

# *KTL Technologies Limited*

ABN 75 009 089 981

## *Annual Report*

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*For the year ended  
31 December 2006*

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## **CORPORATE DIRECTORY**

### **NON-EXECUTIVE CHAIRMAN**

John Fletcher

### **NON-EXECUTIVE DIRECTORS**

Cheng Weiwen  
Cheng Qingquan  
Hu Dayong  
Russell Byfield  
Barry Woodhouse

### **COMPANY SECRETARY**

Barry Woodhouse

### **PRINCIPAL & REGISTERED OFFICE**

Level 1, 28 Ord Street  
WEST PERTH WA 6005  
Telephone: +618 9211 3600  
Facsimile: +618 9211 3690  
Email: info@klttek.com.au  
Website: [www.klttek.com.au](http://www.klttek.com.au)

### **AUDITORS**

PKF Chartered Accountants  
& Business Advisers  
Level 7, BGC Centre  
28 The Esplanade  
PERTH WA 6000  
Website: [www.pkf.com.au](http://www.pkf.com.au)

### **SHARE REGISTRAR**

Computershare Investor Services Pty Limited  
Level 2 Reserve Bank Building  
45 St Georges Terrace  
PERTH WA 6000  
Telephone: +618 9323 2000  
Facsimile: (08) 9323 2033  
Website: [www.computershare.com](http://www.computershare.com)

### **STOCK EXCHANGE LISTING**

Australian Stock Exchange  
(Home Exchange: Perth, Western Australia)  
Code: KTL & KTLO

### **BANKERS**

ANZ Banking Corporation Limited  
77 St Georges Terrace  
PERTH WA 6000

## **DIRECTORS' REPORT**

Your directors present their report on the Company for the financial year ended 31 December 2006.

### **DIRECTORS**

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

John Fletcher  
Cheng Weiwen  
Cheng Qingquan  
Hu Dayong  
Russell Byfield  
Barry Woodhouse

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

### **CHAIRMAN OVERVIEW, REVIEW OF OPERATIONS AND RESULTS OF OPERATIONS**

The operations of the consolidated entity during the year are as described below.

KTL continued to consolidate its position following its rejuvenation after release from administration in 2005. During the 2006 financial year, the Company has successfully raised a total of \$640,000 by the issue of shares and options.

The Company's Cryo-Lag commercialisation strategy has been outlined in the various documents released to shareholders. The Company reported on 15 March 2006 that it had completed negotiations with Petro China Second Construction Company (a subsidiary of Petro China) and Jilin Guangya Chemicals Company Ltd to form a Sino Foreign Joint Venture ('Joint Venture') to develop Cryo-Lag in China. The agreement has been approved by the Chinese authorities and now that the first transfer of funds has occurred, the development programme will start. Development through the Joint Venture will reduce the Company's financial exposure to the next stage of Cryo-Lag's development and on the assumption the China development is successful the developed product will be made available to KTL to market in all markets outside China.

The Company continues to maintain its Cryo-Lag patents and patent applications. In summary, the Company has now been granted a patent for Cryo-Lag in six jurisdictions including Australia and USA. KTL awaits the award of the patent in a further two jurisdictions, and has decided not to pursue its South Korean patent application.

During the 2006 financial year, as a result of reviewing investment opportunities, the Company's subsidiary has taken an interest in (the then) Exploration License Application 08/1609 (Mundong Well Project). The license has since been granted. An initial site visit has been made to the Mundong Well Project and the Company is considering how best to exploit the project.

Consistent with the KTL's stated intentions, the Company continues to examine a number of investment opportunities in the industrial and mineral sectors.

As a result of the Company's activities in 2006, at 31 December 2006, the Company has cash of \$1.2 million, total consolidated assets of \$1.67 million and net assets of \$1.65 million which will enable it to continue its commercialisation strategy and consider a number of investment opportunities in Australia and overseas in future financial years.

The results of these operations was a loss to the consolidated entity of \$284,292 (2005 – Loss of \$222,857).

### **SIGNIFICANT CHANGES IN STATE OF AFFAIRS**

The following summary of events marks significant milestones in the state of affairs of the Company during the financial period:

On 1 May 2006, the Company issued 20,000,000 fully paid ordinary shares at 2 cents per share and 10,000,000 free attaching options pursuant to a placement made to sophisticated investors.

On 29 May 2006, shareholders approved the issue of a total 12 million incentive options to directors; 2 million incentive options to each director listed above. The options are exercisable on or before 29 May 2011 at an exercise price of 5 cents per option. Further information in relation to these options is listed below in item (d) of Directors' and Executive Officers' Emoluments.

On 28 July 2006, the Company issued 2,000,000 fully paid ordinary shares at 2 cents per share and 40,000,000 options at 0.5 cents per option to raise \$420,000 pursuant to the Prospectus dated 31 May 2006.

On 22 August 2006, the Company issued 5,000,000 shares to Redport Limited for the consideration on behalf of its subsidiary in relation to the farmin of an 80% interest of Exploration licence Application 08/1609 Mundong Well Project.

On 9 October 2006, the Company issued 5,000,000 shares and 5,000,000 options to Reece Management Limited as part payment of consultancy fees in relation to Exploration licence Application 08/1609 Mundong Well Project.

On 15 November 2006 and as approved by shareholders, the Company issued 25,000,000 options to Reece Management Limited as part payment of consultancy fees in relation to the Mundong Well Project.

### **PRINCIPAL ACTIVITIES**

The principal activity of the Company during the financial year was the commercialisation of its Cryo-Lag asset. There have been no significant changes in the nature of the Company's principal activities during the financial year.

### **SIGNIFICANT AFTER BALANCE DATE EVENTS**

On 29 January 2007, the Company transferred the equivalent of 2.5 million renminbi (A\$418,862) as its initial 25% contribution to the Sino Foreign Joint Venture ('Joint Venture') to develop Cryo-Lag in China.

On 7 February 2007, the Department of Industry and Resources issued Exploration Licence E09/1609, of which KTL is earning an 80% interest.

Apart from as described above, there are currently no matters or circumstances that have arisen since the end of the financial period that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

### **LIKELY FUTURE DEVELOPMENTS AND EXPECTED RESULTS**

The primary objective of KTL is to commercialise its Cryo-Lag assets. Whilst the Company has been undertaking only commercialisation activities to date, the addition of other investments either through direct investment, joint venture or staged investment may be considered.

The Company currently intends to commercialise its Cryo-Lag assets over the next two years. The Company aims to achieve this goal by way of a joint venture with a major Chinese engineering group and utilising the Board and management's collective experience and skills to progress the commercialisation.

### **PERFORMANCE IN RELATION TO ENVIRONMENTAL REGULATION**

The consolidated entity will comply with its obligations in relation to environmental regulation on the Mundong Well Project when it undertakes exploration in the future.

### **OPERATING RESULTS**

The loss of the consolidated entity after providing for income tax amounted to \$284,292 (2005: \$222,857).

### **DIVIDENDS PAID OR RECOMMENDED**

The directors do not recommend the payment of a dividend and no amount has been paid or declared by way of a dividend to the date of this report.

**DIRECTORS****Mr John Fletcher****Age: 66****Special Responsibility: Non-Executive Chairman; Audit Committee****Period of Directorship: 27 months (16 December 2004 to present)**

Mr Fletcher commenced his career as a civil engineer for the UK company, Cleveland Bridge & Engineering Co. Ltd in 1959 and has over 45 years commercial experience in civil engineering, infrastructure and construction. Mr Fletcher was first appointed as a director of Cleveland Bridge in 1968 and has since held many senior positions in the engineering and construction industries, and has been heavily involved in the development of private sector funded infrastructure projects around the world. In 1996 Mr Fletcher was awarded "Commander of the Order of the British Empire" for his services to the UK industry and in 1999 had the honour of being appointed advisor to the mayor of Beijing.

Mr Fletcher has been a director of ASX listed Pacific Energy Limited since 1996, a director of Leyshon Gold Limited since 7 April 2006, and is also director of many other private companies.

**Madam Cheng Weiwen****Age: 38****Special Responsibility: Non-Executive Director****Qualifications: B.CON.; EMBA****Period of Directorship: 27 months (22 December 2004 to present)**

Ms Cheng has an architectural background having attended the Shenzhen Institute of Architecture and Design and has 14 years experience working in the real estate development market in China.

Ms Cheng is Group Chief Executive Officer of Beijing Guo Tai Hengsheng Investment (Group) Co. Limited.

Ms Cheng is also Chairwoman of Beijing Dingcheng Property Development Co. Limited and Jilin Wuhua Group Co. Limited.

Ms Cheng graduated from Huazhong Science and Technology University.

**Mr Cheng Qingquan****Age: 24****Special Responsibility: Non-Executive Director****Qualifications: B.Comm.; CPA****Period of Directorship: 27 months (22 December 2004 to present)**

Mr Cheng Qingquan graduated with a Masters degree from Zhongnan Minzu University. Since obtaining his Masters degree, Mr Cheng has been financial controller and Chief Financial Officer of a number of Beijing companies.

**Mr Hu Dayong****Age: 38****Special Responsibility: Non-Executive Director****Qualifications: B.A.; M.Comm.****Period of Directorship: 27 months (22 December 2004 to present)**

Mr. Hu Dayong graduated with a Bachelor Degree from the Beijing Foreign Language Institution. Mr. Hu is currently the Chief Executive Officer of Beijing Guo Tai Hengsheng Investment (Group) Co.Ltd.

Mr. Hu has over 15 years experience in both the public and private sectors. He began his career in the investment industry with Shanghai Wanguo Securities Corporation as an analyst in its international department. In 2003, he was appointed as Chief Executive Officer of Beijing Guo Tai Hengsheng Investment (Group) Co. Ltd.

**Mr Russell Byfield****Age: 40****Special Responsibility: Non-Executive Director; Audit Committee****Qualifications: B.Eng (Chem)(Hons.); CP Eng; MIE Aust; MAICD****Period of Directorship: 27 months (22 December 2004 to present)**

Mr Byfield holds a Bachelor of Chemical Engineering (2/1 Honours) and is a Chartered Professional Engineer with 19 years experience in the Oil and Gas Industry. Mr Byfield is co-founder and managing director of Strategy Central Pty Ltd, a strategy & planning consultancy based in Western Australia servicing the Oil and Gas industry.

Mr Byfield has 19 years experience within the chemical engineering and Oil and Gas industries predominantly in Asia and Australasia. This has given Mr Byfield, a sound understanding of cultural and business practices of the countries in the Asia Pacific region. He has extensive experience in regional and general management, sales management, business strategy & planning, business development, IT and, engineering and design.

**Mr Barry Woodhouse**

**Age: 41**

**Special Responsibility: Non-Executive Director and Company Secretary; Audit Committee**

**Qualifications: B.Comm.; B.Laws; CPA; FCIS**

**Period of Directorship: 27 months (22 December 2004 to present)**

Mr Woodhouse is Certified Practising Accountant and a fellow of the Chartered Secretaries Australia. Mr Woodhouse holds a Bachelor of Commerce from the University of Melbourne and a Bachelor of Laws from the University of Notre Dame.

Mr Woodhouse has significant experience in mineral exploration and information technology industries having held a number of senior positions, including financial controller, company secretary and director, with companies operating in these sectors. Mr Woodhouse is particularly experienced in the establishment, listing, management and administration of junior listed companies.

Mr Woodhouse resigned as a director of NGM Resources Limited prior to its listing in May 2004. Mr Woodhouse has been a director of Hodges Resources Limited since 2 September 2005. Hodges listed on ASX on 22 October 2005.

**COMPANY SECRETARY**

Mr Woodhouse is the Company Secretary. Specific information in relation to his qualifications and experience is listed above.

**REMUNERATION REPORT**

**Remuneration Policy**

The remuneration policy of KTL Technologies Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of KTL Technologies Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as create goal congruence between directors and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members is as follows.

