



RECLAIM  
INDUSTRIES



annual report 05

ABN 47 090 671 819

# RECLAIM INDUSTRIES

annual report **05**



## CORPORATE DIRECTORY

### DIRECTORS

Alexander Burns Non Executive Director  
Timothy King Chairman  
Konrad Floan Executive Director

### COMPANY SECRETARY

Timothy King

### REGISTERED AND PRINCIPAL OFFICE

Level 3  
28 Kings Park Road  
WEST PERTH WA 6005  
Telephone: + 61 8 9322 5222  
Facsimile: + 61 8 9322 5444

### SOLICITORS

Blakiston & Crabb  
1202 Hay Street  
WEST PERTH WA 6005

### AUDITORS

BDO Chartered Accountants & Advisers  
Level 8, 256 St Georges Terrace  
PERTH WA 6000

### SHARE REGISTRY

Security Transfer Registrars Pty Ltd  
770 Canning Highway  
APPLECROSS WA 6153

Telephone: + 61 8 9315 2333

Facsimile: + 61 8 9315 2233

### STOCK EXCHANGE LISTING

The Company's securities are quoted on the official list of the Australian StockExchange. The home branch being Perth.

### ASX Code:

RCM – shares

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This financial report covers both Reclaim Industries Limited as an individual entity and the consolidated entity consisting of Reclaim Industries Limited and its controlled entities.

Reclaim Industries Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

**Registered Office**

Level 3, 28 Kings Park Road  
West Perth  
Western Australia 6005

**Principal Place of Business**

67 Miguel Road  
Bibra Lake  
Western Australia 6163

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations on page 9.

### CHAIRMAN'S REPORT

Dear Shareholders,

The 2005 financial year was again a challenging one for Reclaim, however I believe the progress made in certain key areas has laid the foundations for the business into the future.

The operating results for the 12 months ended 30 June 2005 was a loss of \$1,096,652, which is an increase of about 35% compared with the 2004 loss before goodwill write down, and a decrease of 37% after the goodwill write down.

Sales revenue increased by 5.3% over the previous year, continuing the trend of previous years, and has strengthened further subsequent to year end. This result is attributable to the strong sales and installation teams the company has established in core operating regions, and the staff retention during this period.

Raw materials and consumables costs remained about constant on the higher revenue figure, reflecting a further improvement in materials usage efficiencies due to better control systems. This will continue to be a focus area during the 2006 financial year.

Labour and contractor related costs increased in line with increases in revenue, which reflected improved labour efficiencies taking into account higher labour costs during the year.

The company experienced a difficult period for warranty claims, with over \$140,000 in warranty repairs and provisioning relating to completed jobs. Resolution of outstanding warranty claims has been a focus of the company during the year, together with establishing quality control and application procedures to minimize future claims. Generating further improvements to quality control procedures is also a focus for the 2006 financial year.

Freight costs for tyres and processed rubber increased significantly during the year. This was attributable to the need to freight truck tyres from South Australia to the WA Whole Tyre Reduction facility at a cost of about \$90,000 to supplement its production requirements, and to higher costs of freighting processed rubber from WA due to higher fuel costs.

WTR increased its production for the 2005 year by 28%. The amount of labour used per unit of output remained too high for the throughput during the year, due to the significant fixed cost of maintaining a skilled shift. However the position improved compared with the previous year.

The company moved during the year to address a key WTR risk, cost and efficiency issue relating to sourcing sufficient quantities of waste tyres, by securing a major contract in WA for the collection and disposal of waste tyres. This contract commenced in June 2005, and is expected to lead to reduced costs (including freight) and higher processing volumes, resulting in significant reductions in cost per unit of processed rubber production.

One of the key management focuses during 2005 has been on recruiting and retaining key staff for each of the regions. The Employee Share Plan has been a significant part of providing the reward structure for key employees and aligning their remuneration more closely to the generation of positive returns for shareholders. During the 2005 financial year, this strategy was very effective in retaining key staff. Enhanced personnel evaluation and training programs are expected to continue to generate greater efficiency and effectiveness in human resources.

Improvements were made during the year to the reporting of results within the organization, and the provision of information to regional managers to better enable them to manage the parts of the business for which they are responsible. The information flow is being linked to improved budgetary processes and accountability for performance against budget. This continues to be an important area for the company for the 2006 year.

Organisational structure continues to be reviewed to streamline allocation of responsibility, reporting of results, and accountability for outcomes. Measures are currently being reviewed to improve these processes, and to free personnel resources to focus on the strategic opportunities emerging for the group.

During the year the company conducted two rights issues to shareholders, the second being completed after the end of the 2005 financial year. The issues provided additional working capital, and funding for the acquisition of equipment for the WTR plant.

Your continued support of the company and perseverance during this difficult period of managing through the issues confronting the Reclaim business is greatly appreciated.

I would also like to thank all the Reclaim staff for their tremendous hard work, commitment to, and belief in the Reclaim organisation during the year.



**Timothy King**

Chairman



# CORPORATE GOVERNANCE

The Board of Directors of Reclaim Industries Limited ("Reclaim" or "Company") is responsible for the corporate governance of the economic entity. The Board guides and monitors the business and affairs of Reclaim on behalf of the shareholders by whom they are elected and to whom they are accountable.

In March 2003 the ASX Corporate Governance Council ("the Council") published 10 principals and 28 recommendations for best practice in corporate governance. The Council recognised that not all recommendations are appropriate for all companies, and that companies should only adopt those recommendations that are suitable in each individual case.

During the 2004 financial year, the Company conducted a detailed review of its corporate governance practices as against the principles and recommendations published by the Council. As a result, the Company adopted most of the corporate governance initiatives. However, due to the current size, structure and activities of the Company, the Board resolved not to adopt some of the Council's recommendations at this stage. The Board continues to review this position as the Company grows to determine whether and at what point it is appropriate to adopt these recommendations.

The ASX requires that the Company disclose the extent to which it has followed best practice recommendations, identify which recommendations have not been followed, and the reason for not adopting the recommendations.

For further information on the corporate governance practices adopted by the Company, refer to the website: [www.reclaim.com.au](http://www.reclaim.com.au)

## Board and Management Roles and Responsibilities

The Company has formalised and disclosed the roles and responsibilities of the Board and those delegated to senior management, in its Board Charter.

The responsibilities of the Board include determining and monitoring the objectives and strategic direction of Reclaim, monitoring the performance of the Company and its senior executives, approving business plans and budgets, and developing and ensuring adherence to company policies. The Board is also responsible for compliance with the codes of conduct, overseeing risk management and internal controls, and the assessment, appointment and removal of the Chief Executive Officer, Company Secretary and other senior executives.

The senior management are responsible for the efficient and effective operation of the Company in accordance with the objectives, strategies and policies determined by the Board.

## Composition of the Board

The Board of the Company currently consists of 2 non-executive directors - the Chairman, Mr Timothy King, and Mr Alexander Burns, and an executive director, Mr Konrad Floan. Mr King and Mr Burns have been directors of the Company for five and six years, respectively, whilst Mr Floan has been a director for 16 months.

The Council recommends that a Board of Directors should comprise a majority of independent Directors. Reclaim has adopted the position that, to be considered independent, a director must be a non-executive, and:

- a) not be a substantial shareholder of the Company or an officer of, or otherwise associated directly with, a substantial shareholder of the Company.
- b) within the last 3 years, not have been employed in an executive capacity by the Company or another group member, or been a director after ceasing to hold any such employment.
- c) within the last 3 years, not have not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provider.
- d) not be a material supplier or customer of the Company or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer.
- e) have no material contractual relationship with the Company or another group member other than as a director of the Company.
- f) not have served on the board for a period which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the Company.

### CORPORATE GOVERNANCE

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 10% of the appropriate base amount is considered to be quantitatively material for these purposes, whilst an amount of less than 5% is considered to be quantitatively immaterial. Qualitative factors considered include the nature of the relationship and its strategic importance, the competitive landscape, the contractual arrangements, and other factors indicating the ability of the director to exercise unfettered and independent judgement.

Reclaim's Board composition does not follow the ASX recommendations, in that a majority of directors are not independent, and the Company does not have an independent Chairman. However, the roles of Chairman and Chief Executive Officer or Executive Director are not exercised by the same person.

RCM is a small company in which the Chairman and directors have taken large equity risk positions to provide funding and support, particularly at difficult times in the equity markets and in the Company's development. Further, directors' emoluments have been at the lower end of the scale. This support has increased the confidence of investors as to the focus and commitment of the Board to achieve Reclaim's objectives, especially at times when the Company has experienced difficult operating periods.

Consultancy arrangements with directors on an as needed basis have also assisted the Company to access required skills, but keep the cost structure flexible and competitive. As a result of these equity, consulting and employment relationships with Reclaim, none of the current directors of the Company are considered to be independent directors.

Whilst the Company intends to progressively increase the independence of its directors as it grows over time, compliance with the best practice recommendations in this area is not considered a current imperative, due to the skill set of existing directors and senior executives, and the cost of appointing additional directors.

The Council recommends that companies establish a Nomination Committee to assess the necessary competencies of Board members, review Board succession plans, evaluate Board performance, and make recommendations for the appointment and removal of Board members. Having regard to the Company's size and composition of the Board, the Board considers that this role is more efficiently undertaken within the auspices of the full Board.

Details of the skills, experience and expertise of each director is included in the Directors' Report.

Subject to the Chairman's approval, which is not to be unreasonably withheld, directors have the right, at the Company's expense, to obtain independent professional advice on issues arising in the course of their duties.

