

KTL TECHNOLOGIES LIMITED

(previously KAEFER TECHNOLOGIES LIMITED)

ABN 75 009 089 981

ANNUAL REPORT 2004

KTL Technologies Limited

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CORPORATE INFORMATION

Directors

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

Company Secretary

Mr Barry Woodhouse

Registered Office

Level 1, 28 Ord Street
WEST PERTH WA 6005
Telephone: 08 9211 3600
Telephone: 08 9211 3690
email: info@klttek.com.au
Website: www.klttek.com.au

Share Registry

Computershare Investor Services Pty Ltd
Level 2 Reserve Bank Building
45 St George's Terrace
PERTH WA 6000
Telephone: 08 9323 2000
Facsimile: 08 9323 2033
Website: www.computershare.com.au

Auditors

PKF Chartered Accountants &
Business Advisers
Level 7 BGC Centre
28 The Esplanade
PERTH WA 6000
Telephone: 08 9278 2222
Facsimile: 08 9278 2200
Website: www.pkf.com.au/wa

Solicitors to the Company

Hardy Bowen Lawyers
Level 1, 28 Ord Street
WEST PERTH WA 6005
Telephone: 08 9211 3600
Facsimile: 08 9211 3690

Bankers

ANZ Banking Corporation Limited
77 St George's Terrace
PERTH WA 6000

Stock Exchange Listing

The Company's securities are quoted on the official list of the Australian Stock Exchange Ltd.

ASX Code: KTL (currently suspended & formerly KAE)

DIRECTORS' REPORT

In accordance with a resolution of directors of KTL Technologies Limited (“KTL” or “the Company”) , the following report is submitted in respect of the results of the Company and the consolidated entity constituted by the Company and the entities it controlled during all or part of, or at the end of, the financial year ended 31 December 2004, together with the state of affairs of the Company as at that date.

DIRECTORS

The names, qualifications, experience and special responsibilities of the Company’s directors in office during the financial year and until the date of this report are as follows. Directors were in office for the periods stated.

Current Directors

Mr John Fletcher – appointed 22 December 2004

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 John Fletcher is also a director of Pacific Energy Limited and many other private companies.

Mr Cheng Qingquan - appointed 22 December 2004

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.

Ms Cheng Weiwen - appointed 22 December 2004

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 of Huazhong Science and Technology University.

Mr. Hu Dayong - appointed 22 December 2004

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 - appointed 22 December 2004

Mr Byfield holds a Bachelor of Chemical Engineering (2/1 Honours) and is Chartered Professional Engineer with 18 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.

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Mr Byfield has 18 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 - appointed 22 December 2004

Mr Woodhouse is Certified Practising Accountant and a fellow of the Chartered Institute of Secretaries. 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.

Former Directors

Mr. George Brian Hogg

Mr. Hogg, C.A., was appointed director on 15 February 1999, and resigned on 22 April 2004. Mr. Hogg has more than 30 years experience in finance and general management.

Mr. Gopala KRISHNAN

Mr. Krishnan, CPA, was appointed director on 31 July 1999, and resigned on 22 April 2004. He qualified as an accountant in Western Australia in 1963. He holds a number of Directorships in Malaysia.

Mr. Peter Hoedemaker

Mr Hoedemaker was appointed director on 15 February 1999 and resigned on 22 December 2004. Mr. Hoedemaker is currently Managing Director of KAEFER Isoliertechnik GmbH & Co KG, Bremen/Germany. He takes care of the international business activities of the KAEFER Group and its affiliates worldwide. Mr. Hoedemaker obtained a European Master in Management in 1992 from the EAP European School of Management (Paris/Oxford/Berlin). Before joining the KAEFER Group 7 years ago, he was Managing Director of a company of the GEA group which produced components for the industrial refrigeration industry. Mr. Hoedemaker has several years of experience in finance and management.

Mr. Andrew Mackintosh

Mr. Mackintosh was appointed director on 1 November 2001 and resigned on 22 April 2004. Mr. Mackintosh began his career in mechanical/production engineering within the Oil and Gas Industry. He is educated to Master of Science degree level and his experience spans a wide cross-section of industries including Oil and Gas, Aerospace, Nuclear, Minerals and Mining.

DIVIDENDS

No dividend was paid or declared by the Company in the period since the end of the previous financial year, and up to the date of this report. The directors do not recommend that any amount be paid by way of dividend for the financial year ended 31 December 2004.

CORPORATE STRUCTURE

KTL Technologies Limited, the parent entity, is a company limited by shares that is incorporated and domiciled in Australia.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the financial period were the installation and application of industrial insulation products, the execution of other insulation related construction activities and related industrial maintenance services, access management, asbestos removal and the manufacture of prefabricated insulation products. Refer to significant changes in the state of affairs for further details.

CONSOLIDATED RESULT

The consolidated result for the 12 month period attributable to the members of KTL Technologies Limited was a loss of **\$473,370** (2003 – Loss of \$4,049,970). Refer to significant changes in the state of affairs for further details.

REVIEW OF OPERATIONS

During the year, the consolidated entity continued its operations in industrial insulation, other insulation related construction activities and related industrial maintenance services, access management, asbestos removal and the manufacture of polyurethane and prefabricated insulation products, principally in the Oil and Gas, Liquefied Natural Gas (“LNG”), Mining and Minerals, and Power Industry sectors. As a result of the consolidated entity’s not achieving the adequate results and being unprofitable, Administrators were appointed to the Company on 22 April 2004. The consolidated entity’s operations were sold (apart from the Cryo-Lag assets) on 1 December 2004 as part of the restructure. Further information on the restructure is set out elsewhere in this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Since 2001 the Company has incurred significant operating losses. Turnover declined in the financial year ended on 30 June 2001, resulting in a loss of \$6.817 million, compared with a profit of \$1.287 million during the previous financial year. Subsequent years also produced disappointing results, with losses of \$1.658 million in 2002 (18 month period) and \$4.050 million in 2003.

These losses were attributed to a number of factors, but included the deferral of a number of major projects and losses arising from the correction of fundamental accounting errors. The Company’s difficulties were compounded by problems arising from its relative small size. The Company had difficulty competing with its major competitors in the industrial insulation market, owing to its high overhead structure. The Company therefore rarely generated sufficient turnover to produce the gross profits that were needed to cover its overheads, particularly in recent years when its major clients had sought to drive down costs.

Given the circumstances outlined above, the previous Board could not see the Company returning to profitability in the near to medium term. After considering a number of options, including merging with a similar or related business and a capital raising, the previous Board decided that the Company’s long term prospects would be best served by way of a selective capital reduction. Under this proposal, KAEFER Isoliertechnik GbmH & Co KG (“KG”) would acquire the Company by offering to pay 6 cents per share to each minority shareholder as consideration for the cancellation of their shares.

The selective capital reduction was rejected by minority shareholders at a special meeting held on 15 April 2004. Following the meeting, the previous Board decided, that as the Company was likely to become insolvent, it should be placed into Voluntary Administration. On 22nd April 2004, Jeffrey Laurence Herbert and Clifford Stuart Roche of PPB, Accountants, were appointed as joint and several Voluntary Administrators (“the administrators”), pursuant to Section 436A of the Corporation Law 2001.

On 17th August 2004, the creditors of the Company resolved that the Company should enter into a Deed of Company Arrangement (“DOCA”) under which, amongst other things, the Administrator agreed to seek proposals to reconstruct the Company so that its securities could be quoted on the Australian Stock Exchange. The DOCA was executed on 6th September 2004.

On 22nd November 2004, the administrators and the Company entered into a Reconstruction Deed with Beijing Guo Tai Hengsheng Investment (Group) Company Limited (“GTHS”). The Reconstruction Deed gives effect to a proposal made by GTHS to reconstruct and recapitalise the Company.

The principal terms of the Reconstruction Deed as approved by shareholders were conditional on the release of the Company from all claims from creditors. The conditions were as follows:-

- (i) The Company will retain the Cryo-Lag Assets and all intellectual property rights and information relating to them, which will be developed for the Australian and overseas markets.

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- (ii) GTHS payment of \$700,000 to a Trust Account, initially in the form of a loan, which the administrators transferred to the creditors trust fund for the benefit of the creditors, on completion of the DOCA on 18 March 2005.
- (iii) Completion of a capital raising to provide funds sufficient to ensure that the Company has a minimum of \$1 million in cash, net of all liabilities, at the date that the Company's securities are re-quoted on the Australian Stock Exchange.
- (iv) Appointment of the nominees of GTHS as Directors of the Company.
- (v) Completion of the meeting of the Company's Shareholders to approved the reconstruction of the Company.

All conditions have been met apart from completion of the capital raising and re-quotations of KTL's shares.

On 1 December 2004, the administrators executed formal sale agreements between the Company, KG and certain subsidiaries of the Company. Under these agreements, amongst other things, KG acquired the Company's shares in Kaefer Integrated Services Pty Ltd, which in turn acquired the assets and liabilities of Kaefer Products Pty Ltd. Kaefer Integrated Services Pty Ltd also acquired all the assets of the Company, with the exception of the Cryo-Lag Assets and all intellectual property and information relating to them, and assumed all the Company's liabilities to the Commonwealth Bank of Australia and to KG. The Company for its part released Kaefer Integrated Services Pty Ltd of all debt owed.

On 1 March 2005, the Company issued a Prospectus for the Non-Renounceable Entitlements Issue.

On 4 March 2005, the shareholders voted in favour of the following resolutions, of which Resolutions 1 – 13 were interdependent:

1. Interdependent Resolutions;
2. Share Consolidation;
3. Approval of Non-renounceable Entitlements Issue;
4. Re-election of Mr John Fletcher;
5. Re-election of Mr Cheng Qingquan;
6. Re-election of Ms Cheng Weiwen;
7. Re-election of Mr Hu Dayong;
8. Re-election of Mr Russell Byfield;
9. Re-election of Mr Barry Woodhouse;
10. Approval of Issue of Incentive Options;
11. Approval of Issue of Facilitator Options;
12. Change of Company Name;
13. Remuneration of Non-Executive Directors;
14. Adoption of New Constitution; and
15. Section 195 Approval.

Following shareholder approval of the change of name of the Company, the Company changed its name to KTL Technologies Limited.

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Following shareholder approval of the “5 for 3” consolidation of capital, the Company completed the consolidation.

