AUTOMOTIVE TECHNOLOGY GROUP LIMITED
AND CONTROLLED ENTITIES

FINANCIAL REPORT

FOR THE YEAR ENDED
30 JUNE 2008

AUTOMOTIVE TECHNOLOGY GROUP LIMITED
AND CONTROLLED ENTITIES

CONTENTS

CORPORATE INFORMATION

This annual report covers both Automotive Technology Group Limited ("the Company" or "ATG") as an individual entity and the consolidated entity comprising Automotive Technology Group Limited and its subsidiaries ("the Group"). The Group's functional and presentation currency is in AUD ($).

A description of the Group's operations and principal activities is included in the review of operations and activities in the Directors' report on pages 2 to 14.

ASX Code ATJ

Directors
Mr R Siemens (Non-Executive Chairman)
Mr S Apedaile (Executive Director – Corporate)
Mr A Hamilton (Executive Director – Operations)

Company Secretary
Mr J Stephenson

Chief Financial Officer
Ms E Chan

Registered Office
73 Resource Way
Malaga WA 6090
Ph: (08) 9262 7277

Share Registrar
Computershare Investor Services Pty Ltd
Level 2, 45 St Georges Terrace
Perth WA 6000
Ph: 1300 850 5051

Bankers
St George Bank Ltd
Level 11, 152-158 St Georges Terrace
Perth WA 6000

Auditors
Ernst & Young
11 Mounts Bay Road
Perth WA 6000

DIRECTORS' REPORT

Your directors present their report on the consolidated entity consisting of Automotive Technology Group Limited and the entities it controlled at the end of, or during, the year ended 30 June 2008.

Directors

The names and details of the Company's Directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and responsibilities

Mr Richard John Siemens (Non-Executive Chairman)

Mr Siemens is the Chairman of e-Kong Group Limited, a company listed on the main board of the Hong Kong Stock Exchange, and the Chairman and a founding member of the Distacom Group, a privately-held group of companies in mobile telecommunication business. Born and raised in Canada, Mr. Siemens was trained as a Chartered Accountant and moved to Hong Kong in 1979. In 1984, he formed Hutchison Telephone Company Limited in partnership with Hutchison Whampoa and Motorola. While Group Managing Director of Hutchison Telecommunications Limited, Mr. Siemens was instrumental in the establishment of other leading companies including AsiaSat (the first satellite company in Asia), STAR TV, Metro Radio (the radio station awarded with the first private radio licence granted by the Hong Kong Government in 25 years) and Hutchison's move into the European wireless business under the brand "Orange". His financial acumen and entrepreneurial leadership is also key to establishing mobile telecommunication businesses across the world led by Distacom including SUNDAY in Hong Kong, Blu in Italy, Spice in India and Madacom in Madagascar. Mr Siemens has been a director and major investor in ATG since August 2005.

Mr Steven James Apedaile (Executive Director – Corporate)

Mr Apedaile is a founding Executive Director and major investor since 2003. He is a former Chairman of the Group having extensive overseas experience as a resident of Hong Kong for nearly 25 years, the first 7 with KPMG Hong Kong and then 18 years with Horwath Hong Kong. Mr Apedaile was an Audit Director of Horwath and is experienced in all facets of international business and corporate finance. Mr Apedaile has been involved in merger and acquisitions and the raising of capital, both equity and debt for clients. He has also provided expertise in audits in connection with public stock offerings, both in Hong Kong and on Nasdaq. Mr Apedaile, a Chartered Accountant and previously a registered auditor, is responsible for the Group's strategic planning and direction and all corporate matters including sales and marketing.

Mr Anthony Robert Hamilton (Executive Director – Operations)

Mr Hamilton prior to being a founding Executive Director and major investor since 2003 was based for the previous 10 years in London until relocating back to Australia. He has significant automotive experience in Europe having worked as a consultant for a number of prestigious automotive manufacturers. During his time based in the UK, Mr Hamilton was engaged as a consultant on various specialist automotive acquisitions and assisted in the development of specialist low volume manufacturing procedures. In his last appointment he led the full ADR certification and production program for Bullet Supercars in Queensland. He has also held senior management positions in a number of public companies based in Europe and the USA. He is also an accomplished Motorsport competitor having raced both in Australia and Europe. Mr Hamilton is an Accountant by profession and a Fellow of the Institute of Directors in London and is responsible for the day to day running of the Company and oversees all facets of the operations.

Directors' Interests

As at the date of this report, the interests of the Directors in the shares and options of Automotive Technology Group Limited were:

Director	Class A Converting performance shares	Class B Converting performance shares	Number of Ordinary Shares	Number of Options over Ordinary Shares
Mr R Siemens	3,335,458	3,335,458	13,860,170	1,500,000
Mr S Apedaile	3,210,458	3,210,458	14,144,170	1,500,000
Mr A Hamilton	3,210,458	3,210,458	13,863,170	1,500,000
	9,756,374	9,756,374	41,867,510	4,500,000

Company Secretary

Mr Jay Richard Stephenson (Company Secretary)
Mr Jay Stephenson holds a Master of Business Administration (UK), is a Certified Management Accountant (Canada), a Fellow of the Australian Institute of Chartered Secretaries and is a Member of the Australian Institute of Company Directors. Mr Stephenson has been involved in manufacturing and business development for 20 years including the past 14 years as Director, Chief Financial Officer and Company Secretary in both Australia and Canada for various listed and unlisted entities in resources, manufacturing, wine, hotels, and property. He has been involved in business acquisitions, mergers, initial public offerings, capital raisings, business restructuring as well as managing all areas of finance for companies. Mr Stephenson is currently non-executive director and company secretary of Drake Resources Limited and Aura Energy Limited and company secretary of Frontier Resources Limited, Revere Mining Limited, Stonehenge Metals Limited, Globe Securities Limited, Noah Resources Limited, and Alpha Uranium Limited.

Chief Financial Officer

Ms Eileen Chan (Chief Financial Officer)
Ms Chan holds a Masters Degree in Commerce and has over 20 years accounting experience in both the professional and commercial accounting sectors and is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in Australia. Ms Chan has held several senior roles at Horwath Hong Kong, notably that of Director, Audit & Assurance for the last six years. Ms Chan has extensive experience in IPOs, mergers and acquisitions, transaction support services, business financing, corporate compliance and due diligence work. Ms Chan joined the Group in September 2008 and will be responsible for and report to the Director - Corporate on all aspects of the group's administration, IT, tax and compliance issues.

