

**TELESSO TECHNOLOGIES LIMITED  
(FORMERLY EIFFEL TECHNOLOGIES LIMITED)  
ABN 96 072 178 977  
AND CONTROLLED ENTITIES**

**ANNUAL REPORT  
FOR THE YEAR ENDED 30 JUNE 2008**

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This financial report was authorised for issue by the Directors on 17<sup>th</sup> September 2008. The company has the power to amend and re-issue the financial report.

## DIRECTORY INFORMATION

### Registered office and principal place of business

Teleso Technologies Limited  
Ground Floor, Dow Corning Building  
3 Innovation Road  
North Ryde, New South Wales, 2113

### Directors

Michael Hoy (Chairman)  
Dr Ross Macdonald  
Dr Doug McTaggart  
Dr Peter Farrell  
Lawrence Gozlan  
Nelson Stacks (Executive Director)

### Secretary

Ian Atkin

### Auditors

HLB Mann Judd (NSW Partnership)  
Chartered Accountants  
Level 19, 207 Kent Street  
Sydney, New South Wales, 2000

### Bankers

Australia and New Zealand Banking Group Limited  
Macquarie Shopping Centre  
Herring Road,  
North Ryde, New South Wales, 2113

### Share Registry

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford, Victoria, 3067

### Solicitors

Lander & Rogers  
Bourke Place  
600 Bourke Street Melbourne  
Victoria 3000  
GPO Box 1842Q Melbourne  
Victoria 3001

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## TELESSO TECHNOLOGIES – GROUP IN PROFILE

Telesso Technologies Ltd is a pharmaceutical technology company with a core competence in chemical engineering, using its proprietary supercritical fluid (SCF) technology to improve the effectiveness of medicinal products. Our target customers are the pharmaceutical companies that develop and sell medicines. Telesso develops processes to meet the requirements of client product development projects, and also produces pharmaceutical materials to support preclinical and early clinical studies.

Research and development is primarily undertaken at the Company's headquarters in the Macquarie Park estate in North Ryde, Australia.

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## CHAIRMAN'S REPORT

I am pleased to report on the development of Telesso Technologies Limited for the year ended 30 June 2008.

The year, as shareholders will be aware has been one of substantial change.

Telesso's core business relied on supercritical fluid (SCF) technology to re-engineer existing drug products to increase their effectiveness and value. Target customers have been the pharmaceutical companies that develop and sell medicines. For small to medium specialist pharmaceutical companies, it was considered that Telesso's technology would offer the capability to enter and compete in brand new markets. For larger pharmaceutical companies with established brands of medicines, Telesso's technology would be used for the introduction of line-extensions with enhanced performance to retain competitive advantage against generic competition once the original patents expire.

Certainly, during the year, in collaboration with MAP Pharmaceuticals Inc, Telesso enjoyed some successes. In November 2007 the commencement of a phase 2a clinical trial of MAP's asthma combination drug was announced with positive results from that trial being reported in April 2008. Despite this, and with the difficulty of sourcing additional suitable commercial partners, it became apparent to Directors that the market for advanced drug delivery technologies based on SCF technology platforms had changed dramatically. Although the need for better methods of treatment for illnesses continues to grow, the impact of events within the industry generally have caused a shift in confidence away from particulate forms of drug as a platform for treatment and particularly so via technologies such as SCF.

Recognising this, and in line with an overall review of the company's future direction Telesso negotiated a technology transfer agreement with MAP Pharmaceuticals Inc which was announced on 25 June 2008. This was seen as a significant positive alternative to utilising further funds and resources in a business that was no longer viable. The transfer delivered Telesso an upfront cash payment on completion with royalty streams and further milestone payments depending on successful development. Telesso staff are assisting in the transfer program which it is anticipated will be completed in the first quarter 2009.

In line with its previously announced intentions, the year has also seen Telesso continue with a strategic review of business opportunities available to the company. U.S. based Chief Executive Officer Nelson Stacks and President Jeff Riley were appointed to drive this process. Both executives have substantial experience in the sourcing of, and the commercial development of life sciences opportunities worldwide. The Board are currently reviewing a number of opportunities which will drive the future growth and direction of the company and which we believe will lead to increased value for shareholders.

A number of Board changes were made during the year. Long standing Chairman Tom Hartigan resigned and the Directors wish to express their appreciation for his untiring efforts on the company's behalf. Directors Neill Colledge and Bruce Hundertmark also resigned. The company is pleased to announce the appointment of two new Directors: Dr Doug McTaggart, the Chief Executive of the Queensland Investment Corporation, and Dr Peter Farrell, the founder and Executive Chairman of Resmed Inc. The company will benefit greatly from the experience and wealth of knowledge that these Directors bring to the Board.

The company finished the year in a strong financial position as a result of the capital raising which was concluded at the close of the previous financial year. The year has seen the company's operating loss decreased by 7.4%, while revenue increased by 141.9% and with significant cash reserves the company is now in a financial position to undertake positive steps towards a new direction.

The Company's current focus is on identifying appropriate business opportunities which will lead to a suitable and solid platform for future development.

Your directors look forward to the coming year with confidence and thank you for your support of Telesso Technologies.



Michael Hoy  
Chairman

Dated this 17<sup>th</sup> day of September 2008

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**TELESSO TECHNOLOGIES LIMITED  
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**DIRECTORS' REPORT**

Your directors present their report on the company and its controlled entities for the financial year ended 30 June 2008.

**Directors**

The names and particulars of the directors of the company who held office during or since the end of the financial year are:

**Michael Hoy** Chairman & Non-executive Director (59 years of age).  
Qualifications and Experience: Board member since December 2005. Mr Hoy is a businessman and company director with extensive corporate experience in Australia, the U.K, U.S.A and Asia. He is chairman of Biotron Limited; chairman of Cityprint Holdings Pty Limited; and a former director of John Fairfax Holdings Limited and FX Trust Limited.  
Interest in Shares & Options: 192,358 Ordinary Shares in Telesso Technologies Limited held by Umbiram Pty Ltd as trustee for The Michael Hoy Superannuation Fund

**Dr Ross Alexander Macdonald** Non-executive Director (50 years of age)  
Qualifications and Experience: PhD in Biochemistry, Monash University, Graduate Diploma in Business Administration, Swinburne University, Member, Licensing Executives Society Australia & New Zealand. Board member since February 2003. Dr Macdonald was formerly Vice President, Corporate Development for Stiefel Laboratories, Inc, a specialty pharmaceutical company headquartered in Coral Gables, Florida. Prior to joining Stiefel he was Vice President of Business Development for Connetics Corporation (Palo Alto, CA), Vice President of Research & Development with F.H. Faulding & Co. Limited (now part of Mayne Group/Hospira Inc) and Managing Director of Soltec Research Pty Ltd.  
Interest in Shares & Options: 100,000 Ordinary Shares in Telesso Technologies Limited held by Sharon Anne Macdonald.

**Lawrence Gozlan** Non-executive Director (29 years of age)  
Qualifications and Experience: Bachelor of Science (Hons). Board member since April 2007. Mr Gozlan is the founder of Scientia Capital, a specialised global investment fund focusing exclusively on the life sciences. Prior to this, Mr Gozlan was responsible for the largest biotechnology portfolio in Australia as the institutional biotechnology analyst at QIC, a funds manager with over \$50 billion under management. He was also the senior biotechnology sell-side analyst in the equities team at Foster Stockbroking and has had senior corporate finance experience advising life science companies at Deloitte.  
Interest in Shares & Options: 100,000 Ordinary Shares in Telesso Technologies Limited held by Montoya Pty Limited as trustee of the Buttercup Trust

**Dr Doug Mc Taggart** Non-executive Director (55 years of age)  
Qualifications and Experience: Honours Degree in Economics, Australian National University and Masters Degree and PhD from the University of Chicago. Board member appointed 1 November 2007. Councillor on the National Competition Council, a member of COAG Reform Council and a Director of CEDA. He is currently Chief Executive of QIC, a leading institutional investment manager with over \$80 billion in funds under management for a broad range of private and public sector clients. Prior to joining QIC he was the Under Treasurer and Under Secretary of the Queensland Department of Treasury.  
Interest in Shares & Options: None

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**DIRECTORS' REPORT**

<b>Dr Peter Farrell</b>	Non-executive Director (66 years of age)
Qualifications and Experience:	DSc University of NSW, PhD in Biomedical Engineering, University of Washington, SM in Chemical Engineering, Massachusetts Institute of Technology, Bachelor of Engineering(Hons) University of Sydney. Board member appointed 1 May 2008. Fellow of the Australian Academy of Technological Sciences and Engineering, the Institution of Engineers of Australia, Australian Institute of Management and the Australian Institute of Company Directors. Dr Farrell has been the recipient of many award among which are the Order of Australia in 2004 and National Entrepreneur of the Year for Health Sciences of America in 2005. He is the founder and Executive Chairman of Resmed Inc
Interest in Shares & Options:	None
<b>Nelson Stacks</b>	Executive Director (38 years of age)
Qualifications and Experience:	MA University of Rochester, MBA Babson College. Board member appointed 1 November 2007. Over ten years venture capital experience investing in, and sitting on the boards of corporations in the biotech and medical device areas.
Interest in Shares & Options:	1,200,000 options issued and vesting subject to employment contract.
<b>Thomas Joseph Hartigan</b>	Chairman & Non-executive Director (64 years of age)
Qualifications and Experience	Chartered Accountant and Bachelor of Commerce. Appointed Chairman May 1995 and resigned as a Director 1 November 2007. He has been a Director and Chairman of nine other public companies in a variety of industries, including biotechnology as founding Chairman of Biodiscovery Limited. In his business advisory capacity he specialises in raising development capital for growing businesses, particularly in the transition from private to public companies.
Interest in Shares & Options:	345,000 Ordinary Shares in Telesso Technologies Limited held by Thomas and Felicity Hartigan Superannuation Fund.
<b>Bruce Hundertmark</b>	Non-executive Director (71 years of age)
Qualifications and Experience:	Bachelor of Chemical Engineering, University of Adelaide. Board member since February 2005 and resigned as a Director 19 November 2007. He is presently Chairman of the cancer vaccine developer Lipotek Pty Ltd, non-executive director of the HIV therapy developer Biotron Limited, non-executive director of the antibody producer Neubody Pty Ltd, founder and principal of the Indonesia based drug discovery company PT Indo Bio Products and the molecular biology based developer PT Indobio Diversita Guna. Previously a consulting engineer, merchant banker, diplomat, university administrator, business consultant and executive company director. Previous major board appointments include News International plc and Prudential Cornhill Insurance Ltd.
Interest in Shares & Options:	None
<b>Neill Colledge</b>	Non-executive Director (54 years of age)
Qualifications and Experience:	Master of Arts, Bachelor of Science (Hons). Board member since April 2007 and resigned as a Director 7 November 2007. Mr Colledge has been the CEO of the Queensland BioCapital Fund since November 1994. QBF was established by the Queensland Investment Corporation as its venture capital arm specialising in biotechnology. Prior to joining QBF, Mr Colledge was Senior Portfolio Manager and held specific responsibility for QIC's main Australian industrial equity portfolio. In addition between 1990 and 2000 he managed QIC's investments in private equity and venture capital.
Interest in Shares & Options:	None