On 18 March 2005 KTL was released from the DOCA and the daily management and control of the Company’s affairs returned to the Board.

On 14 April 2005, Page, Kirk & Jennings resigned as auditor of the Company. The ASIC consented to the resignation on 14 April 2005. With effect from the date of resignation of Page, Kirk & Jennings, the Board has appointed PKF Chartered Accountants and Business Advisers as the Company’s auditors. The appointment of PKF as auditors of the Company will be put to the vote of shareholders at the 2005 Annual General Meeting.

On 10 May 2005, the Company entered an agreement with Asian Cleveland Limited, a company of which director Mr J Fletcher, is a director and shareholder. Asian Cleveland Limited has agreed to provide interim funds of \$100,000 on commercial terms and conditions to the Company. Repayment of the loan by the Company of \$700,000 to GTHS has been subordinated in priority to the repayment of the loan to Asian Cleveland Limited.

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 is to be repaid from the funds raised by the Entitlements Issue. The Company and the Underwriter may vary the loan and Underwriting Agreement such that the offset of the loan against Application Monies for Shortfall Securities may occur. There will be no change in the funds available, to the Company if the amount of the loan is off-set against subscription monies for Shortfall Securities.

On 27 May 2005, the offer outlined in the Non-Renounceable Entitlements Issue closed.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

On completion of the DOCA and the Reconstruction Deed, the Company came out of administration, free of all liabilities, owning the Cryo-Lag Assets and all intellectual property relating to them.

The Company proposes to raise sufficient working capital to operate the Company and develop Cryo-Lag with the intention of commercialising it in the near to medium term. The Company proposes to raise its working capital by way of a Non-renounceable Entitlements Issue, which will be underwritten by GTHS.

DIRECTORS’ INTERESTS IN SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE:

At the date of this report the interests of the directors in the shares and other equity securities of the Company were:

Name	Number of ordinary shares	Number of 1.25c options (i)	Number of 1c options (ii)
John Fletcher	Nil	1,000,000	3,500,000
Cheng Qingquan	Nil	1,000,000	Nil
Cheng Weiwen	Nil	1,000,000	Nil
Hu Dayong	Nil	1,000,000	Nil
Russell Byfield	Nil	1,000,000	Nil
Barry Woodhouse	Nil	1,000,000	Nil

- (i) The issue of 1.25cent incentive options was approved by shareholders on 4 March 2005.
- (ii) The issue of 1.00cent facilitator options was approved by shareholders on 4 March 2005.

Directors’ and Other Officers’ Emoluments

Remuneration Policy

Directors are paid Directors’ Fees determined by the Board within the aggregate Directors’ fee pool limit of \$300,000 per annum approved by shareholders on 4 March 2005. The pool limit is not at present fully utilised. In setting Directors Fees, account is taken of the responsibilities inherent in the stewardship of KTL and the demands made of directors in the discharge of their responsibilities. Income received, or due and receivable, from KTL by directors of the entity and all executives of KTL for the year ended 31 December 2004 was as set out below.

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Emoluments of directors and executive officers

Details of the nature and amount of each element of emolument for each director and executive officer of KTL and the consolidated entity for the year ended 31 December 2004 are as follows:

	Annual Emoluments				Long term emoluments	Equity (i)	Total \$
	Director's fees \$	Consultancy fees \$	Salary \$	Other	Super-annuation \$	Non-cash Benefits (i) \$	
Non-Executive Directors							
John Fletcher	-	-	-	-	-	-	-
Cheng Qingquan	-	-	-	-	-	-	-
Cheng Weiwen	-	-	-	-	-	-	-
Hu Dayong	-	-	-	-	-	-	-
Russell Byfield	-	-	-	-	-	-	-
Barry Woodhouse	-	-	-	-	-	-	-
Mr. G. Hogg *	25,000	76,292	-	-	4,125	-	105,417
Mr. P. Hoedemaker*	-	-	-	-	-	-	-
Mr. G. Krishnan *	-	-	11,668	-	-	-	11,668
Executive Director							
Mr. A. Mackintosh*	-	-	36,549	5,402	3,300	-	45,251
Executive Officers							
Mr M McGilvray*	-	-	66,712	-	7,944	-	74,656
Mr C Thomas*	-	-	54,000	-	4,611	-	58,611
Mr K Donaldson*	-	-	49,606	4,443	4,437	-	58,486
Mr A Kelkar*	-	57,181	-	-	-	-	57,181
Mr D Machutchinson	-	56,213	-	-	-	-	56,213

* - indicates former director or former executives

No options were issued during the financial year ended 31 December 2004

SHARE OPTIONS

At the date of this report, the unissued ordinary shares of **KTL** under option are as follows:

Grant Date	Date of Expiry	Exercise Price	Number Under Option
4 March 2005	4 March 2010	1.25 cents	6,000,000
4 March 2005	4 March 2010	1.00 cents	3,500,000
			9,500,000

No options were issued, expired or were exercised during the financial year.

Subsequent to year end, and pursuant to shareholder approval on 4 March 2005, a total of 6,000,000 incentive options (with an exercise price of 1.25 cents exercisable prior to 4 March 2010) were issued to directors as part of the directors' remuneration.

Subsequent to year end, and pursuant to shareholder approval on 4 March 2005, a total of 3,500,000 facilitator options (with an exercise price of 1 cent exercisable prior to 4 March 2010) were issued to FF Financial Services Limited, an associate of Mr John Fletcher, as part of the terms of engagement of FF Financial Services Limited in relation to the Recapitalisation Proposal.

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

Directors' Meetings

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

Director	Directors' Meetings		Meetings of Committees			
	No. of Meetings Held	No. of Meetings Attended	Audit		Remuneration	
			No. of Meetings Held	No. of Meetings Attended	No. of Meetings Held	No. of Meetings Attended
Mr John Fletcher	-	-	*	*	*	*
Ms Cheng Weiwen	-	-	*	*	*	*
Mr Cheng Qingquan	-	-	*	*	*	*
Mr Hu Dayong	-	-	*	*	*	*
Mr Russell Byfield	-	-	*	*	*	*
Mr Barry Woodhouse	-	-	*	*	*	*
Mr. G. Hogg	4	4	-	-	*	*
Mr. P. Hoedemaker	4	4	*	*	-	-
Mr. G. Krishnan	4	4	-	-	-	-
Mr. A. Mackintosh	4	4	*	*	*	*

Notes:

* Not members of these Committees.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity was subject to environmental regulation in respect of its asbestos removal and manufacturing activities as set out below.

Asbestos Removal

Certain controlled entities are registered as licenced asbestos removalists in each of the relevant states of Australia where these activities are undertaken.

The licence requires airborne asbestos fibre at work sites to be maintained below specific levels and asbestos waste to be removed to approved landfill sites. Regular airborne monitoring is conducted to ensure operations meet the licence conditions.

To the best of the Directors' knowledge all activities were undertaken in compliance with the licence conditions.

Manufacturing

A Controlled Entity holds an environmental licence for its manufacturing facility in Western Australia. The licence requires discharges to air and water shall not exceed specified limits. To the best of the Directors' knowledge all activities were undertaken in compliance with the licence conditions.

Due to the completion of the DOCA as described above, the Company no longer has responsibilities in relation to the above environmental regulations.

Insurance of Officers

Unless arising out of conduct involving a lack of good faith, under KTL's constitution KTL must indemnify, to the extent permitted by law, each director, secretary, executive officer and employee member of KTL against:

- (i) any liability incurred by each such person in their capacity as Director, secretary, executive officer or employee, as the case may be;
- (ii) any liability incurred:
 - in defending civil or criminal proceedings in which judgement is given in their favour or in which they are acquitted;
 - in connection with any application relating to such proceedings in which relief is granted to them under the Corporations Act or the corresponding law of another jurisdiction; or
 - in connection with any investigation of any kind relating to the affairs or conduct of KTL in which they are examined or required to give evidence or produce documents.

Each of the directors named in this report has the benefit of this indemnity, which extends to all directors, secretaries, executive officers and employees of each member of KTL.

No amount was paid under these indemnities during the period ended 31 December 2004 or since that date.

The Constitution permits KTL to pay or agree to pay premiums in respect of any contract of insurance which insures any person who is or has been a director, secretary, executive officer or employee of any liability incurred by that person in any such capacity and being a liability:

- for costs and expenses in defending proceedings (whether civil or criminal), whatever their outcome; and
- not arising out of conduct involving a wilful breach of duty or which contravenes section 232(5) and (6) of the Corporations Act.

KTL has not paid insurance cover in the current period in respect of amounts that KTL may have to pay under any of the indemnities set out above.

During the previous period the Company paid a premium of \$22,381 to insure the Directors and Officers of the company and its Australian-based controlled entities and the General Managers of each of the operating centres of the consolidated entity. This cover expired in June 2004.

Corporate Governance

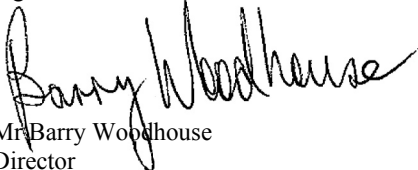
In recognising the need for the highest standards of corporate behaviour and accountability, the directors of KTL support the principles of corporate governance.

Rounding of amounts to nearest thousand dollars

The Company is of a kind referred to in Class Order 98/0100 issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the Director's Report and Financial Report. Amounts in the Director's Report and Financial Report have been rounded off to the nearest thousand dollars in accordance with that Class order.

The Company's corporate governance statement is contained in the following section of this annual report.

Signed in accordance with a resolution of the Board of Directors on 29 June 2005.



Mr Barry Woodhouse
Director

STATEMENT OF CORPORATE GOVERNANCE PRACTICES

The Board of Directors of KTL Technologies Limited is responsible for corporate governance. The Board guides and monitors the business and affairs of KTL on behalf of the shareholders by whom they were elected and to whom they are accountable.

The format of the Corporate Governance Statement has changed due to the introduction of the Australian Stock Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations"(the Recommendations). In accordance with the Council's recommendations, the Corporate Governance Statement must now contain certain specific information and must disclose the extent to which the company has followed the guidelines during the period. Where a recommendation has not been followed, the fact must be disclosed, together with reasons for the departure.

The current Board was appointed on 22 December 2004. The Company was in administration from 22 April 2004 until 18 March 2005. The new Board has yet to implement the Recommendations.