#### Audit and Risk Management

The Board is responsible for ensuring there are adequate policies in relation to risk management and oversight, and that appropriate internal control systems and procedures are in place and functioning effectively. This risk management approach is designed to ensure that strategic, operational, legal, business, and financial risks are identified, assessed, addressed and monitored to assist the economic entity to achieve its business objectives.

The Council's recommendation is that companies established an Audit Committee. However, due to the small size and structure of the Board, it was decided that no additional benefits or efficiencies would be achieved by establishing a separate Audit Committee. Accordingly, the full Board carried out the duties otherwise undertaken by an Audit Committee. Whilst the Company did not have a formal charter in relation to audit processes and issues, the Board Charter does contain certain guidelines, which are expected to be expanded during the current financial year.

During the 2005 financial year, the Company had an informal risk oversight and management policy and internal compliance and control systems. Reclaim has continued the process of formalising the policy and systems, taking into account the size of the Company and the nature of its activities. This formalisation process has not yet been completed. The Company is moving to complete the documentation of that process by 30 June 2006.

The Executive Director and Financial Controller provide an annual written statement to the Board confirming that:

- The statement provided by the Executive Director and Financial Controller to the Board regarding the Company's financial condition and operational results is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.



# CORPORATE GOVERNANCE



## Performance and Remuneration

The performance of the Board and key executives is to be reviewed against both quantitative and qualitative indicators, which are aligned with the financial and non-financial objectives of Reclaim.

The remuneration of executive directors and other senior executives is reviewed annually by the Board, having regard to personal and corporate performance on a short term and long term basis, and to relative industry remuneration levels. Where appropriate, the Board will seek independent advice to ensure appropriate remuneration levels are in place.

The remuneration of non-executive Directors is determined by the Board within the maximum amount approved by shareholders of \$100,000 per annum. Non-executive directors are not entitled to retirement benefits other than statutory superannuation, and do not participate in share or bonus schemes tailored for executives and other employees.

Where the Company has a requirement for additional services within the skill set of non-executive directors, and it is efficient and effective to do so, the Board may seek consulting services from non-executive Directors at a market rate approved by the Board.

Further details on directors' and executives' remuneration and directors' qualifications are set out in the Directors' Report.

## Code of Conduct

The Board is responsible for developing the culture of the organisation, including the performance focus and the legal, ethical and moral conduct, to preserve and enhance Reclaim's reputation in the recycling industry, business generally and the broader community.

Reclaim's Code of Conduct adopted requires that all employees are aware of, and comply with, legislation and policies applicable to their position. The Code also requires employees to avoid or ensure proper management of conflicts of interest, to not use confidential information for personal gain, and to generally operate in a fair, honest and open manner.

The Company's policy is to make reasonable endeavours to ensure that it gives proper consideration to the impact on the environment of its activities, and that the Company observes its obligations in respect of environmental practices, and the health, safety and general well being of its employees.

## Continuous Disclosure and Shareholder Communication

In order to ensure that Reclaim meets its obligations with regard to the continuous disclosure requirements, the Company has adopted a continuous disclosure policy.

The policy sets out the Company's obligations and its policies and procedures to ensure timely and accurate disclosure of price sensitive information to the market.

The Company also has policies in place to ensure integrity in financial reporting. The Executive Director and Financial Controller provide the Board with a written statement that Reclaim's half year and annual financial statements present a true and fair view in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

Reclaim endeavours to provide shareholders with important information on the Company in a timely and efficient manner. The Company has continued to increase and improve the information available to shareholders on its website.

Shareholders are informed of the activities of the Company through its Quarterly Report, Annual Report, and other market disclosures. Shareholders are also encouraged to attend Reclaim's Annual General Meeting. The Company's auditor is required to attend its Annual General Meeting.

The Company has adopted a shareholder communications policy to formalise the above practises.

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## DIRECTORS' REPORT

The Directors present their report together with the accounts of Reclaim Industries Ltd (the Company) and the consolidated accounts of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2005 and the independent audit report thereon.

### DIRECTORS

The following persons were Directors of Reclaim Industries Ltd during the financial year and up to the date of this report:

A S Burns  
T J King  
K E S Floan

### DIRECTORS' QUALIFICATIONS AND EXPERIENCE

#### Alexander S Burns MBA

Mr Burns has over 16 years of experience in the management and operations of businesses in Australia and overseas in the manufacturing and resources sectors. Mr Burns is a director and shareholder of Ritley Holdings Pty Ltd, and is a director of Burns Trading Pty Ltd, both substantial shareholders in Sphere Investments Ltd.

Directorships in other listed entities:

- Current director of Sphere Investments Ltd

#### Timothy J King B.Com, G Dip App Fin (Sec Inst), Company Secretary

Mr King is a Chartered Accountant with over 20 years experience in corporate finance, accounting, management and taxation. Formerly a Partner with a West Perth accounting firm, Mr King is a consultant to several listed and large unlisted companies. He is a Director of the listed public companies Tantalum Australia NL, Legend Corporation Limited and Sphere Investments Ltd, and is Chairman of SIDS and Kids WA and the Rehabilitation Foundation. Mr King is a member of the Institute of Chartered Accountants, the Securities Institute of Australia, the Institute of Company Directors and the Taxation Institute of Australia.

Mr King is Chairman of Reclaim Industries Limited and is Company Secretary.

Directorships in other listed entities:

- Current director of Tantalum Australia N L
- Current director of Sphere Investments Limited
- Current director of Legend Corporation Limited
- Former director of Western Areas N L (from 28/07/2000 to 26/04/2005)

#### Konrad E S Floan B. Bus

Mr Floan is an accountant with extensive experience in the management and administration of companies. Mr Floan was employed in this role by Sphere Investments Ltd, and subsequent to the float of Reclaim, has worked extensively for Reclaim. Mr Floan has been involved in all aspects of the Accounting and Management of Reclaim for the past 6 years, including when the business was owned by Sphere. During this time he has held a number of senior positions in the company, most recently as CFO and General Manager.

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# DIRECTORS' REPORT

## DIRECTORS' INTERESTS

As at the date of this report, the direct and indirect interests of the Directors in the Company were:

	Fully paid Ordinary shares	31 Dec 2005 Unlisted options
Alexander S Burns	121	150,000
Timothy J King	14,680,649	150,000
Konrad Floan	271,561	150,000

## DIRECTORS' MEETINGS

The number of meetings of the Company's board of directors held during the year and the number of meetings attended by each director were:

DIRECTOR	NUMBER OF MEETINGS ATTENDED	NUMBER OF MEETINGS ENTITLED TO ATTEND
Alexander S Burns	3	6
Timothy J King	6	6
Konrad E S Floan	6	6

## COMPANY PERFORMANCE, SHAREHOLDER WEALTH AND DIRECTORS' AND EXECUTIVES' REMUNERATION

The remuneration policy has been tailored to increase goal congruence between shareholders and directors/executives. There have been two methods applied in achieving this aim, the first being a performance based bonus on KPIs, and the second being the issue of shares from the Employee Share Plan to the executives to encourage the alignment of personal and shareholder interests. The company believes this policy to have been effective in retaining shareholder wealth through the retention of key staff. This will in turn build shareholder wealth in future periods as the knowledge base increases. There is no other direct link to performance other than through the Employee Share Plan.

### REMUNERATION REPORT

The remuneration of Executive Directors and Executives of the Company is determined by the Directors following a review of the requirements and market rates for the specified position. Remuneration packages and policies are set by the Board in accordance with industry standards and are designed to attract and retain suitably qualified directors and executives and reward them for performance that results in long term growth in shareholder value.

Non-Executive Directors are remunerated on a fixed fee for the performance of services as a Director.

The maximum remuneration of non-Executive Directors is the subject of a shareholder resolution in accordance with the parent entity's constitution, the Corporations Act and ASX Listing Rules, as applicable. The Board will determine remuneration with regard to inputs and the value of contribution to the economic entity by each non-Executive Director. The current limit, which may only be varied by shareholders at a General Meeting, is an aggregate amount of \$100,000 per annum.

The Board may award additional remuneration to non-Executive Directors called upon to perform extra services or make special exertions on behalf of the economic entity.

## DIRECTORS' REPORT

The following table shows the gross revenue, losses and dividends, as well as the share price at the end of the respective financial years, for the period since the listing of the Company on the ASX on 21 February 2002 at an IPO price of \$0.20.

	2002	2003	2004	2005
Revenue	\$4.02m	\$7.17m	\$8.0m	\$8.43m
Loss	\$0.22m	\$0.07m	\$1.74m	\$1.1m
Dividend Distributions	-	\$0.03m	-	-
Capital Distributions	-	-	-	-
Share price at year end	14.5 cents	15.0 cents	6.1 cents	4.0 cents

Details of the nature and amount of each element of the emoluments of each Director of Reclaim Industries Ltd and each of the other executive officers of the company and the consolidated entity receiving the highest emoluments for the year ended 30 June 2005 are set out in the following tables:

### Directors

Name	Annual Emoluments				Long Term Emoluments			Superannuation
	Salary and Fees	Bonus	Other	Termination Payments	Number Granted *	Value at Grant Date	Total Option Value	
Alexander S Burns	8,000	-	10,894	-	-	-	-	-
Konrad E Floan	90,000	-	10,000	-	-	-	-	8,100
Timothy J King	36,000	-	-	-	-	-	-	-

### Executives

Name	Annual Emoluments				Long Term Emoluments			Superannuation
	Salary and Fees	Bonus	Other	Termination Payments	Number Granted *	Value at Grant Date	Total Option Value	
Christopher Battel	60,000	-	8,000	-	180,000	\$0.05 - \$0.04	7,800	5,400
Christopher Forrester	63,125	-	-	-	-	-	-	5,681
Timothy Francis	45,486	-	5,444	-	140,000	\$0.05 - \$0.04	5,800	4,094

Note: The consulting fees include fees paid to related parties of the Directors.