Principal Activities

The principal activity of Automotive Technology Group Limited and the entities it controlled for the financial year ended 30 June 2008 remained the same as last year, being the manufacture and distribution of the patented range of Sprintex superchargers and Vee Two aftermarket and performance motorcycle accessories.

Dividends

No dividends have been declared or paid to shareholders at the date of this report.

Review of Operations

Throughout the 2008 financial year, Automotive Technology Group, ("ATJ") significantly progressed the commercialisation of its green patented range of Sprintex® Superchargers. ATJ has completed the development of three different supercharger configurations and substantially reduced the manufacturing costs on a per unit basis.

The global push by regulators for significant reductions in emissions and more fuel efficient vehicles has provided ATJ (Sprintex® Superchargers) with a compelling case as a "MUST HAVE" technology for the worlds automotive manufacturers.

ATJ established a distribution network by the appointment of key distributors in various global locations.

ATJ has undertaken a wide range of research & development programs which have seen the development of six individual supercharger systems for the aftermarket and most notably the Mitsubishi TMR 380 limited edition.

In June 2008 ATJ signed an agreement with ARE Engines Ltd to jointly evaluate the fuel saving and lower emission capability of the patented Almasi Rotary Engine.

DIRECTORS' REPORT (CONT'D)

Financial Review

The financial result for the 2008 financial year reflects considerable capital expenditure in establishing the commercial viability of the patented Sprintex® Supercharger as well as establishing volume production procedures. The cost of completing the ATJ facilities for technical excellence, research and development and product testing has seen the emergence of a world class operation.

Operating results
The loss for the financial year was $5,457,159 when compared to a loss of $3,334,957 in the 2007 financial year, Sales for the year 2008 were $580,863 (2007, $1,102,777) with a gross profit of $279,221 (2007 $150,624). The improved margin reflects improved manufacturing procedures and cost controls.

Significant market testing and warranty trials where undertaken in 2008 which impacted greatly on sales revenues. This trend is expected to be reversed as product is released to the markets through ATJ's newly established distributor network.

Results for 2008 year were also affected by:

- Capital raising costs associated with ASX Listing ($264,643)
- Share based payments ($401,050)
- Reduction in foreign exchange gains ($132,352 compared to $645,022 in 2007)

Liquidity and Capital Resources
The consolidated cash flow statement illustrates that there was an increase in cash and cash equivalents in the year ended 30 June 2008 of $2,417,929 (2007: $68,440). The increase in cash inflow in comparison with the prior year is caused by a number of factors. Financing activities generated a net cash inflow of $8,591,797 (2007: $4,657,462), mainly from funding obtained from the Initial Public Offering and Seed Capital placing. The net increase in cash flows from financing activities has been offset by net outflows from operating activities of $5,750,036 (2007: $4,574,520). This increase in operating cash outflows compares to 30 June 2007 is largely due to significant market testing and warranty trials undertaken in 2008 which impacted on sales revenues and the capital raising costs related to the funding raising activities. A net increase in the amount of cash used for investing activities to $423,832 (2007: $14,505) was mainly attributable to more purchases of property, plant and equipment in enhancing the ATJ facilities.

Asset and capital structure

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
Total borrowings	1,393,750	1,852,210	1,393,750	1,827,338
Less: cash and cash equivalents	(3,211,415)	(14,345)	(3,210,924)	(5,486)
Net debt	(1,817,665)	1,837,865	(1,817,174)	1,821,852
Total equity	6,637,149	(4,164,442)	6,718,586	(4,018,192)
Total capital	4,819,484	(2,326,577)	4,901,412	(2,196,340)
Gearing ratio – net debt over total capital	**N/A**	**N/A**	**N/A**	**N/A**
Gearing ratio – total debt over total equity	**21%**	**N/A**	**21%**	**N/A**

Gearing ratio, defined as total borrowing over total equity, as at 30 June 2008 was 21%. The Group's policy allows up to 35% of financing to be provided by net debt at any particular time. The Group is currently operating well within its stated policy. Management's policies for determining whether fixed or floating rates of interest are entered into are examined on a yearly basis.

Financial Review (cont'd)

Capital expenditure

There has been an increase in cash used to purchase property, plant and equipment for 30 June 2008 to $345,688 from $114,017 in the year ended 30 June 2007. As at 30 June 2008, the Group had capital commitments in respect of future capital expenditure of $193,500.

Profile of borrowings

The profile of the Group's debt finance is as follows:

	2008 $	2007 $
Current		
Bank overdraft	723,342	84,201
Insurance premium funding	89,034	162,797
Finance lease liabilities	208,840	159,114
	1,021,216	406,112
Non current		
Finance lease liabilities	372,534	402,439
Convertible note	-	1,043,659
	372,534	1,446,098
	1,393,750	1,852,210

The Group's debts have decreased substantially over the last year. The Group anticipates that its debts will continue to decrease over the coming year as a result of improved sales trend through newly established distribution network. Of the Group's debts, 73% is repayable within one year of 30 June 2008, compared to 22% in the previous year.

Risk management

The Group takes a proactive approach to risk management. The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the Group's objectives and activities are aligned with the risks and opportunities identified by the Board.

As the Company currently has only two executive directors, the Board has not established a separate risk management committee. Instead sub-committees are convened as appropriate with the relevant key management personnel in response to issues and risks identified by the Board as a whole, and the sub-committee further examines the issue and reports back to the Board.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include the following:

- Board approval of a strategic plan, which encompasses the Group's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk.
- Implementation of Board approved operating plans and budgets and Board monitoring of progress against these budgets, including the establishment and monitoring of key performance indicators of both a financial and non-financial nature.
- The establishment of committees to report on specific business risks, including for example such matters as environmental issues and occupational health and safety.
- The Company has mechanisms in place to get access to external professional advice in assisting the discharge of the Board's responsibilities to manage the organisation's financial risks including such matters as the Group's liquidity, currency, interest rate and credit policies and exposures and monitors management's actions to ensure they are in line with Group policy.

