporate Governance Practices in place throughout the financial year, which comply with the ASX Corporate Governance Council recommendations, unless otherwise stated.

The Practices are in place at the present time and are dealt with under the following headings:

1. Board of Directors and its Committee's;
2. Internal Control Framework; and
3. The role of Shareholders.

1. board of directors and its committee's

(A) role of the board

The Board's primary role is the protection and enhancement of long term Shareholder value.

To fulfil this role, the Board is responsible for the overall Corporate Governance of the Company including its strategic direction, establishing goals for Management and monitoring the achievement of these goals.

The Board is responsible for:

- Providing entrepreneurial leadership for the Company;
- The appointment and removal of Key Executive staff;
- Setting Corporate Strategy and Performance Objectives;
- Reviewing and ratifying systems of Risk Management and Internal Compliance and Control, Codes of Conduct, Delegations Manuals and Legal Compliance;
- Monitoring Management's Performance and Implementation of Strategy and ensuring appropriate Human and Financial Resources are available; and
- Approving and monitoring Capital Expenditure, Capital Management and Acquisition and Divestitures.

The terms and conditions of the appointment and retirement of non-Executive Directors are set out in the letter of appointment.

The appointment letter includes the following matters:

- Details of the induction process;
- The manner in which remuneration is determined;
- The term of the appointment (subject to Shareholder approval);
- The expectation of the Board in relation to attendance and preparation for all Board meetings;
- The Committees to which the Director may be expected to be appointed;
- The procedures for dealing with conflicts of interest;

- The availability of independent professional advice;
- The acceptance of other Directorships; and
- A copy of the Constitution of the Company is also provided.

The Chairman reviews the performance of all Directors each year. Directors whose performance is unsatisfactory are asked to retire.

Non-Executive Directors are expected to attend 90% of all Board meetings and to attend in person a minimum of two (2) Board meetings per year. Non-Executive Directors are expected to devote a minimum of two (2) days per month in respect to attending to Board matters including attendance on various Board Committees. Non-Executive Directors are not expected to sit on more than three (3) Public Company Boards.

Senior Executive Management are provided with Contracts of Employment incorporating formal job descriptions and performance parameters.

The Board has resolved the appointment and/or removal of a Company Secretary shall be a matter for decision by the Board as a whole.

(B) composition of the board

The Composition of the Board is determined using the following principals:

- The Board should comprise a minimum of three (3) Directors. This number may be increased where it is felt that additional expertise is required in specific areas, or where an outstanding candidate is identified.
- Where practicable, the Chairman of the Board should be an independent non-Executive Director;
- The Board should comprise a majority of non-Executive Directors, with at least 50% of the Board being independent non-Executive Directors;
- An independent non-Executive Director is a Director who is not a member of Management or a full time employee and who:
 - has not within the last three (3) years been employed in an Executive capacity by the Company;
 - is not a significant supplier or customer to the Company or an Officer of or otherwise associated, directly or indirectly, with a significant supplier or customer;
 - has no material contractual relationship with the Company or another group member other than as a Director of the Company;
 - is free of any interest and any business or other relationship, which could, or could reasonably be perceived to, materially interfere with the Directors ability to act in the best interest of the Company;

- is not a substantial Shareholder of the Company or an Officer of, or otherwise associated directly with, a substantial Shareholder in the Company;
 - in the last three (3) years has not been a Principal or Employee of a Material Professional Advisor or a Material Consultant to the Company or another group member, or an Employee materially associated with the service provided; and
 - has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Directors ability to act in the best interest of the Company.
- The Board should have enough Directors to serve on various Committee's of the Board without over burdening the Directors or making it difficult for them to fully discharge their responsibilities; and
 - The Board should comprise Directors with a broad range of expertise both nationally and internationally.

(C) board appointments committee

Background

The Board Appointments Committee ("Committee") is a Committee established by the Board to review the composition of the Board and ensure that the Board has an appropriate mix of expertise and experience and to assess and review the performance of the Directors of the Board.

The Board believes that the individual performance of the Directors of the Company has a significant bearing on the success of the Company and that each Director should be independently accountable in respect to their contribution. The Board is cognisant of the need to ensure that appropriate expertise and skills exist within the Board in order for the Board to address current issues of the Company and focus on the strategic plans of the Company.