\* Employee Share Plan Shares in Reclaim Industries Ltd that vest upon continuous service until 30 June 2008 or 30 June 2009 for differing classes.

"Executives" are officers who are involved in, concerned in, or who take part in, the management of the affairs of Reclaim Industries Ltd and subsidiaries.

There were no other deemed executive officers of the consolidated entity.

There are no other contracts to which a Director is a party or under which a Director is entitled to a benefit other than as disclosed in these financial statements.

### SHARE OPTIONS

As at the date of this report the following options were on issue:

Option expiry date	Exercise price	Number on issue
31 December 2005 – unlisted	30 cents	750,000

No person entitled to exercise the options has any right by virtue of the options to participate in any share issue of the company or of any other corporation.

# DIRECTORS' REPORT

## PRINCIPAL ACTIVITIES

The Company uses proven recycling technology and manufacturing expertise to convert used rubber tyres into commercially attractive surfacing, moulded and granule products for a wide range of industries in both domestic and international markets.

## OPERATING RESULTS

The consolidated loss from ordinary activities after income tax was \$1,096,652 (30 June 2004: Loss \$1,740,597).

## REVIEW OF OPERATIONS AND SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Sales revenue for the period was strong, increasing by 5% to \$8.4 million. This was despite the loss of key sales staff late in the 2004 financial year. One of the key management focuses during 2005 has been on retaining and recruiting the right staff for each of the regions. The Employee Share Plan has been a significant part of providing the reward structure for key employees and aligning their remuneration with outcomes that enhance shareholder value. During the 2005 financial year, this strategy was very effective in retaining key staff. Margins have come under pressure from the increased competition during the year but this has stabilised and in some markets reversed and as a result the company would expect to see a return to better operating gross margins.

Revenue for the first two months of the financial year (July and August) has been particularly strong, totaling \$1.93 million, and the order book is also very strong.

There were a number of significant items of expenditure that warrant specific description. Freight of materials out to the regions was increased due to higher fuel costs that are non-recoverable from customers in the short term. Additionally Reclaim also freighted approximately 600 tonnes of cut tyres from SA to its WA Whole Tyre Reduction facility at a cost of about \$90,000 to supplement its production requirements.

The company also experienced a difficult period for warranty claims, with over \$140,000 in warranty repairs and provisioning relating to completed jobs. Resolution of outstanding warranty claims has been a focus of the company during the year, together with establishing quality control and application procedures to minimize future claims.

WTR increased its production for the June half by 68% compared with production levels of the December half. The amount of labour used per unit of output remains excessive for the current throughput, as there is a significant fixed component to maintaining a skilled shift, however this has improved significantly on the previous half year. The Company continues to seek further improvements in this area, particularly once the tyre volumes increase in the spring and summer cycle.

During the year the company conducted two rights issues. The second of these which opened on 17 June 2005 did not close until the 18th of July and therefore the proceeds of this raising are not included in the Statement of Financial Position as at 30 June 2005.

## LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Management will continue to focus on improving the efficiency of the tyre recycling process to reduce production costs per unit of rubber output, and reduce the overhead cost structure of the organisation.

## ENVIRONMENTAL REGULATION

The consolidated entity is not subject to significant environmental regulation in respect of its operating activities. Reclaim Industries Limited holds a license from the Department of Environment Protection (DEP) for storage of tyres at its Bibra Lake tyre processing facilities, which is in good standing. The directors are not aware of any materials breaches of environmental regulations during the year.

## DIVIDENDS

No dividend was declared and paid during the year.

## DIRECTORS' REPORT

### NON-AUDIT SERVICES

The Board of directors, in accordance with advice from the Audit and Compliance Committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- The nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

The following fees for non-audit services were paid to the external auditors during the year ended 30 June 2005:

Prospectus Advisory Services	\$7,092
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### AUDITORS INDEPENDENCE DECLARATION

The lead auditor's independence declaration for the year ended 30 June 2005 has been received and can be found on page 7 of the Financial Report.

### EVENTS SUBSEQUENT TO BALANCE DATE

On 18 July 2005, the fully underwritten rights issue for Reclaim Industries Limited closed raising \$831,475 before costs of the raising. This increased the shares on issue from 42,973,769 to 63,760,653.

### INDEMNIFICATION AND INSURANCE OF OFFICERS

During the financial year the Company paid insurance premiums in respect of Directors' and Officers' liability insurance. The insurance policy precludes us from disclosing the amount of the coverage. These insurance premiums relate to insurance of Directors of the Company and its controlled entities named in this report and former Directors and Executive Officers of the Company and its controlled entities. The policy does not specify the premium for individual Directors and Executive Officers.

The Directors' and Officers' liability insurance provides cover against costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company or a related body corporate) incurred in their position as Director or Executive Officer unless the conduct involves a wilful breach of duty or an improper use of inside information or position to gain advantage.

No liability has arisen under this indemnity as at the date of this report.

This report is made in accordance with a resolution of Directors.



**T J KING**

Director

Perth

30 September 2005





# DECLARATION OF INDEPENDENCE

22 September 2005

The Directors  
Reclaim Industries Ltd  
PO Box 1519  
BIBRA LAKE WA 6965

Dear Sirs

## DECLARATION OF INDEPENDENCE BY BDO CHARTERED ACCOUNTANTS TO THE DIRECTORS OF RECLAIM INDUSTRIES LTD

To the best of my knowledge and belief, there have been:

- no contraventions of the auditor independence requirements of this Act in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to this audit.

Yours faithfully

**BDO**

**Chartered Accountants & Advisers**

A handwritten signature in blue ink, appearing to read "B. McVeigh".

**BG McVeigh**

Partner

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## STATEMENTS OF FINANCIAL PERFORMANCE For the year ended 30 June 2005

	Notes	Consolidated		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>Revenue from ordinary activities</b>	2	<b>8,426,235</b>	<b>8,005,730</b>	<b>2,995,143</b>	<b>2,056,435</b>
<b>Expenses from ordinary activities</b>					
Raw Materials and Consumables Used		2,100,889	2,121,262	41,923	400,518
Depreciation / amortisation	3	244,897	273,237	174,751	193,098
Employee benefits expense		2,838,478	2,341,954	858,329	637,489
Borrowing costs expense		2,268	2,266	2,268	2,266
External contractors expense		1,789,652	2,036,604	554,092	400,542
Leases and equipment rental		386,263	334,643	152,504	158,213
Travel and related expenses		304,365	296,272	87,020	28,841
Motor vehicle expenses		211,017	159,089	90,626	70,509
Utilities		213,872	189,117	86,637	74,437
Advertising		109,716	75,280	25,456	18,410
Repairs and Maintenance		267,213	236,226	235,071	217,691
Freight		598,456	329,405	418,089	165,774
Write-down of inter-company receivable to recoverable amount	3	-	-	1,156,000	436,957
Goodwill written off	3	-	930,709	-	440,502
Other expenses		455,803	420,263	469,269	204,138
<b>Total Expenses from ordinary activities</b>		<b>9,522,889</b>	<b>9,746,327</b>	<b>4,352,035</b>	<b>3,449,385</b>
Loss from ordinary activities before income tax expense		(1,096,654)	(1,740,597)	(1,356,892)	(1,392,950)
Income tax expense	4	-	-	-	-
Net loss attributable to members of Reclaim Industries Limited	18	(1,096,654)	(1,740,597)	(1,356,892)	(1,392,950)
<b>Total changes in equity other than those resulting from transactions with the owners as owners</b>		<b>(1,096,654)</b>	<b>(1,740,597)</b>	<b>(1,356,892)</b>	<b>(1,392,950)</b>
<b>Net changes in equity other than those resulting from transactions with owners as owners</b>		<b>(1,096,654)</b>	<b>(1,740,597)</b>	<b>(1,356,892)</b>	<b>(1,392,950)</b>
Earnings (loss) per share					
Basic	29	(2.67) cents	(6.83) cents		
Where diluted EPS is not dilutive it is not disclosed					

The accompanying notes form an integral part of these financial statements.