KTL's Corporate Governance Statement is to be structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

- Principle 1. Lay solid foundation for management and oversight
- Principle 2. Structure of the board to add value
- Principle 3. Promote ethical and responsible decision making
- Principle 4. Safeguard integrity in financial reporting
- Principle 5. Make timely and balanced disclosure
- Principle 6. Respect rights of shareholders
- Principle 7. Recognise and manage risks
- Principle 8. Encourage enhanced performance
- Principle 9. Remunerate fairly and responsibly
- Principle 10. Recognise the legitimate interests of stakeholders

Given the reconstruction of KTL, the new Board is in the process of adopting its corporate governance practices and will aspire to the Council's best practice recommendations.

Departure from the Recommendations

Due to the circumstances of the Company (as explained above and the Directors' Report), the Recommendations have yet to be instigated by the new Board. As such, all recommendations have not been followed.

The new Board cannot comment on the Corporate Governance practices of the previous Board

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Statements of financial performance

for the twelve months ended 31 December 2004

	Notes	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000)
Revenue from ordinary activities	3	18,164	38,724	152	379
Reconstruction of Company	2	940	-	3,643	-
Changes in inventories of finished goods and work in progress		341	(790)	-	-
Raw materials and consumables used		(4,246)	(11,020)	(39)	(114)
Employee benefits expense		(12,581)	(23,790)	(575)	(2,490)
Depreciation and amortisation expenses	4	(352)	(743)	(98)	(78)
Borrowing costs expense	4	(207)	(247)	(178)	(218)
Lease rental expenses	4	(223)	(867)	(1)	(485)
Costs of selective capital reduction		(498)	-	(843)	-
Cost of Administration		(700)	-	(700)	-
Other expenses from ordinary activities		(1,111)	(3,782)	(391)	(1,312)
Correction of fundamental error	4(a)	-	(782)	-	(782)
Writedown carrying value of assets		-	(753)	-	(100)
Profit (Loss) from ordinary activities before income tax expense		(473)	(4,050)	970	(5,200)
Income tax expense	5	-	-	-	-
Profit (Loss) from ordinary activities after income tax expense		(473)	(4,050)	970	(5,200)
Profit (Loss) attributable to members of KTL Technologies Limited	18	(473)	(4,050)	970	(5,200)
Net exchange differences on translation of financial report of foreign controlled entity	18	-	(455)	-	-
Total revenues, expenses and valuation adjustments attributable to members of KTL Technologies Limited recognised directly in equity		-	(455)	-	-
Total changes in equity other than those resulting from transactions with owners as owners		(473)	(4,505)	970	(5,200)
Basic and diluted earnings per share in cents	7	(0.9)	(7.4)		

The above statements of financial performance should be read in conjunction with the accompanying notes.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Statements of financial position
as at 31 December 2004

	Notes	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000) \$	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000) \$
Current assets					
Cash		-	64	-	-
Receivables	8	-	4,351	-	1,357
Inventories	9	-	384	-	-
Other	10	-	980	-	321
Total current assets		-	5,779	-	1,678
Non-Current Assets					
Investments	11	-	-	-	1,789
Property, plant and equipment	12	-	2,926	-	4
Other	13	35	369	35	18
Total non-current assets		35	3,295	35	1,811
Total assets		35	9,074	35	3,489
Current liabilities					
Payables	14	700	4,166	700	1,032
Interest bearing liabilities	15	-	3,021	-	2,943
Provisions	16	-	1,071	-	-
Total current liabilities		700	8,258	700	3,975
Non-current liabilities					
Interest bearing liabilities	15	-	1,293	-	1,149
Provisions	16	-	42	-	-
Total non-current liabilities		-	1,335	-	1,149
Total liabilities		700	9,593	700	5,124
Net liabilities		(665)	(519)	(665)	(1,635)
Equity					
Contributed equity	17	21,192	21,192	21,192	21,192
Reserves	18	-	(327)	-	-
Accumulated losses	18	(21,857)	(21,384)	(21,857)	(22,827)
Total equity		(665)	(519)	(665)	(1,635)

The above statements of financial position should be read in conjunction with the accompanying notes

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Statements of cash flows

for the twelve months ended 31 December 2004

	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000)
Notes				
Cash flows from operating activities				
Receipts from customers (inclusive of goods and services tax)	17,943	41,826	-	-
ATO repayment plan	(457)	(509)	-	(509)
Payments to suppliers and employees (inclusive of goods and services tax)	(17,350)	(44,084)	(646)	(2,155)
	136	(2,767)	(646)	(2,664)
Interest received	3	3	-	4
Borrowing costs	(206)	(247)	(178)	(218)
Other revenue	225	135	-	176
Net cash inflow (outflow) from operating activities	158	(2,876)	(824)	(2,702)
Notes				
Cash flows from investing activities				
Repayment of loans by related parties	-	-	905	498
Proceeds from sale of subsidiaries	-	-	100	-
Proceeds from sale of property, plant and equipment	4	495	543	199
Payment to Administrator	-	-	(643)	-
Payments for property, plant and equipment	(488)	(626)	(365)	-
Payment of research and development costs	-	(43)	(17)	(18)
Net cash (outflow) / inflow from investing activities	(484)	(174)	523	679
Cash flows from financing activities				
Proceeds from borrowings	1,500	1,343	1,500	1,343
Repayment of borrowings	-	(663)	-	(514)
Lease liability payments	(44)	-	-	-
Net cash inflow from financing activities	1,456	680	1,500	829
Net increase/(decrease) in cash held	1,130	(2,370)	1,199	(1,194)
Cash at the beginning of the financial period	(1,130)	1,240	(1,199)	(5)
Effect of exchange rate changes on cash	-	-	-	-
Cash/(net overdraft) at the end of the financial period	-	(1,130)	-	(1,199)

The above statements of cash flows should be read in conjunction with the accompanying notes

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

1. STATEMENT OF ACCOUNTING POLICIES

This general purpose financial report comprising the financial statements of the Company and the consolidated financial statements of the consolidated entity has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Consensus Views and the Corporations Act 2001. The financial statements have been prepared in accordance with the historical cost convention, except where stated. Set out below is a summary of the significant accounting policies adopted by the consolidated entity in the preparation of the financial statements. The accounting policies have been consistently applied by the entities in the consolidated entity and, except where there is a change in accounting policy, are consistent with those of the previous year. Comparative information is reclassified where appropriate to enhance comparability.

(a) Going Concern

On 22 April 2004, the Company was placed into administration. Further details are listed in Note 2. The administration of the Company ended on 18 March 2005. Further details are listed in Note 2.

On 22nd November 2004, the administrators and the Company entered into a Reconstruction Deed with Beijing Guo Tai Hengsheng Investment (Group) Company Limited ("GTHS"). The Reconstruction Deed gives effect to a proposal made by GTHS to reconstruct and recapitalise the Company.

The only condition that remains outstanding at the date of this report is the completion of a capital raising to provide funds sufficient to ensure that the Company has a minimum of \$1 million in cash, net of all liabilities, at the date that the Company's securities are quoted on the Australian Stock Exchange.

Whilst the Directors are committed to doing everything in their power to successfully complete this transaction, successful completion is also dependent on factors outside their control. Accordingly, there is uncertainty whether the Company will continue as a going concern and therefore whether it will realise its assets and settle its liabilities and commitments in the normal course of business and at the amounts stated in the financial report.

The Directors believe that the Company will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

Accordingly, no adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that might be necessary should the Company not continue as a going concern.

(b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of the Company being the parent entity, and all its controlled entities as at 31 December 2004 and the results of all controlled entities for the period then ended. All inter company balances and transactions have been eliminated. Where a controlled entity is sold during the year, its result is included in the consolidated profit or loss from the date of sale. The effective date for this purpose is the date upon which control passes.

For the purposes of these financial statements, control of all subsidiaries was deemed to have passed on 30 June 2004 when KTL agreed to sell its investments in its subsidiaries. As at 31 December 2004, KTL had no subsidiaries.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004

1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(c) Revenue Recognition

- (i) **Sales Revenue**
Sales revenue comprises revenue earned (net of returns, discounts and allowances) from the provision of products or services to entities outside the consolidated entity. Sales revenue is recognised when the goods are provided, or when the billings in respect of services are provided.
- (ii) **Interest Income**
Interest income is recognised as it accrues unless collectibility is in doubt.
- (iii) **Asset Sales**
The gross proceeds of asset sales are included as revenue of the entity.
- (iv) **Other Revenue**
The revenue recognition policy for investments is described in Accounting Policy Note 1(f).

(d) Income Tax

The consolidated entity adopts the liability method of tax effect accounting. Income tax expense is calculated on operating profit or loss adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statements of financial position as a future income tax benefit or a deferred tax liability. Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to tax losses are only brought to account when the realisation is virtually certain.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(e) Foreign Currency

(i) Transactions

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

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

(ii) Foreign Controlled Entity

As the foreign controlled entity is self-sustaining, its assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while its revenues and expenses are translated at the average of rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve.

(f) Investments

(i) Controlled Entities

Investments in controlled entities are valued in the company's financial statements at the lower of cost and recoverable amount. Dividends are brought to account in the statements of financial performance when they are proposed by the controlled entities.

(ii) Other Entities

Investments in other entities are valued at the lower of cost or market value. Dividends and interest are brought to account as they are received.

(g) Inventories

Raw materials and stores and finished goods are carried at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and both variable and fixed overhead costs allocated on the basis of normal operating capacity.

(h) Construction Work in Progress

(i) Valuation

Construction work in progress is valued at cost plus profit recognised to date based on the value of work completed, less provision for foreseeable losses and progress billings. Losses on contracts are brought to account when they are deemed to be irrecoverable.

Cost includes both variable and fixed costs directly related to specific contracts, and those which can be attributed to contract activity in general and which can be allocated on a reasonable basis. Those costs which are expected to be incurred under penalty clauses and warranty provisions are also included.

(ii) Recognition of Profit

Profit is recognised using the percentage of completion method.

Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(i) Property, Plant and Equipment

(i) Acquisition

Items of property, plant and equipment are recorded at cost and depreciated as outlined below. The cost of property, plant and equipment constructed by the consolidated entity includes the cost of materials and direct labour and an appropriate proportion of fixed and variable overheads.