The remuneration policy, setting the terms and conditions (where appropriate) for the executive directors and other senior staff members, was developed by the Chairman and Company Secretary and approved by the Board.

In determining competitive remuneration rates, the Board may seek independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice may be obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

The Company is in a commercialisation phase, and therefore speculative in terms of performance. Consistent with attracting and retaining talented executives, directors and senior executives, such personnel are paid market rates associated with individuals in similar positions within the same industry. Options and performance incentives may be issued particularly as the Company moves from commercialisation to a producing entity and key performance indicators such as profit and production can be used as measurements for assessing executive performance.

All remuneration paid to directors is valued at the cost to the company and expensed. Where appropriate, shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Chairman in consultation with independent advisors determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders in a General Meeting, and is currently \$300,000 per annum, as approved by shareholders on 4 March 2005. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

## COMPANY SHARE PERFORMANCE & SHAREHOLDER WEALTH

During the financial year the Company's share price traded between a low of **\$0.011** and a high of **\$0.027** on low volumes. In order to keep all investors fully-informed and minimise market fluctuations the Board is determined to maintain promotional activity amongst the investor community so as to increase awareness of the Company.

## DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS

### (a) Details of Specified Directors and Specified Executives

#### (i) Specified Directors

John Fletcher – Non-Executive Chairman  
Cheng Weiwen – Non-Executive Director  
Cheng Qingquan – Non-Executive Director  
Hu Dayong – Non-Executive Director  
Russell Byfield – Non-Executive Director  
Barry Woodhouse – Non-Executive Director

#### (ii) Specified Executives

There are no persons in addition to the Directors above meeting the definition of a Specified Executive.

Directors' remuneration and other terms of employment are reviewed annually by the Board having regard to performance against goals set at the start of the year, relative comparative information and independent expert advice.

Except as detailed in Notes (a) – (e) to the Remuneration Report, no director has received or become entitled to receive, during or since the financial period, a benefit because of a contract made by the Company or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in Notes (a) – (e) to the Remuneration Report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Company.

**(b) Remuneration of Specified Directors and Specified Executives***Remuneration Policy*

The Board of Directors, mainly comprising of non-executive directors, is responsible for determining and reviewing compensation arrangements. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Remuneration of Specified Directors for the Company and consolidated entity is set out below.

Period ended:	Short-term employee benefits	Equity Compensation	Post-employment Superannuation Contributions	TOTAL
	Base Salary and Fees	Value of Options		
	\$	\$	\$	\$
<b>John Fletcher (i)</b>				
31 December 2006	30,000	3,064	-	33,064
31 December 2005	12,500	38,250	-	50,750
<b>Cheng Weiwen</b>				
31 December 2006	42,500	3,064	-	45,564
31 December 2005	-	1,700	-	1,700
<b>Cheng Qingquan</b>				
31 December 2006	42,500	3,064	-	45,564
31 December 2005	-	1,700	-	1,700
<b>Hu Dayong</b>				
31 December 2006	30,000	3,064	-	33,064
31 December 2005	12,500	1,700	-	14,200
<b>Russell Byfield (ii)</b>				
31 December 2006	30,000	3,064	-	33,064
31 December 2005	20,650	19,700	-	40,350
<b>Barry Woodhouse(iii)</b>				
31 December 2006	55,000	3,064	-	58,064
31 December 2005	68,332	19,700	-	88,032
<b>Totals</b>				
<b>31 December 2006</b>	<b>230,000</b>	<b>18,384</b>	<b>-</b>	<b>248,384</b>
31 December 2005	113,982	82,750	-	196,732

- (i) In the twelve months to 31 December 2006, fees of \$30,000 (31 December 2005: \$12,500) were paid and / or accrued to Asian Cleveland Limited (a Company in which Mr Fletcher is a Director and Shareholder) in its role as consultant to the Company.
- (ii) In the twelve months to 31 December 2006, consulting fees of \$30,000 (2004: \$20,650) were paid and accrued to Strategy Central Pty Ltd for technical services provided by Mr Russell Byfield. Mr Byfield is a director and shareholder of Strategy Central Pty Ltd.
- (iii) In the twelve months to 31 December 2006 fees of \$55,000 (31 December 2005: \$68,332) were paid and accrued to Maphra Pty Limited (a company of which Mr Woodhouse is a Director) for company secretarial and accounting services.

All transactions were entered into on normal commercial terms.

**Specified Executives**

The Company had no specified executives for the financial year ended 31 December 2006.

**(d) Remuneration Options: Granted and vested during the financial year ending 31 December 2005 and the financial year ending 31 December 2006**

On 4 March 2005 shareholders approved the issue of a total of 6 million options (for no consideration) as follows:

- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr John Fletcher.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Ms Cheng Weiwen.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Mr Cheng Qingquan.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Mr Hu Dayong.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr Russell Byfield.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1.25 cents. The options are escrowed and may only be exercised after 4 March 2008, and expire 4 March 2010. All options vest 36 months after issue and are not performance related.

On 4 March 2005 shareholders approved the issue of a total of 3.5 million Facilitator Options (for no consideration) exercisable at 1 cent before 4 March 2010 to Mr John Fletcher.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1 cent. The options expire 4 March 2010. All options vest immediately after issue and are not performance related.

On 29 July 2005 shareholders approved the issue of a total of 9 million options (for no consideration) as follows:

- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr John Fletcher.
- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr Russell Byfield.
- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1.25 cents. The options are escrowed and may only be exercised after 29 July 2007, and expire 29 July 2010. All options vest 24 months after issue and are not performance related.

On 29 May 2006 shareholders approved the issue of a total of 12 million options (for no consideration) as follows:

- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr John Fletcher.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Ms Cheng Weiwen.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Mr Cheng Qingquan.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Mr Hu Dayong.
- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr Russell Byfield.
- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 5.00 cents. The options are escrowed and may only be exercised after 29 May 2008, and expire 29 May 2011. All options vest 24 months after issue and are not performance related.

**(e) Share and Option holdings**

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

**Shares held by Specified Directors**

Period from 1 January 2006 to 31 December 2006

	Balance at beginning of year	Received as Remuneration	Options Exercised	Net Change Other	Balance at end of year
John Fletcher	23,077,054	-	-	6,784,800	29,861,854(i)
Cheng Weiwen	27,000,000	-	-	-	27,000,000
Cheng Qingquan	3,000,000	-	-	-	3,000,000
Hu Dayong	5,000,000	-	-	-	5,000,000(ii)
Russell Byfield	7,000,000	-	-	-	7,000,000(iii)
Barry Woodhouse	1,000,000	-	-	-	1,000,000(iv)
	66,077,054	-	-	6,784,800	72,861,854

- (i) Held indirectly by FF Financial Services Limited, Cleveland Investment Group Limited and Asian Cleveland Limited.
- (ii) Held indirectly by Ms Li Lei, wife of Mr Hu Dayong.
- (iii) Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.
- (iv) Held indirectly by Mr B Woodhouse as trustee for the Woodhouse Trust. Mr Woodhouse is a beneficiary of the Woodhouse Trust.

**Period 1 January 2005 to 31 December 2005**

	<b>Balance at beginning of period</b>	<b>Received as Remuneration</b>	<b>Options Exercised</b>	<b>Net Change Other</b>	<b>Balance at end of period</b>
John Fletcher	-	-	-	23,077,054	23,077,054(i)
Cheng Weiwen	-	-	-	27,000,000	27,000,000
Cheng Qingquan	-	-	-	3,000,000	3,000,000
Hu Dayong	-	-	-	5,000,000	5,000,000(ii)
Russell Byfield	-	-	-	7,000,000	7,000,000(iii)
Barry Woodhouse	-	-	-	1,000,000	1,000,000(iv)
	-	-	-	66,077,054	66,077,054

- (i) Held indirectly by FF Financial Services Limited and Asian Cleveland Limited.
- (ii) Held indirectly by Ms Li Lei, wife of Mr Hu Dayong.
- (iii) Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.
- (iv) Held indirectly by Mr B Woodhouse as trustee for the Woodhouse Trust. Mr Woodhouse is a beneficiary of the Woodhouse Trust.

**Options Held By Specified Directors****Period from 1 January 2006 to 31 December 2006**

	<b>Balance at beginning of year</b>	<b>Received as Remuneration</b>	<b>Net Change Other</b>	<b>Balance at end of year</b>	<b>Total Vested</b>	<b>Total Exercisable +</b>
John Fletcher	7,500,000	2,000,000	1,250,000	10,750,000	10,750,000	4,750,000
Cheng Weiwen	1,000,000	2,000,000	-	3,000,000	3,000,000	-
Cheng Qingquan	1,000,000	2,000,000	-	3,000,000	3,000,000	-
Hu Dayong	1,000,000	2,000,000	-	3,000,000	3,000,000	-
Russell Byfield	4,000,000	2,000,000	-	6,000,000	6,000,000	-
Barry Woodhouse	4,000,000	2,000,000	-	6,000,000	6,000,000	-
	18,500,000	12,000,000	1,250,000	31,750,000	31,750,000	4,750,000

+ Please note that these options have yet to be exercised, and refers to options that can be exercised.

- (i) Refer to note (d) above for terms of options granted to directors.

**Period from 1 January 2005 to 31 December 2005**

	<b>Balance at beginning of period</b>	<b>Received as Remuneration</b>	<b>Net Change Other</b>	<b>Balance at end of period</b>	<b>Total Vested</b>	<b>Total Exercisable</b>
John Fletcher	-	7,500,000	-	7,500,000	7,500,000	3,500,000
Cheng Weiwen	-	1,000,000	-	1,000,000	1,000,000	-
Cheng Qingquan	-	1,000,000	-	1,000,000	1,000,000	-
Hu Dayong	-	1,000,000	-	1,000,000	1,000,000	-
Russell Byfield	-	4,000,000	-	4,000,000	4,000,000	-
Barry Woodhouse	-	4,000,000	-	4,000,000	4,000,000	-
	-	18,500,000	-	18,500,000	18,500,000	3,500,000

### Options issued as Part of Remuneration for the year-ended 31 December 2006 and 31 December 2005

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the directors of KTL Technologies Limited to increase goal congruence between directors and shareholders.

### MEETINGS OF DIRECTORS

The number of directors' meetings (including committees) held during the financial period each director held office during the financial period and the number of meetings attended by each director are:

Director	Directors Meetings		Audit Committee Meetings	
	Meetings Attended	Number Eligible to Attend	Meetings Attended	Number Eligible to Attend
John Fletcher	17	17	2	2
Cheng Weiwen	2	17	N/A	N/A
Cheng Qingquan	2	17	N/A	N/A
Hu Dayong	7	17	N/A	N/A
Russell Byfield	11	17	2	2
Barry Woodhouse	17	17	2	2

The Company has established an audit committee comprising Messrs Woodhouse, Fletcher and Byfield.

### OPTIONS

At the end of the financial period the following options over new ordinary shares in the Company were on issue.

Type	No. Issued	No. Quoted	Exercise Price	Expiry Date	Note
Incentive Options	6,000,000	-	1.25 cents	4 March 2010	(i)
Facilitator Options	3,500,000	-	1.00 cents	4 March 2010	
Listed Options	80,000,000	80,000,000	5.00 cents	29 May 2009	
Incentive Options	9,000,000	-	1.25 cents	29 July 2010	(ii)
Incentive Options	12,000,000	-	5.00 cents	29 May 2011	(iii)

(i) These options cannot be exercised until 4 March 2008.

(ii) These options cannot be exercised until 29 July 2007.

(iii) These options cannot be exercised until 29 May 2008.

There have been no issue of ordinary shares as a result of the exercise of options during or since the end of the financial year.

Directors' holdings of shares and share options have been disclosed in the Remuneration Report.

### INDEMNIFYING OFFICERS

In accordance with the constitution, except as may be prohibited by the Corporations Act 2001, every officer or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him or her in his or her capacity as officer or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings, whether civil or criminal.