DIRECTORS' REPORT (CONT'D)

Significant Changes in the State of Affairs

Total equity increased to $6,637,149 from a deficiency of asset of $4,164,442 at 30 June 2007, an increase of $10,801,591. The movement was largely the result of increase in contributed equity from (i) the capitalisation of the debt owed to the Company's then parent Automotive Technology Group Limited (BVI) in the amount of $7,381,643 in February 2008; (ii) receipt of seed capital of $2,000,000 in March 2008 and (iii) the net proceeds from the Initial Public Offering in the amount of $5,434,293 in May 2008. The increase in contributed equity has been used to finance the operating loss for the year of $5,457,159. Refer to note 19 for further information on movements in equity.

Events Subsequent to Balance Date

The Company and the Group had no significant events subsequent to balance date.

Loss per Share

Basic loss and diluted loss per share was $0.09 and $0.09 respectively.

Employees

The Group employed 30 persons as at 30 June 2008 (2007: 42 persons).

Future Developments, Prospects and Business Strategies

Refer to the Review of Operations section included in this Directors' report.

Environmental Issues

The consolidated entity's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation. However, the Board believes that the consolidated entity has adequate systems in place for the management of its environmental requirements and is not aware of any breach of these environmental requirements as they apply to the consolidated entity.

Share Information

As at the date of this report, there were 6,500,000 unissued ordinary shares under options. Refer to the remuneration report for further details of the options outstanding. Option holders do not have any right, by virtue of the option, to participate in any share issue of the company or any related body corporate. During the year and up to the date of this report, no options have been exercised. Details of the options are set out in note 24 to the financial statements.

As at the date of this report, there are 17,099,500 Class "A" Converting Performance Shares and 17,099,500 Class "B" Converting Performance Shares outstanding. Details of the shares are set out in note 19 to the financial statements.

DIRECTORS' REPORT (CONT'D)

Indemnification and Insurance of Directors

The Company has entered into an Indemnity, Insurance and Access Deed with each Director and Officer.

Pursuant to the Deed, the Director/Officer is indemnified by the Company against any liability incurred in that capacity as an officer of the Company to the maximum extent permitted by law subject to certain exclusions.

The Company must keep a complete set of company documents until the later of:
- the date which is seven years after the Director/Officer ceases to be an officer of the Company; and
- the date after a final judgment or order has been made in relation to any hearing, conference, dispute, enquiry or investigation in which the Director/Officer is involved as a party, witness or otherwise because the Director is or was an officer of the Company ("Relevant Proceedings").

The Director has the right to inspect and/or copy a company document in connection with Relevant Proceedings during the period referred to above.

Subject to the next sentence, the Company must maintain an insurance policy insuring the Director/Officer against liability as a director and officer of the Company while the Director/Officer is an officer of the Company and until the later of:

- the date which is seven years after the Director/Officer ceases to be an officer of the Company; and
- the date any Relevant Proceedings have been finally resolved.

The Company may cease to maintain the insurance policy if the Company reasonably determines that the type of coverage is no longer available.

No premiums have been paid in respect of insurance contract premiums during the year.

Directors' Meetings

The number of meetings of directors held during the year and the attendance by each director were as follows:

Name	Number of meetings held	Number of meetings attended
Mr R Siemens	6	2
Mr S Apedaile	6	6
Mr A Hamilton	6	6

In addition to physical meetings held, written resolutions of the Board together with full copies of related documents were circulated to all directors for consideration and approval. All such written resolutions were approved by all directors unanimously.

Corporate Governance

Corporate governance matters are discussed in Corporate Governance Statement on pages 15 to 18 of this report.

Non-audit Services

No non-audit services have been provided by the Company's auditor, Ernst and Young during the year.

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2008 has been received and can be found on the next page.

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Auditor's Independence Declaration to the Directors of Automotive Technology Group Limited

In relation to our audit of the financial report of Automotive Technology Group Limited for the year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

P McIver
Partner
Perth
30 September 2008

Remuneration Report (Audited)

This remuneration report outlines the director and executive remuneration arrangements of the Company and the Group in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purpose of this report, key management personnel of the Group are defined as those persons having the authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company, and includes the five executives in the Company and the Group receiving the highest remuneration.

Details of key management personnel (including the five highest executives of the Company and the Group)

Names and positions held of the Company's Directors and other key management personnel in office at any time during the financial year and up to the date of this report were:

Parent Entity Directors
Mr R Siemens.................................. Non-Executive Chairman
Mr S Apedaile.................................. Executive Director – Corporate
Mr A Hamilton .... Executive Director – Operations

Other Key Management Personnel
Ms E Chan[1]....................................... Chief Financial Officer
Mr J Upton.. Business Development Manager
Mr R Griffin .... Procurement & Operations Manager
Mr S Wilkinson .... Sales & Marketing Manager
Mr J Williams[2].................................. Assembly, Inventory, Warranty and Distribution Manager
Mr J Scoringe[3] .... Chief Financial Officer & Joint Company Secretary
Mr C Henry[4] .... General Manager - Operations
Mr J Lawrence[5]................................. Operations Manager

1. Joined 9 September 2008
2 Joined 21 May 2007
3. Resigned 25 July 2008
4. Resigned 1 December 2006
5. Resigned 15 November 2007

Remuneration Policy

For the purposes of this report, the term key management personnel encompasses the Directors, Chief Financial Officer, Company Secretary and Departmental Managers of the Company and the Group.

Each Director of the Company is entitled to such remuneration from the Company as the Directors decide, but the total amount provided to all non-executive directors must not exceed in aggregate the amount fixed by the Company in a general meeting.

The Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and executives. The Board assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing director and executive team. Options are issued as part of director and executive remuneration to encourage the alignment of personal and shareholder interests. The Company does not link the nature and amount of the emoluments of such officers to the Company's financial or operational performance. The expected outcome of this remuneration structure is:

- Retention and motivation of Directors
- Performance rewards to allow Directors to share the rewards of the success of the Company

Remuneration Report (Audited) (cont'd)

Remuneration Policy (cont'd)

The Board feels that the expiry date and exercise price of options currently on issue to the directors is sufficient to align the goals of the directors and executives with those of shareholders to maximise shareholders wealth, and as such, has not set any performance conditions for the directors and executives of the company. The board will continue to monitor this to ensure that it is appropriate for the Company in future years.