Constitution

The Committee has been established by a Board resolution and has the power to obtain information from management. The Committee also has the right to seek independent professional advice, when considered necessary.

Charter

a) Objectives

- Review the individual performance of Directors against key performance indicators and agreed benchmarks;
- Identify potential candidates who could provide services as a new Director of the Company;

- Utilise professional external consultants where necessary to identify potential candidates;
- Establish key performance indicators for Directors;
- Establish and monitor the Company's Director education program;

b) Composition of the Board Appointments Committee

The Committee shall initially consist of the Chairman, a non Executive Director appointed by the Chairman and an external consultant, when required.

The Chairman shall chair the Committee.

The Chief Executive Officer of the Company shall be invited to attend Committee meetings.

Members of the Committee shall be appointed for an initial three (3) year term of office after which their appointment may be subject to annual rotation.

c) Meetings

The Committee shall meet as and when required.

The Chairman will determine when meetings are to be held having regard to the needs of the Company and on the recommendation and advice of an external consultant.

The Chairman will call a meeting of the Committee if so requested by any Committee member, the Board or the Chief Executive Officer.

d) Responsibilities

The Committee shall consider all matters in respect to the appointment of Board members and a review of the performance of Board members including:

- The development of an appointment letter for Board members;
- Identification of the induction process for Board members;
- The term of appointment of Board members, subject to shareholders approval;
- The expectation of the Board in relation to attendance and preparation for all Board meetings;
- The Committees to which the Director may be expected to be appointed;
- The procedures for dealing with conflicts of interest;
- The establishment of a Directors continuous education program; and
- The establishment of key performance indicators and responsibilities for each Director.

e) Reporting

The Chairman of the Committee shall report the findings and recommendation of the Committee to the Board as soon as practicable after a recommendation has been made. The Minutes of all Committee meetings shall be circulated to members of the Board.

The Chairman shall submit an annual report to the Board summarising the Committee's activities during the year.

(D) audit and compliance committee

Background

The Audit and Compliance Committee ("Committee") is a committee established by the Board of the Company to give additional assurance regarding the quality and reliability of financial information used by the Board and financial information provided by the Company pursuant to its Statutory reporting requirements.

The Board of the Company believe that having raised funds from the public, it has a responsibility to ensure independent accountability exists. The focus of the activities of this Committee is to increase confidence in the credibility and reliability of financial statements and other financial information released to the public.

Constitution

The Committee has been established by a Board resolution and has the power to obtain information from management and to consult directly with the Auditors of the Company.

The Committee also has the right to seek independent professional advice, when considered necessary. The Committee should not, under any circumstances accept the delegation of Executive power in respect to the operations of the Company or undertake activities in a manner which could be construed to impinge on the Executive role of the Company.

Charter

(a) Objectives

- Provide enhanced public confidence in the credibility and objectivity of financial information released to the public;
- Demonstration of the Board's intention to exercise due care in reviewing financial information and in fulfilling legal responsibilities;
- Augment non Executive Directors' knowledge and understanding of financial information;
- Increase focus on the corporate risk profile of the Company including the level of authority delegated to management by the Board;

- Provide an insight to the Directors of the Company in respect to the accounting and control systems that exist within the Company and management action to maintain and improve them;
- Assist the Finance Director/Financial Controller by providing a forum in which to raise issues of concern;
- Increase Directors' understanding of the nature and scope of the statutory audit and where applicable, internal audit;
- Provide a framework within which the external Auditors can assert their independence in the event of a dispute with management;
- Provide improved communication between the external Auditor and the Board.

(b) Composition of the Audit and Compliance Committee

The Committee shall consist of a minimum of two (2) non Executive Directors appointed by the Board, and the Company Secretary.

The Board shall determine the Chairman of the Committee and the Chairman may choose to expand the membership of the Committee by the appointment of external professionals to the Committee or by the appointment of further non Executive Directors of the Company to the Committee. The Chairman will be a Non-Executive Director. Should the Chairman of the Committee be absent from a meeting, the members of the Committee present shall appoint an acting Chairman for that meeting.