(ii) Depreciation and Amortisation of Property, Plant and Equipment

Property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated or amortised over their estimated useful lives using the straight line method. The expected useful lives are as follows :-

Leasehold land	60 years
Buildings	5 - 30 years
Plant & Equipment	3 - 10 years

Assets are first depreciated or amortised in the year of acquisition or, in respect of internally constructed assets, from the time an asset is held ready for use.

(iii) Leased Plant and Equipment

Leases of plant and equipment under which the consolidated entity assumes substantially all of the risks of ownership, are classified as finance leases. Other leases are classified as operating leases. Finance leases are capitalised. A lease asset and liability equal to the present value of the minimum lease payments, excluding executory costs, are recorded at the inception of the lease. Contingent rentals are written off as an expense in the accounting period in which they are incurred. Capitalised leased assets are amortised on a straight line basis against the income of the accounting periods which are expected to benefit from their use.

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except in those circumstances where an alternative basis would be more representative of the pattern of the benefits to be derived from the leased property.

(j) Intangible Assets - Goodwill

On acquisition of an investment in a controlled entity the identifiable net assets acquired are measured at fair value. The excess of the fair value of the cost of acquisition over the fair value of the identifiable net assets acquired is brought to account as goodwill and amortised on a straight line basis over ten years, being the period during which the benefits are expected to arise.

(k) Repairs & Maintenance

The costs of maintenance are charged as expenses as incurred, except where they relate to the replacement of a component of an asset, in which case the costs are capitalised and depreciated in accordance with note 1(i(ii)).

Other routine operating maintenance, repair and minor renewal costs are charged as expenses as incurred.

(l) Employee Entitlements

Provisions have been made in the financial statements for benefits accruing to employees in relation to such matters as annual leave and long service leave. All on-costs, including payroll tax, workers' compensation premiums and fringe benefits tax are included in the determination of provisions. Provisions for annual leave and the current portion of long service leave provisions are measured at the amounts expected to be paid when the liabilities are settled. The non-current portion of long service leave provision is measured at the present value of estimated future cash flows, discounted by the average interest rate applicable to 3 and 10 year Commonwealth Government bonds.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

1 STATEMENT OF ACCOUNTING POLICIES (Continued)

(m) Superannuation Fund

The consolidated entity contributes to an employee superannuation fund, such contributions being charged against income. Refer also Note 19(a).

(n) Research and Development Costs

Research and development expenditure is expensed as incurred except to the extent that its recoverability is assured beyond any reasonable doubt, in which case it is deferred and amortised over the period in which the related benefits are expected to be realised.

All deferred research and development expenditure is reviewed annually to determine the amount, if any, that is no longer recoverable. Any such amount is written off.

(o) Receivables

All trade debtors are recognised at the invoiced value.

Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. A provision for doubtful debts is raised when some doubt as to collection exists.

(p) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the company prior to the end of the financial year and which are unpaid. The amounts are unsecured.

(q) Cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and short term deposits at call net of outstanding bank overdrafts.

(r) Earnings Per Share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(s) Recoverable amount of non-current assets

The carrying amounts of all non-current assets are reviewed at least annually to determine whether or not they are in excess of their recoverable amount. The recoverable amount of an asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

(t) Interest bearing liabilities

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt. Interest is accrued over the period it becomes due and is recorded as part of other creditors

(u) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the cost of qualifying assets.

Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings, and
- finance lease charges

KTL TECHNOLOGIES LIMITED
and Controlled Entities

**Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004**

2. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Since 2001 the Company has incurred significant operating losses. Turnover declined in the financial year ended on 30 June 2001, resulting in a loss of \$6.817 million, compared with a profit of \$1.287 million during the previous financial year. Subsequent years also produced disappointing results, with losses of \$1.658 million in 2002 (18 month period) and \$4.050 million in 2003. These losses were attributed to a number of factors, but included the deferral of a number of major projects and losses arising from the correction of fundamental accounting errors. The Company's difficulties were compounded by problems arising from its relative small size. The Company had difficulty competing with its major competitors in the industrial insulation market, owing to its high overhead structure.

The Company therefore rarely generated sufficient turnover to produce the gross profits that were needed to cover its overheads, particularly in recent years when its major clients had sought to drive down costs. Given the circumstances outlined above, the previous Board could not see the Company returning to profitability in the near to medium term. After considering a number of options, including merging with a similar or related business and a capital raising, the previous Board decided that the Company's long term prospects would be best served by way of a selective capital reduction. Under this proposal, KG would acquire the Company by offering to pay 6 cents per share to each minority shareholder as consideration for the cancellation of their shares. Furthermore, shareholders were advised in the Chairman's Letter that accompanied the Selective Capital Reduction Meeting Materials that KG had indicated that it was unwilling to continue to fund KTL unless it was restructured.

The selective capital reduction proposal was rejected by minority shareholders at a special meeting held on 15 April 2004. Following the meeting, the previous Board decided, that as the Company was likely to become insolvent, it should be placed into Voluntary Administration. On 22nd April 2004, Jeffrey Laurence Herbert and Clifford Stuart Rocke of PPB, Accountants, were appointed as joint and several Voluntary Administrators ("the administrators"), pursuant to Section 436A of the Corporation Law 2001.

On 17th August 2004, the creditors of the Company resolved that the Company should enter into a Deed of Company Arrangement ("**DOCA**") under which, amongst other things, the Administrator agreed to seek proposals to reconstruct the Company so that its securities could be quoted on the Australian Stock Exchange. The DOCA was executed on 6th September 2004.

On 22nd November 2004, the administrators and the Company entered into a Reconstruction Deed with Beijing Guo Tai Hengsheng Investment (Group) Company Limited ("GTHS"). The Reconstruction Deed gives effect to a proposal made by GTHS to reconstruct and recapitalise the Company.

The principal terms of the Reconstruction Deed, which was approved by shareholders on 4 March 2005, and are conditional on the release of the Company from all claims from creditors, are as follows:-

- (i) The Company will retain the Cryo-Lag Assets and all intellectual property rights and information relating to them, which will be developed for the Australian and overseas markets.
- (ii) GTHS will make a payment of \$700,000 to a Trust Account, initially in the form of a loan, which the administrators will transfer to the creditors trust fund for the benefit of the creditors, on completion of the DOCA.
- (iii) The Company will complete a capital raising to provide funds sufficient to ensure that the Company has a minimum of \$1 million in cash, net of all liabilities, at the date of the Company's securities are quoted on the Australian Stock Exchange.
- (iv) The Company will appoint the nominees of GTHS as Directors of the Company.
- (v) The new Directors will call a meeting of the Company's Shareholders to approve the reconstruction of the Company.
- (vi) The Company and the Underwriter may vary the loan and the Underwriting Agreement such that the offset of the loan against Application monies for Shortfall Securities may occur. There will be no change in the funds available to the Company if the amount of the loan is offset against subscription monies for Shortfall Securities.

On 1 December 2004, the administrators executed formal sale agreements between the Company, KG and certain subsidiaries of the Company. Under these agreements, amongst other things, KG acquired the Company's shares in Kaefer Integrated Services Pty Ltd, which in turn acquired the assets and liabilities of Kaefer Products Pty Ltd. Kaefer Integrated Services Pty Ltd also acquired all the assets of the Company, with the exception of the Cryo-Lag Assets and all intellectual property and information relating to them, and assumed all the Company's liabilities to the Commonwealth Bank of Australia and to KG. The Company for its part released Kaefer Integrated Services Pty Ltd of all debt owed.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

**Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004**

2. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND SIGNIFICANT EVENTS AFTER THE BALANCE DATE

On 4 March 2005, the shareholders voted in favour of the following resolutions:

1. Interdependent Resolutions;
2. Share Consolidation on a "5 for 3" basis;
3. Approval of Non-renounceable Entitlements Issue;
4. Re-election of Mr John Fletcher;
5. Re-election of Mr Cheng Qingquan;
6. Re-election of Ms Cheng Weiwen;
7. Re-election of Mr Hu Dayong;
8. Re-election of Mr Russell Byfield;
9. Re-election of Mr Barry Woodhouse;
10. Approval of Issue of Incentive Options;
11. Approval of Issue of Facilitator Options;
12. Change of Company Name;
13. Remuneration of Non-Executive Directors;
14. Adoption of New Constitution; and
15. Section 195 Approval.

Following shareholder approval of the change of name of the Company, the Company changed its name to KTL Technologies Limited.

Following shareholder approval of the "5 for 3" consolidation of capital, the Company completed the consolidation.

On 18 March 2005 KTL was released from the DOCA and the daily management and control of the Company's affairs returned to the Board.

Page, Kirk & Jennings resigned as auditor of the Company after the ASIC consented to the resignation on 14 April 2005.

With effect from the date of resignation of Page, Kirk & Jennings, the Board has appointed PKF Chartered Accountants and Business Advisers as the Company's auditors. The appointment of PKF as auditors of the Company will be put to the vote of shareholders at the 2005 Annual General Meeting.

On 10 April 2005, the Company entered an agreement with Asian Cleveland Limited, a company of which director Mr John Fletcher is a director and shareholder. Asian Cleveland Limited has agreed to provide interim funds of \$100,000 on commercial terms and conditions to the Company. Repayment of the loan by the Company of \$700,000 to GTHS has been subordinated in priority to the repayment of the loan to Asian Cleveland Limited.

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 is to be repaid from the funds raised by the Entitlements Issue. The Company and the Underwriter may vary the loan and the Underwriting Agreement such that the offset of the loan against the Application Monies for Shortfall Securities may occur. There will be no change in the funds available to the Company if the amount of the loan is off-set against subscription monies for Shortfall Securities.

On 27 May 2005, the offer outlined in the Non-Renounceable Entitlements Issue closed.

The Company proposes to raise sufficient working capital to operate the Company and develop Cryo-Lag with the intention of commercialising it in the near to medium term. The Company proposes to raise its working capital by way of a Non-renounceable Entitlements Issue, which will be underwritten by GTHS. This capital raising is expected to be completed by June 2005.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

**Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004**

**2. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS AND SIGNIFICANT EVENTS
AFTER THE BALANCE DATE**

Reconstruction of Company

The Company sold its assets and investments as part of the restructure of the company.