Since the end of the previous financial year, the Company has paid insurance premiums of \$38,425 in respect of directors' and officers' liability. The insurance premiums relate to:

- Costs and expenses incurred by the relevant officers in defending legal proceedings, whether civil or criminal and whatever their outcome;

- Other liabilities that may arise from their position, with the exception of conduct involving wilful breach of duty or improper use of information to gain a personal advantage.

#### **PROCEEDINGS ON BEHALF OF COMPANY**

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

The Company was not a party to any such proceedings during the year.

#### **AUDITOR'S INDEPENDENCE DECLARATION**

The lead auditor's independence declaration for the year ended 31 December 2006 has been received and can be found on page 42 of the financial report.

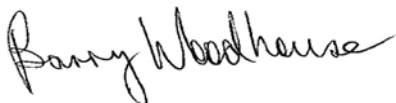
#### **NON AUDIT SERVICES**

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

- The nature of the services provided do not compromise the general principles relating to auditors independence as set out in APES 110 Code of Ethics for Professional Accountants.

An amount of nil (2005 \$14,876) was paid to PKF Corporate Advisory Services (WA) Pty Ltd, an entity controlled by the partners of PKF, for the preparation of the independent accountant's report prepared for the non-renounceable entitlements issue prospectus dated 1 March 2005. An amount of nil (2005 \$1,500) was payable to PKF Corporate Advisory Services (WA) Pty Ltd for a review of the Company's pro forma financial statement as at 30 June 2005. No other fees were paid or payable to the auditors for non-audit services performed during the period to 31 December 2006.

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



**Barry Woodhouse**  
**Director and Company Secretary**  
**2 March 2007**

## CORPORATE GOVERNANCE

The Company is committed to implementing the highest standards of corporate governance. In determining what those high standards should involve the Company has turned to the ASX Corporate Governance Council's *Principles of Good Corporate Governance and Best Practice Recommendations*. The Company is pleased to advise that the Company's practices have been largely consistent with those ASX guidelines since they were adopted on 9 August 2005. As consistency with the guidelines has been a gradual process, where the Company did not have certain policies or committees recommended by the ASX Corporate Governance Council (the Council) in place during the reporting period, we have identified such policies or committees.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company is working towards compliance however it does not consider that all the practices are appropriate for the Company due to the size and scale of Company operations.

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommendation with sections of this report. The table does not provide the full text of each recommendation but rather the topic covered. Details of all of the recommendations can be found on the ASX Corporate Governance Council's website at

<http://www.shareholder.com/visitors/dynamicdoc/document.cfm?documentid=364&companyid=ASX>.

Recommendation	Section
Recommendation 1.1 Functions of the Board and Management	1.1
Recommendation 2.1 Independent Directors	1.2
Recommendation 2.2 Independent Chairman	1.2
Recommendation 2.3 Role of the Chairman and CEO	1.2
Recommendation 2.4 Establishment of Nomination Committee	2.3
Recommendation 2.5 Reporting on Principle 2	1.2, 1.4.6, 2.3.2 and the Directors' Report
Recommendation 3.1 Directors' and Key Executives' Code of Conduct	1.1
Recommendation 3.2 Company Security Trading Policy	1.4.9
Recommendation 3.3 Reporting on Principle 3	1.1 and 1.4.9
Recommendation 4.1 Attestations by CEO and CFO	1.4.11
Recommendation 4.2 Establishment of Audit Committee	2.1
Recommendation 4.3 Structure of Audit Committee	2.1.1
Recommendation 4.4 Audit Committee Charter	2.1
Recommendation 4.5 Reporting on Principle 4	2.1
Recommendation 5.1 Policy for Compliance with Continuous Disclosure	1.4.4
Recommendation 5.2 Reporting on Principle 5	1.4.4
Recommendation 6.1 Communications Strategy	1.4.8
Recommendation 6.2 Attendance of Auditor at General Meetings	1.4.8
Recommendation 7.1 Policies on Risk Oversight and Management	2.1.3
Recommendation 7.2 Attestations by CEO and CFO	1.4.11
Recommendation 7.3 Reporting on Principle 7	2.1.3
Recommendation 8.1 Evaluation of Board, Directors and Key Executives	1.4.10
Recommendation 9.1 Remuneration Policies	2.2.4
Recommendation 9.2 Establishment of Remuneration Committee	2.2
Recommendation 9.3 Executive and Non-Executive Director Remuneration	2.2.4.1 and 2.2.4.2
Recommendation 9.4 Equity-Based Executive Remuneration	2.2.4.1
Recommendation 9.5 Reporting on Principle 9	2.2.2 and 2.2.4
Recommendation 10.1 Company Code of Conduct	3

## 1. Board of Directors

### 1.1 Role of the Board

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interests of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the Company. The Board must also ensure that the Company complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the Company.

To assist the Board carry out its functions, it has developed a Code of Conduct to guide the Directors, (and where applicable) the Chief Executive Officer, the Chief Financial Officer and other key executives, in the performance of their roles.

### 1.2 Composition of the Board

To add value to the Company the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties given its current size and scale of operations. The names of the Directors and their qualifications and experience are stated in the Directors' Report along with the term of office held by each of the Directors. Directors are appointed based on the specific skills required by the Company and on their decision-making and judgment skills.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. All directors are Non-Executive Directors, however those listed below are not independent directors as they do not meet the following criteria for independence adopted by the Company.

An Independent Director is a Non-Executive Director and:

- is not a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such employment;
- within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member. Or an employee materially associated with the service provided;
- is not a material supplier or customer of the Company or another group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has no material contractual relationship with the Company or other group member other than as a Director of the Company;
- has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Mr R Byfield and Mr B Woodhouse are Non-Executive Directors of the Company and meet the Company's criteria for independence.

Mr J Fletcher is the Non-Executive Chairman of the Company and does not meet the Company's criteria for independence. Madam Cheng, Mr Hu Dayong and Mr Cheng Qingquan are Non-Executive Directors of the Company but do not meet the Company's criteria for independence.

As such, the majority of the Board are not considered to be independent. It is considered at this stage of the Company's development, that the Company's and shareholders' best interests are served by directors who have a vested interest in its performance.

### 1.3 Responsibilities of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the Company.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following.

- Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board.
- Strategy Formulation: to set and review the overall strategy and goals for the Company and ensuring that there are policies in place to govern the operation of the Company.
- Overseeing Planning Activities: the development of the Company's strategic plan.
- Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings of the Company.
- Monitoring, Compliance and Risk Management: the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operational performance of the Company.
- Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
- Human Resources: appointing, and where appropriate, removing the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) as well as reviewing the performance of the CEO and monitoring the performance of senior management in their implementation of the Company's strategy.
- Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
- Delegation of Authority: delegating appropriate powers, where appropriate, to the CEO to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Company's registered office.

#### 1.4 Board Policies

##### 1.4.1 Conflicts of Interest

Directors must:

- disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
- if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the *Corporations Act*, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

##### 1.4.2 Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

##### 1.4.3 Confidentiality

In accordance with legal requirements and agreed ethical standards, Directors and, where appropriate, key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

##### 1.4.4 Continuous Disclosure

The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the *ASX Listing Rules* the Company immediately notifies the ASX of information:

- concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
- that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

#### 1.4.5 Education and Induction

It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. When it is appropriate, this includes meetings with key executives, tours of the premises, an induction package and presentations. Information conveyed to new Directors include:

- details of the roles and responsibilities of a Director;
- formal policies on Director appointment as well as conduct and contribution expectations;
- access to a copy of the Board Charter;
- guidelines on how the Board processes function;
- details of past, recent and likely future developments relating to the Board;
- background information on and contact information for key people in the organisation;
- an analysis of the Company;
- a synopsis of the current strategic direction of the Company; and
- a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development. Specifically, Directors are provided with the resources and training to address skills gaps where they are identified.

#### 1.4.6 Independent Professional Advice

The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

#### 1.4.7 Related Party Transactions

Related party transactions include any financial transaction between a Director and the Company. Unless there is an exemption under the *Corporations Act* from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

#### 1.4.8 Shareholder Communication

The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

- communicating effectively with shareholders through releases to the market via ASX, information mailed to shareholders and the general meetings of the Company;
- giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
- making it easy for shareholders to participate in general meetings of the Company; and

The Company also makes available a telephone number and email address for shareholders to make enquiries of the Company.

#### 1.4.9 Trading in Company Shares

Due to the size of the Company, the Share Trading Policy requires all directors to advise the Chairman of an intention to trade the Company's shares, and it reminds directors, officers and where appropriate, employees of the prohibition in the *Corporations Act 2001* concerning trading in the Company's securities when in possession of "inside information".

#### 1.4.10 Performance Review/Evaluation

It is the policy of the Board to conduct evaluation of its performance. The evaluation process was introduced via the Board Charter adopted on 9 August 2005 and was implemented for the financial year ended 31 December 2006. The objective of this evaluation will be to provide best practice corporate governance to the Company.

#### 1.4.11 Attestations by CEO and CFO

It is the Board's policy, that the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report. However, as at the date of this report the Company does not have a designated CEO or CFO. Due to the size and scale of operations of the Company these roles are performed by the Company Secretary / Finance Director.

## 2. Board Committees

### 2.1 Audit Committee

The Company has had an Audit Committee since 9 August 2005, and met twice in 2006 calendar. Below is a summary of the role and responsibilities of an Audit Committee.

#### 2.1.1 Structure of Audit Committee

Corporate Governance Council Recommendation 4.3 requires the structure of the audit committee to include non-executive directors, a majority of independent directors, an independent chairperson and at least three members. The current membership of the audit committee includes Mr John Fletcher as Chairman, Mr Barry Woodhouse and Mr Russell Byfield.

The Chairman of the Audit Committee Mr John Fletcher is also Chairman of the Company which is a departure from Recommendation 4.3. In accordance with the definition of independence, the Chairman of the Audit Committee is not independent however KTL considers that Mr Fletcher, as Chairman of the Audit Committee has considerable financial experience to fulfil the role required as Chairman of the Audit Committee.

#### 2.1.2 Responsibilities

The Audit Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements and recommends their approval to the members.

The Audit Committee each year reviews the appointment of the external auditor, their independence, the audit fee, and any questions of resignation or dismissal.

The Audit Committee is also responsible for establishing policies on risk oversight and management.

#### 2.1.3 Risk Management Policies

The Board's Charter clearly establishes that it is responsible for ensuring there is a good sound system for overseeing and managing risk. Due to the size and scale of operations, risk management issues are considered by the Board as a whole. On 27 February 2007, Mr Barry Woodhouse (Finance Director and Company Secretary) provided the Board with written assurance that the financial statements are founded on a sound system of risk management and internal compliance. The statement assured the Board that the risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

## 2.2 Remuneration Committee

### 2.2.1 Role

The role of a Remuneration Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees.

The Company does not have a remuneration committee and any recommendations are made by the full Board.

### 2.2.2 Responsibilities

The responsibilities of a Remuneration Committee as assumed by the full Board include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the Chief Executive Officer, reviewing and making recommendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive Directors and making recommendations on any proposed changes and undertaking reviews of the Chief Executive Officer's performance, including, setting with the Chief Executive Officer goals and reviewing progress in achieving those goals.

### 2.2.3 Remuneration Policy

Directors' Remuneration was approved by resolution of the Board on 4 March 2005 after shareholders increased the level to \$300,000 on the same date.

#### 2.2.3.1 Senior Executive Remuneration Policy

The Company is committed to remunerating its senior executives in a manner that is market-competitive and consistent with best practice as well as supporting the interests of shareholders. Consequently, under the Senior Executive Remuneration Policy the remuneration of senior executive may be comprised of the following:

- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in any share/option scheme with thresholds approved by shareholders;
- statutory superannuation.

By remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration the Company aims to align the interests of senior executives with those of shareholders and increase Company performance.

The value of shares and options were they to be granted (where appropriate) to senior executives, would be calculated using the Black and Scholes method.

The objective behind using this remuneration structure is to drive improved Company performance and thereby increase shareholder value as well as aligning the interests of executives and shareholders.