The Chief Executive Officer and other senior management of the Company may be invited to attend Committee meetings. Advisers and other parties external to the Company may also be invited to attend meetings of the Committee as the Chairman considers appropriate.

A quorum of the meeting will consist of two members of the Committee.

Members of the Committee shall be appointed for an initial three (3) year term of office after which their appointment may be subject to annual rotation.

(c) Meetings

The Committee is expected to meet six (6) times per year on a bi monthly basis and more often where specifically required to.

The content of the meetings shall be determined having regard to the financial reporting and audit cycle of the Company and having specific reference to ASX listing requirements.

The Company Secretary of the Company shall be appointed Secretary of the Committee. Minutes of the meetings shall be prepared by the Secretary, as required, approved by the Chairman and circulated to all members of the Committee for their approval. The Secretary

shall, in conjunction with the Chairman, draw up an agenda which will be circulated at least ten business days prior to each meeting to the members of the Committee.

The Chairman will call a meeting of the Committee if so requested by any Committee member, the Finance Director/Financial Controller or external Auditors.

Any action required or permitted to be taken at any meeting of the Committee may be taken without a meeting, if a written consent thereto is signed by all the members of the Committee, provided that such written consent shall be filed with the minutes of the proceedings of the Committee.

The Constitution of the Company shall govern the regulation of the meetings and proceedings of the Committee, so far as the Constitution may be applicable.

(d) Responsibilities

The Committee shall consider any matters relating to the financial affairs of the Company, compliance with statutory and ASX listing requirements and issues relating to internal and external Audit. In addition, the Committee shall examine any other matters referred to it by the Board.

The duties of the Committee are as follows:

- reviewing financial statements and other financial information distributed externally and determining whether or not to recommend their acceptance by the Board;
- monitoring corporate risk assessment and internal controls instituted and implementing internal controls to manage those risks;
- monitoring the establishment of an appropriate internal control framework, including information systems and considering enhancements;
- reviewing external audit reports to ensure that where major deficiencies or breakdowns in controls or procedures have been identified, appropriate and prompt remedial action is taken by management;
- reviewing the nomination and performance of the external Auditors;
- liaising with the external Auditors and ensuring that the annual and half-year statutory audits and reviews are conducted in an effective manner;
- monitoring the procedures in place to ensure that the Company is in compliance with the Corporations Law, ASX Listing Rules, its Constitution and other legislative and reporting requirements. This includes implementing a reporting system that meets formulated standards for public announcements made by the Company to ensure that shareholders and financial markets are adequately and properly informed in order to meet the continuous reporting requirements of the Corporations Law and the listing rules of Australian Stock Exchange Limited;

- reviewing reports on any major defalcations, frauds and thefts from the Company;
- reviewing the declaration from the Company Secretary on compliance with statutory responsibilities;
- ensuring that a corporate Code of Ethics is established and periodically reviewed;
- initiating and supervising special investigations;
- reviewing risk management practices, including the Company's use of derivatives;
- reviewing policies to avoid conflicts of interest and reviewing past or proposed transactions between the Company and members of management;
- reviewing related party transactions and considering the adequacy of disclosure of those transactions in the financial statements;
- reviewing reports on certain aspects of the Company's superannuation plan and compliance with relevant laws and regulations;
- reviewing reports on the adequacy of insurance coverage;
- formulate, review and monitor compliance with and investigate allegations of a breach of appropriate internal controls and reporting standards, mechanisms and procedures to ensure that the Board is informed at all times of all material corporate governance matters effecting the Company; and
- formulate and update, for submission to the Board for its approval, a statement of corporate governance principals and other associated documents dealing with, amongst other matters:
 - a) the structure and responsibilities of the Board;
 - b) the proper relationship between the Board and management including the proper relationship between the roles of Chairman and Managing Director;
 - c) the responsibilities of management;
 - d) the proper relationships between the Company and its shareholders, suppliers and customers and employees;
 - e) business dealings, in particular related party transactions, by Directors, management and employees giving rise to actual or potential conflicts of interest and their appropriate disclosure of such dealings; and
 - f) ethical and other matters considered by the Committee to be relevant to good corporate governance practice.
- to monitor compliance with the statement and to review or investigate allegations of a breach of the statement or of good corporate governance practice and to report to the Board in respect of such compliance, reviews and investigations at least annually, or more frequently if circumstances require;

- to formulate for Board approval and review and to facilitate the implementation of appropriate procedures to enable individual Directors to have access to independent professional advice, as considered necessary, in respect of corporate governance matters;
- to act as a resource for individual Directors and the Company as a whole on questions of corporate governance and corporate ethics, including providing decisions and/or advice on such matters as are referred to the Committee by the Chairman of the Board or the Managing Director.