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**DIRECTORS' REPORT**

**Directorships of other listed companies**

Directorships of other listed companies held by directors in the 3 years immediately before the end of the financial year are as follows:

<u>Name</u>	<u>Company</u>	<u>Period of directorship</u>
T Hartigan	Affiance Group Limited	Since October 2002
B Hundertmark	Biotron Limited	Since March 2000
M Hoy	Biotron Limited	Since February 2000
P Farrell	QRxPharma Limited	Since April 2007
	Pharmaxis Limited	Since March 2006

**Company Secretary**

Ian Atkin: 49 years of age.  
Qualifications: Bachelor of Business, University of Technology. Chartered Accountant  
Experience: Principal, Kidmans Chartered Accountants.

**Principal Activities**

The consolidated entity's principal activity in the course of the financial year was research and development using supercritical fluid technologies to reprocess drugs.

**Operating Results**

The consolidated loss of the consolidated entity amounted to \$1,124,703 (2007: \$1,214,156). No income tax is payable for the year.

**Dividends Paid or Recommended**

No dividends have been paid or are payable in respect of the financial year.

**Review of Operations**

The Directors are pleased to report on the development of Telesso Technologies Limited for the year ended 30 June 2008.

Telesso uses its proprietary supercritical fluid (SCF) technology to develop new products with increased effectiveness and value from existing drugs. Our target customers are the pharmaceutical companies that develop and sell medicines, who will apply Telesso's technology towards the development of innovative products with superior performance that serve unmet needs.

In 2005/2006 Telesso signed its first technology out-licensing agreement with Californian-based MAP Pharmaceuticals Inc., a company specialising in the development of advanced pulmonary delivery products around its proprietary Tempo™ inhalation device technology. The success of the work completed by Telesso for MAP Pharmaceuticals Inc was shown through the announcement in April 2008 of positive test results from a Phase 2a clinical study of their asthma combination drug. Telesso and MAP Pharmaceuticals Inc have since entered into a technology transfer agreement which was announced on 25 June 2008 and will be completed during the 2009 financial year.

During the 2007/2008 reporting period Telesso has been continuing with a strategic review of business opportunities available to the company. The commencement of this process was highlighted during the capital raising in the latter part of the 2007 financial year and has been the main focus of Mr Nelson Stacks and Mr Jeff Riley who were recruited to the company to lead this process.

**Intellectual Property**

Telesso manages an intellectual property portfolio which is comprised of various inventions related to its supercritical fluid processes. The management of this portfolio involves a process of regular review, enabling new innovations to be added to the portfolio, whilst reducing the level of priority and investment for inventions that are less relevant to current business objectives.

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**DIRECTORS' REPORT**

During the reporting year Telesso continued to support its key patent applications in commercially relevant territories.

**Significant Changes in State of Affairs**

The following significant changes in the state of affairs of the company occurred during the year:

- On 25 January 2008 the company announced a 1 for 10 capital reconstruction.
- On 9 May 2008 the company undertook a sale of unmarketable share parcels.
- On 25 June 2008 the company announced the transfer to MAP Pharmaceuticals Inc of technology associated with processes developed for that company.

**Subsequent events**

On 6 August 2008 the company entered into a new lease with respect to its North Ryde research facility. This lease expires on 30 June 2009. Other than this event there has not been any matter or circumstance, other than any matter that is referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

**Future Developments**

The likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years are as follows:

- The group will vigorously pursue the acquisition or in-licensing of late development stage products. The outcome of any such transaction is expected to be a transformation in Telesso's capability to create value, generate revenue, and raise capital required in the future.
- The Pharmaceutical Development facility, based at North Ryde NSW, will continue to provide support for the transfer of technology to MAP Pharmaceuticals Inc. In the absence of any further work in the SCF area this facility will in all likelihood be closed down at the conclusion of the current premises lease which is on 30 June 2009.
- The consolidated entity is expected to continue to operate at a loss for the forthcoming year.

**Environmental Issues**

Research and development activities are conducted under controlled laboratory conditions and there are no environmental issues at this time.

**Options**

In the past, the Board has taken the view that, given the nature of the industry in which the Company operates, share options were an appropriate remuneration mechanism to motivate and retain staff.

During the current year 24,000,000 (after share consolidation 2,400,000) options were issued to executives or staff in accordance with their employment contracts. The issue of these options was approved at the Company's 2007 annual general meeting. There were no employee options issued in previous years that vested due to achievement of personal milestones.

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**DIRECTORS' REPORT**

Share options on issue at year end

Details of ordinary shares under option as at 30 June 2008 of Telesso Technologies Limited are:

Vesting Date	Expiry Date	Exercise Price	On issue at the beginning of the year	Issued during the year	Share Consolidation Adjustment	Cancelled during the year	Outstanding at year end	Status
		\$	No.	No.	No	No.	No.	
23/10/02	23/10/07	0.25	25,000,000	-	-	(25,000,000)	-	Vested
21/11/02	20/11/07	0.25	3,000,000	-	-	(3,000,000)	-	Vested
31/07/03	31/07/08	2.50	900,000	-	(810,000)	-	90,000	Vested
03/02/04	03/02/09	1.25	900,000	-	(810,000)	-	90,000	Vested
30/06/05	30/06/08	1.50	500,000	-	(450,000)	(50,000)	-	Vested
30/06/04	30/07/07	0.14	500,000	-	-	(500,000)	-	Vested
01/12/05	01/12/10	0.82	1,000,000	-	(675,000)	(250,000)	75,000	Vested
01/12/06	01/12/11	0.82	1,000,000	-	(675,000)	(250,000)	75,000	Vested
30/06/05	30/06/08	0.75	1,000,000	-	(900,000)	(100,000)	-	Vested
31/12/05	31/12/08	0.75	1,000,000	-	(900,000)	-	100,000	Vested
30/06/06	30/06/09	0.75	1,000,000	-	(900,000)	-	100,000	Vested
31/12/06	31/12/09	0.75	1,000,000	-	(900,000)	-	100,000	Vested
01/03/06	28/02/09	0.25	11,450,000	-	(9,855,000)	(500,000)	1,095,000	Vested
(b)	(b)	0.20	-	24,000,000	(21,600,000)	-	2,400,000	Not Vested
			<b>48,250,000</b>	<b>24,000,000</b>	<b>(38,475,000)</b>	<b>(29,650,000)</b>	<b>4,125,000</b>	

During the year under review:

(a) The following options were cancelled or lapsed

- I. 25,000,000 options issued on 23 October 2002 to Jagen Pty Limited with an exercise price of \$0.25 due to the options expiring.
- II. 3,000,000 options issued on 21 November 2002 to Jagen Pty Limited with an exercise price of \$0.25 due to the options expiring.
- III. 50,000 options issued 3 February 2004 to Dr N Foster with an exercise price of \$1.50 due to the options expiring
- IV. 500,000 options issued 5 March 2004 to G Coombes with an exercise price of \$0.14 due to the options expiring
- V. 500,000 options issued 1 December 2004 to D Liyanage with an exercise price of \$0.082 due to termination of employment
- VI. 100,000 options issued 8 February 2005 to H Regtop with an exercise price of \$0.75 due to the options expiring
- VII. 500,000 options issued 1 March 2006 to J O Carroll with an exercise price of \$0.25 due to the option being exercised.

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**DIRECTORS' REPORT**

(b) The following options were issued

In accordance with a resolution passed at the company's 2007 Annual General Meeting 12,000,000 (after share consolidation 1,200,000) options were issued to each of Mr Nelson Stacks and Mr Jeff Riley as part of their employment contracts with the Company. The employment contracts provide for the issue of options at a nil issue price as equity based remuneration in addition to cash remuneration. The options vest over three equal installments, as to one third on each of the first, second and third anniversaries of the executives employment. Vesting in any year is subject to the Company achieving total shareholder return in excess of the ASX 300 Accumulation Index, but any options that do not so vest are carried forward to when that return is achieved (subject to it being achieved in three years). Once vested the options have no expiry date.

(c) On 31 January 2008 in accordance with a resolution passed at the 2007 Annual General Meeting Telesso Technologies Limited undertook a 1 for 10 capital consolidation. The share options, and their respective exercise prices, have been reduced in accordance with this consolidation other than where movements have occurred prior to the capital consolidation. Those movements and the associated exercise prices have not been adjusted.

At 30 June, 2008, there were 4,125,000 (30 June 2007: 48,250,000 pre-consolidation) unissued ordinary shares for which options were outstanding, of which 1,725,000 of these have vested and may be exercised.

No options have been issued since the end of the financial year.

**Remuneration report (Audited)**

Remuneration policy for directors and other key management personnel

The Company's policy for determining the nature and amount of emoluments of Board members and Senior Executives of the Company is as follows:

Directors' emoluments are periodically reviewed and changes, if any, are submitted to the shareholders for approval. Amounts paid to Directors and their related companies for consultancy services are based upon commercial rates having regard to the nature of the services provided. All such payments require the approval of the Board.

Other than Mr Hoy, Dr Macdonald and Mr Gozlan, the remuneration of the Non-Executive Directors is not performance based. In accordance with a resolution passed at the 2007 Annual General Meeting Mr Hoy, Dr Macdonald and Mr Gozlan were issued 1,000,000 shares (pre-consolidation) for meeting performance criteria determined by the Board.