The Board may use its discretion with respect to the payment of bonuses, stock options and other incentive payments.

#### 2.2.3.2 Non-Executive Director Remuneration Policy

Non-Executive Directors are to be paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses but do participate in equity schemes of the Company.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

#### 2.2.4 Current Director Remuneration

Full details regarding the remuneration of Directors, is included in the Directors' Report.

### 2.3 Nomination Committee

#### 2.3.1 Role

The role of a Nomination Committee is to help achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

The Company does not have a nomination committee because it would not be a more efficient mechanism than the full Board for focusing the Company on specific issues.

#### 2.3.2 Responsibilities

The responsibilities of a Nomination Committee would include devising criteria for Board membership, regularly reviewing the need for various skills and experience on the Board and identifying specific individuals for nomination as Directors for review by the Board. The Nomination Committee would also oversee management succession plans including the CEO and his/her direct reports and evaluate the Board's performance and make recommendations for the appointment and removal of Directors. Currently the Board as a whole performs this role.

#### 2.3.3 Criteria for selection of Directors

Directors are appointed based on the specific governance skills required by the Company. Given the size of the Company and the business that it operates, the Company aims at all times to have at least one Director with experience appropriate to the Company's target market. In addition, Directors should have the relevant blend of personal experience in accounting and financial management and Director-level business experience.

### 3. Company Code Of Conduct

The Board has implemented a code of conduct. The Code of Conduct addresses matters relevant to the Company's legal and ethical obligations to its stakeholders. It may be amended from time to time by the Board, and is published on the Company's website. This code applies equally to all employees, directors and officers of the Company and covers such matters as Discharge of Duties, Relationships, Compliance with Laws, Conflicts of Interest, Confidentiality, Use of Company Assets, Competition, Environment, Health and Safety and the Review of Code of Conduct on an annual basis.

**INCOME STATEMENTS**  
**For the Year Ended 31 December 2006**

		<b>Consolidated</b>	Consolidated	<b>Parent</b>	Parent
		<b>2006</b>	2005	<b>2006</b>	2005
		\$	\$	\$	\$
<b>Continuing Operations</b>					
Revenue	3	<b>69,095</b>	27,769	<b>74,990</b>	27,769
Research expenditure written off		-	(7,650)	-	(7,650)
Consultants		<b>(31,135)</b>	(34,288)	<b>(31,135)</b>	(34,288)
Director payments		<b>(230,000)</b>	(76,171)	<b>(230,000)</b>	(76,171)
Finance costs	4	-	(1,496)	-	(1,496)
ASX Listing and share registry		<b>(16,841)</b>	(25,581)	<b>(16,841)</b>	(25,581)
Other expenses		<b>(45,793)</b>	(17,840)	<b>(45,186)</b>	(16,460)
Share based payments		<b>(18,384)</b>	(82,750)	<b>(18,384)</b>	(82,750)
Travel		<b>(11,234)</b>	(4,850)	<b>(11,234)</b>	(4,850)
Profit (loss) for the period for continuing operations		<b>(284,292)</b>	(222,857)	<b>(277,790)</b>	(221,477)
Loss before income tax		<b>(284,292)</b>	(222,857)	<b>(277,790)</b>	(221,477)
Income Tax Expense	5	-	-	-	-
<b>Profit (loss) attributable to members of the parent</b>		<b>(284,292)</b>	(222,857)	<b>(277,790)</b>	(221,477)
Earnings per share – Continuing Operations					
Basic loss per share (cents)	19	(0.1)	(0.2)		
Diluted loss per share (cents)	19	<b>(0.1)</b>	(0.2)		

*The income statements are to be read in conjunction with the attached notes*

**STATEMENTS OF CHANGES IN EQUITY**  
**For the Year Ended 31 December 2006**

	Share Capital	Option Reserve	Accumulated Losses	Total
<b>CONSOLIDATED</b>	\$	\$	\$	\$
Balance 1 January 2006	1,786,103	82,750	(887,807)	981,046
Net income (expense) recognised directly in equity	-	18,384	-	18,384
Profit (loss) for the period	-	-	(284,292)	(284,292)
Issue of share capital	640,000	-	-	640,000
Issue of options	-	326,520	-	326,520
Costs of share capital	(32,436)	-	-	(32,436)
<b>Balance as at 31 December 2006</b>	<b>2,393,667</b>	<b>427,654</b>	<b>(1,172,099)</b>	<b>1,649,222</b>
	Share Capital	Option Reserve	Accumulated Losses	Total
	\$	\$	\$	\$
Balance 1 January 2005	21,191,814	-	(21,856,764)	(664,950)
Net income (expense) recognised directly in equity	-	82,750	-	82,750
Profit (loss) for the period	-	-	(222,857)	(222,857)
Reduction of Accumulated Losses	(21,191,814)	-	21,191,814	-
Issue of share capital	1,999,849	-	-	1,999,849
Costs of share capital	(213,746)	-	-	(213,746)
Balance as at 31 December 2005	1,786,103	82,750	(887,807)	981,046
	Share Capital	Option Reserve	Accumulated Losses	Total
	\$	\$	\$	\$
<b>PARENT</b>				
Balance 1 January 2006	1,786,103	82,750	(886,427)	982,426
Net income (expense) recognised directly in equity	-	18,384	-	18,384
Profit (loss) for the period	-	-	(277,790)	(277,790)
Issue of share capital	640,000	-	-	640,000
Issue of options	-	326,520	-	326,520
Costs of share capital	(32,436)	-	-	(32,436)
<b>Balance as at 31 December 2006</b>	<b>2,393,667</b>	<b>427,654</b>	<b>(1,164,217)</b>	<b>1,657,104</b>
	Share Capital	Option Reserve	Accumulated Losses	Total
	\$	\$	\$	\$
<b>PARENT</b>				
Balance 1 January 2005	21,191,814	-	(21,856,764)	(664,950)
Net income (expense) recognised directly in equity	-	82,750	-	82,750
Profit (loss) for the period	-	-	(221,477)	(221,477)
Reduction of Share Capital	(21,191,814)	-	21,191,814	-
Issue of share capital	1,999,849	-	-	1,999,849
Costs of share capital	(213,746)	-	-	(213,746)
<b>Balance as at 31 December 2005</b>	<b>1,786,103</b>	<b>82,750</b>	<b>(886,427)</b>	<b>982,426</b>

*The statements of changes in equity are to be read in conjunction with the attached notes.*

**BALANCE SHEET**  
**As at 31 December 2006**

	<b>Consolidated</b>	Consolidated	<b>Parent</b>	Parent
	<b>2006</b>	2005	<b>2006</b>	2005
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	<b>1,206,524</b>	1,010,549	<b>1,206,523</b>	1,010,548
Other financial assets	6 <b>8,716</b>	1,911	<b>8,716</b>	1,911
Total current assets	<b>1,215,240</b>	1,012,460	<b>1,215,239</b>	1,012,459
<b>NON-CURRENT ASSETS</b>				
Receivables	7 -	-	<b>388,973</b>	1,380
Other financial assets	6 -	-	<b>1</b>	1
Evaluation and exploration expenditure	9 <b>381,091</b>	-	-	-
Intangible assets	10 <b>72,660</b>	44,991	<b>72,660</b>	44,991
Total non-current assets	<b>453,751</b>	44,991	<b>461,634</b>	46,372
<b>TOTAL ASSETS</b>	<b>1,668,991</b>	1,057,451	<b>1,676,873</b>	1,058,831
<b>LIABILITIES</b>				
Trade and other payables	11 <b>19,769</b>	76,405	<b>19,769</b>	76,405
Total current liabilities	<b>19,769</b>	76,405	<b>19,769</b>	76,405
<b>TOTAL LIABILITIES</b>	<b>19,769</b>	76,405	<b>19,769</b>	76,405
<b>NET ASSETS</b>	<b>1,649,222</b>	981,046	<b>1,657,104</b>	982,426
<b>EQUITY</b>				
Share Capital	12 <b>2,393,667</b>	1,786,103	<b>2,393,667</b>	1,786,103
Option Reserve	13 <b>427,654</b>	82,750	<b>427,654</b>	82,750
Accumulated losses	14 <b>(1,172,099)</b>	(887,807)	<b>(1,164,217)</b>	(886,427)
<b>TOTAL EQUITY</b>	<b>1,649,222</b>	981,046	<b>1,657,104</b>	982,426

*The balance sheets are to be read in conjunction with the attached notes.*

**CASH FLOW STATEMENTS**  
**For the Year ended 31 December 2006**

	<b>Consolidated</b>	Consolidated	<b>Parent</b>	Parent
	<b>2006</b>	2005	<b>2006</b>	2005
Cash flows from operating activities	\$	\$	\$	\$
Payments from suppliers and employees	<b>(396,013)</b>	(94,318)	<b>(395,406)</b>	(94,317)
Cash generated from operations	-	-	-	-
Interest received	<b>69,095</b>	27,769	<b>69,095</b>	27,769
Net cash from operating activities	<b>(326,918)</b>	(66,549)	<b>(326,311)</b>	(66,548)
Cash flows from investing activities				
Payments to subsidiaries	-	-	<b>(55,178)</b>	-
Payment for exploration and evaluation	<b>(54,571)</b>	-	-	-
Payment of research and development costs	<b>(30,100)</b>	(7,510)	<b>(30,100)</b>	(7,510)
Net cash used in investing activities	<b>(84,671)</b>	(7,510)	<b>(85,278)</b>	(7,510)
Cash flows from financing activities				
Proceeds from issue of shares and options	<b>640,000</b>	1,298,353	<b>640,000</b>	1,298,353
Costs of issue of shares	<b>(32,436)</b>	(213,745)	<b>(32,436)</b>	(213,747)
Net cash provided by financing activities	<b>607,564</b>	1,084,608	<b>607,564</b>	1,084,606
Net increase (decrease) in cash and cash equivalents	<b>195,975</b>	1,010,549	<b>195,975</b>	1,010,548
Cash and cash equivalents at the beginning of the period	<b>1,010,549</b>	-	<b>1,010,548</b>	-
Cash and cash equivalents at the end of the period	<b>1,206,524</b>	1,010,549	<b>1,206,523</b>	1,010,548

*The cash flow statements are to be read in conjunction with the attached notes*

**NOTES TO CASH FLOW STATEMENTS**

**1. Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand and balances with banks and investments in money market instruments, net of outstanding bank overdrafts.

Cash and cash equivalents included in the cash flow statement comprise the following amounts:

Cash and cash equivalents	<b>1,206,524</b>	1,010,549	<b>1,206,523</b>	1,010,548
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**2. Subsidiary acquired**

The Company acquired a subsidiary in 2005 for \$1 which changed its status to a public company on 28 December 2006.

**3. Reconciliation of net cash used in operating activities to loss**

	<b>Consolidated</b>	Consolidated	<b>Parent</b>	Parent
	<b>2006</b>	2005	<b>2006</b>	2005
	\$	\$	\$	\$
Profit (Loss) after income tax	<b>(284,292)</b>	(222,857)	<b>(277,790)</b>	(221,477)
Borrowing costs paid by share issue	-	1,496	-	1,496
Share based payments	<b>18,384</b>	82,750	<b>18,384</b>	82,750
Changes in assets and liabilities during the financial period:				
Decrease/(increase) in accounts receivable and prepayments	<b>426</b>	(1,911)	<b>426</b>	(1,911)
Increase/(decrease) in accounts payable and other creditors payable	<b>(56,636)</b>	76,405	<b>(56,636)</b>	76,405
Decrease in other assets	<b>(4,800)</b>	(2,432)	<b>(10,695)</b>	(3,811)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(326,918)</b>	(66,549)	<b>(326,311)</b>	(66,548)

#### 4. Non cash investing and financing activities

KTL's subsidiary, KTL Uranium Limited, entered a farmin arrangement with Redport Limited in relation to the Mundong Well Project. KTL issued 5,000,000 shares at a value of 2 cents per share to Redport Limited, as approved by shareholders on 15 November 2006.