(e) Reporting

The Chairman of the Committee shall report the findings and recommendations of the Committee to the Board after each Committee meeting. The minutes of all Committee meetings shall be circulated to members of the Board. The Chairman shall submit an annual report to the Board summarising the Committees activities during the year and the related significant results and findings.

(E) risk management committee

The Board has established a sound system of Risk Oversight and Management of Internal Control.

Background

The Risk Management Committee ("Committee") is a Committee established by the Board of the Company to provide risk management assessment of the business activities of the Company.

The Board has resolved that this Committee shall be a sub committee of the Audit & Compliance Committee.

Constitution

The Committee has been established by a Board resolution and ratified as a sub-committee of the Audit & Compliance Committee by the Audit & Compliance Committee.

The Committee has the right to seek independent professional advice when considered necessary.

Charter

(A) Objectives

- To establish a Risk Management process which objectively assesses the risks of the Company in their business activities;
- To provide quantitative and qualitative assessment of risks;

- To develop Risk Action Plans and ensure that management responds to these plans and reports to this Committee as to their response;
- To liaise with the external auditors in respect to their assessment of risks encountered by the Company in its ongoing business activities; and
- To assess the business plans developed by management in consultation with the Audit & Compliance Committee and independently determine risks associated with those business plans.

(B) Composition of the Risk Management Committee

The Audit & Compliance Committee shall determine the Chairman of this Committee which will at all times be a non executive Director.

The Committee shall initially consist of the members of the Audit and Compliance Committee.

A quorum of the meeting will consist of three members of the Committee, inclusive of the Chairman.

Members of the Committee shall be appointed for an initial three (3) year term of office, after which their appointments may be subject to annual rotation.

(C) Meetings

Having regard to the Risk Action Plans developed by the Risk Management Committee, the Committee shall meet as and when required and generally on the same timelines as the Audit & Compliance Committee.

The Company Secretary shall act as Secretary to the Committee and shall prepare an agenda and keep minutes in respect to meetings.

The external auditors may be requested to attend Committee meetings.

(D) Responsibilities

The Committee shall consider any matters relating to risk assessment of the business activities of the Company including and not limited to:

- Investment strategies;
- Operational activities;
- Assessment and minimisation of potential internal and external fraud;
- ASX Listing obligations;
- Corporate governance;
- Such other matters the Committee considers to be relevant in assessing the risk of the business.

The duties of the Committee are as follows:

- Monitoring corporate risk and implementing controls to manage those risks;
- Reporting to the Audit & Compliance Committee as to the development of Risk Action Plans and the activities of management in monitoring the risks identified;
- Liaising with external auditors and ensuring the accuracy and timeliness of legislatively required reporting; and
- Continuous review of risk management practices within the Company.

(E) Reporting

The Chairman of the Committee shall report its findings to the Chairman of the Audit & Compliance Committee.

The Chairman of the Committee shall report to the Board at each Board meeting with particular reference to the 5 highest ranked Risks of the business and the Risk Action Plans targeted to those Risks.

(F) Remuneration Committee

The Board determines remuneration packages and policies applicable to the Managing Director, Senior Executives and the Directors themselves. This also includes responsibility for future entitlements under any option plan and share plan, incentive performance packages, superannuation entitlements, retirement and termination entitlement and fringe benefits policies.

To the extent that any Directors have a conflict of interest in respect to remuneration policies they abstain.

Remuneration levels are competitively set to attract the most qualified and experienced Directors and Senior Executives. Where appropriate, the Board seeks independent advice on the appropriateness of remuneration packages.

The Shareholders determine at a General Meeting the total remuneration to be paid to non-Executive Directors. When setting fees and other compensation for non-Executive Directors, the Board takes independent advice and applies Australian and International benchmarks.