# STATEMENTS OF FINANCIAL POSITION

## As at 30 June 2005

	Notes	Consolidated		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>CURRENT ASSETS</b>					
Cash Assets	5	65,844	464,477	-	-
Receivables	6	1,334,000	1,047,181	559,557	267,504
Inventories	8	484,106	371,166	226,763	152,330
Other	9	79,156	17,782	63,768	45,438
<b>TOTAL CURRENT ASSETS</b>		<b>1,963,106</b>	<b>1,900,606</b>	<b>850,088</b>	<b>465,272</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	7	-	-	594,517	1,312,536
Property, plant and equipment	10	788,101	960,763	582,472	703,029
Intangible assets	11	-	-	-	-
Intercompany					
Other financial assets	12	-	-	8	8
<b>TOTAL NON-CURRENT ASSETS</b>		<b>788,101</b>	<b>960,763</b>	<b>1,176,997</b>	<b>2,015,573</b>
<b>TOTAL ASSETS</b>		<b>2,751,207</b>	<b>2,861,369</b>	<b>2,027,085</b>	<b>2,480,845</b>
<b>CURRENT LIABILITIES</b>					
Payables	13	1,030,454	919,817	501,787	287,469
Interest bearing liabilities	14	16,721	13,465	11,221	13,465
Provisions	16	245,303	113,646	26,848	60,232
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,292,478</b>	<b>1,046,928</b>	<b>539,856</b>	<b>361,166</b>
<b>NON-CURRENT LIABILITIES</b>					
Interest bearing liabilities	15	16,500	11,220	-	11,220
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>16,500</b>	<b>11,220</b>	<b>-</b>	<b>11,220</b>
<b>TOTAL LIABILITIES</b>		<b>1,308,978</b>	<b>1,058,148</b>	<b>539,856</b>	<b>372,386</b>
<b>NET ASSETS</b>		<b>1,442,229</b>	<b>1,803,221</b>	<b>1,487,229</b>	<b>2,108,459</b>
<b>EQUITY</b>					
Contributed equity	17	4,295,032	3,559,370	4,295,032	3,559,370
Retained profits / (accumulated losses)	18	(2,852,803)	(1,756,149)	(2,807,803)	(1,450,911)
<b>TOTAL EQUITY</b>		<b>1,442,229</b>	<b>1,803,221</b>	<b>1,487,229</b>	<b>2,108,459</b>

The accompanying notes form an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

### For the year ended 30 June 2005

	Notes	Consolidated		Parent Entity	
		2005 \$	2004 \$	2005 \$	2004 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers (inclusive of Goods and Services Tax)		8,967,848	8,318,443	3,005,502	2,173,306
Payments to suppliers and employees (inclusive of Goods and Services Tax)		(10,041,138)	(8,239,081)	(3,262,407)	(2,368,449)
Interest received		6,837	20,349	-	-
Borrowing costs	3	(2,268)	(2,266)	(2,268)	(2,266)
Net cash (outflow)/inflow from operating activities	27	(1,068,721)	97,445	(259,173)	(197,409)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds on sale of non-current assets	2	10,454	3,075	-	455
Payments for property, plant and equipment		(87,256)	(147,705)	(54,194)	(40,830)
Payment for acquired business		-	(39,496)	-	-
Net cash outflow from investing activities		(76,802)	(184,126)	(54,194)	(40,381)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Loan to related party		-	-	282,577	190,353
Finance Lease		8,536	(13,467)	(13,464)	(13,467)
Cash received from shareholders rights take-up		735,662	-	735,662	-
Cash received in advance from shareholders rights take-up		2,692	-	2,692	-
Net cash (outflow)/inflow from financing activities		746,890	(13,467)	1,007,467	176,886
<b>Net (decrease)/increase in cash held</b>		<b>(398,633)</b>	<b>(100,148)</b>	<b>694,100</b>	<b>(755,004)</b>
Cash at the beginning of the financial year		464,477	564,625	(694,100)	60,904
<b>Cash at the end of the financial year</b>	5	<b>65,844</b>	<b>464,477</b>	-	<b>(694,100)</b>
Non-cash financing and investing activities	28	22,000	22,045		

The accompanying notes form an integral part of these financial statements.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## For the year ended 30 June 2005

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that 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 report covers the economic entity of Reclaim Industries Limited and controlled entities, and Reclaim Industries Limited as an individual parent entity. Reclaim Industries Limited is a listed public company, incorporated and domiciled in Australia.

The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair values of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied unless otherwise stated.

#### (a) Going Concern

The accounts of the consolidated group have been prepared on a going concern basis, notwithstanding current year losses. This basis is dependant upon the return to profitability of the group to which the directors have made initiatives to achieve, and/or future fund raising as necessary.

#### (b) Foreign Currency Transaction

##### *Transactions*

Foreign currency transactions are initially translated to Australian currency at the rates of exchange at the date of the transaction. At balance date amounts payable and receivable in foreign currencies are translated to Australian currency at rates of exchange at that date.

The gains and losses from conversion of assets and liabilities, whether realised or unrealised, are included in profit from ordinary activities as they arise.

#### (c) Inventories

##### *Raw Materials, Stores and Finished Goods*

Inventories are carried at the lower of cost and net realisable value. Costs have been assigned to inventory quantities on hand at balance date using the first in first out basis. Cost comprises materials, labour and an appropriate proportion of fixed and variable overheads.

#### (d) Income tax

The consolidated entity adopts the liability method of tax effect accounting. Income tax expense is calculated on profit from ordinary activities 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 balance sheet as a future income tax benefit or a deferred tax liability at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

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

#### (e) Investments

##### *Controlled entities*

Investments in controlled entities are valued in the accounts of Reclaim Industries Ltd at cost less amounts written off for any permanent diminution in the value of investments. Dividends are brought to account in the statement of financial performance when they are proposed by the controlled entity.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### For the year ended 30 June 2005

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (f) Intangibles

###### *Goodwill*

Goodwill and goodwill arising on consolidation are initially recorded at the amount by which the purchase price for a business or an ownership interest in a controlled entity exceeds the fair value attributed to its net assets at the date of acquisition. Both purchased goodwill and goodwill on consolidation are amortised on a straight line basis over up to 20 years, being the period during which the benefits are expected to arise.

The balances are reviewed annually and any balance representing future benefits for which the realisation is considered to be no longer probable are written off.

##### (g) Employee Entitlements

Provision is made for the company's liability for employee benefits arising from services rendered by employees to the balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at the amount expected to be paid when the liability is settled, plus related on-costs.

##### (h) Revenue Recognition

Sales revenue represents revenue earned from the sale of the consolidated entity's products and services, net of returns, trade allowances and duties and taxes paid.

The sale is recorded when the goods have been despatched to a customer pursuant to a sales order and the associated risks have passed to the carrier or customer.

Interest income is recognised when receivable.

##### (i) Cash

For the purpose of the statement of cash flows, cash includes cash on hand, deposits held at call and short term deposits with banks net of bank overdrafts.

##### (j) Receivables

All trade debtors are recognised at the amounts receivable as they are due for settlement no more than 30 days from the date of recognition. Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision is raised for any doubtful debts based on a review of all outstanding amounts at balance date.

##### (k) Comparative Figures

Where necessary, comparative amounts have been represented or reclassified to ensure comparability with the current reporting period.

##### (l) Recoverable Amount of Non-Current Assets

The recoverable amount of an asset is the net amount expected to be recovered through cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. Where net cash inflows are derived from a group of assets working together, recoverable amount is determined on the basis of the relevant group of assets. The decrement in the carrying amount is recognised as an expense in net profit or loss in the reporting period in which the recoverable amount write-down occurs.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## For the year ended 30 June 2005

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) Recoverable Amount of Non-Current Assets (Continued)

The expected net cash flows included in determining recoverable amounts of non-current assets have not been discounted to their present values.

#### (n) Acquisition of Assets

The purchase method of accounting is used for all acquisitions of assets regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus incidental costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their market price as at the acquisition date. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the acquisition. The discount rate used is the incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to a restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

Goodwill is brought to account on the basis described in note 1(e).

Where an entity or operation is acquired and the fair value of the identifiable net assets acquired, including any liability for restructuring costs, exceeds the cost of acquisition, the difference, representing a discount on acquisition, is accounted for by reducing proportionately the fair values of the non-monetary assets acquired until the discount is eliminated. Where, after reducing to zero the recorded amounts of the non-monetary assets acquired, a discount balance remains, it is recognised as revenue in the statement of financial performance.

#### (o) Property, Plant and Equipment

##### *Plant and Equipment*

Plant and equipment are measured on cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets.

##### *Depreciation*

Depreciation is calculated on a straight line basis to write off the net cost of each item of plant and equipment over its expected useful life to the consolidated entity. Estimates of remaining useful lives are made on a regular basis for all assets, with annual reassessments for major items.

The depreciation rates used for each class of depreciable assets are:

Leasehold Improvements	25%
Plant and Equipment	40% - 10%
Office Equipment	40% - 20%
Motor Vehicles	20%
Leased Motor Vehicles	20%

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

### For the year ended 30 June 2005

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### (o) Depreciation (Continued)

Where items of plant and equipment have separately identifiable components that are subject to regular replacement, those components are assigned useful lives distinct from the item of plant and equipment to which they relate.

Major spares purchased specifically for particular plant are capitalised and depreciated on the same basis as the plant to which they relate.

##### (p) Leased Non-Current Assets

A distinction is made between finance leases that effectively transfer from the lessor to the lessee substantially all the risks and benefits incident to ownership of the leased non-current assets, and operating leases under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the interest expense.

The lease asset is amortised on a straight line basis over the term of the lease, or where it is likely that the consolidated entity will obtain ownership of the asset, the life of the asset. Lease assets held at the reporting date are being amortised over periods ranging from 5 to 15 years.

Other operating lease payments are charged to the statement of financial performance in the periods in which they are incurred, as this represents the pattern of benefits derived from the leased assets.

##### (q) Trade and Other Creditors

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

##### (r) Goods and Services Tax Charges

Costs incurred to update existing systems or to design, develop and implement new systems to deal with the GST are charged as expenses as incurred, except where they result in an enhancement of future consolidated benefits and are recognised as an asset.

##### (s) Earnings per Share

###### (i) Basic 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 of equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

###### (ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with diluted potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

##### (t) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Reclaim Industries Ltd as at 30 June 2005 and the results of all controlled entities for the year ended. Reclaim Industries Ltd and its controlled entities together are referred to in this financial report as the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Where control of an entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## For the year ended 30 June 2005

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (u) Interest bearing liabilities

Loans and debentures 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.

#### (v) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred.

It includes interest on bank overdrafts and short-term and long-term borrowings and ancillary costs incurred in connection with the arrangement of borrowings and finance lease charges.