The Company has no policy on executives and directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The ASX Listing Rules specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The aggregate remuneration for all non-executive Directors has been set at an amount of $300,000 per annum. The Directors have resolved that non-executive Director's fee to the non-executive Chairman will be $150,000 per annum after consideration of fees paid to non-executive directors of comparable companies. The non-executive directors do not receive retirement benefits.

The amount of aggregate remuneration sought to be approved by shareholders and the fee structure is reviewed annually.

Executive Directors and other Key Management Personnel Remuneration

As part of its Corporate Governance Policies and Procedures, the board has adopted a formal Remuneration Committee Charter. Due to the current size of the Company and number of Directors, the board has elected not to create a separate Remuneration Committee but has instead decided to undertake the function of the Committee as a full Board under the guidance of the formal charter. The Company has no policy on executives and directors entering into contracts to hedge their exposure to options or shares granted as part of their remuneration package.

The rewards for Directors have no set or pre-determined performance conditions or key performance indicators as part of their remuneration due to the current nature of the business operations. The Board determines appropriate levels of performance rewards as and when they consider rewards are warranted.

The Company has entered into detailed service contract with the Executive Directors and a standard contract with other key management personnel. Details of these service contracts with the Executive Directors are provided below.

Executive directors

The Company has entered into a consultancy agreement with Powertraveller Pty Ltd ("Powertraveller") for the provision of services by Mr Steven Apedaile as Executive Director - Corporate of the Company. Pursuant to the terms of this agreement, the Company will pay Powertraveller $35,000 per month for the term of the agreement (being 36 months from 1 June 2007) and is subject to a review on the anniversary date of the agreement, the increase of which shall not be less than 5% of the annual amount.. The agreement can be terminated by either party by the provision of notice equal to the term remaining of this agreement.. No other termination payment is payable upon completion of the term of the agreement and the agreement has no effect on compensation in the future. The Company advises that Powertraveller has waived its fee for June 2007 and has reduced its fee from July 2007 to February 2008 to $12,500 per month.

DIRECTORS' REPORT (CONT'D)

Remuneration Report (Audited) (cont'd)

Remuneration Structure (cont'd)

The Company has entered into a consultancy agreement with CMIH Enterprises Pty Ltd ("CMIH") for the provision of services by Mr Anthony Hamilton as Executive Director - Operations of the Company. Pursuant to the terms of this agreement, the Company will pay CMIH $35,000 per month for the term of the agreement (being 36 months from 1 June 2007) and is subject to a review on the anniversary date of the agreement, the increase of which shall not be less than 5% of the annual amount.. The agreement can be terminated by either party by the provision of notice equal to the term remaining of this agreement. No other termination payment is payable upon completion of the term of the agreement and the agreement has no effect on compensation in the future. The Company advises that CMIH has waived its fee for June 2007 and has reduced its fee from July 2007 to February 2008 to $12,500 per Month.

All Directors are entitled to be paid reasonable travelling, accommodation and other expenses incurred in consequence of their attendance at Board meetings and otherwise in the execution of their duties as Directors.

Other key management personnel

Other key management personnel are given the opportunity to receive their remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group.

The remuneration of directors and executives is detailed under the heading "Compensation of Key Management Personnel" below.

The Company has established an employee share option plan ("ESOP") for all employees of the Group during the year. The ESOP is designed to provide eligible participants with an ownership interest in the Company and to provide additional incentives for eligible participants to increase profitability and returns to shareholders. Details of the ESOP are set out in note 24 to the financial statements. No options have been granted under the ESOP during the year ended 30 June 2008.

DIRECTORS' REPORT (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2008

Compensation of Key Management Personnel (Consolidated) for the years ended 30 June 3008 and 2007

	Short-term benefits			Post employ-ment	Long term	Share based payment		Total	% Performance related	% of remuneration consisting option
Year ended 30 June 2008	Salary & fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Long service leave	Shares $	Options $	$		
Directors										
Mr R Siemens	150,000	-	-	-		-	92,550	242,550	-	38.16
Mr S Apedaile	240,000	-	-	-		-	92,550	332,550	-	27.83
Mr A Hamilton	240,000	-	-	-		-	92,550	332,550	-	27.83
Sub-total directors	630,000	-	-	-		-	277,650	907,650		
Other key management personnel										
Mr J Upton	140,000	-	-	-		-	-	140,000	-	-
Mr R Griffin	61,263	250	4,114	5,514		6,000	-	77,141	-	-
Mr S Wilkinson	88,891	250	4,770	7,289		-	-	101,200	-	-
Mr J Williams	55,026	250	-	4,952		5,000	-	65,228	-	-
Mr J Scoringe	127,769	250	10,894	12,869		-	-	151,782	-	-
Mr J Lawrence	36,426	-	8,167	3,278		-	-	47,871	-	-
Sub-total key management personnel	509,375	1,000	27,945	33,902		11,000	-	583,222		
Totals	1,139,375	1,000	27,945	33,902		11,000	277,650	1,490,872		

DIRECTORS' REPORT (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2008

	Short-term benefits			**Post employment**	**Long term**	**Share based payment**		**Total**	**% Performance related**	**% of remuneration consisting options**
Year ended 30 June 2007	Salary & fees **$**	Cash bonus **$**	Non-monetary benefits **$**	Super-annuation **$**	Long service leave	Shares	Options **$**	**$**		
Directors										
Mr R Siemens	-	-	-	-	-	-	-	-	-	-
Mr S Apedaile	20,000	-	-	-	-	-	-	20,000	-	-
Mr A Hamilton	30,000	-	-	-	-	-	-	30,000	-	-
Sub-total directors	50,000	-	-	-	-	-	-	50,000		
Other key management personnel										
Mr J Upton	132,000	-	-	-	-	-	-	132,000	-	-
Mr S Wilkinson	72,917	-	3,906	6,563	-	-	-	83,386	-	-
Mr J Williams	5,897	-	-	531	-	-	-	6,428	-	-
Mr J Scoringe	108,500	-	10,252	10,774	-	-	-	129,526	-	-
Mr C Henry	48,207		-	-	-	-		48,207	-	-
Mr J Lawrence	83,500	-	5,532	7,515	-	-	-	96,547	-	-
Sub-total other key management personnel	451,021	-	19,690	25,383	-	-	-	496,094		
Totals	501,021	-	19,690	25,383	-	-	-	546,094		