On 9 October 2006, the Company issued 5,000,000 Shares at 2 cents per share and 5,000,000 Free Options (as part of the total of 30,000,000 Options) to the nominee of Reece Consulting Limited at a deemed price of 0.0056 cents per option.

The Company obtained Shareholder approval on 15 November 2006 to issue the balance of the Options (25m Options), and those options were issued to the nominee of Reece Consulting Limited at a deemed price of 0.0039 cents per option..

The Black & Scholes methodology has been used for the 30m options issued on 9 October 2006 and 15 November 2006 using the risk free rate of 6.25%, with the underlying security spot price used for the purposes of the valuation being \$0.022 and \$0.019 respectively and a volatility factor set at 70%.

### NOTE 1 - INTRODUCTION

KTL Technologies Limited is incorporated in Australia and is the parent entity of the KTL group of companies.

#### Operations and principal activities

Operations comprise the commercialisation of its Cryo-Lag assets.

#### Scope of financial statements

The financial statements include the separate financial statements of KTL Technologies Limited.

The consolidated financial statements have been prepared by KTL Technologies Limited in accordance with paragraph Aus 9.1 of AASB 127 "Consolidated and Separate Financial Statements".

#### Currency

The financial report is presented in Australian dollars and rounded to the nearest dollar.

#### Registered office

Level 1, 28 Ord Street West Perth WA

#### Authorisation of financial report

The financial report was authorised for issue on 28 February 2007 by the directors.

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (i) Overall Policy

The principal accounting policies adopted by KTL Technologies Limited comprising the parent entity and its subsidiary are stated in order to assist in a general understanding of the financial report.

The financial report is a general purpose financial report prepared in accordance with Australian Accounting Standards and the Corporations Act.

#### Financial report complies with AIFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRS). Compliance with the Australian equivalents to IFRS (AIFRS) ensures that the financial report, comprising the group's financial statements and notes and the parent entity financial statements and notes of KTL Technologies Limited, complies with IFRS.

#### (ii) Significant judgements and key assumptions

Judgements made in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements concern the future life Cryolag.

The following key assumption has been made concerning the future and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

It is currently assumed that the Company's main asset, Cryo-Lag will generate profitable results in the future, subject to a successful outcome of the current commercialisation activities. Should this assumption prove incorrect then material adjustments may have to be made for impairment losses in respect of Cryo-Lag.

(iii)

#### **Financial Assets and Financial Liabilities**

Financial assets and financial liabilities are recognised on the balance sheet when the company becomes party to the contractual provisions of the financial instrument.

A financial asset is derecognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity.

A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Financial assets and financial liabilities classified as held for trading are measured at fair value through profit or loss.

Upon initial recognition a financial asset or financial liability is designated as at fair value through profit or loss when:

- (a) an entire contract containing one or more embedded derivatives is designated as a financial asset or financial liability at fair value through profit or loss.
- (b) Doing so results in more relevant information, because either:
  - (i) it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising gains or losses on them on different bases.
  - (ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to key management personnel.

Investments in equity instruments that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured are not designated as at fair value through profit or loss.

A gain or loss arising from a change in the fair value of a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

Financial assets not measured at fair value comprise:

- (a) loans and receivables being non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortised cost using the effective interest rate method.
- (b) held-to-maturity investments being non-derivative financial assets with fixed or determinable payments and fixed maturity that will be held to maturity. These are measured at amortised cost using the effective interest method.
- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are measured at cost together with derivatives that are linked to and must be settled by the delivery of such investments.

Available-for-sale financial assets are non-derivative financial assets which are designated as available-for-sale or that are not classified as loans and receivables, held-to-maturity investments or financial assets as at fair value through profit or loss.

A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognised directly in equity, through the statement of changes in equity (except for impairment losses and foreign exchange gains and losses) until the financial asset is derecognised at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Regular way purchases of financial assets are accounted for as follows:

- financial assets held for trading - at trade date
- held-to-maturity investments - at trade date
- loans and receivables - at trade date
- available-for-sale financial assets - at trade date

Except for the following all financial liabilities are measured at amortised cost using the effective interest rate method.

- (a) financial liabilities at fair value through profit and loss and derivatives that are liabilities measured at fair value.
- (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or are accounted for using the continuing involvement approach.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or uncollectability.

**(iv) Consolidation Policy**

The consolidated financial statements combine the financial statements of KTL Technologies Limited and its subsidiary.

The effects of all transactions between entities in the economic entity have been eliminated in full and the consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Minority interest is that portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

**(v) Revenue Recognition**

*Interest revenue*

Interest revenue is recognised using the effective interest method. It includes the amortisation of any discount or premium.

**(vi) Investments in Subsidiaries**

In the separate financial statements of KTL Technologies Limited investments in its subsidiary are accounted for at cost.

**(vii) Leases**

(A) Entity is lessee

A distinction is made between finance leases which transfer from the lessor to the lessee substantially all the risks and rewards incident to ownership of the leased asset and operating leases under which the lessor retains substantially all the risks and rewards. Where an asset is acquired by means of a finance lease, the fair value of the leased property or the present value of minimum lease payments, if lower, is established as an asset at the beginning of the lease term. A corresponding liability is also established and each lease payment is apportioned between the finance charge and the reduction of the outstanding liability. Operating lease rental expense is recognised as an expense on a straight line basis over the lease term, or on a systematic basis more representative of the time pattern of the user's benefit.

**(viii) Income Taxes**

Income taxes are accounted for using the comprehensive balance sheet liability method whereby:

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;
- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

**(ix) Receivables**

Trade accounts and notes receivable and other receivables represent the principal amounts due at balance date plus accrued interest and less, where applicable, any unearned income and provisions for doubtful accounts.

**(x) Exploration and Evaluation Costs**

Exploration, evaluation and development costs are accumulated in respect of each separate area of interest. Exploration and evaluation costs are carried forward where the right of tenure of the area of interest is current and they are expected to be recouped through sale or successful development and exploitation of the area of interest or, where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable reserves.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recouped either through sale or successful exploitation of the area of interest.

When an area of interest is abandoned or the directors decide that it is not commercial, any accumulated costs in respect of that area are written off in the financial year the decision is made. Each area of interest is also reviewed at the end of each accounting year and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences. When production commences, carried forward exploration, evaluation and development costs are amortised on a units of production basis over the life of the economically recoverable reserves.

**(xi) Borrowing Costs**

Borrowing costs are recognised as an expense in the period in which they are incurred except borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period to get ready for its intended use or sale. In this case the borrowing costs are capitalised as part of the cost of such a qualifying asset. Borrowing costs capitalised during the year amounted to \$nil (2005: \$1,496)

The amount of borrowing costs relating to funds borrowed generally and used for the acquisition of qualifying assets has been determined by applying a capitalisation rate of 7% to the expenditures on those assets. The capitalisation rate comprises the weighted average of borrowing costs incurred during the period.

**(xii) Trade and Other Payables**

Trade accounts, other payables and accrued liabilities represented the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

**(xiii) Research and Development Expenditure**

Research expenditure is recognised as an expense in the period in which incurred.

Intangible assets arising from development activities are recognised when resources are available to complete the assets and future economic benefits from use or sale of the assets is probable.

The directors have currently assessed the useful life of the intangible asset as indefinite because it awaits the result of the commercialisation of Cryo-Lag. In any event, Directors have assessed realisable value to be higher than cost.

**(xiv) Contingent Liabilities**

A contingent loss is recognised as an expense and a liability if it is probable that future events will confirm that, after taking into account any related probable recovery, an asset has been impaired or a liability incurred and, a reasonable estimate of the amount of the resulting loss can be made.

**(xv) Share-based payment arrangements**

Goods or services received or acquired in a share-based payment transaction are recognised as a increase in equity if the goods or services were received in an equity-settled share-based payment transaction or as a liability if the goods and services were acquired in a cash settled share-based payment transaction.

For equity-settled share-based transactions, goods or services received are measured directly at the fair value of the goods or services received provided this can be estimated reliably. If a reliable estimate cannot be made the value of the goods or services is determined indirectly by reference to the fair value of the equity instrument granted.

Transactions with employees and others providing similar service are measured by reference to the fair value at grant date of the equity instrument granted.

Refer Note 17 (b) and (d) for information about share-based payment arrangements, how the fair value of goods or services received and the fair value of equity instruments granted was determined and the effect of the transactions on profit or loss and financial position.

**(xvi) Events after the Balance Sheet Date**

Assets and liabilities are adjusted for events occurring after the balance date that provide evidence conditions existing at the balance date. Important after balance date events which do not meet this criteria are disclosed where relevant.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED**

**31 December 2006**

	<b>Consolidated</b>	Consolidated	<b>Parent</b>	Parent
	<b>2006</b>	2005	<b>2006</b>	2005
	\$	\$	\$	\$
<b>NOTE 3 REVENUE</b>				
Interest received – Unrelated	69,095	27,769	69,095	27,769
Interest - subsidiary	-	-	5,895	-
	<b>69,095</b>	<b>27,769</b>	<b>74,990</b>	<b>27,769</b>

**NOTE 4 ITEMS INCLUDED IN PROFIT (LOSS)**

**Continuing operations**

Research expenditure written off	-	(7,650)	-	(7,650)
Consultants	<b>(31,135)</b>	(34,288)	<b>(31,135)</b>	(34,288)
Director payments	<b>(230,000)</b>	(76,171)	<b>(230,000)</b>	(76,171)
Finance costs	-	(1,496)	-	(1,496)
ASX Listing and share registry	<b>(16,841)</b>	(25,581)	<b>(16,841)</b>	(25,581)
Other expenses	<b>(45,793)</b>	(17,840)	<b>(45,186)</b>	(16,460)
Share based payments	<b>(18,384)</b>	(82,750)	<b>(18,384)</b>	(82,750)
Travel	<b>(11,234)</b>	(4,850)	<b>(11,234)</b>	(4,850)

**NOTE 5 INCOME TAXES**

**Major components of income tax expense**

Current income tax expense (benefit)	<b>(79,772)</b>	(42,032)	<b>(77,822)</b>	(41,618)
Benefit of tax loss not brought to account	<b>79,772</b>	42,032	<b>77,822</b>	41,618
Income tax expense	-	-	-	-

**Reconciliation between income tax expense and prima facie tax on accounting profit (loss)**

Accounting profit (loss)	<b>(284,292)</b>	(222,857)	<b>(277,790)</b>	(221,477)
Tax at 30% (2005: 30%)	<b>(85,287)</b>	(66,857)	<b>(83,337)</b>	(66,443)
Tax effect of non-deductible expenses	<b>5,515</b>	24,825	<b>5,515</b>	24,825
Benefit of tax loss not brought to account	<b>79,772</b>	42,032	<b>77,822</b>	41,618
Income tax expense	-	-	-	-

**Applicable tax rate**

The applicable tax rate is the national tax rate in Australia.

**Analysis of deferred tax assets:**

No deferred tax assets have been recognised as yet, as it is currently not probable that future taxable profit will be available to realise the asset. The Company currently has income tax losses of \$13,445,594 and capital losses of \$843,435. The Company's ability to utilise the carry forward tax losses rests with it being able to pass the necessary requirements in the tax legislation.

**Tax-consolidated group**

The entity has yet to make an election to consolidate and be treated as a single entity for income tax purposes.

The method adopted for measuring the current and deferred tax amounts is:

- consolidated current and deferred tax amounts have been determined in accordance with AASB 112;
- each entity in the consolidated group has been allocated consolidated current and deferred tax amounts in a manner consistent with the broad principles of AASB 112.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 December 2006**

**NOTE 6 – OTHER FINANCIAL ASSETS**

	<b>Consolidated 2006</b>	Consolidated 2005	<b>Parent 2006</b>	Parent 2005
	\$	\$	\$	\$
<b>CURRENT</b>				
Tax account	2,337	1,911	2,337	1,911
Prepayments	<b>6,379</b>	-	<b>6,379</b>	-
	<b>8,716</b>	1,911	<b>8,716</b>	1,911
<b>NON-CURRENT</b>				
Investment in subsidiary – at cost	-	-	<b>1</b>	1

**NOTE 7 – RECEIVABLES**

<b>NON-CURRENT</b>				
Loan to subsidiary	-	-	<b>388,973</b>	1,380

**Fair value**

The carrying amounts of the loan to the subsidiary approximates fair value.