During the year the remuneration of executives has been by way of salary. In accordance with resolutions passed at the company's 2007 annual general meeting shares and options have also been issued to certain qualifying Directors and Key Management Personnel as disclosed in the financial statements. Other than as disclosed there have been no other payments of a bonus either by way of cash or options dependent upon the achievement of personal milestones.

The following table summarises the revenue and net loss of the business over the past 5 years against the share price.

	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Revenue \$	923,098	381,671	1,149,417	1,046,560	1,251,908
Net Loss \$	(1,124,703)	(1,214,156)	(783,391)	(3,518,847)	(3,836,893)
Share Price (Cents)	7.0	1.8	0.9	2.3	9.7

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**DIRECTORS' REPORT**

**Remuneration report (Audited) cont**

The above analysis reflects the difficult period that the company has experienced particularly in light of the difficulties in the SCF business. Shareholder wealth has also declined during the year, however the Board has continued to take steps to more closely align the interests of the staff and executives with the interests of shareholders. These steps have included:

- Further cost cutting in the area of non-essential staff.
- Reaching an agreement with MAP Pharmaceuticals Inc in relation to the transfer of certain SCF technology thereby reducing costs in an area of the Company's business that was becoming unviable and ensuring an immediate and potential future income stream.
- An active program to identify other areas in which the value of the company's technology can be leveraged and an active program of seeking new business opportunities for the company.

The Board collectively reviews the remuneration packages and any changes in the packages of all specified directors and specified executives. Remuneration packages are determined with due regard given to current market rates and comparable industry salaries.

Directors and other key management personnel details

The specified directors of Telesso Technologies Limited during the year were:

- Michael Hoy (Non-executive Chairman)
- Thomas Hartigan (Non-executive Chairman resigned 1 November 2007)
- Ross Macdonald (Non-executive)
- Bruce Hundertmark (Non-executive resigned 19 November 2007)
- Neill Colledge (Non-executive resigned 7 November 2007)
- Lawrence Gozlan (Non-executive)
- Douglas McTaggart (Non-executive appointed 1 November 2007)
- Nelson Stacks (Executive appointed 1 November 2007)
- Peter Farrell (Non-executive appointed 1 May 2008)

The other key management personnel of Telesso Technologies Limited during the year were:

- Jeff Riley (President)
- Ian Atkin (Company Secretary and Chief Financial Executive)
- Linda Sze Tu (Head of Operations)

Elements of director and other key management personnel remuneration

Remuneration packages contain the following key elements:

- a) Short-term benefits – salary/fees, bonuses and non-monetary benefits including the provision of motor vehicles and other benefits
- b) Post-employment benefits – including superannuation and prescribed benefits
- c) Share-based payments – shares and share options granted as disclosed in the notes to the financial statements; and
- d) Other benefits

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**DIRECTORS' REPORT**

**Remuneration report (Audited) cont**

Directors' remuneration

The following table discloses the remuneration of the directors of the company:

	Short-term benefits				Post-employment benefits			Share-based payments		Total
	Salary & Fees	Bonus	Special Projects	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Shares	
<b>2008</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
T. Hartigan	15,000	-	-	-	1,354	-	-	-	-	16,354
R. Tomlinson	-	-	-	-	-	-	-	-	-	-
R. Macdonald	41,667	-	-	-	3,754	-	-	-	24,000	69,421
B. Hundertmark	12,500	-	-	-	1,129	-	-	-	-	13,629
M. Hoy	56,250	-	-	-	5,066	-	-	-	24,000	85,316
N. Colledge	10,000	-	-	-	900	-	-	-	-	10,900
L. Gozlan	41,667	-	-	-	3,750	-	-	-	24,000	69,417
D. McTaggart	31,666	-	-	-	-	-	-	-	-	31,666
P. Farrell	8,333	-	-	-	-	-	-	-	-	8,333
N. Stacks	205,600	70,546	-	-	-	-	30,737	10,517	-	317,400
<b>Total</b>	<b>422,683</b>	<b>70,546</b>	<b>-</b>	<b>-</b>	<b>15,953</b>	<b>-</b>	<b>30,737</b>	<b>10,517</b>	<b>72,000</b>	<b>622,436</b>

	Short-term benefits				Post-employment benefits			Share-based payments		Total
	Salary & Fees	Bonus	Special Projects	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Shares	
<b>2007</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
T. Hartigan	45,000	-	-	-	4,050	-	-	-	-	49,050
R. Tomlinson	22,500	-	-	-	2,025	-	-	-	-	24,525
R. Macdonald	30,000	-	-	-	2,700	-	-	-	-	32,700
B. Hundertmark	30,000	-	-	-	2,700	-	-	-	-	32,700
M. Hoy	30,000	-	-	-	2,700	-	-	-	-	32,700
N. Colledge	7,500	-	-	-	675	-	-	-	-	8,175
L. Gozlan	7,500	-	-	-	675	-	-	-	-	8,175
<b>Total</b>	<b>172,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>15,525</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>188,025</b>

Other Key Management Personnel remuneration

The following table discloses the remuneration of the Other Key Management Personnel of the company and the consolidated entity:

	Short-term benefits				Post-employment benefits			Share-based payments		Total
	Salary & Fees	Bonus	Special Projects	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Shares	
<b>2008</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
J. Riley	205,600	70,546	-	-	-	-	30,737	10,517	-	317,400
L. Sze Tu	100,000	-	-	-	9,004	-	-	-	-	109,004
<b>Total</b>	<b>305,600</b>	<b>70,546</b>	<b>-</b>	<b>-</b>	<b>9,004</b>	<b>-</b>	<b>30,737</b>	<b>10,517</b>	<b>-</b>	<b>426,404</b>

	Short-term benefits				Post-employment benefits			Share-based payments		Total
	Salary & Fees	Bonus	Special Projects	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Shares	
<b>2007</b>	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
P. Hickey	112,004	-	-	3,033	6,780	-	-	-	-	121,817
L. Sze Tu	98,215	-	-	-	8,256	-	-	-	-	106,471
<b>Total</b>	<b>210,219</b>	<b>-</b>	<b>-</b>	<b>3,033</b>	<b>15,036</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>228,288</b>

**Contracts for services**

- Nelson Stacks
  - Commenced employment on 1 August 2007
  - Term of Employment: Subject to an employment contract which expires on 1 August 2009 and subject to extension by agreement.
  - Base salary US\$230,000 per annum. An additional US\$200,000 is also payable on the achievement of key milestones as outlined in the employment contract.

**TELESSO TECHNOLOGIES LIMITED  
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**DIRECTORS' REPORT**

**Remuneration report (Audited) cont**

- Jeff Riley
  - Commenced employment on 1 August 2007
  - Term of Employment: Subject to an employment contract which expires on 1 August 2009 and subject to extension by agreement.
  - Base salary US\$230,000 per annum. An additional US\$200,000 is also payable on the achievement of key milestones as outlined in the employment contract.
- Ian Atkin
  - Commenced employment on 7 November 2005
  - Term of Employment: Ongoing fees are paid to Kidmans Chartered Accountants for the provision of the services of I. Atkin for one day per week or as required. During the year fees totalling \$100,372 were paid to Kidmans Chartered Accountants for the services of I. Atkin in his capacity as Company Secretary and Chief Financial Officer.
  - Base salary \$1,200 per day
- Linda Sze Tu
  - Commenced employment on a contractual basis 11 July 2003
  - Term of Employment: Ongoing
  - Base salary \$100,000 per annum
  - Superannuation calculated at 9% of base salary
  - Either party may terminate the employment arrangement on 4 weeks notice.

During the year no performance based remuneration was paid to Directors or Executives other than Mr Michael Hoy, Dr Ross Macdonald, Mr Lawrence Gozlan, Mr Nelson Stacks and Mr Jeff Riley.

In accordance with a resolution passed at the 2007 Annual General Meeting performance based payments were made to Mr Michael Hoy (28% of total remuneration) and Dr Ross Macdonald and Mr Lawrence Gozlan (35% of total remuneration). These payments are based on criteria determined by the Board.

In accordance with their employment contracts, Mr Stacks and Mr Riley, in addition to their base salary are entitled to payments on the successful completion of certain milestone events, and to options over the Company's securities. The milestones are objective criteria and are aligned to successfully identifying and then integrating appropriate business opportunities into the company in line with the objective of driving the growth of the company and adding value for shareholders, together with furthering the corporate governance objectives of the company. Options issued to Mr Stacks and Mr Riley were approved at the Company's 2007 annual general meeting. The options vest over three equal instalments as to one third on each of the first, second and third anniversaries of employment subject to the company achieving a total shareholder return in excess of the ASX 300 Accumulation Index, however options not vesting in any year are carried forward to when that return is achieved subject to the return being achieved within three years. During the current financial year 25 percent of the remuneration derived by Mr Stacks and Mr Riley was based on meeting these performance criteria.

Value of options issued to directors and executives

The following table discloses the value of options granted, exercised or lapsed during the year

	Options granted	Options exercised	Options lapsed	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options
	Value at grant date	Value at exercise date	Value at time of lapse			
<b>2008</b>	\$	\$	\$	\$	\$	%
N. Stacks	10,517	-	-	10,517	10,517	3.3
J. Riley	10,517	-	-	10,517	10,517	3.3
	21,034	-	-	21,034	21,034	

(1) The total value of options vested, granted, exercised, and lapsed is calculated based on the following:

- Fair value of the option at grant date multiplied by the number of options granted during the year; plus
- Fair value of the option at the time it is exercised multiplied by the number of options exercised during the year; plus

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**DIRECTORS' REPORT**

**Remuneration report (Audited) cont**

- Fair value of the option at the time of lapse multiplied by the number of options lapsed during the year.
- (2) No executive options were cancelled during the year
- (3) The value of any options included in remuneration for the year is calculated in accordance with Accounting Standard AASB 2 "Share-based Payment". This requires the following:
- The value of options is determined at grant date, and are included in remuneration on a proportionate basis from grant date to vesting date. Where the options immediately vest the full value of the option is recognised in remuneration in the current year.