Remuneration Report (Audited) (cont'd)

Option holdings of key management personnel

Directors	Number of options granted	Date of grant	Fair value per option $	Value of option granted during the year $	Exercise price per option $	Expiry date	Shares issued on exercise of options
Mr R Siemens	1,500,000	28 Feb 2008	0.0617	92,550	0.3	31 Dec 2010	-
Mr S Apedaile	1,500,000	28 Feb 2008	0.0617	92,550	0.3	31 Dec 2010	-
Mr A Hamilton	1,500,000	28 Feb 2008	0.0617	92,550	0.3	31 Dec 2010	-
	4,500,000			277,650			

All options are vested as at 30 June 2008. No options have been granted to other key management personnel during the year ended 30 June 2008 and no options have been granted during the year ended 30 June 2007.

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

Steven Apedaile
Executive Director – Corporate
Dated at Perth this 30th day of September 2008.

CORPORATE GOVERNANCE STATEMENT

The Board of Directors of ATG is responsible for the corporate governance of the Group. The Board guides and monitors the business affairs of the Company on the behalf of the shareholders by whom they are elected and to whom they are accountable.

The format of the Corporate Governance Statement is in accordance with the Australian Stock Exchange Corporate Governance Council's (the Council's) "Principles of Good Corporate Governance and Best Practice Recommendations" (the recommendations). In accordance with the Council's recommendations, the Corporate Governance Statement contains certain specific information and must disclose the extent to which the Company has followed the guidelines during the period. Where a recommendation has not been followed, that fact must be disclosed, together with reasons for the departure. ATG's Corporate Governance Statement is now structured reference to the Corporate Governance Council's principles and recommendations, which are as follows:

Principle 1	Lay solid foundations for management and oversight
Principle 2	Structure the Board to add value
Principal 3	Promote ethical and responsible decision making
Principle 4	Safeguard integrity in financial reporting
Principle 5	Make timely and balances disclosures
Principle 6	Respect the rights of shareholders
Principle 7	Recognise and manage risk
Principle 8	Encourage enhanced performance
Principle 9	Remunerate fairly and responsibly
Principle 10	Recognise the legitimate interests of stakeholders

Nomination and Remuneration Committee

Recommendation 2.4 requires listed entities to establish a nomination committee. Recommendation 9.2 requires listed entities to establish a remuneration committee. During the year ended 30 June 2008, ATG did not have a separately established nomination or remuneration committee. However, the duties and responsibilities typically delegated to such committees are included in the responsibilities of the full Board.

CFO Certification

Corporate Governance Council Recommendation 7.2 requires the Chief Executive Officer and Chief Financial Officer, to provide a written statement to the Board that:

- their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- that the Company's risk management and internal compliance and control system is operating effectively in all material respects.

The Company's Executive Director – Corporate, Steven Apedaile, has provided a written statement, however, the Chief Financial Officer during the year ended 30 June 2008 resigned on 25 July 2008. As such, no written statement from the Chief Financial Officer can be provided. The new Chief Financial Officer, Ms Eileen Chan, was appointed in September 2008.

With the exception of the departures from the Corporate Governance Council recommendations in relation to the establishment of a nomination committee and remuneration committee and that the management report in writing to the Board regarding the integrity of the Company's financial reports as stated above, the corporate governance practices of ATG are compliant with the Council's best practice recommendations.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

Board Function

The Board is accountable to the shareholders for the performance of the Company and will have overall responsibility for its operations. Day to day management of the Company's affairs, and the implementation of the corporate strategy and policy initiatives, are formally managed by Mr Anthony Hamilton and Mr Steven Apedaile, both executive directors, while Mr Richard Siemens, a non- executive director and Chairman of the Board, provides leadership and contributes to the effective running of the Board.

The key functions of the Board include:

- approving the strategic direction and related objectives of the Company and monitoring management performance in the achievement of these objectives;
- adopting budgets and monitoring the financial performance of the Company;
- overseeing the establishment and maintenance of adequate internal controls and effective monitoring systems;
- overseeing the implementation and management of effective safety and environmental performance systems;
- ensuring all major business risks are identified and effectively managed; and
- ensuring that the Company meets its legal and statutory obligations.

There are procedures in place, agreed by the Board, to enable directors in furtherance of their duties to seek appropriate independent professional advice at ATG's expense.

Structure of the Board

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report is included in the Directors' Report. Directors of ATG are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with – or could reasonably be perceived to materially interfere with – the exercise of their unfettered and independent judgement.

The terms in office held by each director in office at the date of this report is as follows:

Name	Position	Term in Office
Mr R Siemens	(Non-Executive Chairman)	Appointed 29 August 2005
Mr S Apedaile	(Executive Director – Corporate)	Appointed16 September 2003
Mr A Hamilton	(Executive Director – Operations)	Appointed 16 September 2003

Trading Policy

The Company has a formal policy for dealing in the Company's securities by Directors, employees and contractors. This sets out their obligations regarding disclosure of dealing in the Company's securities. The Constitution permits Directors to acquire securities in the Company; however Company policy prohibits Directors and senior management from dealing the Company's securities at any time while in possession of price sensitive information and for 24 hours after:

- any major announcements;
- the release of the Company's annual and half yearly financial results to the ASX; and
- the annual general meeting.

Directors must advise the Chairman of the Board before buying or selling securities in the Company. All such transactions are reported to the Board. In accordance with the provisions of the Corporations Act and the Listing Rules, the Company advises ASX of any transaction conducted by Directors in the securities of the Company.

Audit Committee

The Board has established an Audit Committee, which operates under a charter approved by the Board. It is the Board's responsibility to ensure that an effective internal control framework exists within the entity.

The committee's primary responsibilities are to:

- oversee the existence and maintenance of internal controls and accounting systems;
- oversee the management of risk within the Company;
- oversee the financial reporting process;
- review the annual and half-year financial reports and recommend them for approval by the Board of Directors;
- nominate external auditors;
- review the performance of the external auditors and existing audit arrangements; and
- ensure compliance with laws, regulations and other statutory or professional requirements, and the Company's governance policies.