The carrying value of assets and liabilities sold by KTL as listed in the various sale agreements including its investments in subsidiaries is as follows:

	Consolidated	Parent
	(\$'000)	(\$'000)
Property, plant and equipment	2,723	337
Trade debtors	4,962	27
Inventories	895	-
Other	313	313
Prepayments	210	8
Cash	1,783	12
Total assets	10,886	697
Trade creditors and loans	(9,193)	(5,226)
Employee entitlements	(1,298)	-
Other liabilities	(1,662)	(260)
Total liabilities	(12,153)	(5,486)
Net assets	(1,267)	(4,789)
Proceeds on sale	-	(643)
Net assets sold as result of reconstruction	(1,267)	(4,789)
Gain on sale of assets & liabilities	(1,267)	(5,432)
Foreign Currency Reserve	327	-
Cost of investment	-	1,789
Gain on Reconstruction of Company	(940)	(3,643)

KTL TECHNOLOGIES LIMITED
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Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004

	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000)
3 REVENUE				
Included in revenue are the following items :-				
Revenue from operating activities				
Sales	17,933	37,945	-	-
Revenue from outside the operating activities				
Interest received or due and receivable from :				
Other	2	3	-	3
Rent received:				
Other	90	238	-	177
Gross proceeds on sale of property, plant and equipment				
	4	495	-	199
Sundry items	135	43	152	-
	231	779	152	379
Revenue from ordinary activities	18,164	38,724	152	379

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000)
4 PROFIT/(LOSS) FROM ORDINARY ACTIVITIES				
Included in the profit/(loss) from ordinary activities are the following specific net gains and expenses:				
Expenses				
Cost of sales of goods and services	16,486	35,600	614	-
Interest paid or due and payable to:				
Other persons	171	218	143	218
Related Parties	35	-	35	-
Finance charges on capitalised leases	38	29	25	-
Amortisation of:				
Research and development costs	36	72	66	72
Depreciation - plant and equipment	295	529	32	4
- buildings	20	44	-	2
- leased assets	-	98	-	-
Amounts set aside to provision for:				
Doubtful trade debts	66	77	4	-
Lease rental expense – operating leases	223	867	1	485
Write down of non-current assets	-	333	-	-
Expenses incurred in selective capital reduction	498	-	843	-
Cost of Administration	700	-	700	-
Net Gains				
Profit (Loss) from sale of property, plant and equipment	(99)	258	-	27

Also included in the profit/(loss) from ordinary activities are the following significant items:

Provision in relation to Malaysian property	-	(420)	-	-
Adjustment to project margin	-	(700)	-	-
Tax related liabilities	-	(575)	-	(575)
Under accrual of prior period insurance	-	(757)	-	(757)
Reversal of over accrued expenses of prior years	-	450	-	450

A number of these items are also included within the fundamental error disclosure below.

4 (a) Fundamental Error (Comparative 2003)

The consolidated loss from ordinary operations for the financial year ended 31 December 2003 was adversely affected by the correction of errors which had the effect of increasing the consolidated loss from ordinary activities before income tax by \$782,000 with a corresponding reduction in consolidated net assets.

The correction of errors related to tax related liabilities of \$475,000 for non compliance with certain statutory obligations of the company, under accruals of insurance including adjustments relating to wages declarations of \$757,000 and over accrued expenses in prior years of \$450,000 in relation to certain statutory obligations of the company.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004

4 (a) Fundamental Error (Comparative 2003)

Restated consolidated financial information is presented below to show the information that would have been disclosed in those financial reports had the error not been made together with the cumulative effect on accumulated losses as at 31 December 2003.

Restatement of accumulated losses

	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent 2004 (\$'000)	Parent 2003 (\$'000)
		(Restated)		(Restated)
Previously reported accumulated losses at the end of the previous reporting period	-	(17,334)	-	(17,627)
Correction of fundamental error	-	(782)	-	(782)
Restated accumulated losses at the beginning of the reporting period	-	(18,116)	-	(18,409)
Restated loss from ordinary activities after income tax expense	-	(3,268)	-	(4,418)
Restated accumulated losses at the reporting date	-	(21,384)	-	(22,827)

Restatement of payables

	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent 2004 (\$'000)	Parent 2003 (\$'000)
		(Restated)		(Restated)
Payables at the end of the financial period as previously reported	-	4,166	-	1,032

Restatement of net assets/(liabilities)

	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent 2004 (\$'000)	Parent 2003 (\$'000)
		(Restated)		(Restated)
Net assets/(liabilities) at the end of the financial period as previously reported	-	(519)	-	(1,635)

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000)
4 PROFIT/(LOSS) FROM ORDINARY ACTIVITIES (continued)				
Remuneration of auditors				
Amounts received or due and receivable for:				
Audit services - PriceWaterhouseCoopers	42	102	-	-
Other services - PriceWaterhouseCoopers	43	-	1	-
Other services - PriceWaterhouseCoopers	-	60	-	-
Indirect tax - PriceWaterhouseCoopers	-	210	-	-
	-	210	-	-
	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000)
	\$	\$	\$	\$
5 TAXATION				

Income Tax Expense

Prima facie income tax benefit calculated at 30% (2003: 30%) on the operating result	(143)	(1,215)	291	(1,560)
Increase in income tax expense due to non tax deductible items:				
Losses relating to DeltaTee, Malaysia	-	251	-	-
Benefit of tax losses not brought to account	143	964	-	1,560
Unutilised tax losses brought forward	-	-	(291)	-
Income Tax Expense/(Benefit)	-	-	-	-

Future Income Tax Benefits Not Brought to Account

Future income tax benefits arising from tax losses in the entity were not brought to account at balance date as the realisation of the benefits are not regarded as virtually certain.

Amount attributable to benefit of tax losses calculated at 30% (2003: 30%)	-	5,692	3,553	3,844
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This benefit for tax losses will only be obtained if:

- (i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised, or
- (ii) the losses are transferred to an eligible entity in the consolidated entity, and
- (iii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation, and
- (iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

Tax consolidation

The consolidated entity does not intend to enter into the the tax consolidation regime as the Company will not have controlled entities as a result of the sale agreement it entered on 1 December 2004 when it sold its investments in its subsidiaries.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

	Consolidated 2004 ('000's) \$	Consolidated 2003 ('000's) \$	Parent Entity 2004 ('000's) \$	Parent Entity 2003 ('000's) \$
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6 DIVIDENDS

- (i) No dividends have been paid or provided for in respect of the financial year ended 31 December 2004 (2003 - NIL).

Franked dividends

Franking credits available to be used in payment of dividends – franked at 30% (2003: 30%)

	-	1,765	-	89
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The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (a) franking credits that will arise from the payment of the current tax liability
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date, and
- (d) franking credits that may be prevented from being distributed in subsequent financial years.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of controlled entities were paid as dividends.

	Consolidated 2004 ¢	Consolidated 2003 ¢
7. EARNINGS PER SHARE		
Basic earnings per share	(0.9)	(7.4)
	(\$'000)	(\$'000)
Profit/(loss) from ordinary activities after income tax being the earnings used in the calculation of basic earnings per share	(473)	(4,050)
	No of Shares	No of Shares
Weighted average number of ordinary shares used in the calculation of the basic earnings per share	54,791,872	54,791,872

Diluted earnings per share does not differ from basic earnings per share as there are no potentially dilutive shares

KTL TECHNOLOGIES LIMITED
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for the twelve months ended 31 December 2004

8. RECEIVABLES	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000)
Current				
Trade debtors	-	4,400	-	3
Less: Provision for doubtful debts	-	(49)	-	-
	-	4,351	-	3
Amounts owing by controlled entities	-	-	-	9,801
Less: Provision for non recovery	-	-	-	(8,447)
	-	4,351	-	1,357

Amounts owing by controlled entities are unsecured and are in the nature of current accounts.

9. INVENTORIES	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000)
Current				
Work in progress:	-	122	-	-
Raw materials and stores:				
At cost	-	262	-	-
	-	384	-	-

10. OTHER CURRENT ASSETS

Prepayments and other debtors	-	980	-	321
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11. INVESTMENTS

Non Current

Shares in Controlled Entities – unquoted:

At Cost	-	-	3,539	3,539
Less: Provision for diminution in value	-	-	(1,750)	(1,750)
Less: Reconstruction of Company	-	-	(1,789)	-
Total Investments	-	-	-	1,789

For further information on the reconstruction of the Company, please refer to note 2.

KTL TECHNOLOGIES LIMITED
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Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000)
12. PROPERTY, PLANT AND EQUIPMENT				
Leasehold land and building – at Director's valuation 2001	1,439	1,439	-	-
Less: Provision for diminution 2003	(354)	(354)	-	-
Less: accumulated amortisation	(128)	(108)	-	-
Reconstruction of Company	(957)	-	-	-
	-	977	-	-
Leasehold improvements – at cost	82	82	7	7
Less: accumulated depreciation	(73)	(73)	(6)	(6)
Reconstruction of Company	(9)	-	(1)	-
	-	9	-	1
Plant and equipment – at cost	8,373	8,373	64	64
Add: Additions	488	-	365	-
Less: accumulated depreciation	(7,194)	(6,899)	(92)	(61)
Less: Disposals	(107)	-	-	-
Reconstruction of Company	(1,560)	-	(337)	-
	-	1,474	-	3
Plant and equipment in course of construction	466	466	-	-
Less: Transfers	(269)	-	-	-
Less: Reconstruction of Company	(197)	-	-	-
	-	466	-	-
Total property, plant and equipment – net book value	-	2,926	-	4

Valuation of land and buildings

Leasehold land and buildings were revalued by Directors to vacant possession valuation at 30 June 2001 based on an independent assessment by a Malaysian Registered Valuer.

In 2003, a provision for diminution of \$354,180 was put in place by the Directors. The Directors valuation was made having regard to an independent valuation performed by a Malaysian Registered Valuer on 13 August 2003.