#### (w) Non-current assets constructed by the consolidated entity

The cost of non-current assets constructed by the consolidated entity includes the cost of all materials used in construction, direct labour on the project, borrowing costs incurred during construction and an appropriate proportion of variable and fixed overhead.

#### (x) Leasehold Improvements

The cost of improvements to or on leasehold properties is amortised over the unexpired period of the lease or the estimated useful life of the improvement to the consolidated entity, whichever is the shorter. Leasehold improvements held at the reporting date are being amortised over 4 years.

#### (y) Impact of Adopting AASB Equivalents to IFRS Standards

Reclaim Industries Limited is in the process of transitioning its accounting policies and financial reporting from current Australian Accounting Standards (GAAP) to Australian equivalents of International Financial Reporting Standards (AIFRS) which will be applicable for the financial year ended 30 June 2006. The company has allocated internal resources and engaged expert consultants to conduct impact assessments to identify key areas in order of priority. Priority has been given to the preparation of an opening balance sheet in accordance with AIFRS as at 1 July 2004, Reclaim Industries' transition date to AIFRS. This will form the basis of accounting for AIFRS in the future, and is required when Reclaim Industries prepares its first fully AIFRS compliant report for the year ended 30 June 2006.

Set out below are the key areas where accounting policies are expected to change on adoption of AIFRS and our best estimate of the quantitative impact of the changes on total equity as at the date of transition and 30 June 2005 and on net profit for the year ended 30 June 2005.

The figures disclosed are management's best estimates of the quantitative impact of the changes as at the date of preparing the 30 June 2005 financial report. The actual effects of transition to AIFRS may differ from the estimates disclosed due to:

- a) Ongoing work being undertaken;
- b) Potential amendments to AIFRSs and Interpretations thereof being issued by the standard-setters and IFRIC, and
- c) Emerging accepted practice in the interpretation and application of AIFRS and UIG Interpretations.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (y) Impact of Adopting AASB Equivalents to IFRS Standards (continued)

##### Profit

##### Reconciliation of profit as presented under AGAAP to that under AIFRS

YEAR ENDED 30 JUNE 2004	Notes	Economic Entity 30 June 2005	Parent Entity 30 June 2005
<b>Net loss as reported under AGAAP</b>		(1,096,654)	(1,356,892)
Share-based payment expense (shares)	(i)	(4,000)	(4,000)
<b>Net profit/loss under AIFRS</b>		<u>(1,100,654)</u>	<u>(1,360,892)</u>

i) Under AASB 2 Shares-based payments, the Company will recognise an expense for shares issued under The Employee Share Agreement. The expense will be the market value of the shares at date of issue.

##### Equity

##### Reconciliation of equity as presented under AGAAP to that under AIFRS

	Notes	Economic Entity 30 June 2005	Parent Entity 30 June 2005
<b>Total Equity under AGAAP</b>		1,442,229	1,487,229
<b>Adjustments to retained earnings (net of tax)</b>			
Share-based payment expense (shares)	(i)	(4,000)	(4,000)
<b>Adjustments to other equity items (net of tax)</b>		<u>1,438,229</u>	<u>1,483,229</u>
Corresponding entry for shares issued under the Employee Share	(i)	4,000	4,000
		<u>4,000</u>	<u>4,000</u>
July 04 adjustments carried forward		1,442,229	1,487,229
<b>Total Equity under AIFRS</b>		1,442,229	1,487,229

Under AASB 2 Share-based payments, the Company will recognise an expense and a corresponding increase in the contributed capital for shares issued under the Employee Share Arrangement. The increase in contributed capital and the expense will be the market value of the shares at date of issue.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## For the year ended 30 June 2005

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Cash Flows

##### Reconciliation of AIFRS Statement of Cash Flows

No impacts are expected to the cash flows presented under AGAAP on adoption of AIFRS

The board members are of the opinion that the key differences in Reclaim's accounting policies, which will arise from the adoption of IFRS are:

#### (y) Impact of Adopting AASB Equivalents to IFRS Standards (continued)

##### Classifications of Financial Instruments

Under AASB 139 Financial Instruments: Recognition and Measurement, financial instruments will be required to be classified into one of the five categories which will, in turn, determine the accounting treatment of the item. The classifications are:

- I) loans and receivables - measured at amortised cost;
- II) held to maturity - measured at amortised cost;
- III) held to trading - measured at fair value changes charged to net profit or loss;
- IV) available for sale - measured at fair value with fair value changes taken to equity; and
- V) non-trading liabilities - measured at amortised cost
- VI) This will result in a change in the current accounting policy that does not classify financial instruments. The directors have
- VII) Determined that there will be no impact to the company as a result of adopting this standard.

##### Impairment of Assets

Under AASB 136 Impairment of Assets the recoverable amount of an asset is determined as the higher of net selling prices and value in use. This will result in a change in Reclaim's current accounting policy, which determines the recoverable amount of an asset on the basis of discounted cash flows. Under the new policy it is likely that impairment of assets will be recognised sooner and that the amount of write-down will be great.

The Directors have determined that there were no impairment indicators at 30 June 2005, therefore no impairment gain/loss has been recognised.

##### Income Taxes

The application of AASB 112 Income Taxes could result in increases in deferred tax assets and deferred tax liabilities as a consequence of the recognition of deferred taxes associated with fair value adjustments in relation to business combinations, revaluations of land and buildings and investments in associates.

Deferred tax assets could also increase due to the differing requirements for the recognition of carried forward tax losses.

There will be no impact on the cumulative financial position at 30 June 2005. This is because a deferred tax asset has not been recognised for carry forward tax losses because it is not probable that future taxable profit will be available against which the unused tax losses can be utilised.

##### Share Based Payments

Under AASB 2 Share based payments, from 1 July 2004 the group is required to recognise as an expense those options that had not vested until after 1 January 2005. This will result in a change in the current accounting policy under which no expense was recognised for the granting of options.

If the policy required for AASB 2 had been applied during the year ended 30 June 2005, the net profit would have been \$4,336 lower.

##### Goodwill

Under AASB 3 Business Combination, amortisation of goodwill will be prohibited and will be replaced by annual impairment testing focusing on the cash flows of the related cash generating units. This will result in a change in the accounting policy in which the goodwill is amortised on a straight line basis over a period during which the benefits are expected and not exceeding 20 years. If the policy required by AASB 3 had been applied during the year ended 30 June 2005, net profit will not change as it has already been written off.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>2. REVENUE</b>				
Revenue from operating activities:				
Sales of goods	8,408,944	7,982,306	2,995,143	2,055,980
	<u>8,408,944</u>	<u>7,982,306</u>	<u>2,995,143</u>	<u>2,055,980</u>
Revenue from outside the operating activities:				
Interest – Other Persons	6,837	20,349	-	-
Proceeds on disposal of non-current assets	10,454	3,075	-	455
	<u>17,291</u>	<u>23,424</u>	<u>-</u>	<u>455</u>
<b>Total revenue from ordinary activities</b>	<b><u>8,426,235</u></b>	<b><u>8,005,730</u></b>	<b><u>2,995,143</u></b>	<b><u>2,056,435</u></b>
<b>3. LOSS FROM ORDINARY ACTIVITIES</b>				
Loss from ordinary activities before income tax expense includes the following specific net gains and expenses:				
Cost of sales of goods	2,100,889	2,121,262	41,923	400,518
Depreciation of:				
- Plant and equipment	183,466	157,518	152,438	136,266
- Office equipment	19,251	18,590	3,669	5,201
- Motor vehicles	31,000	22,383	7,694	6,714
	<u>233,717</u>	<u>198,491</u>	<u>163,801</u>	<u>148,181</u>
Amortisation of:				
- Intangibles (Goodwill)	-	55,126	-	28,568
- Leasehold improvement	93	5,492	93	5,492
- Finance leased motor vehicle	11,087	14,128	10,857	10,857
	<u>11,180</u>	<u>74,746</u>	<u>10,950</u>	<u>44,917</u>
Total amortisation and depreciation	<u>244,897</u>	<u>273,237</u>	<u>174,751</u>	<u>193,098</u>
Rental expense on operating leases		334,643		158,213
Transfers to (from) provisions for:				
- Doubtful debts	(19,933)	41,000	(43,690)	14,000
- Employee entitlements	-	21,084	-	11,732
Borrowing costs Interest & Finance charges paid and payable	2,268	2,266	2,268	2,266
Net gain/(loss) on disposal of property, plant and equipment	(39,896)	(21,456)	(7,650)	(18,537)
Bad debts	17,043	4,303	4,562	781
Provision for write down of inter-company receivables to recoverable amount	-	-	1,156,000	436,957
Goodwill written off	-	930,709	-	440,502



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>4. TAXATION</b>				
The income tax for the financial year differs from the amount calculated on the net profit or loss. The differences are reconciled as follows:				
Loss from ordinary activities before income tax expense	(1,096,654)	(1,740,597)	(1,356,892)	(1,392,950)
Income tax expense(revenue) calculated @ 30% (2004 30%)	(328,996)	(522,179)	(407,068)	(417,885)
<b>Tax effect of permanent differences</b>				
Non-deductible expenditure	7,097	280,289	-	263,238
Non-deductible amortisation	-	16,538	-	8,570
Future income tax benefit not booked	321,899	225,352	407,068	146,077
Utilisation of tax losses of prior years recouped	-	-	-	-
Income tax attributable to loss from ordinary activities	-	-	-	-

The parent entity has elected to form a consolidated tax group. The group has tax losses carried forward at 30 June 2005 of \$1,783,358. The tax benefit of these losses at 30% will be brought to account when realization is virtually certain. The group had carried forward tax losses at 30 June 2004 totaling \$790,812.