Any share plan, incentives or option incentives are predicated on the enhancement of Shareholder value and the achievement of specific corporate milestones.

The Board has determined that:

- Non-Executive Directors should be remunerated by way of fees and should not participate in schemes designed for the remuneration of Executive Directors.
- Non-Executive Directors may receive options and bonus payments subject to the achievement of specific milestones and Shareholder value hurdles determined and agreed by Shareholders at a General Meeting.

- Non-Executive Directors are only entitled to receive retirement benefits as determined by the law.

(G) Directors Dealing in Company Shares

All Directors and Senior Executives (as nominated by the CEO) must comply with the law regarding to purchase or sale of securities by a person who has inside knowledge (Corporations Law Section 1002G).

As policy, the Company will comply with the continuance disclosure regime under ASX Listing Rules, subject to the exceptions pursuant to that listing Rule whereby certain information may not be provided in circumstances where for example, transactions are incomplete. Directors and Senior Executives therefore acknowledge that there is the potential for a breach of Corporations Law Section 1002G in circumstances where price sensitive information has not been provided to ASX.

In respect to the Company's investor relations, the Company wishes to give to the public, its shareholders, investors, analysts and the financial press, information which properly reflects the activities of the Company and provides the impression that Directors and Senior Executives are focused on the development of the Company and its business rather than continuously dealing in its listed securities.

In order to minimise any negative perception that may arise from dealing in the Company's securities, Directors and Senior Executives may purchase or sell Company securities within a four week window after the day on which:

- a) The half yearly report is filed with ASX.
- b) The preliminary final report is filed with ASX.
- c) The day of the Annual General Meeting.

In order for a Director or Senior Executive to purchase or sell securities in the Company:

- a) It must be lawful to do so pursuant to Section 1002G of the Corporations Law;
- b) There must be a relevant window as outlined above;
- c) The individual must give notice to the Chairman in the case of a Director (whether Executive or non Executive), all Directors in the case of the Chairman or to the CEO in the case of a Senior Executive;
- d) The information to be provided shall include the number of shares that the Director or Executive wishes to buy or sell and that notification can be either verbal or in writing. Subject to no negative response within one business day of the notification being provided, the Director or Executive may implement their specific trade/s;
- e) In the event that the Chairman or the CEO provides instruction to a Director or Senior Executive as to perceived dangers or impropriety in trading, that person must heed that warning or instruction;

- f) In the event of a significant dealing in the Company's securities (defined as an amount greater than \$100,000) the Chairman or CEO shall notify the other Directors of the Company;
- g) In the case of serious financial need of either a Director or Senior Executive, the Chairman or CEO have the discretion to provide special dispensation in respect to the buying or selling of the Company securities subject always to the proposed dealing being lawful;

The thrust of this policy is to ensure that the Company, Directors and Senior Executives will be saved from embarrassment in undertaking transactions in securities of the Company in circumstances where they may be perceived to have inside information (whether or not that is the actual case).

(H) Independent Professional Advice and access to Company Information

Each Director has the right of access to all relevant Company information and to the Company's Executives and, subject to prior consultation with the Chairman, may seek independent professional advice at the Company's expense. A Copy of advice received by the Director is to be made available to all other members of the Board.

(I) Promotion of Ethical and Responsible Decision Making

The Company has established within its Human Resources manual a set of standards and a Code of Conduct. The Code of Conduct sets out how each Director, Manager and Employee of the Company is expected to act. The requirement to comply with the Code of Conduct is communicated to and signed by all Employees on an annual basis. All Directors, Managers and Employees are expected to act with the utmost integrity and objectivity, striving at all times to enhance the reputation and performance of the Company. Every Employee has a nominated Manager to whom they may refer any issues arising from their employment.

The Code of Conduct addresses the following:

- Conflicts of interest - where the interest of a private individual interferes or appears to interfere with the interests of the Company as a whole;
- Corporate opportunities - where Directors and key Executives take advantage of property, information or position, or opportunities arising from these, for personal gain or to compete with the Company;
- Confidentiality - the use of non-public information except where disclosure is authorised or legally mandated;
- Fair dealing - by all Employees with the Company's customers, suppliers, competitors and Employees;
- Protection of and proper use of the Company's assets - protecting and ensuring efficient use of assets for legitimate business purposes;

- Compliance with laws and regulations - active promotion of compliance; and
- Encouraging reporting of unlawful/unethical behaviour - active promotion of ethical behaviour and protection for those who report violations in good faith.