KTL TECHNOLOGIES LIMITED
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Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

Reconciliations

Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	Leashold Improvements (\$'000)	Leasehold Land & Buildings (\$'000)	Plant & Equipment (\$'000)	In course of construction (\$'000)	Total (\$'000)
<i>Consolidated</i>					
Carrying amount at 1 January 2004	9	977	1,474	466	2,926
Additions	-	-	488	-	488
Disposals	-	-	(107)	-	(107)
Reconstruction	(9)	(957)	(1,560)	(197)	(2,723)
Transfers	-	-	-	(269)	(269)
Depreciation expense (Note 4)	-	(20)	(295)	-	(315)
Carrying amount at 31 December 2004	-	-	-	-	-

	Leashold Improvements (\$'000)	Plant & Equipment (\$'000)	Total (\$'000)
<i>Parent Entity</i>			
Carrying amount at 1 January 2004	1	3	4
Additions	-	365	365
Reconstruction of company	(1)	(336)	(337)
Depreciation expense (note 4)	-	(32)	(32)
Carrying amount at 31 December 2004	-	-	-

KTL TECHNOLOGIES LIMITED
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Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

	Consolidated	Consolidated	Parent Entity	Parent Entity
	2004	2003	2004	2003
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
13. OTHER NON-CURRENT ASSETS				
Research and Development Costs				
Expenditure brought forward	369	569	18	-
Costs deferred in the current period	15	43	17	18
	384	612	35	18
Less: Reconstruction of Company	(313)	-	66	-
Less: accumulated amortisation	(36)	(243)	(66)	-
	35	369	35	18

14. ACCOUNTS PAYABLE

Trade creditors	-	2,136	-	364
Other creditors	700	2,030	700	668
	700	4,166	700	1,032

15. INTEREST BEARING LIABILITIES

Current

Bank overdraft – secured 15(a)	-	1,194	-	1,199
Lease liabilities (refer note 19(c))	-	84	-	-
Australian Taxation Office	-	915	-	915
Other	-	828	-	829
	-	3,021	-	2,943

Non-Current

Lease liabilities (refer note 19(c))	-	144	-	-
Australian Taxation Office	-	1,149	-	1,149
	-	1,293	-	1,149

- (a) Over the past year KAEFER Isoliertechnik GmbH has provided financial support to KAEFER for approximately \$5.3 million as follows:

	Total Facility \$ ('000's)	Facility Used \$ ('000's)	Facility Available \$
Letter of Credit for CBA overdraft and guarantee facility	2,000	2,000	-
Performance guarantees on contracts	1,288	1,288	-
General parent company guarantee of finance until 31.12.2004	2,000	2,000	-
	5,288	5,288	-

The financial support provided by KG was secured by a fixed and floating charge registered over the assets of the Company. The charge was completed when the Company was released from administration.

- (b) As a result of the Reconstruction Deed, KG has assumed all debt of Kaefer and subsequent to the end of year the fixed and floating charge was discharged on 10 March 2005.

KTL TECHNOLOGIES LIMITED
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for the twelve months ended 31 December 2004

	Consolidated	Consolidated	Parent Entity	Parent Entity
	2004	2003	2004	2003
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
16. PROVISIONS				
<i>Current</i>				
Employee entitlements	-	1,071	-	-
<i>Non Current</i>				
Employee entitlements	-	42	-	-

	Consolidated	Consolidated	Parent Entity	Parent Entity
	Number	Number	Number	Number
	2004	2003	2004	2003
<i>Employee Numbers</i>				
Total number of employees at reporting date	-	210	-	2

	Parent Entity	Parent Entity	Parent Entity	Parent Entity
	2004	2003	2004	2003
	Ordinary	Ordinary	Ordinary	Ordinary
	Shares	Shares	(\$'000)	(\$'000)
17. CONTRIBUTED EQUITY				
<i>Share Capital</i>				
Fully Paid Ordinary Shares				
Balance at beginning and end of the year	54,791,872	54,791,872	21,192	21,192

Ordinary Shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportions to the number of and amounts paid on the shares held.

On 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.

Please refer to Note 2 for further information.

KTL TECHNOLOGIES LIMITED
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for the twelve months ended 31 December 2004

	Consolidated	Consolidated	Parent Entity	Parent Entity
	2004	2003	2004	2003
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
18. RESERVES AND RETAINED PROFITS/ (ACCUMULATED LOSSES)				
(a) Foreign currency translation reserve				
Balance at beginning of the period	(327)	128	-	-
Reconstruction of Company	327	-	-	-
Net exchange differences on translation of foreign controlled entity	-	(455)	-	-
Balance at end of the period	<u>-</u>	<u>(327)</u>	<u>-</u>	<u>-</u>
(b) Accumulated losses				
Balance at beginning of the period	(21,384)	(17,334)	(22,827)	(17,627)
Net Profit (loss) attributable to members of KTL Technologies Limited	(473)	(4,050)	970	(5,200)
	-	-	-	-
Balance at end of the period	<u>(21,857)</u>	<u>(21,384)</u>	<u>(21,857)</u>	<u>(22,827)</u>

19. COMMITMENTS

(a) *Superannuation Commitments*

Operating controlled entities contribute to an employee superannuation fund based on varying percentages of employees gross salaries. All employees are entitled to benefits on termination, retirement, disability or death.

The fund is an accumulation of benefits fund and accordingly the company and controlled entities have no further legal obligations to the fund.

The Group contributed to multi-employer industry funds which provide retirement, disability and death benefits for employees. The economic entity is under no legal obligation to make up any shortfall in any of these funds.

The Company no longer has any superannuation commitments.

	Consolidated	Consolidated	Parent Entity	Parent Entity
	2004	2003	2004	2003
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
(b) <i>Operating Lease Rental Commitments</i>				
Due:				
Not later than one year	-	422	-	340
Later than one year but not later than two years	-	4	-	-
Commitments not recognised in the financial statements	<u>-</u>	<u>426</u>	<u>-</u>	<u>340</u>

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004

	Consolidated 2004 (\$'000)	Consolidated 2003 (\$'000)	Parent Entity 2004 (\$'000)	Parent Entity 2003 (\$'000)
19. COMMITMENTS (continued)				
<i>(c) Finance Lease Commitments</i>				
Included in the lease liability are the present values of future rentals for leased assets capitalised:				
Current	-	84	-	-
Non Current	-	144	-	-
	-	228	-	-
Lease commitments in respect of capitalised finance leases are payable as follows:				
Not later than one year	-	99	-	-
Later than one year but not later than two years	-	94	-	-
Later than two years but not later than five years	-	63	-	-
	-	256	-	-
Deduct: Future finance charges	-	(28)	-	-
Lease commitments recognised as a liability in the financial statements	-	228	-	-

20. CONTINGENT LIABILITIES

The details and estimated maximum amounts of contingent liabilities, classified according to the party to whom the contingent liability arises, are set out below.

In respect of Controlled Bodies Corporate:

(i) Performance guarantees to customers in respect of contracts undertaken in the ordinary course of business (refer Note 15(a))	-	1,326	-	-
(ii) Litigation Claim (refer Note (a))	-	134	-	-
	-	1,460	-	-

Note:

(a) Litigation Claim

As part of the Reconstruction Deed KG assumed all liabilities of the subsidiaries. For further details, refer to note 2.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

		Cost of Parent Entity Investment 2004 \$	Cost of Parent Entity Investment 2003 \$
21 INVESTMENTS IN CONTROLLED ENTITIES			
<i>Controlled Entities:</i>			
KAEFER Integrated Services Pty. Ltd.		-	1,450
Less: Provision for diminution in value		-	(1,450)
Bains Harding Industries (Aust) Pty. Ltd.*	(a)	-	-
DeltaTee Industries Pty. Ltd.*	(a)	-	-
KAEFER Consulting Pty. Ltd.*		-	300
Less: Provision for diminution value		-	(300)
<i>And its controlled entity:</i>			
Associated Industrial Insulation Pty. Ltd.*	(a)	-	-
KAEFER Products Pty. Ltd.		-	1,743
<i>And its controlled entity:</i>			
Formfix Pty. Ltd.*	(c)	-	-
DeltaTee Industries (Malaysia) Sdn. Bhd.	(b)	-	46
<i>And its controlled entity:</i>			
Bains Harding (Sarawak) Sdn. Bhd.*	(a)	-	-
		-	1,789
		-	1,789

Notes:

As part of the Reconstruction deed, KTL's investments in controlled entities were sold. Further information is available at note 2.

The controlled entities are wholly owned (the investments being in ordinary shares), incorporated in Australia except Delta Tee Industries (Malaysia) Sdn.Bhd, and Bains Harding (Sarawak) Sdn.Bhd which are incorporated in Malaysia, and carry on business predominantly in that country.

- (a) These entities did not trade during the year.
- (b) DeltaTee Industries (Malaysia) Sdn. Bhd. carries on business in the South East Asian region and manufactures insulation products and provides maintenance services.
- (c) Formfix Pty. Ltd. sold its operating business on 10 August 2001 and ceased to trade since that date.

* These controlled entities are not required to prepare audited financial statements at 31 December 2004.

KTL TECHNOLOGIES LIMITED
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Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004

22 DIRECTORS' AND EXECUTIVES' REMUNERATION

a. **Names and positions held of parent entity directors and specified executives in office at any time during the financial year are:**

Former directors		
Mr. G. Hogg	Non-Executive Chairman	(Resigned 22 April 2004)
Mr. P. Hoedemaker	Non-Executive Director	(Resigned 22 December 2004)
Mr. G. Krishnan	Non-Executive Director	(Resigned 22 April 2004)
Mr. A. Mackintosh	Managing Director and Non-Executive Director	(Resigned 31 January 2004) (Resigned 22 April 2004)
Current directors		
Mr John Fletcher	Non-Executive Director	(Appointed 22 December 2004)
Mr Cheng Qingquan	Non-Executive Director	(Appointed 22 December 2004)
Ms Cheng Weiwen	Non-Executive Director	(Appointed 22 December 2004)
Mr Hu Dayong	Non-Executive Director	(Appointed 22 December 2004)
Mr Russell Byfield	Non-Executive Director	(Appointed 22 December 2004)
Mr Barry Woodhouse	Non-Executive Director	(Appointed 22 December 2004)

Mr A. Mackintosh was the only specified executive of the parent entity.

b. **Parent Entity Director's Remuneration**

	Director's fees	Consultancy fees	Salary	Other	Super- annuation	Non-cash Benefits	Total
Mr. G. Hogg	25,000	76,292	-	-	4,125	-	105,417
Mr. P. Hoedemaker	-	-	-	-	-	-	-
Mr. G. Krishnan	-	-	11,668	-	-	-	11,668
Mr. A. Mackintosh	-	-	36,549	5,402	3,300	-	45,251
Mr John Fletcher	-	-	-	-	-	-	-
Mr Cheng Qingquan	-	-	-	-	-	-	-
Ms Cheng Weiwen	-	-	-	-	-	-	-
Mr Hu Dayong	-	-	-	-	-	-	-
Mr Russell Byfield	-	-	-	-	-	-	-
Mr Barry Woodhouse	-	-	-	-	-	-	-
	25,000	76,292	48,217	5,402	7,425	-	162,336

c. **Specified Executives Remuneration**

	Director's fees	Consultancy fees	Salary	Other	Super- annuation	Non-cash Benefits	Total
Mr Mike McGilvray	-	-	66,712	-	7,944	-	74,656
Mr Chris Thomas	-	-	54,000	-	4,611	-	58,611
Mr K Donaldson	-	-	49,606	4,443	4,437	-	58,486
Mr Anand Kelkar	-	57,181	-	-	-	-	57,181
Mr David Machutchinson	-	56,213	-	-	-	-	56,213
	-	113,394	170,318	4,443	16,992	-	305,147

d. **Remuneration Options**

During the financial year, no options were granted to directors or executives as remuneration.

e. **Shares issued on exercise or remuneration options**

During the financial year, no options were exercised by directors or executives as remuneration.