**Meetings of Directors**

The following table sets out the number of directors' meetings held during the financial year and the number attended by each. During the year, 8 Board meetings were held at which time any matters requiring Audit Committee attention were dealt with. No separate Audit Committee meetings were held.

	<b>Board of Directors</b>	
	<b>Held</b>	<b>Attended</b>
Thomas Hartigan	4	2
Michael Hoy	8	8
Ross Macdonald	8	7
Bruce Hundertmark	4	-
Neill Colledge	4	4
Lawrence Gozlan	8	8
Doug McTaggart	4	3
Peter Farrell	1	1
Nelson Stacks	4	4

**Proceedings on Behalf of the Company**

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

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

**Indemnifying Directors and Officers**

During the year the company has paid premiums to indemnify directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The amount of premiums paid was \$27,350.

**Non-Audit Services**

No amounts were paid or payable to the auditor for non-audit services provided during the year by the auditor or another person or firm on behalf of the auditor. Fees were paid to HLB Mann Judd (Vic) Pty Limited, a company associated with a firm considered to be a network firm of the HLB Mann Judd (NSW Partnership) amounting to \$31,630 for tax compliance services. The provision of these services is compatible with the general standard of independence for auditors.



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DIRECTORS' REPORT

**Auditor's Independence declaration**

The independence declaration given to the company by the lead auditor for the audit undertaken by HLB Mann Judd (NSW Partnership) is included on page 20 of the financial report.

Signed in accordance with a resolution of the Board of Directors.



Director  
Michael Hoy

Dated this 17<sup>th</sup> day of September 2008

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## CORPORATE GOVERNANCE STATEMENT

The Telesso Technologies Board is committed to maintaining the highest ethical standards and best practice in the area of corporate governance within the framework of the Australian Stock Exchange Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (ASX Guidelines) to ensure the Company's business is conducted in the best interest of all stakeholders. Unless disclosed below, all the best practice recommendations of the ASX Corporate Governance Council have been applied for the entire financial year ended 30 June 2008.

### Lay solid foundation for management and oversight

The Board is responsible to shareholders for the performance of the Company and for the overall corporate governance of Telesso Technologies. This role encompasses the determination of Telesso's goals and strategic direction and ensures timely and accurate communications to shareholders. The Board has established policies in respect of Board responsibilities and delegations of authority for the appropriate management of the Company's operations.

The Board has also adopted management policies and procedures addressing statutory financial reporting, Board and management financial reporting and controls, information technology security, contract management, management and staff performance reviews and remuneration, internal controls for business risk management, ethical standards and occupational health and safety practices. The Board is responsible for appointing the management team and reviewing their performance. The management team is responsible for the overall implementation and management of the policies and strategies established by the Board.

### Board Composition

The Board is currently composed of six Non-executive Directors. Telesso's Constitution specifies that the number of Directors shall not be less than three. At present the independent members of the Board are:

- Mr Michael Hoy, Non-executive Director and Chairman, appointed December 2005
- Dr Ross Macdonald, Non-executive Director, appointed February 2003
- Dr Peter Farrell, Non-executive Director appointed May 2008

The Directors who are not independent are:

- Dr Doug McTaggart, Non-executive Director appointed 1 November 2007
- Mr Nelson Stacks Executive Director appointed November 2007
- Mr Lawrence Gozlan, Non-executive Director appointed April 2007

Dr Doug McTaggart is the Chief Executive Officer of the Queensland Investment Corporation the Company's major shareholder.

When determining whether a non-executive director is independent the director must not fail any of the following materiality thresholds:

- less than 10% of company shares are held by the director and any entity or individual directly or indirectly associated with the director;
- no sales are made to or purchases made from any entity or individual directly or indirectly associated with the director; and
- none of the directors' income or the income of an individual or entity directly or indirectly associated with the director is derived from a contract with any member of the economic entity other than income derived as a director of the entity.

The Board strives to ensure its composition includes an appropriate mix of expertise and experience relevant to Telesso's business activities conducive to making expedient decisions in the best interests of the Company. The relevant skills, experience and expertise of each Board member is included in the Directors' Report.

At every Annual General Meeting (AGM) one third of the Board of Directors retires and may seek re-election to the Board. New Directors appointed by the Board must stand for election at the Company's next AGM following their appointment.

The Board recognises the importance of each Director bringing independent judgement to bear in the Board decision making process. Accordingly, all Directors have access to independent professional advice at the Company's expense with the approval of the Chairman. Directors are also indemnified under the Company's Constitution, and in accordance with deeds of indemnity and insurance subject to limitations imposed by the Corporations Act 2001.

During the year the Board did not have a separate Nomination Committee. Given the changing environment within

## CORPORATE GOVERNANCE STATEMENT

which the company is operating and the Board changes during the year, the full Board has taken responsibility for establishing criteria for Board membership, reviewing Board membership and identifying and nominating Directors and accordingly a separate nomination committee has not been established.

### **Promote ethical and responsible decision making**

Telesso prescribes ethical standards for employees for professional conduct, in dealings with the business community, the public and with other employees.

The Company has issued an employee handbook providing policies and guidelines in the context of both the applicable legislation and accepted community standards. The employee handbook outlines the Company's requirements for standards of conduct dealing with relevant issues including confidentiality, conflicts of interest, employee discrimination and harassment, and trading in Company securities.

The Board considers that if Directors, employees and their associates acquire shares in Telesso, these shares should be held for longer term investment and not for speculative or trading purposes. Company policy prohibits the trading of Company securities by Directors and employees whilst in possession of price sensitive information.

Directors are restricted to trading in Telesso Technologies Limited shares in the 14 day window after the yearly and half yearly financial results and other material announcements. Directors are to discuss share trading with the Chairman prior to commencement of trading. The Board minutes will reflect, on an ongoing basis, details of share trading discussions.

Staff for whom it is known or would be expected to be known are in possession of market sensitive information are restricted to trading in Telesso Technologies Limited shares in the 14 day window after the yearly and half yearly financial results and other material announcements. Other staff must discuss share trading with the Chief Executive prior to commencement of trading.

Details of share trading discussions are to be presented to the Board as and when they occur.

### **Safeguard integrity in financial reporting**

During the year due to the changing nature of the company, and the resignation from the Board of members of the Audit Committee, the Board made a decision not to establish a separate Audit Committee. Instead each Director has taken an interest in the matters normally considered by a separate committee and these matters are discussed at the regular Board meetings. In addition the Board has implemented management financial reporting requirements and The Board requires the provision of written assurances in respect of the accuracy and compliance of Company finance reports by the Chief Executive and the Chief Financial Executive as part of the management sign-off process for the half-year and full year Company financial statements.

### **Make timely and balanced disclosures**

As a public listed company, Telesso is required to comply with ASX Listing Rules continuous disclosure obligations, as complemented by the Corporations Act disclosure requirements. Telesso has a policy relating to continuous disclosure to ensure compliance with its disclosure obligations, which may be found on the company's website.

### **Respect the rights of shareholders**

The Board of Directors aims to ensure that all shareholders are informed of all major developments affecting the Company and seeks to maintain a strong and participatory framework for shareholder relations.

The principal method of communicating to shareholders is through the Company's Annual Report, issued to all shareholders and posted on the Company's website. Furthermore, company announcements are posted on the Company's website.

In addition, through the Company's AGM, shareholders receive reports by the Board on Telesso's activities for consideration and can participate by attending the meeting.

The Company's website is reviewed and updated as and when required, having regard to the ASX Guidelines to promote communications with shareholders.

HLB Mann Judd (NSW Partnership) is Telesso's external auditor. HLB Mann Judd (NSW Partnership)'s policy is to rotate audit partners every five years. The external auditor meets with the Board and is given the opportunity to meet with Telesso Directors without management in attendance. A representative from HLB Mann Judd (NSW Partnership) attends Telesso's AGM.

## CORPORATE GOVERNANCE STATEMENT

### Recognise and manage risk

The risks associated with Telesso's business are wide ranging and include the following:

- Reliance on key personnel
  - Economic Conditions of North America and Western Europe
  - Technology development
  - Complexity and cost of technology transfer
  - Increased competition
  - Timeframes to produce revenues
  - Litigation by generic manufacturers
  - Regulatory approvals overseas
  - Technology intellectual property rights
  - Market acceptance
  - Additional capital requirements
  - Managing future growth
- 
- Reliance on research and development team
  - International markets

Shareholder value analysis is considered by the Board to be integral to the management of Telesso's business and its related risks, with the objective of maximising shareholder returns over time.

The consideration and approval by the Board each year of the Company strategy and financial budgets involve identification of significant risks and the implementation of appropriate strategies to deal with them.

The Board also requires rigorous management reporting against projected results.

The Board receives monthly detailed reports and briefings by management on the Company's financial performance, R&D programs and business development activities. Details of occupational health and safety and environmental compliance are also submitted in the R&D report by management and monitored by the Board on a regular basis.

Details of the Company's risk management policy and internal systems are posted on the Corporate Governance section of the Company's website.

### Encourage enhanced performance

A performance evaluation for the Telesso Board and its members did not take place during the year. The Board is committed to future reviews of its performance, both individually and collectively, as well as annual reviews of key Company management against both measurable and qualitative indicators. A description of the intended process for Board performance evaluation is posted on the Corporate Governance section of the Company's website.

The individual objectives for all employees have been developed to align to achieving the Company's business objectives.

### Remunerate fairly and responsibly

During the year a separate Remuneration Committee was not established, instead the Board as a whole is responsible for the remuneration review of the management team, and they will in turn be responsible for the management of all other remuneration.

Remuneration for Company employees, including management, is determined by reference to market rates and includes performance-based incentives. Remuneration packages are set at levels that are intended to attract and retain Executives of sufficient calibre to facilitate the efficient and effective management of the Company's operations. Where considered necessary remuneration and other terms of employment for Senior Executives are formalised in employment agreements

Remuneration includes base salary, superannuation, motor vehicles, performance based bonuses, share options, fringe benefits and termination entitlements. The Board believes that the granting of options over unissued shares, and where possible the issue of shares to satisfy the payment of employee liabilities, are appropriate performance based remuneration mechanisms. A detailed analysis of the remuneration paid to Directors and Key Management Personnel is contained in the Remuneration Report which is a part of the Directors' Report.