(J) Making Timely and Balanced Disclosures

The Company has adopted written Policies and Procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a Senior Management level for that compliance.

The Company has a policy that all Shareholders and investors have equal access to the Company's information and has procedures to ensure that price sensitive information is reported to the ASX in accordance with continuous disclosure requirements of the Corporations Act 2001 and ASX Listing Rules.

The Company Secretary is responsible for the drafting of communications to the ASX.

The announcements are provided to the Chairman of the Audit and Compliance Committee and/or the Chairman of the Board prior to release to the ASX.

The announcements are vetted to ensure:

- So they are made in a timely manner;
- Are factual;
- Do not omit material information; and
- Are expressed in a clear and objective manner so as to allow investors to assess the information when making investment decisions.

The Company has adopted a transparent process in respect to the release of information. Once authorised, all releases and information will be monitored and managed by the Company Secretary.

Media comment and external communications are the responsibility of the Chairman.

Meetings with Analysts, Share Brokers and the Capital Markets are the responsibility of the Chairman and other Board members as and when specifically required.

(K) Performance Management

The Board has introduced Performance Management for both itself and staff of the Company and this is reflected in the contractual relations between the Employees and the Company and in the letter of appointment provided to Directors.

The Performance Management system identifies Key Performance Indicators for each of the job roles undertaken within the Organisation. The Key Performance Indicators are:

- Specific;
- Measured;
- Agreed between the parties;
- Realistic; and
- Timed.

The Performance Management Reviews are undertaken annually and the Company has introduced a bonus structure to reflect over achievement.

At each Board meeting of the Company, management are requested to provide:

- Management reports that reflect accurately the accounts, work in progress, debtors and creditors, cash flows forecasts and variances against budget.
- Senior Managers are requested to attend Board meetings to present to the Board the activities within their division; and
- Key elements of the business are addressed by key Managers at each Board meeting.

2. internal control framework

The Board acknowledges that it is responsible for the overall internal control framework, but recognises that no cost effective internal control system will preclude all errors and irregularities. To assist in discharging this responsibility, the Board has adopted policies and procedures that can be described under the following headings:

- Financial reporting - there is a comprehensive budgeting system with an annual budget approved by the Board of Directors. Monthly actual results are reported against budget and revised forecasts for the year are prepared quarterly. The Company reports to Shareholders half-yearly. Quarterly Cash Flow Reports are required to be lodged by the Company under Rule 4.7B of the ASX Listing Rules.
- Continuous disclosure - the Company has a policy that all Shareholders and investors have equal access to the Company's information and has procedures to ensure that price sensitive information is reported to the ASX in accordance with Continuous Disclosure Requirements of the Corporations Act 2001 and ASX Listing Rules.
- Quality and integrity of personnel - the Company's policies are detailed in a Human Resources policy manual. A signed statement is obtained on an annual basis from Employees stating that they have read and understood the Code of Conduct and the various policies and procedures as published on the Company's Intranet and contained in the Company's Human Resources Manual. Formal appraisals are conducted at least annually for all Employees.

- Financial controls - various policies and procedures are in place for financial controls including a Delegations Manual.
- Investment appraisal - the Company has clearly defined guidelines for capital expenditure. These include annual budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements if any businesses are to be acquired or divested.
- The Chief Executive Officer and the Company Secretary/Chief Financial Officer provides to the Board a statement that the Company's financial reports present fairly, in all material respects, the Company's financial condition and operating results in accordance with relevant accounting standards.
- Further, they formally state to the Board that the statement given about the integrity of the financial statement is founded on a sound system of Risk Management and Internal Compliance and Control, which implements the policies adopted by the Board and that the Company's Risk Management and Internal Compliance and Control system is operating efficiently and effectively in all material respects.
- Finally, they confirm they have disclosed to the Audit and Compliance Committee and the External Auditor any significant deficiencies of material weaknesses in Internal Control and financial reporting and they have disclosed any significant changes that have occurred that effected Internal Controls over the financial reporting period and whether any corrective actions were taken if any significant deficiencies and material weaknesses were identified.