**NOTE 8 – SUBSIDIARY****Parent Entity**

Significant investments in subsidiaries	Country of incorporation Residence	Proportion of ownership interest	
		2006 %	2005 %
KTL Uranium Limited	Australia	100	100

KTL Uranium Limited (previous name Thermal Lagging Pty Ltd) had its status changed from a private company to a public company on 28 December 2006.

**Consolidated**

The parent entity within the group is KTL Technologies Limited which is the ultimate parent entity in Australia.

**NOTE 9 – EXPLORATION AND EVALUATION EXPENDITURE**

	<b>Consolidated 2006</b>	Consolidated 2005	<b>Parent 2006</b>	Parent 2005
	\$	\$	\$	\$
Exploration and evaluation expenditure	<b>381,091</b>	-	-	-
<b>Reconciliation of carrying amount</b>				
Carrying amount at 1 January	-	-	-	-
Acquisition Costs	<b>125,000</b>	-	-	-
Expenditure in current period	<b>256,091</b>	-	-	-
Expenditure written off	-	-	-	-
Carrying amount 31 December	<b>381,091</b>	-	-	-

**NOTE 10 – INTANGIBLES**

Cryo-Lag – Net carrying amount	<b>72,660</b>	44,991	<b>72,660</b>	44,991
<b>Reconciliation of carrying amount</b>				
Carrying amount at 1 January	<b>44,991</b>	33,050	<b>44,991</b>	33,050
Expenditure in current period	<b>27,669</b>	19,591	<b>27,669</b>	19,591
Research expenditure written off	-	(7,650)	-	(7,650)
Carrying amount 31 December	<b>72,660</b>	44,991	<b>72,660</b>	44,991

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 December 2006**

	<b>Consolidated 2006</b>	Consolidated 2005	<b>Parent 2006</b>	Parent 2005
	\$	\$	\$	\$
<b>NOTE 11 – TRADE AND OTHER PAYABLES</b>				
Trade accounts payable	14,769	32,047	<b>14,769</b>	32,047
Due to related parties	5,000	44,358	<b>5,000</b>	44,358
	<u>19,769</u>	<u>76,405</u>	<u><b>19,769</b></u>	<u>76,405</u>

**Fair values**

The carrying amounts of trade and other payables approximate fair value.

**NOTE 12 – SHARE CAPITAL**

	<b>Parent Entity 2006</b>	Parent Entity 2005	<b>Parent Entity 2006</b>	Parent Entity 2005
	Shares	Shares	\$	\$
<b>Authorised:</b> Ordinary shares – no par value				
<b>Issued:</b> Ordinary shares – no par value				
Issued shares				
<b>Reconciliation of movement during year</b>				
Opening balance	<b>232,860,047</b>	54,791,872	<b>1,786,103</b>	21,191,814
Share consolidation – 4 March 2004	-	(21,916,717)	-	-
Capital reduction – 3 August 2005	-	-	-	(21,191,814)
Share issue – 3 August 2005		190,018,433		1,900,184
Share issue – 3 August 2005		9,966,459		99,665
Share issue – 1 May 2006	<b>20,000,000</b>	-	<b>400,000</b>	-
Share issue – 28 July 2006	<b>2,000,000</b>	-	<b>40,000</b>	-
Share issue – 22 August 2006	<b>5,000,000</b>	-	<b>100,000</b>	-
Share issue – 9 October 2006	<b>5,000,000</b>	-	<b>100,000</b>	-
Costs of share capital	-	-	<b>(32,436)</b>	(213,746)
Closing balance	<u><b>264,860,047</b></u>	<u>232,860,047</u>	<u><b>2,393,667</b></u>	<u>1,786,103</u>

**NOTE 13 – OPTION RESERVE**

	<b>Parent Entity 2006</b>	Parent Entity 2005	<b>Parent Entity 2006</b>	Parent Entity 2005
	Options	Options	\$	\$
Total Options	<b>110,500,000</b>	18,500,000	<b>427,654</b>	82,750
<b>Reconciliation of movement during year</b>				
Opening balance	<b>18,500,000</b>	-	<b>82,750</b>	-
Option issue – 4 March 2005	-	9,500,000	-	28,750
Option issue – 29 July 2005		9,000,000		54,000
Option issue – 1 May 2006	<b>10,000,000</b>	-	-	-
Option issue – 29 May 2006	<b>12,000,000</b>	-	<b>18,384</b>	-
Option issue – 28 July 2006	<b>40,000,000</b>	-	<b>200,000</b>	-
Option issue – 9 October 2006	<b>5,000,000</b>	-	<b>28,045</b>	-
Option issue – 15 November 2006	<b>25,000,000</b>	-	<b>98,475</b>	-
Costs of issue	-	-	-	-
Closing balance	<u><b>110,500,000</b></u>	<u>18,500,000</u>	<u><b>427,654</b></u>	<u>82,750</u>

**NOTE 14 – RETAINED PROFITS (ACCUMULATED LOSSES)**

Balance at beginning of period	<b>(887,807)</b>	(21,856,764)	<b>(886,427)</b>	(21,856,764)
Capital reduction	-	21,191,814	-	21,191,814
Net Profit (Loss) attributable to members of KTL Technologies Limited	<b>(284,292)</b>	(222,857)	<b>(277,790)</b>	(221,477)
Balance at end of period	<u><b>(1,172,099)</b></u>	<u>(887,807)</u>	<u><b>(1,164,217)</b></u>	<u>(886,427)</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 December 2006**

**NOTE 15 – FINANCIAL INSTRUMENTS; INTEREST AND CREDIT RISK EXPOSURE**

The Company's principal financial instruments comprise cash and short term deposits. The main purpose of the financial instruments is to earn the maximum amount of interest at a low risk to the company. The Company also has other financial instruments such as trade debtors and creditors which arise directly from its operations. For the period under review, it has been the Company's policy not to trade in financial instruments.

The main risks arising from the Company's financial instruments are interest rate risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarised below:

(a) Interest Rate Risk

The Company's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities. The Company does not have short or long term debt, and therefore this risk is minimal.

(b) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted the policy of only dealing with credit worthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from defaults.

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The carrying amount of financial assets recorded in the financial statements, net of any provisions for losses, represents the Company's maximum exposure to credit risk.

The following table sets out the carrying amount by maturity, of the financial instruments that are exposed to interest rate risk:

<b>2006</b>	<b>&lt; 1 year</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
<i>Floating rate</i>		
Cash	1,206,524	1,206,524
Range of effective interest rates	5.5/6.25%	

The other financial instruments of the Company that are not included in the above table are non-interest bearing and therefore not subject to interest rate risk.

**Fair Values**

Set out below is a comparison by category of the carrying amounts and fair values of all of the Company's financial instruments that are carried in the balance sheet:

	<b>Consolidated</b>	Fair Value	<b>Parent</b>	Fair Value
	<b>2006</b>	2006	<b>2006</b>	2006
<b>ASSETS</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Cash and cash equivalents	<b>1,206,524</b>	1,206,524	<b>1,206,523</b>	1,206,523
Other financial assets – current	6 <b>8,716</b>	8,716	<b>8,716</b>	8,716
Other financial assets – non-current	7 <b>-</b>	-	<b>388,974</b>	388,974
<b>LIABILITIES</b>				
Trade and other payables	<b>19,769</b>	19,769	<b>19,769</b>	19,769

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 December 2006**

**NOTE 16 – COMMITMENTS FOR EXPENDITURE**

The Company currently does have commitments for expenditure of \$54,000 per annum on its Mundong Well Project. Refer to Note 23.

**NOTE 17 – CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets, listed as nil.

**NOTE 18 – RELATED PARTY DISCLOSURES  
REMUNERATION REPORT****Remuneration Policy**

The remuneration policy of KTL Technologies Limited has been designed to align director objectives with shareholder and business objectives by providing a fixed remuneration component which is assessed on an annual basis in line with market rates. The Board of KTL Technologies Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best directors to run and manage the company, as well as create goal congruence between directors and shareholders.

The Board's policy for determining the nature and amount of remuneration for board members is as follows. The remuneration policy, setting the terms and conditions (where appropriate) for the executive directors and other senior staff members, was developed by the Chairman and approved by the Board.

In determining competitive remuneration rates, the Board (where appropriate) seeks independent advice on local and international trends among comparative companies and industry generally. It examines terms and conditions for employee incentive schemes, benefit plans and share plans. Independent advice may be obtained to confirm that executive remuneration is in line with market practice and is reasonable in the context of Australian executive reward practices.

The Company is in a commercialisation phase, and therefore speculative in terms of performance. Consistent with (and where appropriate) attracting and retaining talented executives, directors and senior executives, are paid market rates associated with individuals in similar positions within the same industry. Options and performance incentives may be issued particularly as the Company moves from commercialisation to a possible manufacture, and key performance indicators such as profit and share price growth can be used as measurements for assessing executive performance.

All remuneration paid to directors is valued at the cost to the company and expensed. Shares given to directors and executives are valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Chairman in consultation with independent advisors (where appropriate) determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting and is currently \$300,000 per annum approved by shareholders on 4 March 2005. Fees for non-executive directors are not linked to the performance of the Company. However, to align directors' interests with shareholder interests, the directors are encouraged to hold shares in the company.

**COMPANY SHARE PERFORMANCE & SHAREHOLDER WEALTH**

During the financial year the Company's share price traded between a low of **\$0.011** and a high of **\$0.027** (on very small volumes). In order to keep all investors fully-informed and minimise market fluctuations the Board is determined to maintain promotional activity amongst the investor community so as to increase awareness of the Company.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 December 2006**

**DIRECTORS' AND EXECUTIVE OFFICERS' EMOLUMENTS**

**(a) Details of Specified Directors and Specified Executives**

*(ii) Specified Directors*

John Fletcher – Non-Executive Chairman  
Cheng Weiwen – Non-Executive Director  
Cheng Qingquan – Non-Executive Director  
Hu Dayong – Non-Executive Director  
Russell Byfield – Non-Executive Director  
Barry Woodhouse – Non-Executive Director

*(ii) Specified Executives*

There are no persons in addition to the Directors above meeting the definition of a Specified Executive.

Directors' remuneration and other terms of employment are reviewed annually by the Board having regard to performance against goals set at the start of the year, relative comparative information and independent expert advice.

Except as detailed in Notes (a) – (e) to the Remuneration Report, no director has received or become entitled to receive, during or since the financial period, a benefit because of a contract made by the Company or a related body corporate with a director, a firm of which a director is a member or an entity in which a director has a substantial financial interest. This statement excludes a benefit included in the aggregate amount of emoluments received or due and receivable by directors and shown in Notes (a) – (e) to the Remuneration Report, prepared in accordance with the Corporations regulations, or the fixed salary of a full time employee of the Company.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 December 2006**

**(b) Remuneration of Specified Directors and Specified Executives**

*Remuneration Policy*

The Board of Directors, comprising of non-executive directors, is responsible for determining and reviewing compensation arrangements. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Remuneration of Specified Directors for the Company and consolidated entity is set out below.