The members of the Audit Committee during the year and up to the date of this report and the number of meetings and attendees at those meetings were:

Name		**No of meetings held**	**Number of meetings attended**
Mr S Apedaile	(Executive Director – Corporate)	1	1
Mr A Hamilton	(Executive Director – Operations)	1	1

Risk

The Board has identified the significant areas of potential business and legal risk of ATG. The identification, monitoring and, where appropriate, the reduction of significant risk to ATG will be the responsibility of the Board.

To this end, comprehensive practices are in place that are directed towards achieving the following objectives:

- effectiveness and efficiency in the use of the Company's resources;
- compliance with applicable laws and regulations;
- preparation of reliable published financial information.

The Board reviews and monitors the parameters under which such risks will be managed. Management accounts were prepared and reviewed at Board meetings. Budgets were prepared and compared against actual results.

Performance

The performance of the Board and key executives is reviewed regularly against both measurable and qualitative indicators. During the reporting period, the Board conducted performance evaluations that involved an assessment of each Board member's and key executive's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of ATG. Key management personnel whose performance is consistently unsatisfactory may be asked to retire.

CORPORATE GOVERNANCE STATEMENT (CONT'D)

Remuneration

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. The Company does not link the nature and amount of the emoluments of such officers to the Company's financial or operational performance. The expected outcomes of the remuneration structure are:

- retention and motivation of key executives;
- attraction of high quality management to the Company; and
- performance rewards to allow executives to share in the success of ATG

For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the Remuneration Report, which is contained within the Directors' Report in pages 9 to 14.

There is no scheme to provide retirement benefits to non-executive directors.

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves and the executive team.

INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Note	CONSOLIDATED ENTITY 2008 $	CONSOLIDATED ENTITY 2007 $	PARENT ENTITY 2008 $	PARENT ENTITY 2007 $
Revenue	5	580,863	1,102,777	580,863	783,722
Cost of goods sold	11	(301,642)	(952,153)	(301,642)	(912,248)
Gross profit/(loss)		**279,221**	**150,624**	**279,221**	**(128,526)**
Other revenue and gains	5	396,156	647,863	396,130	677,221
Distribution & marketing expenses		(533,758)	(371,704)	(533,758)	(317,979)
Occupancy expenses		(134,219)	(149,941)	(134,219)	(149,941)
Corporate expenses		(720,337)	(410,305)	(720,337)	(405,308)
Research & development expenses	5	(1,237,910)	(965,794)	(1,237,910)	(798,750)
Administration expenses		(2,564,927)	(1,939,447)	(2,560,992)	(1,499,021)
Depreciation & amortisation expenses	5	(291,242)	(319,306)	(285,378)	(307,602)
Capital raising expenses		(264,643)	-	(264,643)	-
Share based payments	24	(401,050)	-	(401,050)	-
Write down of inventory		(135,335)	-	(135,335)	-
Impairment loss	5	-	-	(74,586)	(1,859,299)
Finance costs	5	(175,565)	(285,856)	(175,565)	(274,957)
Loss before income tax expense		**(5,783,609)**	**(3,643,866)**	**(5,848,422)**	**(5,064,162)**
Income tax benefit	6	326,450	308,909	326,450	308,909
Net loss for the year		**(5,457,159)**	**(3,334,957)**	**(5,521,972)**	**(4,755,253)**
Loss per share attributable to the ordinary equity holders of the Company					
Basic loss per share	7	(0.09)	N/A		
Diluted loss per share	7	(0.09)	N/A		

There is no comparative figure as the Company was not listed until 29 May 2008.

The Income Statements should be read in conjunction with the Notes to the Financial Statements.

BALANCE SHEET

AS AT 30 JUNE 2008

		CONSOLIDATED ENTITY		PARENT ENTITY	
	NOTES	2008 $	2007 $	2008 $	2007 $
CURRENT ASSETS					
Cash and cash equivalents	9	3,211,415	14,345	3,210,924	5,486
Trade and other receivables	10	325,108	192,338	325,108	183,451
Inventories	11	1,941,550	1,703,669	1,941,550	1,703,669
TOTAL CURRENT ASSETS		**5,478,073**	**1,910,352**	**5,477,582**	**1,892,606**
NON-CURRENT ASSETS					
Investments in controlled entities	22	-	-	623,536	619,692
Receivables	12	15,000	-	15,000	-
Property, plant and equipment	13	3,025,491	2,680,890	2,993,300	2,642,508
Goodwill & intellectual property	14	509,417	509,417	-	-
TOTAL NON-CURRENT ASSETS		**3,549,908**	**3,190,307**	**3,631,836**	**3,262,200**
TOTAL ASSETS		**9,027,981**	**5,100,659**	**9,109,418**	**5,154,806**
CURRENT LIABILITIES					
Trade and other payables	15	873,956	6,848,335	873,956	6,819,971
Interest bearing liabilities	16	1,021,216	406,112	1,021,216	399,255
Provisions	17	105,154	158,729	105,154	119,862
Other liabilities	18	17,972	-	17,972	-
TOTAL CURRENT LIABILITIES		**2,018,298**	**7,413,176**	**2,018,298**	**7,339,088**
NON-CURRENT LIABILITIES					
Interest bearing liabilities	16	372,534	402,439	372,534	384,424
Other liabilities	18	-	1,449,486	-	1,449,486
TOTAL NON-CURRENT LIABILITIES		**372,534**	**1,851,925**	**372,534**	**1,833,910**
TOTAL LIABILITIES		**2,390,832**	**9,265,101**	**2,390,832**	**9,172,998**
NET ASSETS/(LIABILITIES)		**6,637,149**	**(4,164,442)**	**6,718,586**	**(4,018,192)**
EQUITY					
Contributed equity	19	20,615,323	4,900,463	20,615,323	4,900,463
Reserves	20	1,233,138	689,248	1,233,138	689,248
Accumulated losses		(15,211,312)	(9,754,153)	(15,129,875)	(9,607,903)
TOTAL EQUITY		**6,637,149**	**(4,164,442)**	**6,718,586**	**(4,018,192)**

The Balance Sheets should be read in conjunction with the Notes to the Financial Statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2008