3. the role of shareholders

The Board of Directors aims to ensure that the Shareholders are informed of all major developments affecting the Company's state of affairs. Information is communicated to Shareholders as follows:

- The annual report is distributed to all Shareholders (unless a Shareholder has specifically requested not to receive the documents). The Board ensures that the annual report includes relevant information about the operations of the Company during the year, changes in the state of affairs of the Company and details of future developments, in addition to the other disclosures required by the Corporations Act 2001;
- The half-yearly report contains summarised financial information and review of the operations of the Company during the period. The annual audited financial report is prepared in accordance with the requirements of applicable Accounting Standards and the Corporations Act 2001 and is lodged with the Australian Securities and Investments Commission and the Australian Stock Exchange Limited. The financial report is sent to any Shareholder who requests it;

- Proposed major changes in the Company which may impact on share ownership rights are submitted to a vote of Shareholders;
- Price sensitive information is reported to the ASX in accordance with Continuous Disclosure Requirements;
- Notices of all meetings of Shareholders; and
- Quarterly Cash Flow Reports are lodged by the Company under Rule 4.7B of the ASX Listing Rules.

The Board encourages full participation of Shareholders at the Annual General Meeting to ensure a high level of accountability and identification with the Company's strategy and goals. Important issues are presented to the Shareholders as single resolutions.

The Shareholders are requested to vote on the granting of options and shares to Directors and on the re-appointment of Directors. Directors rotate in accordance with the Constitution.

notice in meeting

Date of meeting: 25 November 2004
Time of meeting: 11.00am
Place of meeting: The Boardroom
RACV
Level 3, 123 Queens Street,
Melbourne VIC 3000

HARVESTROAD LIMITED

ABN 36 075 174 855

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of shareholders of HarvestRoad Limited (“**Company**”) will be held in the Boardroom, at the RACV, Level 3, 123 Queen Melbourne VIC 3000, at 11.00am (EST) on 25 November 2004.

The Proxy Form accompanying this Notice of Annual General Meeting is incorporated in and comprises part of this Notice of Annual General Meeting.

ORDINARY BUSINESS

Annual Financial Report

To receive the Annual Financial Report of the Company for the year ended 30 June 2004, together with the Directors' Report and Declaration in relation to that financial year and the Auditors' Report on those financial statements.

Resolution 1 – Re-Election of Mr Giles

To consider and if thought fit, to pass, with or without amendment the following, as an **ordinary resolution**:

“That Mr Hamish Giles, who retires in accordance with Article 17.1 of the Company's Constitution and, being eligible for re-election, be re-elected as a Director.”

Other Business

To consider any other business that may lawfully be brought forward.

BY ORDER OF THE BOARD



Mark Ashforth

Company Secretary

Dated: 14 October 2004

proxies

PROXIES

Shareholders are entitled to appoint up to two individuals to act as proxies to attend and vote on their behalf. Where more than one proxy is appointed, each proxy must be appointed to represent a specified proportion of the shareholder's voting rights.

The proxy form (and the power of attorney or other authority, if any, under which the proxy form is signed) or a copy or facsimile which appears on its face to be an authentic copy of the proxy form (and the power of attorney or other authority) must be deposited at or sent by facsimile transmission to the registered office of the Company Level 6, 10 William Street Perth WA 6000 or facsimile number (+61 8) 9388 3099, at least 48 hours prior to the meeting or adjourned meeting, as the case may be, at which the individual named in the proxy form proposes to vote.

A proxy must be signed by the shareholder or his/ her attorney duly authorised in writing or, if the shareholder is a corporation, in a manner permitted by the Corporations Act. The proxy may, but need not, be a shareholder of the Company.

VOTING ENTITLEMENT

The Company (as convenor of the meeting) has determined that a person's entitlement to vote at the Annual General Meeting will, in accordance with the Corporations Act 2001, be the entitlement of that person set out in the register of members as at "the end of the day" or "close of business" on Tuesday 23 November 2004. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Annual General Meeting.

proxy form

HarvestRoad Limited

ACN 075 174 855

The Company Secretary

HarvestRoad Limited

Level 6, 10 William Street

PERTH WA 6000

Facsimile: +61 8 9338 3099

I/We _____

of _____

being a member/(s) of HarvestRoad Limited (the "**Company**"), _____

hereby appoint _____

of _____

or in his/her absence _____

of _____

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held in the Boardroom at the RACV 123 Queen Street Melbourne VIC on 25th November 2004 and at any adjournment of that meeting.