Remuneration of Non-executive Directors is determined in aggregate by shareholders in general meeting. The Board of Directors determines individual fees within the aggregate level, having regard to the number of

## CORPORATE GOVERNANCE STATEMENT

Directors and their respective roles and responsibilities.

### **Recognise the legitimate interest of stakeholders**

The Board is committed to delivering maximum share value to the Company's shareholders while maintaining high standards of employment, full compliance with relevant legislation, actively contributing to the betterment of the community, and meeting the Company's responsibilities to all stakeholders. The Board and management recognise the importance of acting promptly to correct any deficiencies that may be identified before such deficiencies adversely impact upon the performance of the Company.

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**AUDITOR'S INDEPENDENCE DECLARATION**

**To the Directors of Teleso Technologies Limited:**

As lead auditor for the audit of Teleso Technologies Limited for the year ended 30 June 2008, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor's independence requirements of the Corporations Act 2001 in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Teleso Technologies Limited and the entities it controlled during the year.



**D K Swindells**  
Partner

Sydney  
17 September 2008

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ACN 072 178 977]  
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT**

To the members of Telesso Technologies Limited

We have audited the accompanying financial report of Telesso Technologies Limited ("the company"), which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both the company and the Telesso Technologies Limited Group ("the consolidated entity") as set out on pages 23 to 45. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

***Directors' Responsibility for the Financial Report***

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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ACN 072 178 977]  
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT**

***Independence***

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Telesso Technologies Limited on 17 September 2008, would be in the same terms if provided to the directors as at the time of this auditor's report.

***Auditor's Opinion***

In our opinion:

- (a) the financial report of Telesso Technologies Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of their performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

***Report on the Remuneration Report***

We have audited the Remuneration Report included in pages 10 to 14 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

***Auditor's Opinion***

In our opinion the Remuneration Report of Telesso Technologies Limited for the year ended 30 June 2008 complies with section 300A of the Corporations Act 2001.

**HLB MANN JUDD**

**Sydney**

**17 September 2008**

*HLB P Jann Suddell*

**(NSW Partnership)  
Chartered Accountants**

*D K Swindells*

**D K Swindells**

**Partner**

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**TELESSO TECHNOLOGIES LIMITED  
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AND CONTROLLED ENTITIES**

**DIRECTORS' DECLARATION  
FOR THE YEAR ENDED 30 JUNE 2008**

The Directors of the Company declare that in their opinion:

1. The financial statements and notes, as set out on pages 24 to 45, 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 2008 and of the performance for the year ended on that date of the Company and consolidated entity;
2. 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 required by s.295A of the Corporations Act 2001.

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



Director  
Michael Hoy

Dated this 17<sup>th</sup> day of September, 2008

**TELESSO TECHNOLOGIES LIMITED  
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AND CONTROLLED ENTITIES**

**INCOME STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Revenues from continuing operations	2	923,098	381,671	441,878	32,228
Research expenses		(197,346)	(366,451)	-	-
Corporate and administration expense		(1,972,748)	(850,773)	(1,764,229)	(557,008)
Depreciation		(221,268)	(378,361)	-	-
Controlled entity receivables					
- Provision for impairment		-	-	(92,492)	(562,140)
Borrowing costs		-	(242)	-	-
Loss from continuing operations before income tax expense	3	(1,468,264)	(1,214,156)	(1,414,843)	(1,086,920)
Income tax expense relating to continuing operations	4	343,561	-	343,561	-
Net loss after income tax expense attributable to members of the parent entity	18	<u>(1,124,703)</u>	<u>(1,214,156)</u>	<u>(1,071,282)</u>	<u>(1,086,920)</u>
Basic earnings per share (cents per share)	7	(1.87)	(4.40)		
Diluted earnings per share (cents per share)	7	(1.75)	(3.80)		

The accompanying notes form part of these financial statements.

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**TELESSO TECHNOLOGIES LIMITED  
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**BALANCE SHEETS  
AS AT 30 JUNE 2008**

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	8	5,334,037	6,449,988	5,325,283	6,427,641
Trade and other receivables	9	19,923	734,103	478,848	1,355,123
Other	13	46,429	14,356	44,119	-
<b>TOTAL CURRENT ASSETS</b>		<b>5,400,389</b>	<b>7,198,447</b>	<b>5,848,250</b>	<b>7,782,764</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	12	114,121	335,389	-	-
Other financial assets	10	-	-	-	-
Other	13	73,310	73,310	73,310	73,310
<b>TOTAL NON-CURRENT ASSETS</b>		<b>187,431</b>	<b>408,699</b>	<b>73,310</b>	<b>73,310</b>
<b>TOTAL ASSETS</b>		<b>5,587,820</b>	<b>7,607,146</b>	<b>5,921,560</b>	<b>7,856,074</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	14	226,099	1,091,768	610,478	1,401,061
Loans payable	15	-	117,827	-	117,827
<b>TOTAL CURRENT LIABILITIES</b>		<b>226,099</b>	<b>1,209,595</b>	<b>610,478</b>	<b>1,518,888</b>
<b>TOTAL LIABILITIES</b>		<b>226,099</b>	<b>1,209,595</b>	<b>610,478</b>	<b>1,518,888</b>
<b>NET ASSETS</b>		<b>5,361,721</b>	<b>6,397,551</b>	<b>5,311,082</b>	<b>6,337,186</b>
<b>EQUITY</b>					
Contributed equity	16	39,783,748	39,715,909	39,783,748	39,715,909
Reserves	17	206,255	401,994	206,255	401,994
Accumulated losses	18	(34,628,282)	(33,720,352)	(34,678,921)	(33,780,717)
<b>TOTAL EQUITY</b>		<b>5,361,721</b>	<b>6,397,551</b>	<b>5,311,082</b>	<b>6,337,186</b>

The accompanying notes form part of these financial statements.

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**CASH FLOW STATEMENTS  
FOR THE YEAR ENDED  
30 JUNE 2008**

	Note	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers and grants		502,784	330,562	3,643	25,407
Payments to suppliers and employees		(2,304,630)	(1,138,208)	(1,707,425)	(513,987)
Interest received		445,728	15,982	441,878	15,731
R & D Income tax offset received		343,561	-	343,561	-
Borrowing costs		-	(242)	-	-
Net cash provided by (used) in operating activities	20(a)	<u>(1,012,557)</u>	<u>(791,906)</u>	<u>(918,343)</u>	<u>(472,849)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment		-	(18,000)	-	-
Proceeds on sale of property, plant and equipment		-	83,759	-	-
Net cash provided by (used) in investing activities		<u>-</u>	<u>65,759</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from issue of shares		12,500	6,756,470	12,500	6,756,470
Payment of share issue costs		(115,894)	(225,455)	(115,894)	(225,455)
Repayment of lease liability		-	(24,035)	-	-
Advances to controlled entities		-	-	(80,621)	(187,378)
Net cash provided by (used in) financing activities		<u>(103,394)</u>	<u>6,506,980</u>	<u>(184,015)</u>	<u>6,343,637</u>
Net increase (decrease) in cash held		<u>(1,115,951)</u>	<u>5,780,833</u>	<u>(1,102,358)</u>	<u>5,870,788</u>
Cash at the beginning of the financial year		<u>6,449,988</u>	<u>669,155</u>	<u>6,427,641</u>	<u>556,853</u>
Cash at the end of the financial year	8	<u>5,334,037</u>	<u>6,449,988</u>	<u>5,325,283</u>	<u>6,427,641</u>

The accompanying notes form part of these financial statements.

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**STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2008**

	Notes	Consolidated Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
(Loss)/Profit for the period		(1,124,703)	(1,214,156)	(1,071,282)	(1,086,920)
Total recognised income and expenses for the period		(1,124,703)	(1,214,156)	(1,071,282)	(1,086,920)
Transactions with shareholders in their capacity as shareholders					
Shares issued during the period:					
- 23 March 2007	16	-	776,000	-	776,000
- 27 June 2007	16	-	5,980,470	-	5,980,470
- 21 December 2007	16	72,000	-	72,000	-
- 25 January 2008	16	12,500	-	12,500	-
Transaction costs of capital raising	16	(16,661)	(324,679)	(16,661)	(324,679)
Subsidiary company expenses paid/(credited) by the issue/(cancellation) of options		-	-	(43,695)	(178,384)
Options issued(cancelled), not yet vested	17	21,034	(31,767)	21,034	-
Total transactions with shareholders in their capacity as shareholders		88,873	6,400,024	45,178	6,253,407
Net increase in equity for the period		(1,035,830)	5,185,868	(1,026,104)	5,166,487
Equity at the beginning of the period		6,397,551	1,211,683	6,337,186	1,170,699
Equity at the end of the period		5,361,721	6,397,551	5,311,082	6,337,186

The accompanying notes form part of these financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards (including Australian Accounting Interpretations) and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Telesso Technologies Limited as an individual parent entity and Telesso Technologies Limited and controlled entities as a consolidated entity

The financial reports of Telesso Technologies Limited and controlled entities, and Telesso Technologies Limited as an individual parent entity, comply with all Australian equivalents to International Financial Reporting Standards (A-IFRS). Compliance with A-IFRS ensures that the financial reports and notes thereto comply with international reporting standards.

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

**Basis of Preparation**

The accounting policies set out below have been consistently applied to all years presented.

*Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs.

**Accounting Policies**

(a) Principles of Consolidation

A controlled entity is any entity controlled by Telesso Technologies Limited. Control exists where Telesso Technologies Limited has the power to govern the financial operating policies of another entity so as to obtain benefits from its activities. Details of the controlled entities are contained in Note 11.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where a controlled entity has entered or left the consolidated entity during the year its operating results have been included from the date control was obtained or until the date control ceased.

(b) Going Concern

These accounts have been prepared in accordance with the going concern concept.

(c) Income Tax

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is

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probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

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

*Tax consolidation legislation*

Telesso Technologies Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 July 2003.

The head entity, Telesso Technologies Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. These tax amounts are measured using the separate taxpayer within group method.