Period ended:	Short-term employee benefits	Equity Compensation	Post-employment Superannuation Contributions	TOTAL
	Base Salary and Fees	Value of Options		
	\$	\$	\$	\$
<b>John Fletcher (i)</b>				
31 December 2006	30,000	3,064	-	33,064
31 December 2005	12,500	38,250	-	50,750
<b>Cheng Weiwen</b>				
31 December 2006	42,500	3,064	-	45,564
31 December 2005	-	1,700	-	1,700
<b>Cheng Qingquan</b>				
31 December 2006	42,500	3,064	-	45,564
31 December 2005	-	1,700	-	1,700
<b>Hu Dayong</b>				
31 December 2006	30,000	3,064	-	33,064
31 December 2005	12,500	1,700	-	14,200
<b>Russell Byfield (ii)</b>				
31 December 2006	30,000	3,064	-	33,064
31 December 2005	20,650	19,700	-	40,350
<b>Barry Woodhouse (iii)</b>				
31 December 2006	55,000	3,064	-	58,064
31 December 2005	68,332	19,700	-	88,032
<b>Totals</b>				
<b>31 December 2006</b>	<b>230,000</b>	<b>18,384</b>	<b>-</b>	<b>248,384</b>
31 December 2005	113,982	82,750	-	196,732

- (i) In the twelve months to 31 December 2006, fees of \$30,000 (31 December 2005: \$12,500) were paid and / or accrued to Asian Cleveland Limited (a Company in which Mr Fletcher is a Director and Shareholder) in its role as consultant to the Company.
- (ii) In the twelve months to 31 December 2006, consulting fees of \$30,000 (2005: \$20,650) were paid and accrued to Strategy Central Pty Ltd for technical services provided by Mr Russell Byfield. Mr Byfield is a director and shareholder of Strategy Central Pty Ltd.
- (iii) In the twelve months to 31 December 2006 fees of \$55,000 (31 December 2005: \$68,332) were paid and accrued to Maphra Pty Limited (a company of which Mr Woodhouse is a Director) for company secretarial and accounting services.

All transactions were entered into on normal commercial terms.

**Specified Executives**

The Company had no specified executives for the financial year ended 31 December 2006 or 31 December 2005.

**(d) Remuneration Options: Granted and vested during the financial year ending 31 December 2005 and the financial year ending 31 December 2006**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 December 2006**

On 4 March 2005 shareholders approved the issue of a total of 6 million options (for no consideration) as follows:

- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr John Fletcher.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Ms Cheng Weiwen.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Mr Cheng Qingquan.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to Mr Hu Dayong.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr Russell Byfield.
- 1 million options exercisable at \$0.0125 before 4 March 2010 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1.25 cents. The options are escrowed and may only be exercised after 4 March 2008, and expire 4 March 2010. All options vest 36 months after issue and are not performance related.

On 4 March 2005 shareholders approved the issue of a total of 3.5 million Facilitator Options (for no consideration) exercisable at 1 cent before 4 March 2010 to Mr John Fletcher.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1 cent. The options expire 4 March 2010. All options vest immediately after issue and are not performance related.

On 29 July 2005 shareholders approved the issue of a total of 9 million options (for no consideration) as follows:

- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr John Fletcher.
- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr Russell Byfield.
- 3 million options exercisable at \$0.0125 before 29 July 2010 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 1.25 cents. The options are escrowed and may only be exercised after 29 July 2007, and expire 29 July 2010. All options vest 24 months after issue and are not performance related.

On 29 May 2006 shareholders approved the issue of a total of 12 million options (for no consideration) as follows:

- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr John Fletcher.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Ms Cheng Weiwen.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Mr Cheng Qingquan.
- 2 million options exercisable at \$0.05 before 29 May 2011 to Mr Hu Dayong.
- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr Russell Byfield.
- 2 million options exercisable at \$0.05 before 29 May 2011 to a nominee of Mr Barry Woodhouse.

Each option entitles the holder to subscribe for one fully paid ordinary share in the Company at an exercise price of 5.00 cents. The options are escrowed and may only be exercised after 29 May 2008, and expire 29 May 2011. All options vest 24 months after issue and are not performance related.

**Basis of valuation**

The Black & Scholes methodology has been used, together with the following assumptions for the options issued on 29 May 2006:

The risk free rate is the Commonwealth Government securities rate with a maturity date approximating that of the expiration period of the Incentive Options as at 29 May 2006 – 6.25%;

The underlying security spot price used for the purposes of the valuation is based on the share price of the Company was \$0.015;

The volatility factor is set as 70% which is based on an average of comparable companies' historical data from the Australian Graduate School of Management's Risk Measurement Service.

**(e) Share and Option holdings**

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 December 2006**

**Shares held by Specified Directors****Period from 1 January 2006 to 31 December 2006**

	<b>Balance at beginning of year</b>	<b>Received as Remuneration</b>	<b>Options Exercised</b>	<b>Net Change Other</b>	<b>Balance at end of year</b>
John Fletcher	23,077,054	-	-	6,784,800	29,861,854(i)
Cheng Weiwen	27,000,000	-	-	-	27,000,000
Cheng Qingquan	3,000,000	-	-	-	3,000,000
Hu Dayong	5,000,000	-	-	-	5,000,000(ii)
Russell Byfield	7,000,000	-	-	-	7,000,000(iii)
Barry Woodhouse	1,000,000	-	-	-	1,000,000(iv)
	66,077,054	-	-	6,784,800	72,861,854

- (i) Held indirectly by FF Financial Services Limited, Cleveland Investment Group Limited and Asian Cleveland Limited.
- (ii) Held indirectly by Ms Li Lei, wife of Mr Hu Dayong.
- (iii) Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.
- (iv) Held indirectly by Mr B Woodhouse as trustee for the Woodhouse Trust. Mr Woodhouse is a beneficiary of the Woodhouse Trust.

**Period 1 January 2006 to 31 December 2005**

	<b>Balance at beginning of period</b>	<b>Received as Remuneration</b>	<b>Options Exercised</b>	<b>Net Change Other</b>	<b>Balance at end of period</b>
John Fletcher	-	-	-	23,077,054	23,077,054(i)
Cheng Weiwen	-	-	-	27,000,000	27,000,000
Cheng Qingquan	-	-	-	3,000,000	3,000,000
Hu Dayong	-	-	-	5,000,000	5,000,000(ii)
Russell Byfield	-	-	-	7,000,000	7,000,000(iii)
Barry Woodhouse	-	-	-	1,000,000	1,000,000(iv)
	-	-	-	66,077,054	66,077,054

- (i) Held indirectly by FF Financial Services Limited and Asian Cleveland Limited.
- (ii) Held indirectly by Ms Li Lei, wife of Mr Hu Dayong.
- (iii) Held indirectly by Mr R Byfield as director of Strategy Central Pty Ltd who is trustee of the Strategy Central Management Trust.
- (iv) Held indirectly by Mr B Woodhouse as trustee for the Woodhouse Trust. Mr Woodhouse is a beneficiary of the Woodhouse Trust.

**Options Held By Specified Directors****Period from 1 January 2006 to 31 December 2006**

	<b>Balance at beginning of year</b>	<b>Received as Remuneration</b>	<b>Net Change Other</b>	<b>Balance at end of year</b>	<b>Total Vested</b>	<b>Total Exercisable +</b>
John Fletcher	7,500,000	2,000,000	1,250,000	10,750,000	10,750,000	4,750,000
Cheng Weiwen	1,000,000	2,000,000	-	3,000,000	3,000,000	-
Cheng Qingquan	1,000,000	2,000,000	-	3,000,000	3,000,000	-
Hu Dayong	1,000,000	2,000,000	-	3,000,000	3,000,000	-
Russell Byfield	4,000,000	2,000,000	-	6,000,000	6,000,000	-
Barry Woodhouse	4,000,000	2,000,000	-	6,000,000	6,000,000	-
	18,500,000	12,000,000	1,250,000	31,750,000	31,750,000	4,750,000

+ Please note that these options have yet to be exercised, and refers to options that can be exercised.

- (ii) Refer to note (d) above for terms of options granted to directors.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 December 2006**

**Period from 1 January 2005 to 31 December 2005**

	<b>Balance at beginning of period</b>	<b>Received as Remuneration</b>	<b>Net Change Other</b>	<b>Balance at end of period</b>	<b>Total Vested</b>	<b>Total Exercisable</b>
John Fletcher	-	7,500,000	-	7,500,000	7,500,000	3,500,000
Cheng Weiwen	-	1,000,000	-	1,000,000	1,000,000	-
Cheng Qingquan	-	1,000,000	-	1,000,000	1,000,000	-
Hu Dayong	-	1,000,000	-	1,000,000	1,000,000	-
Russell Byfield	-	4,000,000	-	4,000,000	4,000,000	-
Barry Woodhouse	-	4,000,000	-	4,000,000	4,000,000	-
	-	18,500,000	-	18,500,000	18,500,000	3,500,000

**Options issued as Part of Remuneration for the year-ended 31 December 2006**

Options are issued to directors and executives as part of their remuneration. The options are not issued based on performance criteria, but are issued to the directors of KTL Technologies Limited to increase goal congruence between directors and shareholders.

**Loans from the Company**

Interest is charged on the inter-company loan at a rate of 7% per annum on the outstanding balance. A total of \$5,895 has been charged to KTL Uranium Limited for outstanding balances between the companies.

**Loans to Company**

There were no loans made to the Company for the financial year ended 31 December 2006.

Information in relation to loans to the Company for the financial year ended 31 December 2005 is as follows:

**Asian Cleveland Limited**

Asian Cleveland Limited, a company of which Chairman Mr John Fletcher is director and shareholder, provided interim funding of up to \$100,000 on commercial terms and conditions to the Company. A 2% establishment fee was deducted from the amount of the loan. Interest on the loan was calculated at 7.74% per annum. The loan was made in several advances, the first of which occurred on 10 May 2005.

Total interest charged amounted to \$1,496.

On 4 August 2005, shareholders approved the conversion of the loan amount to equity. On the date of conversion, the total amount outstanding was \$99,664.59 for which 9,996,459 shares were issued (at a rate of 1 cent per share) in satisfaction of the debt.

**Beijing Guo Tai Hengsheng Investment (Group) Co. Limited ("GTHS")**

As part of the Reconstruction Deed, GTHS advanced \$700,000 to a Trust Account in the form of a loan, which the Administrator transferred to the creditor's trust fund for the benefit of the creditors, on completion of the DOCA on 18 March 2005.

On 12 May 2005, the Company issued a Supplementary Prospectus for further information on the Non-Renounceable Entitlements Issue. In relation to the GTHS loan of \$700,000, the loan was to be repaid from the funds raised by the Entitlements Issue. The Company and the Underwriter varied the loan and Underwriting Agreement such that the offset of the loan against Application Monies for Shortfall Securities could occur. There was no change in the funds available, to the due to the loan off-set.

The loan was repaid by the issue of 70 million shares at a rate of 1 cent per share on 4 August 2005.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED**  
**31 December 2006**

**NOTE 19 – SEGMENT INFORMATION**

- (i) The consolidated entity's operations in 2006 are managed in Australia and involve the industrial insulation products industry and the commercialisation of its Cryo-Lag assets.
- (ii) The Company's subsidiary commenced exploring for minerals in the 2006 financial year.
- (iii) The consolidated entity's operations in 2005 were managed in Australia and involve the industrial insulation products industry and the commercialisation of its Cryo-Lag assets.