If you wish to indicate how your proxy is to vote, please tick the appropriate places below. If no indication is given on a resolution, the proxy may abstain or vote at his or her discretion.

I/we direct my/our proxy to vote as indicated below:

	For	Against	Abstain
ORDINARY BUSINESS			
1. Re-election of Mr Giles	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

OR

If you do not wish to direct your proxy how to vote, please place a mark in this box

By marking this box, you acknowledge that the Chairman may exercise your proxy even if he has an interest in the outcome of the resolution and votes cast by him other than as a proxy holder will be disregarded because of the interest. The Chairman will vote in favour of all resolutions if no directions are given.

YOU MUST EITHER MARK THE BOXES DIRECTING YOUR PROXY HOW TO VOTE OR MARK THE BOX INDICATING THAT YOU DO NOT WISH TO DIRECT YOUR PROXY HOW TO VOTE, OTHERWISE THIS APPOINTMENT OF PROXY FORM MAY BE HELD INVALID.

proxy form

If you mark the abstain box for a particular item, you are directing your proxy not to vote on that item on a show of hands or on a poll and that your shares are not to be counted in computing the required majority on a poll.

As witness my/our hand/s this _____ day of _____ 2004

If a natural person:

SIGNED by:

Signature

Signature (if joint holder)

If a company:

THE COMMON SEAL of _____)

)

)

)

was affixed in the presence of: _____)

)

Signature of Director

Signature of Director/Secretary

If by power of attorney:

SIGNED for and on behalf of _____)

by _____)

under a Power of Attorney dated _____ and _____)

who declares that he/she has not received any _____)

revocation of such Power of Attorney in the presence of : _____)

)

)

)

)

)

Signature of Attorney

Signature of Witness

explanatory memorandum

HarvestRoad Limited

ACN 075 174 855

This Explanatory Memorandum has been prepared for the information of shareholders in HarvestRoad Limited (“**Company**”) in connection with the business to be considered at the Annual General Meeting of shareholders to be held in the Boardroom, RACV, 123 Queen Street Melbourne VIC on 25th November 2004 at 11.00am (EST).

The Explanatory Memorandum should be read in conjunction with the accompanying Annual Notice of General Meeting.

Full details of the business to be considered at this Annual General Meeting are set out below.

ANNUAL FINANCIAL REPORT

The first item of the Notice of Annual General Meeting deals with the presentation of the Company’s Annual Financial Report for the year ending 30 June 2004. Shareholders should consider this document and raise any matters of interest with the Directors when this item is being considered.

No resolution is required to be moved in respect of this item.

RESOLUTION 1 – ELECTION OF DIRECTOR

It is a requirement under Article 17.1 of the Company’s Constitution that Mr Giles retire by rotation. Mr Giles offers himself for re-election. The remaining Directors recommend to shareholders that Mr Giles be re-elected.

GLOSSARY OF TERMS

“Annual General Meeting” or “Meeting” means the Annual General Meeting of shareholders of the Company to be held in the Boardroom, RACV, 123 Queen Street Melbourne VIC on 25th November 2004 at 11.00am (EST).

“**ASIC**” means the Australian Securities & Investments Commission.

“**ASX**” means Australian Stock Exchange Limited.

“**ASX Listing Rules**” means the official listing rules of ASX.

“**Corporations Act**” means the Corporations Act 2001.

“**Company**” means HarvestRoad Limited.

“**Director**” means a director of the Company.

“**Directors**” means the board of directors of the Company as constituted from time to time.

“**Explanatory Memorandum**” means this explanatory memorandum.

“**Notice of Annual General Meeting**” means the notice of Annual General Meeting, which accompanies the Explanatory Memorandum.



HarvestRoad.

HarvestRoad Limited ABN 36 075 174 855

Notice of Annual General Meeting

incorporating

Explanatory Memorandum

and

Proxy Form