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>5. CASH (CURRENT)</b>				
Cash at bank and on hand	65,844	364,477	-	-
Term Deposit	-	100,000	-	-
	65,844	464,477	-	-
<b>6. RECEIVABLES (CURRENT)</b>				
Trade debtors	1,385,417	1,118,531	559,557	311,194
Less provision for doubtful debts	(51,417)	(71,350)	-	(43,690)
	1,334,000	1,047,181	559,557	267,504

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>7. RECEIVABLES (NON-CURRENT)</b>				
Loans to related parties	-	-	3,044,086	2,014,609
Loans from related parties	-	-	(591,498)	-
Less provision for non-recovery	-	-	(1,858,071)	(702,073)
	-	-	594,517	1,312,536
<b>8. INVENTORIES (CURRENT)</b>				
Raw materials and stores – at cost	416,625	291,892	201,937	120,266
Finished goods – at cost	67,481	79,274	24,826	32,064
	484,106	371,166	226,763	152,330
<b>9. OTHER (CURRENT)</b>				
Council Retentions	4,821	-	-	-
Prepayments (income tax)	63,768	-	63,768	-
Securities and Bond	9,207	-	-	-
Staff advances	1,360	-	-	-
Sundry debtors	-	17,782	-	45,438
	79,156	17,782	63,768	45,438
<b>10. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT)</b>				
Leasehold improvements at cost	21,967	21,967	21,967	21,967
Less accumulated amortisation	(21,967)	(21,874)	(21,967)	(21,874)
	-	93	-	93
Plant and equipment at cost	1,333,878	1,313,299	1,127,846	1,103,717
Less accumulated depreciation	(685,841)	(507,995)	(592,942)	(445,624)
	648,037	805,304	534,904	658,093
Office equipment at cost	81,610	68,815	20,539	18,464
Less accumulated depreciation	(47,676)	(33,022)	(13,572)	(12,433)
	33,934	35,793	6,967	6,031
Motor vehicles at cost	152,665	114,846	44,478	24,138
Less accumulated depreciation	(80,670)	(45,401)	(24,194)	(16,680)
	71,995	69,445	20,284	7,458
Motor vehicle under finance lease	42,045	76,332	54,287	54,287
Less accumulated amortisation	(7,910)	(26,204)	(33,970)	(22,933)
	34,135	50,128	20,317	31,354
Total property, plant and equipment	788,101	960,763	582,472	703,029



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## For the year ended 30 June 2005

### 10. PROPERTY, PLANT AND EQUIPMENT (NON-CURRENT) (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.

	Office equipment	Leasehold improvement	Plant & equipment	Motor vehicles	Leased motor vehicle	Total
<b>Consolidated</b>						
Carrying amount at 1 July 2004	35,793	93	805,304	69,445	50,128	960,763
Additions	16,874	-	39,455	10,909	20,000	87,238
Disposals	-	-	-	(15,005)	-	(15,005)
Depreciation / amortisation (note 3)	(18,733)	(93)	(196,722)	6,646	(35,993)	(244,895)
Carrying amount at 30 June 2005	33,934	-	648,037	71,995	34,135	788,101

	Office equipment	Leasehold improvement	Plant & equipment	Motor vehicles	Leased motor vehicle	Total
<b>Parent</b>						
Carrying amount at 1 July 2004	6,031	93	658,093	7,458	31,354	703,029
Additions	4,605	-	38,680	10,909	-	54,194
Disposals	-	-	-	-	-	-
Depreciation / amortisation (note 3)	(3,669)	(93)	(161,869)	1,917	(11,037)	(174,751)
Carrying amount at 30 June 2005	6,967	-	534,904	10,673	20,497	582,472

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>11. INTANGIBLE ASSETS (NON-CURRENT)</b>				
Goodwill	1,132,201	1,132,201	571,355	571,355
Less accumulated amortisation	(1,132,201)	(201,492)	(571,355)	(130,853)
Less write-off	-	(930,709)	-	(440,502)
	-	-	-	-
<b>12. OTHER FINANCIAL ASSETS (NON-CURRENT)</b>				
Shares in controlled entities (Note 25)	-	-	8	8

### 13. PAYABLES (CURRENT)

#### Unsecured

Trade creditors	788,463	772,467	387,826	266,742
Other creditors	241,991	147,350	113,961	20,727
	1,030,454	919,817	501,787	287,469

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>14. INTEREST BEARING LIABILITIES (CURRENT)</b>				
Lease liabilities - secured	16,721	13,465	11,221	13,465
	<u>16,721</u>	<u>13,465</u>	<u>11,221</u>	<u>13,465</u>

### 15. INTEREST BEARING LIABILITIES (NON-CURRENT)

Lease liabilities - secured	16,500	11,220	-	11,220
	<u>16,500</u>	<u>11,220</u>	<u>-</u>	<u>11,220</u>

#### Secured Liabilities

Total secured liabilities (current and non-current) are:

Lease liabilities	33,221	24,685	11,221	24,685
	<u>33,221</u>	<u>24,685</u>	<u>11,221</u>	<u>24,685</u>

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessor in the event of default. The carrying value of the leased assets at 30 June 2005 is \$31,354.

### 16. PROVISIONS (CURRENT)

Warranties	120,000	-	10,000	-
Employee entitlements	125,303	113,646	16,848	60,232
	<u>245,303</u>	<u>113,646</u>	<u>26,848</u>	<u>60,232</u>

### 17. CONTRIBUTED EQUITY

#### (a) Share capital

Ordinary shares – fully paid \$4,295,032 (2004: \$3,559,370)	42,973,769	25,483,606	42,973,769	25,483,606
	<u>42,973,769</u>	<u>25,483,606</u>	<u>42,973,769</u>	<u>25,483,606</u>

#### (b) Movements in Ordinary Share Capital

Notes	Number of Shares	Issue Price	Value \$
1 July 2004: Opening Balance	25,483,606	-	3,559,370
Employee Share Plan: 10 Jan 2005	500,000	-	-
Employee Share Plan: 30 June 2005	1,400,000	-	-
Rights Issue Dec/Jan 2005	15,590,163	0.05	779,508
Share Issue Cost			(43,846)
	<u>42,973,769</u>		<u>4,295,032</u>



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## For the year ended 30 June 2005

### 17. CONTRIBUTED EQUITY (CONTINUED)

#### (b) Movements in Ordinary Share Capital (continued)

Employee Share Plans shown are escrowed until the following dates:

1,200,000	30-06-2008
700,000	30-06-2009

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

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

#### (c) Options on issue

As at 30 June 2005 the following options were on issue:

Option expiry date	Exercise price	Number on issue
31 December 2005 – unlisted	30 cents	750,000

### 18. RETAINED PROFITS / (ACCUMULATED LOSSES)

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Retained profits / (accumulated losses) at the beginning of the financial year	(1,756,149)	(15,552)	(1,450,911)	(57,961)
Net profit/(loss) attributable to members of Reclaim Industries Ltd	(1,096,654)	(1,740,597)	(1,356,892)	(1,392,950)
Retained profits / (accumulated losses) at the end of the financial year	<u>(2,852,803)</u>	<u>(1,756,149)</u>	<u>(2,807,803)</u>	<u>(1,450,911)</u>

### 19. FINANCIAL INSTRUMENTS

#### (a) Credit Risk Exposures

The credit risk on financial assets of the consolidated entity that have been recognised on the statement of financial position other than investments in shares, is generally the carrying amount, net of any provisions for doubtful debts.

Councils and schools form a large part of sales revenue and are low in terms of credit risk. Building companies that are higher risk however also form a small portion of total revenue. International work is currently quoted in Australian Dollars on Letter of Credit terms or payment before shipment for smaller cargoes.

#### (b) 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 financial liabilities is set out below.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

### 19. FINANCIAL INSTRUMENTS (CONTINUED)

2005	Notes	Fixed interest rate maturing in:				Total
		Floating Interest Rate	1 Year or less	Over 1 to 5 years	Non-interest bearing	
<b>Financial assets:</b>						
Cash and deposits		65,844	-	-	-	65,844
Receivables		-	-	-	1,334,000	1,334,000
		65,844	-	-	1,334,000	1,399,844
Weighted average interest rate		4.25%	-	-	-	-
<b>Financial liabilities:</b>						
Trade and other creditors		-	-	-	1,030,454	1,030,454
Lease liabilities		-	16,721	16,500	-	33,221
		-	16,721	16,500	1,030,454	1,063,675
Weighted average interest rate		-	14.4%	14.4%	-	-
Net financial assets (liabilities)		65,844	(16,721)	(16,500)	303,546	336,169

2004	Notes	Fixed interest rate maturing in:				Total
		Floating Interest Rate	1 Year or less	Over 1 to 5 years	Non-interest bearing	
<b>Financial assets:</b>						
Cash and deposits		464,477	-	-	-	464,477
Receivables		-	-	-	1,047,181	1,047,181
		464,477	-	-	1,047,181	1,511,658
Weighted average interest rate		4.35%	-	-	-	-
<b>Financial liabilities:</b>						
Trade and other creditors		-	-	-	919,817	919,817
Lease liabilities		-	13,465	11,220	-	24,685
		-	13,465	11,220	919,817	944,502
Weighted average interest rate		-	14.41%	14.41%	-	-
Net financial assets (liabilities)		464,477	(13,465)	(11,220)	127,364	567,156



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## For the year ended 30 June 2005

### 19. FINANCIAL INSTRUMENTS (CONTINUED)

Reconciliation of net financial assets to net assets	<b>2005</b>	<b>2004</b>
	\$	\$
Net financial assets as above	336,169	567,156
Non-financial assets and liabilities	-	-
Inventories	484,106	371,166
Property, plant & equipment	788,101	960,763
Other assets	79,156	17,782
Provisions	(245,303)	(113,646)
	<hr/>	<hr/>
Net assets per statement of financial position	1,442,229	1,803,221

#### (c) Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the consolidated entity approximates their carrying value.

The directors are of the opinion that, after taking into account estimated selling costs and capital gains tax (where appropriate), no material difference exists between carrying amounts and fair values of financial assets and liabilities at 30 June 2004, nor did a difference exist at 30 June 2003 (after taking selling costs and capital gains tax into account).