	Contributed equity		Reserves			
CONSOLIDATED ENTITY	**Ordinary shares**	**Convertible note equity**	**Asset revaluation reserve**	**Share option reserve**	**Accumulated losses**	**Total**
	Note 19	Note 20 (a)	Note 20 (b)	Note 20 (c)		
	$	$	$	$	$	$
Balance at 1 July 2006	**4,594,988**	**305,475**	**-**	**-**	**(6,419,196)**	**(1,518,733)**
Net income recognised directly in equity - Revaluation increase of land and buildings, net of deferred tax (note 13)	-	-	689,248	-	-	689,248
Loss for the year	-	-	-	-	(3,334,957)	(3,334,957)
Total recognised income and expenses for the year	-	-	689,248	-	(3,334,957)	(2,645,709)
Balance at 30 June 2007	**4,594,988**	**305,475**	**689,248**	**-**	**(9,754,153)**	**(4,164,442)**
Net income recognised directly in equity - Revaluation increase of land and buildings, net of deferred tax (note 13)	-	-	142,840	-	-	142,840
Loss for the year	-	-	-	-	(5,457,159)	(5,457,159)
Total recognised income and expenses for the year	-	-	142,840	-	(5,457,159)	(5,314,319)
Issue of shares	15,425,643	-	-	-	-	15,425,643
Group reorganisation	4,399					4,399
Share issue expenses	(609,707)	-	-	-	-	(609,707)
Conversion of convertible note	1,200,000	(305,475)	-	-	-	894,525
Recognition of share-based payments	-	-	-	401,050	-	401,050
Balance at 30 June 2008	**20,615,323**	**-**	**832,088**	**401,050**	**(15,211,312)**	**6,637,149**

The Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

STATEMENT OF CHANGES IN EQUITY (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2008

	Contributed equity		Reserves			
PARENT ENTITY	**Ordinary shares**	**Convertible note equity**	**Asset revaluation reserve**	**Share option reserve**	**Accumulated losses**	**Total**
	Note 19	Note 20 (a)	Note 20 (b)	Note 20 (c)		
	$	$	$	$	$	$
Balance at 1 July 2006	**4,594,988**	**305,475**	**-**	**-**	**(4,852,650)**	**47,813**
Net income recognised directly in equity - Revaluation increase of land and buildings, net of deferred tax (note 13)	-	-	689,248	-	-	689,248
Loss for the year	-	-	-	-	(4,755,253)	(4,755,253)
Total recognised income and expenses for the year	-	-	689,248	-	(4,755,253)	(4,066,005)
Balance at 30 June 2007	**4,594,988**	**305,475**	**689,248**	**-**	**(9,607,903)**	**(4,018,192)**
Net income recognised directly in equity - Revaluation increase of land and buildings, net of deferred tax (note 13)	-	-	142,840	-	-	142,840
Loss for the year	-	-	-	-	(5,521,972)	(5,521,972)
Total recognised income and expenses for the year	-	-	142,840	-	(5,521,972)	(5,379,132)
Issue of shares	15,425,643	-	-	-	-	15,425,643
Group reorganisation	4,399	-	-	-	-	4,399
Share issue expenses	(609,707)	-	-	-	-	(609,707)
Conversion of convertible note	1,200,000	(305,475)	-	-	-	894,525
Recognition of share-based payments	-	-	-	401,050	-	401,050
Balance at 30 June 2008	**20,615,323**	**-**	**832,088**	**401,050**	**(15,129,875)**	**6,718,586**

The Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	NOTES	CONSOLIDATED ENTITY 2008 $	CONSOLIDATED ENTITY 2007 $	PARENT ENTITY 2008 $	PARENT ENTITY 2007 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		437,309	1,207,408	427,283	893,772
Payments to suppliers and employees		(6,386,695)	(5,930,557)	(6,314,392)	(4,910,626)
Interest and finance lease charges paid		(175,565)	(161,894)	(175,565)	(150,956)
Interest received		48,465	1,614	48,463	1,614
Grants received		326,450	308,909	326,450	308,909
Net cash flows used in operating activities	21	(5,750,036)	(4,574,520)	(5,687,761)	(3,857,287)
CASH FLOWS FROM INVESTING ACTIVITIES					
Advances to related parties		-	-	(74,586)	(721,304)
Advances to non-related parties		(15,000)	-	(15,000)	-
Placement of secured deposit		(140,000)	-	(140,000)	-
Proceeds from sale of property, plant and equipment		76,856	99,512	76,531	79,047
Payments for property, plant and equipment		(345,688)	(114,017)	(324,661)	(114,017)
Net cash flows used in investing activities		(423,832)	(14,505)	(477,716)	(756,274)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings – related parties		1,278,452	4,136,433	1,278,452	4,136,433
Foreign exchange variance		132,352	645,022	132,328	646,302
Proceeds from borrowings – insurance premium funding		133,552	217,721	133,552	217,721
Repayment of borrowings - hire purchase contracts		(183,937)	(172,317)	(183,936)	(145,112)
Repayment of borrowings – insurance premium funding		(207,315)	(169,397)	(207,315)	(168,120)
Proceeds from share capital raising		8,048,400	-	8,048,400	-
Capital raising costs capitalised		(609,707)	-	(609,707)	-
Net cash flows generated from financing activities		8,591,797	4,657,462	8,591,774	4,687,224
Net increase in cash held		2,417,929	68,440	2,426,297	75,663
Cash at the beginning of the financial period		(69,856)	(138,296)	(78,715)	(154,378)
Cash at the end of the financial period	9	2,348,073	(69,856)	2,347,582	(78,715)

The Cash Flow Statement should be read in conjunction with the Notes to the Financial Statements.

1. Corporate information

Automotive Technology Group Limited (the "Company") is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The Company's registered office is 73 Resource Way, Malaga WA 6090.

The consolidated financial statements of the Company as at and for the year ended 30 June 2008 comprise the Company and its subsidiaries (together referred to as the "Group"). The nature of the operations and principal activities of the Group are described in the Directors Report.

The financial statements of Automotive Technology Group Limited for the year ended 30 June 2008 were authorised for issue and approved by the Board of Directors on 30 September 2008.