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

- (d) Inventories  
Inventories comprise drugs and other research materials, and are measured at the lower of cost and net realisable value.
- (e) Property, Plant and Equipment  
Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

*Plant and equipment*

Plant and equipment are measured on a 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 of these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

*Depreciation*

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rate used for each class of depreciable asset is:

Plant and equipment	20%
Office furniture and equipment	10% to 30%

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**NOTES TO THE FINANCIAL STATEMENTS  
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(f) Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Leased assets classified as finance leases are recognised as assets. The amount initially brought to account is the present value of the minimum lease payments.

A finance lease is one which effectively transfers from the lessor to the lessee substantially all the risks and benefits incidental to ownership of the leased property.

Finance lease payments are allocated between interest expense and reduction of lease liability over the term of the lease. The interest expense is determined by applying the interest rate implicit in the lease to the outstanding lease liability at the beginning of each lease payment period.

(g) Investments

Non-current investments are measured on a cost basis. The carrying amount of non-current investments is reviewed annually by Directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the underlying net assets for other non-listed investments. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(h) Research Expenditure

Research costs are expensed as incurred.

(i) Foreign Currency Transactions and Balances

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

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

(j) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits expected to be settled within one year together with entitlements arising from wages and salaries, annual leave and sick leave which will be settled after one year, have been measured at the amounts expected to be paid when the liability is settled plus related on-costs. Other employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

(k) Cash

For the purpose of the of the cash flow statement, cash includes cash on hand and at call deposits with banks.

(l) Revenue

Revenue from feasibility studies and customer trials is recognised upon acceptance by the customer of the related results.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Government grants are recognised as revenues when there is reasonable assurance that the entity will comply with conditions attaching to the grants and they will be received.

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as



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part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

(n) Accounting standards issued but not yet operative

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The company's and the consolidated entity's assessment is that these new standards and interpretations will have no impact on the financial report of the company or the consolidated entity except for the following:

Revised AASB 101 Presentation of Financial Statements, AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101 and AASB 2007-10 Further Amendments to Australian Accounting Standards Arising from AASB 101

A revised AASB 101 is effective for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income, and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. An income statement will no longer be required. Also, if an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The company intends to apply the revised standards from 1 July 2009, i.e. for 30 June 2010 financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS  
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	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>NOTE 2: REVENUE</b>				
Operating activities:				
Revenue from supercritical fluid activities	397,221	262,592	-	-
Revenue from sales or services	-	19,379	-	-
Revenue from grants	53,886	38,428	-	-
Interest revenue	445,728	15,983	441,878	15,731
Gain on disposal of property, plant & equipment	-	29,446	-	-
Other revenue	26,263	15,843	-	16,497
	<u>923,098</u>	<u>381,671</u>	<u>441,878</u>	<u>32,228</u>
 <b>NOTE 3: LOSS FROM CONTINUING OPERATIONS</b>				
Loss from continuing operations before income tax benefit has been determined after:				
<b>a. Expenses</b>				
Depreciation				
- Plant & equipment	217,897	338,739	-	-
- Leased equipment	-	25,658	-	-
- Office equipment and furniture	3,371	13,964	-	-
	<u>221,268</u>	<u>378,361</u>	-	-
Borrowing costs				
- Other persons	-	242	-	-
Bad and doubtful debts				
- Controlled entities – provision for impairment	-	-	92,492	562,140
Employee Benefits	168,957	395,003	-	-
Rental expenses on operating leases				
- office rent	146,974	149,132	-	-
	<u>146,974</u>	<u>149,132</u>	-	-
<b>b. Revenue and Net Gains</b>				
Foreign currency gains/(losses)	(2,647)	15,864	-	16,497

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**NOTES TO THE FINANCIAL STATEMENTS  
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	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>NOTE 4: INCOME TAX EXPENSE</b>				
a) The prima facie income tax on the loss from ordinary activities before income tax is reconciled to the income tax expense as follows:				
Prima facie tax recoverable on loss from ordinary activities before income tax at 30% (2007:30%)	(440,479)	(364,247)	(424,453)	(326,076)
Add tax effect of:				
- Non-allowable items	-	38	27,748	168,642
- Non-assessable income	-	(9,530)	-	-
- Losses utilised by group companies	-	-	(2,917)	5,814
Tax losses not recognised	96,918	373,739	56,061	151,620
Income tax benefit attributable to loss from ordinary activities	<u>(343,561)</u>	<u>-</u>	<u>(343,561)</u>	<u>-</u>

The income tax benefit above relates to an R&D income tax offset received by the parent entity. This offset allows the company to convert the benefit of future income tax losses incurred from R&D activities to an immediate benefit.

b) Unused tax losses for which deferred tax assets have not been brought to account at balance date:

Tax Losses –revenue	18,130,966	19,053,700	18,130,966	19,053,700
Tax losses – capital	<u>3,408,863</u>	<u>3,408,863</u>	<u>3,408,863</u>	<u>3,408,863</u>
	<u>21,539,829</u>	<u>22,462,563</u>	<u>21,539,829</u>	<u>22,462,563</u>
Value of tax losses at 30% - revenue	5,439,290	5,716,110	5,439,290	5,716,110
Value of tax losses at 30%- capital	<u>1,022,659</u>	<u>1,022,659</u>	<u>1,022,659</u>	<u>1,022,659</u>
	<u>6,461,949</u>	<u>6,738,769</u>	<u>6,461,949</u>	<u>6,738,769</u>

The benefit will only be obtained if:

- future assessable income is derived of a nature and an amount sufficient to enable the benefits from the deduction for the losses to be realised;
- the conditions for the deductibility imposed by the law continue to be complied with; and
- no changes in income tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

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**Tax Consolidation**

The company and all its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2003 and is therefore taxed as a single entity from that date under Australian taxation law. Telesso Technologies Limited is the head entity of the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets are recognised in the separate financial statements of the members of the tax-consolidated group using the 'separate payer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits to the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of significant losses within the group entities within the tax-consolidated group have not yet entered into a tax sharing agreement as payment of taxation is currently considered remote.

**NOTE 5: REMUNERATION AND RETIREMENT BENEFITS**

The directors of Telesso Technologies Limited during the year were:

- Michael Hoy (Non-executive Chairman)
- Thomas Hartigan (Non-executive Chairman resigned 1 November 2007)
- Ross Macdonald (Non-executive)
- Bruce Hundertmark (Non-executive resigned 19 November 2007)
- Neill Colledge (Non-executive resigned 7 November 2007)
- Lawrence Gozlan (Non-executive)
- Douglas Mc Taggart (Non-executive appointed 1 November 2007)
- Nelson Stacks (Executive appointed 1 November 2007)
- Peter Farrell (Non-executive appointed 1 May 2008)

The other key management personnel of Telesso Technologies Limited during the year were:

- Jeff Riley (President)
- Ian Atkin (Company Secretary and Chief Financial Executive)
- Linda Sze Tu (Head of Operations)

**Other Key Management Personnel**

The Board collectively reviews the remuneration packages of all specified directors and specified executives on an annual basis. Remuneration packages are reviewed and determined with due regard to current market rates. Remuneration is linked to the entity's performance through the issue of employee options and performance bonuses.

The emoluments of the Directors and Other Key Management Personnel of the parent entity and of the consolidated entity are as follows:

**Specified directors' remuneration**

	Short-term benefits				Post-employment benefits			Share-based payments		Total
	Salary & Fees	Bonus	Special Projects	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Shares	
2008	\$ 422,683	\$ 70,546	\$ -	\$ -	\$ 15,953	\$ -	\$ 30,737	\$ 10,517	\$ 72,000	\$ 622,436
2007	172,500	-	-	-	15,525	-	-	-	-	188,025

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**NOTES TO THE FINANCIAL STATEMENTS  
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**Other Key Management Personnel remuneration**

	Short-term benefits				Post-employment benefits			Share-based payments		Total
	Salary & Fees	Bonus	Special Projects	Non-monetary	Super-annuation	Prescribed benefits	Other	Options	Shares	
2008	\$ 305,600	\$ 70,546	\$ -	\$ -	\$ 9,004	\$ -	\$ 30,737	\$ 10,517	\$ -	\$ 426,404
2007	210,219	-	-	3,033	15,036	-	-	-	-	228,288

Consolidated Entity		Parent Entity	
2008	2007	2008	2007
\$	\$	\$	\$

**NOTE 6: AUDITOR'S REMUNERATION**

Remuneration of the auditor of the parent entity for:

- auditing or reviewing the financial report	68,760	38,407	68,760	38,407
- other services	-	3,000	-	3,000
	<u>68,760</u>	<u>41,407</u>	<u>68,760</u>	<u>41,407</u>

**NOTE 7: EARNINGS PER SHARE**

(a) Reconciliation of earnings to net profit or loss

Loss used in the calculation of basic and diluted EPS	1,124,703	1,214,156
---	-----------	-----------

(b) Weighted average number of ordinary shares outstanding

during the year used in calculation of basic EPS	59,985,308	27,413,065
Weighted average number of options outstanding	<u>4,202,809</u>	<u>4,974,657</u>
Weighted average number of ordinary shares outstanding during the year used in calculation of diluted EPS	<u>64,188,117</u>	<u>32,387,722</u>

The comparative figures have been adjusted for the 1 for 10 capital consolidation which occurred on 31 January 2008.

**NOTE 8: CASH ASSETS**

Cash at bank	215,967	5,949,988	207,213	5,927,641
Deposits at call	<u>5,118,070</u>	<u>500,000</u>	<u>5,118,070</u>	<u>500,000</u>
	<u>5,334,037</u>	<u>6,449,988</u>	<u>5,325,283</u>	<u>6,427,641</u>

As at 30 June interest rates received on cash assets ranged from 7.30% to 8.13%.

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**NOTES TO THE FINANCIAL STATEMENTS  
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	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>NOTE 9: RECEIVABLES</b>				
<b>CURRENT</b>				
Trade debtors	1,248	25,806	-	3,643
Amount due under contract of sale, secured (*)	177,850	177,850	177,850	177,850
Provision for impairment	(177,850)	(177,850)	(177,850)	(177,850)
Other debtors	18,675	708,297	18,773	708,297
Amounts due from:				
- wholly owned subsidiaries	-	-	9,730,693	9,821,309
- provision for impairment	-	-	(9,270,618)	(9,178,126)
	<u>19,923</u>	<u>734,103</u>	<u>478,848</u>	<u>1,355,123</u>

All receivables past due have been impaired

(\*) PharmAction Manufacturing Pty Limited was put into Administration pursuant to Section 436A of the Corporations Act 2001 on August 26, 2001, after which the Board of the Company decided to fully provide for the remaining debt as doubtful.