Consolidated		Parent Entity	
2005	2004	2005	2004
\$	\$	\$	\$

### 20. REMUNERATION OF AUDITORS

Remuneration of the auditor of the parent and controlled entities for:

• Audit or review of the financial report	22,000	24,000	22,000	24,000
• Other services	7,092	1,450	7,092	1,450
	<hr/>	<hr/>	<hr/>	<hr/>
	29,092	25,450	29,092	25,450

### 21. REMUNERATION OF DIRECTORS AND EXECUTIVES

(a) Names and positions held of specified directors and specified executives in office at any time during the year are:

#### Specified Directors

Alexander Burns	Managing Director
Timothy J King	Chairman (non-executive)
Konrad Floan	Director (executive)

#### Specified Executives

Christopher Battel	WA and International Manager
Chris J M Forrester	Executive Officer
Timothy Francis	Recycling Manager

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

### 21. REMUNERATION OF DIRECTORS AND EXECUTIVES (CONTINUED)

#### (b) Specified Directors' Remuneration

2005

	Salary's and fees \$	Primary Superannuation \$	Cash Bonus \$	Non-cash benefits \$	Post-Employment Superannuation \$	Equity Options \$	Other \$	Total \$
Alexander Burns	8,000	-	-	-	-	-	10,894	18,894
Timothy King	36,000	-	-	-	-	-	-	36,000
Konrad Floan	90,000	8,100	-	-	-	-	10,000	108,100
	134,000	8,100	-	-	-	-	20,894	162,994

2004

	Salary's and fees \$	Primary Superannuation \$	Cash Bonus \$	Non-cash benefits \$	Post-Employment Superannuation \$	Equity Options \$	Other \$	Total \$
Alexander Burns	4,000	-	-	-	-	-	-	4,000
Timothy King	36,000	-	-	-	-	-	-	36,000
Chris Forrester	63,125	5,681	-	-	-	13,380	-	82,186
	103,125	5,681	-	-	-	13,380	-	122,186

The service and performance criteria set to determine remuneration is included per Note (g).

#### (c) Specified Executives' Remuneration

2005

	Salary's and fees \$	Primary Superannuation \$	Cash Bonus \$	Non-cash benefits \$	Post-Employment Superannuation \$	Equity Options \$	Other \$	Total \$
Christopher Battel	60,000	5,400	-	-	-	7,800	8,000	81,200
Chris Forrester	63,125	5,681	-	-	-	-	-	68,806
Timothy Francis	45,486	4,094	-	-	-	5,800	5,444	60,824
	168,611	15,175	-	-	-	13,600	13,444	210,830

2004

	Salary's and fees \$	Primary Superannuation \$	Cash Bonus \$	Non-cash benefits \$	Post-Employment Superannuation \$	Equity Options \$	Other \$	Total \$
Jim Tweddle	116,462	-	-	-	-	-	-	116,462
Konrad Floan	80,360	7,232	-	-	-	-	-	87,592
	196,822	7,232	-	-	-	-	-	204,054

# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## For the year ended 30 June 2005

### 21. REMUNERATION OF DIRECTORS AND EXECUTIVES (CONTINUED)

#### (d) Remuneration Shares

Shares issued under the Employee Share Plan as Remuneration

	Granted No.	Granted Date	Vesting Date	Value per Share at Grant Date \$	Total Value of shares Granted \$
<b>Specified Executives</b>					
Christopher Battel	60,000	16/11/04	30/6/08	\$0.05	\$3,000
Christopher Battel	60,000	30/6/05	30/6/08	\$0.04	\$2,400
Christopher Battel	60,000	30/6/05	30/6/09	\$0.04	\$2,400
Timothy Francis	20,000	16/11/04	30/6/08	\$0.05	\$1,000
Timothy Francis	60,000	30/6/05	30/6/08	\$0.04	\$2,400
Timothy Francis	60,000	30/6/05	30/6/09	\$0.04	\$2,400
	<u>320,000</u>				<u>\$13,600</u>

The service and performance criteria set to determine remuneration are included per Note (g).

#### (e) Options and Rights Holdings

Number of Options held by Specified Directors and Specified Executives

	Balance 1.07.04	Granted as remuneration	Options exercised*	Net change Other*	Balance 30.06.05	Total Vested 30.06.05	Total Exercisable 30.06.05	Total Unexercisable 30.06.05
<b>Specified Directors</b>								
Alexander Burns	150,000	-	-	-	150,000	150,000	150,000	-
Konrad Floan	150,000	-	-	-	150,000	150,000	150,000	-
Timothy King	150,000	-	-	-	150,000	150,000	150,000	-
<b>Specified Executives</b>								
Christopher Battel	-	-	-	-	-	-	-	-
Chris J M Forrester	300,000	-	-	-	300,000	300,000	300,000	-
Timothy Francis	-	-	-	-	-	-	-	-

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

### 21. REMUNERATION OF DIRECTORS AND EXECUTIVES (CONTINUED)

#### (f) Shareholdings

Number of Shares held by Specified Directors and Specified Executives

	Balance 1.07.04	Received as remuneration	Options exercised	Net Change Other*	Balance 30.06.05
<b>Specified Directors</b>					
Alexander Burns	121	-	-	114	235
Konrad Floan	-	-	-	271,561	271,561
Timothy King	4,555,907	-	-	3,735,801	8,291,708
<b>Specified Executives</b>					
Christopher Battel	-	180,000	-	40,000	180,000
Chris J M Forrester	262,030	-	-	51,750	313,780
Timothy Francis	-	140,000	-	12,000	152,000
	4,818,058	320,000	-	4,391,226	9,209,284

\* Net change other refers to shares purchased or sold during the financial year on normal commercial terms.

#### (g) Remuneration Practices

The company's policy for determining the nature and amount of emoluments of board members and senior executives of the company is as follows;

The remuneration structure for executive officers, including executive directors, is based on a number of factors, including length of service, particular experience of the individual concerned, and overall performance of the company. The contracts for service between the company and specified directors and specified executives are on a continuing basis the terms of which are not expected to change in the immediate future. Upon retirement specified directors and specified executives are paid employee benefit entitlements accrued to date of retirement. Any shares that have not vested before or on the date of termination lapse.

The group seeks to emphasise payment for results through providing various cash bonus reward schemes, specifically, the incorporation of incentive payments based on the achievement of sales targets and regional profitability. The objective of the reward schemes is both to reinforce short and long-term goals of the company and to provide a common interest between management and shareholders.

#### (h) Performance Based Remuneration

As part of each executives' remuneration package there is a performance-based component, consisting of key performance indicators (KPIs). The intention of this program is to facilitate an alignment between directors/executives with that of the business and shareholders. The KPIs are set annually, with a certain level of consultation with directors/executives to ensure buy-in. The measures are specifically tailored to the areas each director/executive is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for group expansion and profit, covering financial and non-financial as well as short – and long-term goals. The level set for each KPI is based on budgeted figures for the group and respective industry standards.

Performance in relation to the KPIs is assessed annually, with bonuses being awarded depending on the number and deemed difficulty on the KPIs achieved. Following the assessment, the KPIs are reviewed by the board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the group's goals and shareholder wealth, before the KPIs are set for the following year.

In determining whether or not a KPI has been achieved, Reclaim Industries Limited bases the assessment on audited figures, however, where the KPI involves comparison of the group or a division within the group to the market, independent reports are obtained from organisations such as Standard & Poors.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

## For the year ended 30 June 2005

### 22. RELATED PARTY DISCLOSURES

	Parent	
	2005	2004
<b>Amounts receivable from entities in the wholly-owned group</b>		
Non-current receivables (loans)	3,044,086	2,708,709
Provision for diminution	(1,858,071)	(702,073)
Aggregate amounts receivable from entities in the wholly owned group at balance date	1,186,015	2,006,636

The loans are provided to the wholly owned subsidiaries on an interest free, payable on demand basis.

### 23. COMMITMENTS FOR EXPENDITURE

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
<b>Operating leases</b>				
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	39,600	7,906	39,600	7,906
Later than one year but not five years	9,900	-	9,900	-
Commitments not recognised in the financial statements	49,500	7,906	49,500	7,906

The property lease will be terminated in September 2006 and the premises will be leased on a monthly basis.