	<b>Industrial Insulation</b>	Exploration	<b>Unallocated</b>	Total
	<b>2006</b>	2006	<b>2006</b>	2006
	\$	\$	\$	\$
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	-	-	<b>1,206,524</b>	<b>1,206,524</b>
Other financial assets	6	-	<b>8,716</b>	<b>8,716</b>
Total current assets	-	-	<b>1,215,240</b>	<b>1,215,240</b>
<b>NON-CURRENT ASSETS</b>				
Receivables	7	-	-	-
Other financial assets	6	-	-	-
Evaluation and exploration expenditure	9	381,091	-	<b>381,091</b>
Intangible assets	10	-	-	<b>72,660</b>
Total non-current assets	<b>72,660</b>	381,091	-	<b>453,751</b>
<b>TOTAL ASSETS</b>	<b>72,660</b>	381,091	<b>1,215,240</b>	<b>1,668,991</b>
<b>LIABILITIES</b>				
Trade and other payables	11	-	<b>19,769</b>	<b>19,769</b>
Total current liabilities	-	-	<b>19,769</b>	<b>19,769</b>
<b>TOTAL LIABILITIES</b>	-	-	<b>19,769</b>	<b>19,769</b>
<b>NET ASSETS</b>	<b>72,660</b>	381,091	<b>1,195,471</b>	<b>1,649,222</b>
<u>Contribution to net loss after tax</u>	-	-	<b>(284,292)</b>	<b>(284,292)</b>

**NOTE 20 – EARNINGS PER SHARE**

	<b>Consolidated 2006</b>	Consolidated 2005	<b>Parent 2006</b>	Parent 2005
	Cents	Cents	Cents	Cents
<b>Reconciliation of earnings per share</b>				
Basic and diluted earnings per share	<b>(0.011)</b>	(0.2)		
Profit ( loss) from ordinary activities after income tax being the earnings used in the calculation of the basic earnings per share	<b>(284,292)</b>	(222,857)		
<b>Reconciliation of weighted average number of ordinary shares</b>				
Weighted average number of ordinary shares:	<b>No. of shares</b>	No. of shares		
Used in calculating basic earnings per ordinary shares	<b>250,016,211</b>	115,060,727		
Adjustments: Dilutive potential ordinary shares	<b>9,364,198</b>	669,175		
Used in calculating diluted earnings per share	<b>259,380,409</b>	115,729,902		

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED**

**31 December 2006**

**NOTE 21 – AUDITORS’ REMUNERATION**

	<b>Consolidated</b>	Consolidated	<b>Parent</b>	Parent
	<b>2006</b>	2005	<b>2006</b>	2005
	\$	\$	\$	\$
Auditor of parent entity				
Audit or review of financial reports – PKF	<b>22,552</b>	<b>27,503</b>	<b>22,552</b>	<b>27,503</b>
Non-audit services – PKF Corporate Advisory Services (WA) Pty Ltd	-	<b>16,376</b>	-	<b>16,376</b>

**NOTE 22 – DIVIDEND FRANKING CREDITS**

No dividends have been paid or provided for in respect of the financial year ended 31 December 2006 (2005 – NIL)

Franking Dividends

Franking credits available for subsequent reporting periods

	-	1,765,000	-	89,000
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**NOTE 23 – SIGNIFICANT AFTER BALANCE DATE EVENTS**

On 29 January 2007, the Company transferred the equivalent of 2.5 million renminbi (A\$418,862) as its initial 25% contribution to the Sino Foreign Joint Venture (‘Joint Venture’) to develop Cryo-Lag in China.

On 7 February 2007, the Department of Industry and Resources issued Exploration Licence E09/1609, of which KTL is earning an 80% interest.

Apart from as described above, there are currently no matters or circumstances that have arisen since the end of the financial period that have significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

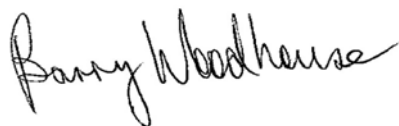
**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
31 December 2006**

**DIRECTORS' DECLARATION**

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 18 to 38, are in accordance with the Corporations Act 2001:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 31 December 2006 and of the performance for the year ended on that date of the Company; and
2. the Chief Executive Officer and Chief Financial Officer have each declared that:
  - (a) the financial records of the company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001*;
  - (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
  - (c) the financial statements and notes for the financial year give a true and fair view.
3. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



**Barry Woodhouse**  
Director and Company Secretary

**2 March 2007**

## **INDEPENDENT AUDIT REPORT TO MEMBERS OF KTL TECHNOLOGIES LIMITED**

### **Scope**

#### *The financial report and directors' responsibility*

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, notes to the financial statements, and the directors' declaration for both KTL Technologies Limited (the company) and the consolidated entity, for the year ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for 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, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

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

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



Chartered Accountants  
& Business Advisers

### **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 KTL Technologies Limited is in accordance with:

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of KTL Technologies Limited and the consolidated entity's financial position as at 31 December 2006 and of their performance for the year ended on that date; and
  - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

**PKF**  
Chartered Accountants

**Ian Olson**  
Partner

Dated at Perth Western Australia this 2<sup>nd</sup> day of March 2007.

**AUDITOR'S INDEPENDENCE DECLARATION  
TO THE DIRECTORS OF KTL TECHNOLOGIES LIMITED**

As lead engagement partner for the audit of KTL Technologies Limited for the year ended 31 December 2006, I declare that, to the best of my knowledge and belief, there have been:

- (i) no contraventions of the independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.



**PKF**  
Chartered Accountants



**Ian Olson**  
Partner

Dated at Perth, Western Australia this 2<sup>nd</sup> day of March 2007.

## ADDITIONAL INFORMATION PURSUANT TO LISTING RULE 4.10

### A. CORPORATE GOVERNANCE

A statement disclosing the extent to which the Company has followed the best practice recommendations set by the ASX Corporate Governance Council during the reporting period is contained within the Director's Report.

### B.SHAREHOLDING

#### 1. Substantial shareholders

As at 28 February 2007, the names of the substantial shareholders in the Company, the number of equity securities to which each substantial shareholder and substantial holder's associates have a relevant interest, as disclosed in substantial holding notices given to the Company are:

Name	No of Ordinary Shares	%
Beijing Guo Tai Hengsheng Investment (Group) Co. Limited	56,562,467	21.36
Madam Cheng Weiwen	27,000,000	10.19
Mr John Fletcher, FF Financial Services Limited, Cleveland Investment Global Limited and Asian Cleveland Limited	23,077,054	11.20
Madam Cheng Lili	20,000,000	7.55
Mr Jun Wang	18,834,529	7.11
Citicorp Nominees Pty Limited	15,000,000	5.66

#### 2. Number of holders of each class of equity securities and the voting rights attached

There are 530 holders of ordinary shares. Each shareholder is entitled to one vote per share held.

There are 6 holders of unlisted options. There are no voting rights attached to these options.

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

#### 3. Distribution schedule of the number of holders in each class of equity security as at 3 March 2006

By Class	Holders of Ordinary Shares	No of Ordinary Shares	%	Holders of Options	No of Options	%
1 – 1,000	83	43,437	0.02	-	-	-
1,001 - 5,000	141	341,668	0.13	-	-	-
5,001 - 10,000	65	443,499	0.17	-	-	-
10,001 - 100,000	159	5,752,394	2.17	9	850,000	0.76
100,001- and over	82	258,279,049	97.51	59	109,650,000	99.24
Totals	530	264,860,047	100.00	68	110,500,000	100.00

#### 4. Marketable Parcel

The number of shareholders with less than marketable parcels is 330.

There are no unmarketable option parcels.

### 5. Twenty largest holders of each class of quoted equity security

The names of the twenty largest holders of each class of quoted equity security, the number of equity security each holds and the percentage of capital each holds (as at 23 February 2007) is as follows:

#### Ordinary Shares

	Name	No of Ordinary Shares	%
1.	Beijing Guo Tai Hengsheng Investment (Group) Co. Limited	56,562,477	21.36
2.	Madam Cheng Weiwen	27,000,000	10.19
3.	Madam Cheng Lili	20,000,000	7.55
4.	Mr Jun Wang	18,834,529	7.11
5.	Citicorp Nominees Pty Ltd	15,000,000	5.66
6.	Asian Cleveland Limited	12,090,581	4.56
7.	Cleveland Investment Global Limited	12,000,000	4.53
8.	Guansheng Gao	10,000,000	3.78
9.	Junhua Zhang	10,000,000	3.78
10.	Jun Li	7,000,000	2.64
11.	Strategy Central Holdings Pty Ltd	7,000,000	2.64
12.	FF Financial Services Limited	5,771,273	2.18
13.	KPMG Corporate Finance (Aust) Pty Ltd	5,771,000	2.18
14.	ANZ Nominees Limited	5,387,601	2.03
15.	Li Lei	5,000,000	1.89
16.	Redport Limited	5,000,000	1.89
17.	Merrill Lynch (Australia) Pty Ltd	3,234,000	1.22
18.	Cheng Qingquan	3,000,000	1.13
19.	Simdilex Pty Ltd	2,750,000	1.04
20.	Ms Milly Elkington	2,050,530	0.77
	Total	233,451,991	88.13

	Name	Number of Options	%
1.	Citicorp Nominees Pty Limited	35,000,000	43.75
2.	Exchange Minerals Limited	23,800,000	29.75
3.	R & H Homes Pty Ltd	2,000,000	2.50
4.	Asian Cleveland Limited	1,250,000	1.56
5.	Ms Karen McLean	1,200,000	1.50
6.	Coltrange Pty Ltd	800,000	1.00
7.	Mr PA Duffield	800,000	1.00
8.	Mr DJ & Mrs MJ Mazzuchelli	800,000	1.00
9.	M & K Korkidas Pty Ltd	530,000	0.66
10.	Mr F Rodi	435,000	0.54
11.	Mr AM Bolton	400,000	0.50
12.	Mr AD Bolton	400,000	0.50
13.	Mr DJ Bolton	400,000	0.50
14.	Mrs JE Bolton	400,000	0.50
15.	Ms NE Bolton	400,000	0.50
16.	Mr H & Mrs L Dawson	400,000	0.50
17.	Mr H & Mrs L Dawson <HG & L Dawson Disc A/C>	400,000	0.50
18.	Ms Jessica Dawson	400,000	0.50
19.	Mr T Dawson	400,000	0.50
20.	Mrs M Di Falco	400,000	0.50
	Total	70,615,000	88.26

### C. OTHER DETAILS

#### 1. Company Secretary

The name of the company secretary is Mr Barry Woodhouse.

#### 2. Address and telephone details of entity's registered and administrative office

The address and telephone details of the registered and administrative office in Australia:

Level 1, 28 Ord Street

West Perth Western Australia 6005

Telephone: +(618) 9211 3600

Facsimile: +(618) 9211 3690

#### 3. Address and telephone details of the office at which a register of securities is kept

The address and telephone of the office at which a register of securities is kept:

Computershare Investor Services Pty Limited

Level 2 Reserve Bank Building

45 St George's Terrace, Perth Western Australia 6000

#### 4. Stock exchange on which the Company's securities are quoted

The Company's listed equity securities are quoted on the Australian Stock Exchange.

## 5. Restricted Securities

There are no restricted securities.

## 6. Unquoted equity securities

The Company has four classes of unquoted equity securities held as follows:

Class	Holder	Number
Unlisted options expiring 4 March 2010 at 1.25 cents	Asian Cleveland Limited	1,000,000
	Madam Cheng Weiwen	1,000,000
	Mr Hu Dayong	1,000,000
	Mr Cheng Qingquan	1,000,000
	Strategy Central Trust	1,000,000
	Woodhouse Trust	1,000,000
<b>Total</b>		<b>6,000,000</b>
Unlisted options expiring 4 March 2010 at 1.00 cents	FF Financial Services Limited	3,500,000
	<b>Total</b>	<b>3,500,000</b>
Unlisted options expiring 29 July 2010 at 1.25 cents	Asian Cleveland Limited	3,000,000
	Strategy Central Trust	3,000,000
	Woodhouse Trust	3,000,000
	<b>Total</b>	<b>9,000,000</b>
Unlisted options expiring 29 May 2011 at 5.00 cents	Asian Cleveland Limited	2,000,000
	Madam Cheng Weiwen	2,000,000
	Mr Hu Dayong	2,000,000
	Mr Cheng Qingquan	2,000,000
	Strategy Central Trust	2,000,000
	Woodhouse Trust	2,000,000
<b>Total</b>		<b>12,000,000</b>

## 7. Review of Operations

A review of operations is contained in the Review of Operations report in the Director's Report.

## 8. On market buy-back

There is currently no on-market buy-back.

## 9. Consistency with business objectives

The Company has used its cash and assets in a form readily convertible to cash that it had at the time of re-listing in a way consistent with its stated business objectives.