**NOTE 10: OTHER FINANCIAL ASSETS**

**NON-CURRENT**

Unlisted investments, at recoverable amount

- shares in controlled entities, at cost	-	-	3,834,975	3,834,975
- provision for write-down to recoverable amount	-	-	(3,834,975)	(3,834,975)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

**NOTE 11: CONTROLLED ENTITIES**

(a) Controlled Entities

	<b>Country of Incorporation</b>	<b>Percentage Owned</b>	
		<b>2008</b>	<b>2007</b>
Parent Entity		%	%
Teleso Technologies Limited	Australia		
Subsidiary companies			
- Teleso Research & Development Pty Ltd	Australia	100	100
- Pharmaceutical Technologies Pty Ltd	Australia	100	100
- Bellara Medical Products Limited	Australia	100	100
- Catsell Pty Limited	Australia	100	100
- Phytochemica Pty Limited	Australia	100	100
- A.C.N. 005 648 966 Pty Limited	Australia	100	100
- A.C.N. 003 330 587 Pty Limited	Australia	100	100
- Glyzinc Pharmaceuticals Limited	Australia	100	100
- VPI Inc	USA	90	90

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**NOTE 12: PROPERTY, PLANT AND EQUIPMENT**

<b>CONSOLIDATED</b>	<b>Research Equipment</b>	<b>Research Fixtures &amp; fittings</b>	<b>Office furniture &amp; equipment</b>	<b>Total</b>
	\$	\$	\$	\$
<b>Cost</b>				
Balance at 30 June 2007	1,101,438	431,758	81,133	1,614,329
Additions	-	-	-	-
Disposals	-	-	-	-
Balance at 30 June 2008	<u>1,101,438</u>	<u>431,758</u>	<u>81,133</u>	<u>1,614,329</u>
<b>Accumulated depreciation / amortisation</b>				
Balance at 30 June 2007	(910,175)	(291,784)	(76,981)	(1,278,940)
Depreciation expense	(135,433)	(82,464)	(3,371)	(221,268)
Disposals	-	-	-	-
Balance at 30 June 2008	<u>(1,045,608)</u>	<u>(374,248)</u>	<u>(80,352)</u>	<u>(1,500,208)</u>
<b>Net book value</b>				
Balance at 30 June 2007	<u>191,263</u>	<u>139,974</u>	<u>4,152</u>	<u>335,389</u>
Balance at 30 June 2008	<u>55,830</u>	<u>57,510</u>	<u>781</u>	<u>114,121</u>

Eiffel Research & Development Pty Ltd, the principal operating entity, owns all property, plant and equipment

	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	\$	\$	\$	\$
<b>NOTE 13: OTHER ASSETS</b>				
<b>CURRENT</b>				
Pre-paid rent	-	12,428	-	-
Insurance	27,380	1,928	25,070	-
Other prepayments	19,049	-	19,049	-
	<u>46,429</u>	<u>14,356</u>	<u>44,119</u>	<u>-</u>
<b>NON-CURRENT</b>				
Rental deposit	<u>73,310</u>	<u>73,310</u>	<u>73,310</u>	<u>73,310</u>
	<u>73,310</u>	<u>73,310</u>	<u>73,310</u>	<u>73,310</u>

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	<b>Consolidated Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>NOTE 14: PAYABLES</b>				
<b>CURRENT</b>				
<i>Unsecured liabilities</i>				
Trade creditors	76,001	79,627	67,950	77,196
Sundry creditors and accrued expenses	140,414	1,007,639	103,358	874,971
Employee provision for annual leave	9,684	4,502	-	-
Amounts payable to wholly owned subsidiaries	-	-	439,170	448,894
	<u>226,099</u>	<u>1,091,768</u>	<u>610,478</u>	<u>1,401,061</u>
 <b>NOTE 15: LOANS PAYABLE</b>				
<i>Unsecured loans payable</i>				
Current	-	117,827	-	117,827
	<u>-</u>	<u>117,827</u>	<u>-</u>	<u>117,827</u>

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**TELESSO TECHNOLOGIES LIMITED  
(FORMERLY EIFFEL TECHNOLOGIES LIMITED)  
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**NOTES TO THE FINANCIAL STATEMENTS  
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	Consolidated and Parent Entity		Consolidated and Parent Entity	
	2008	2007	2008	2007
	No.	No.	\$	\$
<b>NOTE 16: CONTRIBUTED EQUITY</b>				
Fully Paid Ordinary Shares	<u>60,155,165</u>	<u>598,047,084</u>	<u>39,783,748</u>	<u>39,715,909</u>
<b>(a) Movements in Ordinary Shares</b>				
At the beginning of the financial year	598,047,084	260,223,542	39,715,909	33,284,118
- 23 March 2007	-	38,800,000	-	776,000
- 27 June 2007	-	299,023,542	-	5,980,470
- 21 December 2007	3,000,000	-	72,000	-
- 25 January 2008	500,000	-	12,500	-
- 31 January 2008 - Consolidation of Shares	(541,392,376)	-	-	-
- Shares issued due to rounding on consolidation	457	-	-	-
Transaction costs relating to share issues	-	-	(16,661)	(324,679)
Balance at the end of the financial year	<u>60,155,165</u>	<u>598,047,084</u>	<u>39,783,748</u>	<u>39,715,909</u>

On 21 December 2007 the Company issued 3,000,000 fully paid ordinary shares to Directors at an issue price of \$0.024 per share. The shares rank for dividends paid after 21 December 2007

On 25 January 2008 the company issued 500,000 fully paid ordinary shares at an issue price of \$0.025 per ordinary share to an existing shareholder on the exercise of options that had been previously issued. The shares rank for dividends paid after 25 January 2008.

On 31 January 2008 in accordance with a resolution passed at the 2007 Annual General Meeting, Telesso Technologies Limited undertook a 1 for 10 capital consolidation.

At a shareholders meeting each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

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**(b) Options**

There were 24,000,000 options issued during the year as detailed at (c) below.

Details of the options to purchase ordinary shares in the Company are as follows:

Vesting Date	Expiry Date	Exercise Price	On issue at the beginning of the year	Issued during the year	Share Consolidation Adjustment	Cancelled during the year	Outstanding at year end	Status
		\$	No.	No.	No.	No.	No.	
<i>Executives and Employees</i>								
30/06/05	30/06/08	1.50	500,000	-	(450,000)	(50,000)	-	
01/12/05	01/12/10	0.82	1,000,000	-	(675,000)	(250,000)	75,000	Vested
01/12/06	01/12/11	0.82	1,000,000	-	(675,000)	(250,000)	75,000	Vested
30/06/05	30/06/08	0.75	1,000,000	-	(900,000)	(100,000)	-	Vested
30/12/05	30/12/08	0.75	1,000,000	-	(900,000)	-	100,000	Vested
30/06/06	30/06/09	0.75	1,000,000	-	(900,000)	-	100,000	Vested
30/12/06	30/12/09	0.75	1,000,000	-	(900,000)	-	100,000	Vested
(c)	(c)	0.20	-	24,000,000	(21,600,000)	-	2,400,000	Not Vested
			6,500,000	24,000,000	(27,000,000)	(650,000)	2,850,000	
<i>Other option holders</i>								
23/10/02	23/10/07	0.25	25,000,000	-	-	(25,000,000)	-	
21/11/02	20/11/07	0.25	3,000,000	-	-	(3,000,000)	-	
31/07/03	31/07/08	2.50	900,000	-	(810,000)	-	90,000	Vested
03/02/04	03/02/09	1.25	900,000	-	(810,000)	-	90,000	Vested
30/06/04	30/07/07	0.14	500,000	-	-	(500,000)	-	
01/03/06	28/02/09	0.25	11,450,000	-	(9,855,000)	(500,000)	1,095,000	Vested
			41,750,000	-	(11,475,000)	(29,000,000)	1,275,000	
			<b>48,250,000</b>	<b>24,000,000</b>	<b>(38,475,000)</b>	<b>(29,650,000)</b>	<b>4,125,000</b>	

During the year under review:

(c) The following options were issued during the year

- i. In accordance with a resolution passed at the company's 2007 Annual General Meeting 1,200,000 options were issued to each of Mr Nelson Stacks and Mr Jeff Riley as part of their employment contracts with the Company. The employment contracts provide for the issue of options at a \$nil issue price as equity based remuneration in addition to cash remuneration. The options vest over three equal instalments, as to one third on each of the first, second and third anniversaries of the executives' employment. Vesting in any year is subject to the Company achieving total shareholder return in excess of the ASX 300 Accumulation Index, but any options that do not so vest are carried forward to when that return is achieved (subject to it being achieved in three years). Once vested the options have no expiry date.

(d) The following options were cancelled or lapsed during the year

- i. 25,000,000 options issued on 23 October 2002 to Jagen Pty Limited with an exercise price of \$0.25 due to the options expiring.
- ii. 3,000,000 options issued on 21 November 2002 to Jagen Pty Limited with an exercise price of \$0.25 due to the options expiring.

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- iii. 50,000 options issued 3 February 2004 to Dr N Foster with an exercise price of \$1.50 due to the options expiring
- iv. 500,000 options issued 5 March 2004 to G Coombes with an exercise price of \$0.14 due to the options expiring
- v. 500,000 options issued 1 December 2004 to D Liyanage with an exercise price of \$0.082 due to termination of employment
- vi. 100,000 options issued 8 February 2005 to H Regtop with an exercise price of \$0.75 due to the options expiring
- vii. 500,000 options issued 1 March 2006 to J O Carroll with an exercise price of \$0.25 due to the option being exercised

At 30 June 2008 there were 4,125,000 (30 June 2007: 48,250,000 pre-consolidation) unissued ordinary shares for which options were outstanding, of which 1,725,000 of these have vested and may be exercised.

The closing share market price of an ordinary share of Telesso Technologies Limited on the Australian Stock Exchange at 30 June 2008 was \$0.07 (30 June 2007: \$0.018).