Subsequent to year end, and pursuant to shareholder approval on 4 March 2005, a total of 6,000,000 incentive options (with an exercise price of 1.25 cents exercisable prior to 4 March 2010) were issued to directors as part of the directors' remuneration.

Subsequent to year end, and pursuant to shareholder approval on 4 March 2005, a total of 3,500,000 facilitator options (with an exercise price of 1 cent exercisable prior to 4 March 2010) were issued to FF Financial Services Limited, an associate of Mr John Fletcher, as part of the terms of engagement of FF Financial Services Limited in relation to the Recapitalisation Proposal.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004

22 DIRECTORS' AND EXECUTIVES' REMUNERATION (continued)

f. Options and Rights Holdings

Number of options held by Specified Directors and Executives

Parent Entity Directors	Balance 1.01.04	Granted as Remuneration	Options Exercised	Net Change Other	Balance 31.12.04
Mr. G. Hogg	-	-	-	-	-
Mr. P. Hoedemaker	-	-	-	-	-
Mr. G. Krishnan	-	-	-	-	-
Mr. A. Mackintosh	-	-	-	-	-
Mr John Fletcher	-	-	-	-	-
Mr Cheng Qingquan	-	-	-	-	-
Ms Cheng Weiwen	-	-	-	-	-
Mr Hu Dayong	-	-	-	-	-
Mr Russell Byfield	-	-	-	-	-
Mr Barry Woodhouse	-	-	-	-	-
Specified Executives					
Mr Brian Keenan	-	-	-	-	-
Mr Mike Zaccaria	-	-	-	-	-
Mr David Hutchinson	-	-	-	-	-
Mr Anand Kelkar	-	-	-	-	-
Mr Chris Thomas	-	-	-	-	-
	-	-	-	-	-

g. Number of shares held by Parent Entity Directors and Specified Executives

	Balance 1.01.04	Received as Remuneration	Options Exercised	Net Change Other	Balance 31.12.04
Current directors					
Mr John Fletcher	-	-	-	-	-
Mr Cheng Qingquan	-	-	-	-	-
Ms Cheng Weiwen	-	-	-	-	-
Mr Hu Dayong	-	-	-	-	-
Mr Russell Byfield	-	-	-	-	-
Mr Barry Woodhouse	-	-	-	-	-
Specified Executives					
Mr Brian Keenan	-	-	-	-	-
Mr Mike Zaccaria	-	-	-	-	-
Mr David Hutchinson	-	-	-	-	-
Mr Anand Kelkar	-	-	-	-	-
Mr Chris Thomas	-	-	-	-	-
	-	-	-	-	-

h. Remuneration Practices

Currently, the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the chief executive officer and the executive team. The Board assesses the appropriateness of the nature and amount of the 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. Currently all officers receive their base remuneration in the form of cash, but the option remains for other forms of remuneration to be contemplated. It is intended that such manner of payment will be optimal for the recipient without creating undue cost for the consolidated entity.

To assist in achieving these objectives, the Board links the nature and amount of executive directors and officers' emoluments to the company's financial and operational performance. All directors and officers will have the opportunity to qualify for participation in the Executive and Employee Option Plan which will provide incentives where specified criteria are met.

Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004

23 OTHER RELATED PARTY DISCLOSURES

Related Party Transactions

Wholly-Owned Group

- (a) The parent entity had advanced funds to its wholly owned controlled entities. The terms and conditions of these loans are contained in Note 15.
- (b) The following transactions took place between controlled entities, all on the basis of cost so that no inter company profits resulted.
 - (i) Certain items of plant and equipment are used by controlled entities while owned by other controlled entities.
 - (ii) Tax losses are transferred between controlled entities in accordance with taxation law.
- (c) Interest paid and receivable, and rent paid and receivable between the Company and controlled entities is disclosed in Notes 3 and 4.
- (d) KAEFER Isoliertechnik GmbH, Germany provided temporary financial support to the Company during the financial year. Such financial support was finalised as part of the Reconstruction.
- (e) One of the Company's subsidiaries, Delta Tee Industries (Malaysia) Sdn. Bhd. leases out its premises to KAEFER Malaysia Sdn. Bhd, a commonly controlled entity. The rental is MYR 22,000 per month.
- (f) During the year and as part of the reconstruction of the Company, various agreements were completed. The financial effect of the various sale agreements is outlined in note 2. The practical effect of the various agreements is that the Company has been released from administration with all debts assumed by, and all assets sold to, KAEFER Isoliertechnik GmbH, apart from its Cryo-Lag Assets.
- (g) On 22nd November 2004, the administrators and the Company entered into a Reconstruction Deed with Beijing Guo Tai Hengsheng Investment (Group) Company Limited ("GTHS"). The Reconstruction Deed gives effect to a proposal made by GTHS to reconstruct and recapitalise the Company.

Related Party Transactions After the Reporting Period

- (h) The principal terms of the Reconstruction Deed, which was approved by shareholders on 4 March 2005, and are conditional on the release of the Company from all claims from creditors, are as follows:-
 - (i) The Company will retain the Cryo-Lag Assets and all intellectual property rights and information relating to them, which will be developed for the Australian and overseas markets.
 - (ii) GTHS will make a payment of \$700,000 to a Trust Account, initially in the form of a loan, which the administrators will transfer to the creditors trust fund for the benefit of the creditors, on completion of the DOCA.
 - (iii) The Company will complete a capital raising to provide funds sufficient to ensure that the Company has a minimum of \$1 million in cash, net of all liabilities, at the date the Company's securities are requoted on the Australian Stock Exchange.
 - (iv) The Company will appoint the nominees of GTHS as Directors of the Company.
 - (v) The new Directors will call a meeting of the Company's Shareholders to approve the reconstruction of the Company.
 - (vi) The Company and the Underwriter may vary the loan and the Underwriting Agreement such that the offset of the loan against Application monies for Shortfall Securities may occur. There will be no change in the funds available to the Company if the amount of the loan is offset against subscription monies for Shortfall Securities.
- (i) On 10 April 2005, the Company entered an agreement with Asian Cleveland Limited, a company of which director Mr John Fletcher is a director and shareholder. Asian Cleveland Limited has agreed to provide interim funds of \$100,000 on commercial terms and conditions to the Company. Repayment of the loan by the Company of \$700,000 to GTHS has been subordinated in priority to the repayment of the loan to Asian Cleveland Limited.

KTL TECHNOLOGIES LIMITED
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for the twelve months ended 31 December 2004

	Consolidated		Parent Entity	
	2004	2003	2004	2003
	(\$'000)	(\$'000)	(\$'000)	(\$'000)
24 STATEMENTS OF CASH FLOWS				
(i) Reconciliation of Cash				
Cash on hand and at bank	-	64	-	-
Secured bank overdraft	-	(1,194)	-	1,199
	-	(1,130)	-	1,199
(ii) Cash from Operations				
Profit (Loss) from ordinary activities after income tax	(473)	(4,050)	970	(5,200)
(Profit)/Loss on sale of non-current assets	99	(258)	-	(27)
Amortisation	36	72	66	72
Depreciation	315	671	32	6
Amounts set aside to provision	-	-	4	-
Writedown in carrying value of fixed assets	-	753	-	-
Reconstruction of Company	-	-	1,199	-
Net exchange differences	327	(104)	-	-
Changes in assets and liabilities during the financial period:				
Decrease/(increase) in inventories	384	441	-	-
Decrease/(increase) in accounts receivable and prepayments	5,330	113	1,678	(324)
Decrease/(increase) in future income tax benefits	-	-	-	62
Increase/(decrease) in accounts payable and other creditors payable	(4,747)	(519)	(4,773)	2,709
Increase/(decrease) in provisions	(1,113)	41	-	-
Increase/(decrease) in deferred taxes payable	-	(36)	-	-
Net cash inflow/(outflow) from operating activities	158	(2,876)	(824)	(2,702)
(iii) Non Cash Financing Activity				
Acquisition of plant and equipment by means of finance leases	-	138	-	-
(iv) Reconstruction of Company				
For further information on the reconstruction of the company, please refer to note 2 and 12.				

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements
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25 FINANCIAL INSTRUMENTS

(a) *Off Balance Sheet Derivative Instruments*

The Company and certain of its controlled entities were parties to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates.

Forward Exchange Contracts

The operations use raw materials purchased from Europe, the United States and South East Asia and labour and services from South East Asia. The operations may also sell finished products to foreign countries primarily in US dollars.

In addition, the consolidated entity has amounts receivable by controlled entities in Malaysian Ringgit.

In order to protect against exchange rate movements the economic entity enters into forward exchange contracts as required. There were no forward exchange contracts outstanding at balance date.