#### Finance leases

Commitments in relation to finance leases are payable as follows:

Within one year	16,721	15,732	16,721	15,732
Later than one year but not later than five years	16,500	13,110	16,500	13,110
Minimum lease payments	33,221	28,842	33,221	28,842
Less future finance charges	-	4,157	-	4,157
Recognised as a liability	33,221	24,685	33,221	24,685
Representing lease liabilities:				
Current (Note 14)	16,721	13,465	16,721	13,465
Non-current (Note 15)	16,500	11,220	16,500	11,220
	33,221	24,685	33,221	24,685

The finance lease on motor vehicles, which commenced in 2002, is a four year lease with rentals payable one month in advance.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

### 24. EMPLOYEE ENTITLEMENTS

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Provision for employee entitlements:				
Current (Note 16)	125,303	113,646	16,848	60,232
Non-current	-	-	-	-
Aggregate employee entitlement liability	125,303	113,646	16,848	60,232
<b>Employees Numbers</b>				
Average number of employees during the financial year	45	42	14	11

### 25. INVESTMENTS IN CONTROLLED ENTITIES

Name of entity	Country of Incorporation	Class of shares	Equity Holdings (%)	
			2005	2004
Playsafe Australia Pty Ltd(1)	Australia	Ordinary	100	100
Reclaim Corporation Pty Ltd(1)	Australia	Ordinary	100	100
Leisure Safe Holdings Pty Ltd (1)	Australia	Ordinary	100	100

<sup>(1)</sup> Controlled entity that is a small propriety company not required to prepare financial statements.

### 26. EVENTS OCCURRING AFTER REPORTING DATE

On 18 July 2005, the fully underwritten rights issue for Reclaim Industries Limited closed raising \$831,475 before costs of the raising. This increased the shares on issue from 42,973,769 to 63,760,653.



# NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

## 27 RECONCILIATION OF PROFIT (LOSS) FROM ORDINARY ACTIVITIES AFTER INCOME TAX TO NET CASH INFLOW (OUTFLOW) FROM OPERATING ACTIVITIES

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Profit / (loss) from ordinary activities after income tax	(1,096,654)	(1,740,597)	(1,356,892)	(1,392,950)
Add back:				
Write-down of inter-company receivable to recoverable amount	-	-	1,156,000	-
Depreciation/amortisation	244,895	298,756	174,751	210,903
Leisuresafe performance bonus	-	29,690	-	29,690
Inter-Company write back	-	-	-	436,957
Goodwill written off	-	930,709	-	440,502
Tax paid in prior year	-	-	-	(60,501)
Asset transfer	-	-	-	-
(Gain)/Loss on disposal of Fixed Assets	4,551	24,456	-	18,992
	<u>(847,204)</u>	<u>(456,986)</u>	<u>(26,141)</u>	<u>(316,407)</u>
Changes in Operating Assets/Liabilities				
(Increase)/decrease in Trade Debtors	(286,652)	468,080	(292,713)	89,409
(Increase)/decrease in Inventories	(112,940)	(65,264)	(74,433)	(46,274)
(Increase)/decrease in Other Operating Assets	16,391	(10,874)	17,752	52,597
Increase/(decrease) in Trade Creditors	30,027	92,305	149,746	(32,466)
Increase/(decrease) in Provisions	131,657	70,184	(33,384)	55,732
Increase/(decrease) in Other Operating Liabilities	-	-	-	-
Net Cash Inflow/(outflow) from operating activities	<u>(1,068,721)</u>	<u>97,445</u>	<u>(259,173)</u>	<u>(197,409)</u>

## 28. NON-CASH FINANCING AND INVESTING ACTIVITIES

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Acquisition of motor vehicle by means of Finance Lease	22,000	22,045	-	-

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

For the year ended 30 June 2005

### 29. EARNINGS PER SHARE

	Consolidated	
	2005	2004
Basic earnings per share	(2.67) cents	(6.83) cents
<b>Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	32,787,491	25,483,606

Where diluted EPS is not dilutive they are not disclosed.

#### Reconciliations of earnings used in calculating earnings per share

	Consolidated	
	2005 \$	2004 \$
Basic earnings per share		
Net profit/(loss)	(1,096,652)	(1,740,597)

As disclosed in Note 17 the company has on issue 750,000 options to subscribe for fully paid ordinary shares exercisable at 30 cents at any time on or before 31 December 2005. As the exercise price of these options at balance date was greater than the average market price of the shares for the year ended 30 June 2004, it is considered the options are unlikely to be exercised and consequently have not been considered dilutive.

None of the options have been included in the determination of the basic earnings per share.

### 30. SEGMENT INFORMATION

The entity operates in predominantly one business segment being the manufacture of recycled rubber and its associated products. The entity operates in predominantly one geographical segment being Australasia.

### 31. DIVIDENDS

No dividends have been declared or paid during the current year (2004: Nil)

	Consolidated		Parent Entity	
	2005 \$	2004 \$	2005 \$	2004 \$
Balance of franking account at year end adjusted for franking credits arising from payment of provision for income tax, franking debits arising from payment of dividends and franking credits that may be prevented from distribution in subsequent financial years.	-	-	-	-

### 32. CONTINGENT LIABILITY

The directors are of the opinion that there are no contingent liabilities as at 30 June 2005.

# DIRECTORS' DECLARATION

## DECLARATION BY DIRECTORS

The directors of the company declare that:

1. The financial statements, comprising the Statements of Financial Performance, Position and Cash Flows, and accompanying notes, are in accordance with the Corporations Act 2001 and:
  - (a) comply with Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2005 and of the performance for the year ended on that date of the company and the consolidated entity.
2. In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
3. The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the directors by:



**T J KING**

**Director**

30 September 2005

## INDEPENDENT AUDIT REPORT



Chartered Accountants  
& Advisers

Level 8, 256 St George's Terrace Perth WA 6000  
PO Box 7426 Cloisters Square Perth WA 6850  
Tel: (61-8) 9360 4200  
Fax: (61-8) 9481 2524  
Email: [bdo@bdowa.com.au](mailto:bdo@bdowa.com.au)  
[www.bdo.com.au](http://www.bdo.com.au)

### INDEPENDENT AUDIT REPORT TO THE MEMBERS OF RECLAIM INDUSTRIES LIMITED

#### Scope

##### The Financial Report and Directors' Responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Reclaim Industries Limited (the company), for the year ended 30 June 2005.

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 have 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 judgment, 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 financial position, and of its performance as represented by the results of its 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.

The independence declaration has been given to the directors in accordance with section 307C of the Corporations Act 2001.

### **Audit Opinion**

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

- (a) the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2005 and of its 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 Continuation as a Going Concern**

Without qualification to the opinion expressed above, attention is drawn to the following matter. As described in Note 1(a), the ability of the company to continue as a going concern is dependant on initiatives put in place by the board to return to profitability and/or future fundraising as necessary.

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### **BDO**

Chartered Accountants



**B G McVeigh**

Partner

Perth, Western Australia

30 September 2005

## AUSTRALIAN STOCK EXCHANGE - ADDITIONAL INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules and not disclosed elsewhere in this report. This information was prepared based on share registry information processed up to 3 October 2005.

### DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of listed equity security holders by size of holding:

	Ordinary shares	
	Numbers of holders	Number of shares
1 - 1,000	917	318,022
1,001 - 5,000	301	665,124
5,001 - 10,000	175	1,496,679
10,001 - 100,000	348	9,591,717
100,001 and over	56	51,689,111
	<u>1,797</u>	<u>63,760,653</u>

Number of shareholders holding less than a marketable parcel 1,397

Vendor securities on issue Nil

### Equity Security Holders

The names of the twenty largest holders of equity securities are listed below:

Name	Ordinary shares	
	Number	% holding
Knowles, Keith	7,886,097	12.37%
Parks Australia Pty Ltd	5,107,720	8.01%
King, Jennifer Anne	4,350,160	6.82%
Knowles, Keith	4,004,275	6.28%
Rexfam Trading Pty Ltd	3,582,176	5.62%
King, Timothy John	3,416,469	5.36%
Blake, Tracy Ann	3,159,677	4.96%
Lloyd Price Carnarvon Pty Ltd	2,175,080	3.41%
Jemaya Pty Ltd	2,122,255	3.33%
Harris, Kenneth	1,600,000	2.51%
Tangee Pty Ltd	1,510,000	2.37%
Smith, Angela Carol	854,810	1.34%
Risstrom Super Fund Pty Ltd	823,442	1.29%
Knowles, Edna	780,868	1.22%
Norris, Judith Marie	697,337	1.09%
Anthony Burke Pty Ltd	600,000	0.94%
Janny Pty Ltd	516,240	0.81%
Hawkins, Ronal Bearne	480,000	0.75%
Gordon, David Russell	460,000	0.72%
Bennett, Anthony Gerard	441,108	0.69%
	<u>44,567,714</u>	<u>69.89%</u>



# AUSTRALIAN STOCK EXCHANGE - ADDITIONAL INFORMATION

## Unquoted equity securities

Analysis of numbers of unlisted equity security holders:

	Number on issue	Number of holders
31 December 2005 options	750,000	4

## Voting Rights

### Ordinary Shares

All ordinary shares carry one vote per share without restriction.

### Options

No voting rights.

## Substantial Shareholders

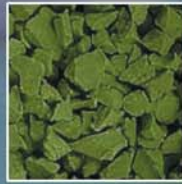
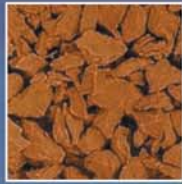
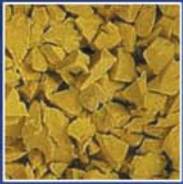
The Company's register of substantial shareholders recorded the following information:

Name	Entitlement	Class
Knowles, Keith; Parks Australia Pty Ltd; Edna Knowles; Parks Australia Super Fund a/c	18,633,770	Ordinary
King, Jennifer Anne; Rexfam Trading Pty Ltd; King, Timothy John; Lloyd Price Carnarvon Pty Ltd; Janny Pty Ltd; King, Timothy John + King, Jennifer Anne - Super Fund	14,680,649	Ordinary

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PO BOX 1519,  
BIBRA LAKE,  
WESTERN AUSTRALIA 6965

67 MIGUEL ROAD,  
BIBRA LAKE,  
WESTERN AUSTRALIA 6163