The assessed fair value at grant date of options granted to individuals is allocated equally over the period from grant date to vesting date. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk free interest rate for the term of the option.

The model inputs for options granted during the year 30 June 2008 included:

- (a) Options are granted for no consideration and vest as outlined at note 17 (c)
- (b) Exercise price \$0.02
- (c) Grant date 30 November 2008
- (d) Expiry date 30 November 2018
- (e) Share price at grant date \$0.03
- (f) Expected price volatility of the company's shares 50%
- (g) Risk free rate 6.75%

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	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>NOTE 17: RESERVES</b>				
Equity settled benefits reserve				
Opening balance	401,994	580,378	401,994	580,378
Expense recognised on options issued to executives - the options expenses has been determined using a Black Scholes valuation model	21,034	-	21,034	-
Transfer to retained profits on cancellation of share options	(216,773)	(146,617)	(173,078)	-
Transfer to Eiffel Research & Development Pty Ltd on cancellation of share options	-	-	(43,695)	(178,384)
Cancellation of share options	-	(31,767)	-	-
Closing balance	<u>206,255</u>	<u>401,994</u>	<u>206,255</u>	<u>401,994</u>

**NOTE 18: ACCUMULATED LOSSES**

Accumulated losses at the beginning of the financial year	(33,720,352)	(32,652,813)	(33,780,717)	(32,693,797)
Transfer from reserve on cancellation of share options	216,773	146,617	173,078	-
Net loss attributable to the members of the parent entity	<u>(1,124,703)</u>	<u>(1,214,156)</u>	<u>(1,071,282)</u>	<u>(1,086,920)</u>
Accumulated losses at the end of the financial year	<u>(34,628,282)</u>	<u>(33,720,352)</u>	<u>(34,678,921)</u>	<u>(33,780,717)</u>

**NOTE 19: SEGMENT REPORTING**

The consolidated entity operates in the one business segment i.e biotechnology research and development.

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**NOTES TO THE FINANCIAL STATEMENTS  
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	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>NOTE 20: CASH FLOW INFORMATION</b>				
(a) Reconciliation of cash flow from operations with loss from ordinary activities before income tax benefit				
Loss from ordinary activities before income tax benefit	(1,124,703)	(1,214,156)	(1,071,282)	(1,086,920)
Cash flows excluded from profit from ordinary activities attributable to operating activities				
Non-cash flows in profit from ordinary activities				
Depreciation	221,268	378,361	-	-
Gain on disposal of property, plant & equipment	-	(29,446)	-	-
Provision for annual leave	5,182	-	-	-
Release of MAP debt	(117,827)	-	-	-
Provision for doubtful debts – controlled entities	-	-	92,492	562,140
Share-based payment	72,000	-	72,000	-
Share-based payment - options	21,034	(31,767)	21,034	-
(Increase)/decrease in assets:				
Current receivables	25,414	(35,126)	4,390	(10,610)
Other assets	(32,073)	(984)	(44,119)	-
Increase / (decrease) in liabilities:				
Trade creditors and accruals	(82,852)	141,212	7,142	62,541
Cash flow used in operations	<u>(1,012,557)</u>	<u>(791,906)</u>	<u>(918,343)</u>	<u>(472,849)</u>

(b) Credit Standby Arrangements with Banks

The Company and the consolidated entity do not have bank, finance or loan facilities.

**NOTE 21: LICENCE**

The Company holds an exclusive licence for up to 20 years over a patent that has been filed in the USA and Europe, which is jointly owned by the University of NSW and the University of Sydney. The patent, which covers the re-engineering of pH sensitive drugs including insulin was filed internationally in December 2001 and is currently being examined in the USA. Under this exclusive licensing agreement the Universities will receive royalties on Telesso modified product sales. As part of the Technology Transfer Agreement with MAP Pharmaceuticals Inc it is intended that this obligation will be novated to MAP Pharmaceuticals Inc.

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**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 22: EVENTS SUBSEQUENT TO REPORTING DATE**

On the 6<sup>th</sup> August 2008 the company entered into a new lease with respect to its North Ryde research facility. This lease expires on 30<sup>th</sup> June 2009. Other than this event there has not been any matter or circumstance, other than any matter that is referred to in the financial statements or notes thereto, that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

<b>Consolidated Entity</b>		<b>Parent Entity</b>	
<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>

**NOTE 23: RELATED PARTY TRANSACTIONS**

(a) Group

Transactions resulting in the net increase/(decrease) of the amount

due from wholly controlled entity Eiffel Research &

Development Pty Ltd

-	-	(90,616)	22,878
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Transactions resulting in a net reduction of the amount

due to wholly controlled entities within the Bellara group

-	-	9,724	19,380
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(b) Share and Options Transactions of Directors

Directors and Director-related entities hold directly, indirectly

or beneficially as at reporting date the following equity

interests in members of the consolidated entity:

Telesso Technologies Limited

- ordinary shares

T Hartigan

-	2,300,000	-	2,300,000
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M Hoy

192,358	923,570	192,358	923,570
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L Gozlan

100,000	-	100,000	-
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R Macdonald

100,000	-	100,000	-
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<u>392,358</u>	<u>3,223,570</u>	<u>392,358</u>	<u>3,223,570</u>
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- options over ordinary shares

N Stacks

1,200,000	-	1,200,000	-
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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2008**

**NOTE 24: FINANCIAL INSTRUMENTS**

(a) Market Risk

The only significant market risk that Telesso is exposed to is interest rate risk on cash and cash equivalents.

(b) Interest Rate Risk

The consolidated entity's exposure to interest rate risk is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates.

*Sensitivity*

At reporting date If interest rates had been 25 basis points higher/lower and other variables were held constant, then the impact on the group result for the year ended 30 June 2008 would have been an increase/decrease of \$14,702 in the Consolidated Entity and \$ 14,691 Parent Entity.

(c) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date for recognised financial assets is the carrying amount, net of any provisions for doubtful debts, of those assets in the balance sheet.

Other than the balance due from PharmAction Manufacturing Pty Ltd of \$177,850 which is fully provided for as a doubtful debt, the consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.

Telesso as parent has a loan with Eiffel Research and Development which totals \$9,730,693. At 30 June 2008 \$9,270,618 of this loan is considered to be impaired. Other than the balance from Eiffel Research and Development the company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity.

The fair value of financial assets approximates their fair value after provisions.

(d) Liquidity Risk

The directors ensure that Telesso is in a position where it can pay its debts as and when they become due and payable.

**NOTE 25: COMPANY DETAILS**

Telesso Technologies Limited is a listed public company, incorporated and operating in Australia.

Registered Office and principal place of business  
3 Innovation Road  
North Ryde, New South Wales, 2113

Stock Exchange Information as at 3 September 2008

1. Shareholding

a. Distribution of Shareholders Number

Category (size of Holding)	Number of Shareholders
1 - 1,000	234
1,001 – 5,000	272
5,001 - 10,000	175
10,001 - 100,000	217
100,001 - and over	48

b. The number of shareholdings held in less than marketable parcels is 692.

c. The names of the substantial shareholders listed in the holding company's register are:

Shareholder	Number of ordinary shares
Queensland Investment Corporation	13,008,029
Queensland Biocapital Fund No 1 a/c	8,444,015
Queensland Biocapital Fund No 2 a/c	8,444,015
Jagen Nominees Pty Limited	7,013,443

d. Voting Rights

The voting rights attached to each class of equity security are as follows:

Ordinary shares

- Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

e. 20 Largest Shareholders - Ordinary Shares

Name	Number of ordinary fully paid shares held	% Held of Issued Ordinary Capital
1. Queensland Investment Corporation	13,008,029	21.62
2. Queensland Biocapital Fund No 1 a/c	8,444,015	14.04
3. Queensland Biocapital Fund No 2 a/c	8,444,015	14.04
4. Jagen Nominees Pty Ltd	7,013,443	11.66
5. Reef Securities Ltd	1,756,597	2.92
6. Vagg Investment Management Services Ltd	1,488,278	2.47
7. Ms Christine Mignacca	700,000	1.16
8. Biwutu Pty Ltd	600,000	1.00
9. Mr P & Mrs M Stawski	535,800	0.89
10. Kinetic Investments Co Pty Ltd	506,129	0.84
11. Jestar Pty Ltd	470,000	0.78
12. Serlett Pty Ltd	460,000	0.76
13. F N L Investments Pty Ltd	442,036	0.73
14. ANZ Nominees Ltd	423,746	0.70
15. F N L Investments Pty Ltd (Super Fund)	411,670	0.68
16. Mrs Maria Beatrix Sandbach	391,000	0.65
17. Taefu Pty Ltd	288,685	0.48
18. Mr T Hartigan	273,000	0.45
19. Kefu Underwriters Pty Ltd	268,516	0.45
20. Mr J Carroll	223,658	0.37



## Stock Exchange Information as at 3 September 2008

### 2. Company Secretary

The name of the Company Secretary is Ian A. Atkin

### 3. Registered Office

The address of the principal registered office in Australia is  
Ground Floor  
Dow Corning Building  
3 Innovation Road  
North Ryde NSW 2113  
Telephone +61 2 9805 0022

### 4. Share Registry

The register of securities is held at the following address  
Computershare Investor Services Pty Limited  
Yarra Falls  
452 Johnston Street  
Abbotsford Victoria 3067

GPO Box 2975 Melbourne  
Victoria 3001 Australia

Toll free within Australia 1300 850 505  
Outside Australia 61 3 9415 4000  
Facsimile 61 3 9473 2500  
Website: [www.computershare.com.au](http://www.computershare.com.au)

### 5. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the Company on the Australian Stock Exchange.

### 6. Difference in Results Reported to Australian Stock Exchange

The results reported to the Australian Stock Exchange in the preliminary final report do not differ from those reported in the annual accounts.

### 7. Unlisted Securities

Unlisted options issued over ordinary shares, including those that have not yet vested.

	Number	Holders
Directors	1,200,000	1
Employees	1,350,000	3
Other, including ordinary shareholders	1,575,000	17
Total	4,125,000	21

- Unlisted option holders do not have voting rights.
- 10 option holders have in excess of 100,000 options