The following gains and losses have been included within the operating results for the 12 months ended 31 December 2004 :-

	2004	2003
	\$	\$
Realised gains	-	-
Realised losses	-	(4,270)
Net forward exchange gains(losses)	<u>-</u>	<u>(4,270)</u>

(b) **Credit Risk**

The credit risk on financial assets of the company which have been recognised on the statements of financial position is generally the carrying amount, net of any provision for doubtful debts. For off-balance sheet financial instruments, including derivatives, which are deliverable, credit risk also arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements

for the twelve months ended 31 December 2004

26 FINANCIAL INSTRUMENTS (Continued)

(c) *Interest Rate Risk Exposures*

The consolidated entity's exposure to interest rate risk and the effective, weighted average interest rate for each class of financial assets and liabilities are as follows :-

2004	Notes	Floating Interest Rate \$	Fixed Interest Maturing In:			Total \$
			1 Year or less \$	Over 1 to 5 years \$	Non Interest Bearing \$	
Financial Assets						
Cash	24(i)	-	-	-	-	-
Receivables	8	-	-	-	-	-
<hr/>						
Weighted Average Interest Rate						
Financial Liabilities						
Bank Overdraft & Loans	15	-	-	-	-	-
Trade & Other Creditors	14,15	-	-	-	-	-
Lease Liabilities	15	-	-	-	-	-
<hr/>						
Weighted Average Interest Rate						
<hr/>						
Net Financial Assets (Liabilities)						
<hr/>						

2003	Notes	Floating Interest Rate \$	Fixed Interest Maturing In:			Total \$
			1 Year or less \$	Over 1 to 5 years \$	Non Interest Bearing \$	
Financial Assets						
Cash	24(i)	-	-	-	64	64
Receivables	8	-	-	-	4,351	4,351
<hr/>						
Weighted Average Interest Rate						
<hr/>						
Financial Liabilities						
Bank Overdraft & Loans	15	1,194	-	-	-	1,194
Trade & Other Creditors	14,15	2,064	829	-	4,166	7,059
Lease Liabilities	15	-	84	144	-	228
<hr/>						
Weighted Average Interest Rate						
<hr/>						
Net Financial Assets (Liabilities)						
<hr/>						

(d) *Net Fair Value*

The net fair value of financial assets and liabilities approximates their carrying value.

None of the financial assets and liabilities are readily traded on organised markets in standardised form.

No financial assets in the opinion of the Directors are carried in excess of their net fair value.

KTL TECHNOLOGIES LIMITED
and Controlled Entities

Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004

27 SEGMENT INFORMATION

(i) The consolidated entity's operations were predominantly managed in Australia and involved in the industrial insulation products industry.

(ii) *Discontinued operations*

In 2003, the Directors resolved that following the conclusion of the product supply contracts during December 2002, that the consolidated entity's Malaysian operations be discontinued and assets including leasehold land, buildings, plant and equipment be disposed.

The Company was restructured in 2004. Further information is available at note 2.

Financial performance of the discontinuing operation for the financial year ended 31 December 2004 is set out below.

The carrying value of assets and liabilities of the discontinuing operations is as follows:

	2004 (\$'000)	2003 (\$'000)
Property, plant and equipment	2,723	1,071
Trade debtors	4,962	55
Inventories	895	-
Other	313	-
Prepayments	210	-
Cash	1,783	52
Total assets	<u>10,886</u>	<u>1,178</u>
Trade creditors	(9,193)	(48)
Employee entitlements	(1,298)	(9)
Amounts due to parent entity	-	(3,482)
Other liabilities	(1,662)	-
Total liabilities	<u>(12,153)</u>	<u>(3,539)</u>
Net assets/(deficiency)	<u>(1,267)</u>	<u>(2,361)</u>
Cash flow of the discontinuing operation		
Net cash inflow from ordinary activities	<u>158</u>	-
Net decrease in cash generated by discontinuing operation	<u>158</u>	-
Net profit (loss) of discontinued operations	<u>228</u>	-

The cash flow of the discontinued operations relates to the reconstruction of the Company and its subsidiaries, further described in note 2. On the reconstruction of the Company, the cash flow from discontinuing operations is similar to the consolidated entity as it represented a major disposal of the Company's operations.

KTL TECHNOLOGIES LIMITED
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Notes to and forming part of the financial statements
for the twelve months ended 31 December 2004

28. International Convergence of Accounting Standards

Research and Development

Currently capitalised items of research costs that have been internally generated must be derecognised under the new standard.

Any further research costs must be expensed in the year they are incurred.

Qualifying expenditure in relation to development phase costs may be capitalised and impairment tested annually until the related asset is complete at which time they will be amortised over the useful life of the related asset.

The company must review the amortisation period and the amortisation method at least at the end of each annual reporting period.

Share Based Payments

Under AASB 2 all share-based payments to employees and third parties in respect of goods and services must be expensed and a corresponding increase in equity is recognised when goods or services are received (or a liability if the goods or services were acquired in a cash-settled share-based transaction). This will result in additional expenses being recorded and therefore lower earnings.

Income Tax

AASB 112 "Income Tax" requires all income tax balances to be calculated using the comprehensive balance sheet liability method. Deferred tax items will be calculated by comparing the difference in carrying amounts to tax bases for all assets and liabilities and multiplying this by the tax rates expected to apply to the period when the asset is realised or the liability settled.

Recognition of the resulting amounts are subject to some exceptions, but generally deferred tax balances must be calculated for each item in the statement of financial position.

Deferred tax assets will only be recognised where there exists the probability that future taxable profit will be available to recognise the asset.

Any material adverse changes in accounting policies may affect the profitability of the Company.

KTL TECHNOLOGIES LIMITED
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DIRECTORS DECLARATION

The Directors declare that the financial statements and notes set out on pages 12 to 43 :-

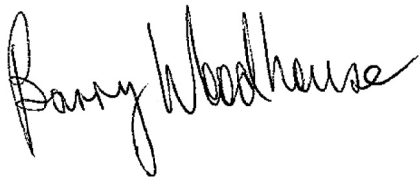
- (a) comply with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the company's and consolidated entity's financial position as at 31 December 2004 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors opinion :-

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Dated at PERTH this 29th day of June 2005

Signed in accordance with a resolution of the Directors:

A handwritten signature in black ink that reads "Barry Woodhouse". The signature is written in a cursive, flowing style.

Mr BJ Woodhouse
Director



Chartered Accountants
& Business Advisers

Level 7, BGC Centre
28 The Esplanade
Perth WA 6000
PO Box Z5066
St Georges Terrace
PERTH WA 6831

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INDEPENDENT AUDIT REPORT TO MEMBERS OF KTL TECHNOLOGIES LIMITED

Scope

The financial report and directors' responsibility

The financial report comprises the consolidated statement of financial position, consolidated statement of financial performance, consolidated statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for KTL Technologies Limited (the company and the consolidated entity), for the year ended 31 December 2004. The consolidated entity comprises both the company and the entities it controlled during that year.

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

Audit approach

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

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, 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.

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 the company's and the consolidated entity's financial position as at 31 December 2004 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.

Inherent Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As referred to in Note 1(a), the financial report has been prepared on the going concern basis, which is dependent upon the company obtaining additional funds through successful capital raisings.



PKF
Chartered Accountants
Western Australian Partnership



IAN P OLSON
Partner

Dated at Perth this 29th day of June 2005

KTL TECHNOLOGIES LIMITED
and Controlled Entities

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 out by the ASX Corporate Governance Council during the reporting period immediately follows the Directors' Report.

B. SHAREHOLDING

1. Substantial shareholders

KAEFER Isoliertechnik GmbH & Co. KG has a beneficial interest in 19,780,986 Shares comprising approximately 60.17% of the issued Shares

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

There are 511 holders of ordinary shares. Each shareholder is entitled to one vote per share held. There are 7 holders of unlisted options. There are no voting rights attached to these options.

3. Distribution schedule of the number of holders in each class of equity security at 15 June 2005

As at 15 May 2005, the distribution of Shareholders was as follows:

By Class	Holders of Ordinary Shares	No. of Ordinary Shares	%
1 - 1,000	99	53,998	0.16%
1,001 - 5,000	179	418,930	1.27%
5,001 - 10,000	73	484,272	1.47%
10,001 - 100,000	131	3,730,436	11.35%
100,001 and over	29	28,187,529	85.75%
Totals	511	32,875,165	100.00%

4. Marketable Parcel

The number of shareholders with less than marketable parcels is 349.

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

The names of the twenty largest holders of each class of quoted security, the number of equity security each holds and the percentage of capital each holds (as at 15 May 2005) is as follows. As at 15 May 2005, the top 20 Shareholders were:

Name	No. Shares	%
1 ANZ Nominees Limited	20,546,475	62.50
2 Merrill Lynch (Australia) Nominees Pty Ltd	1,500,000	4.56
3 Evelin Investments Pty Ltd	990,000	3.01
4 Mr GF & Mrs JL Pauley ATF Pauley Super Fund	389,315	1.18
5 Mr GF Pauley ATF Pauley Super Fund	389,315	1.18
6 Mr Norman Leslie Mathers	318,000	0.97
7 Mr GF Pauley	311,348	0.95
8 Mrs Milly Elkington	302,438	0.92
9 Dr Gordon Bradley Elkington	300,127	0.91
10 PAPL Moodco Pty Ltd	292,518	0.89
11 Berne No. 132 Nominees Pty Ltd	263,652	0.80
12 Chittering Pty Ltd	240,000	0.73
13 Invia Custodian Pty Ltd	227,700	0.69
14 GWA Holdings Sdn. Bhd.	220,200	0.67
15 Mr Malachi Thomas Seymour	192,000	0.58
16 Mr Stephen James Fairfax	180,000	0.55
17 Mr AR Tough	180,000	0.55
18 Debuscey Pty Ltd	156,006	0.47
19 Perpetual Custodians Limited	156,001	0.47
20 Mr Brian Lyndsay Smith & Ms Robyn Joan Dyson	155,100	0.47
	27,310,195	83.05

KTL TECHNOLOGIES LIMITED
and Controlled Entities

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 2 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 but currently suspended.

5. Restricted Securities

There are no securities subject to ASX restrictions.

7. Unquoted equity securities

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

	Holder	Number
Unlisted Performance Options expiring 4 March 2010	FF Financial Services Ltd	3,500,000
Unlisted Incentive Options expiring 4 March 2010	Mr J Fletcher (or his nominee)	1,000,000
	Mr B Woodhouse (or his nominee)	1,000,000
	Mr R Byfield (or his nominee)	1,000,000
	Mr Hu Dayong (or his nominee)	1,000,000
	Ms Cheng Weiwen (or her nominee)	1,000,000
	Mr Cheng Quinqang (or his nominee)	1,000,000
		6,000,000

8. Review of Operations

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

9. On market buy-back

There is currently no on-market buy-back.