2. Significant accounting policies

(a) Statement of compliance

This financial report is a general purpose financial report which complies with Australian Accounting Standards (AASBs) (including Australian interpretations) as issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial report also complies with International Financial Reporting Standards (IFRSs) and interpretations as issued by the International Accounting Standards Board. The parent entity financial statements and notes also comply with IFRS.

(b) Basis of preparation

The financial report has been prepared on the historical cost basis except for land and buildings and certain financial instruments, which have been measured at fair value.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

The consolidated entity has net assets of $6,637,149 as at 30 June 2008 (30 June 2007: net deficiency of assets of $4,164,442) and incurred an operating loss of $5,457,159 (2007: $3,334,957) for the year ended 30 June 2008. The consolidated entity's ability to continue as a going concern and meet its debts and future commitments as and when they fall due is dependent on a number of factors, including:

- raising of working capital as and when required; and
- delivery of existing and new products through the Group's distribution network to generate sales revenues.

The financial report has been prepared on a going concern basis. In arriving at this position the directors have had regard to the fact that the Company has, or in the directors' opinion will have access to, sufficient cash to fund administrative and other committed expenditure for a period of not less than 12 months from the date of this report.

(c) Functional and presentation currency

The financial report is presented in Australian dollars, which is the functional currency and the presentational currency of the Company and its Australian subsidiaries.

The functional currency of the overseas subsidiary Automotive Technology Group (BVI) is United States dollars (USD) which is translated to presentational currency

(d) New accounting standards and interpretations

At the date of authorisation of this financial report, the following standards and interpretations applicable to the Group were in issue but not yet effective and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Revised AASB 101	Presentation of Financial Statements	1 July 2009
Revised AASB 123	Borrowing Costs	1 July 2009
AASB 8	Operating Segments	1 July 2009
Revised AASB127	Consolidated and Separate Financial Statements	1 July 2009
Revised AASB 3	Business Combinations	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-Based Payment: Vesting Conditions and Cancellations	1 July 2009
Amendments to IAS 27	Consolidated and Separate Financial Statements	1 January 2009

The Group is in the process of making an assessment of what the impact of these new or revised standards or interpretations is expected to be in the period of initial application.

(e) Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements.

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition.

There is no minority interest in any subsidiary of the Group.

Investments in subsidiaries are accounted for at cost in the parent's financial statements.

(f) Business combinations

The purchase method of accounting is used to account for all business combinations regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

(f) Business combinations (cont'd)

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

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

(g) Segment reporting

The Group is operating in one segment, being the manufacture and distribution of the patented range of Sprintex superchargers and Vee Two aftermarket and performance motorcycle accessories.

(h) Foreign currency translation

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date if the initial transaction.

On consolidation, the assets and liabilities of the overseas subsidiary are translated into the presentation currency of Automotive Technology Group Limited at the rate of exchange ruling at the balance sheet date and the results are transferred at the weighted average rate for the year.

Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

(i) Revenue recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sale of Goods
Revenue is recognised when the significant risks and rewards of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

(i) Revenue recognition (cont'd)

Interest
Revenue is recognised as the interest accrues using the effective interest method.

Effective interest method is a method of calculating the annualised cost of a financial asset or liability and allocating the interest income or expense over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

(j) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit; or
- When the taxable temporary differences are associated with investments in subsidiaries, associates and interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

(j) Income tax (cont'd)

Deferred tax assets and deferred tax liabilities shall be offset only if:

(a) there is a legally enforceable right to set-off current tax assets against current tax liabilities; and
(b) the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
  (i) the same taxable entity; or
  (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Tax consolidation legislation
The Company and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2004.

The head entity, Automotive Technology Group Limited and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, The Company 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.

(k) Other taxes

Revenues, expenses and assets are recognised net of the amount of Goods and Services Tax ("GST") except:

(a) where the GST on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
(b) Receivables and payables are stated with amounts of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financial activities, which are recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments or contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(l) Loss per share

Basic loss per share

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

Diluted loss per share

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

(m) Cash and cash equivalents

Cash and short-term deposits in the Balance Sheet comprise cash at bank and in hand and short-term deposits with an original maturity date of twelve months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing liabilities in current liabilities on the balance sheet.

(n) Trade and other receivables

Trade receivables, which generally have 0-30 day terms are recognised initially at fair value and subsequently measured at amortised cost using effective interest method (note 2 (i) above), less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 60 days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(o) Inventories

Inventories are valued at the lower of cost or net realisable value.

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials – purchase cost on a first in, first out basis.
Finished goods and work in progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity but excluding borrowing costs. Costs are assigned on a first in, first out basis.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

(p) Investments and other financial assets

Investments and financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Recognition and derecognition
All regular way purchases and sales of financial assets are recognised on the trade date ie the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or been transferred.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method (note 2(i) above). Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance date, which are classified as non-current.

(q) Property, plant and equipment

Recognition
Plant and equipment and leasehold improvements are carried at cost, less accumulated depreciation/amortisation and any impairment in value. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation. All other repairs and maintenance are recognised in profit or loss as incurred.

Land and buildings are measured at fair value, based on periodic but at least triennial valuations by external independent valuers who apply the International Valuations Standards Committee International Valuation Standards, less accumulated depreciation on buildings and less any impairment losses recognised after the date of the revaluation.

Depreciation & amortisation
Depreciation is calculated on a diminishing value basis over the estimated useful life of the asset as follows:

Building Improvements: 0-30%
Plant and Equipment: 15%
Engineering Equipment and software: 15-37.5%
Furniture and office equipment: 7.5-37.5%
Motor Vehicles: 18.75%
Leasehold Improvements: 30%

The assets' residual values, useful lives and amortisation method are reviewed, and adjusted if appropriate, at each financial year end.

(q) Property, plant and equipment (cont'd)

Revaluations of land and buildings
Any revaluation increment is credited to the asset revaluation reserve included in equity, except to the extent that it reverses a revaluation decrement for the same asset previously recognised in profit or loss, in which case the increment is recognised in profit or loss.

Any revaluation decrement is recognised in profit or loss, except to the extent that it offsets a previous revaluation increment for the same asset, in which case the decrement is debited directly to the asset revaluation reserve to the extent of the credit balance existing in the revaluation reserve for that asset.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amounts of the assets and the net amounts are restated to the revalued amounts of the assets.

Gains and losses on disposal are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Upon disposal or derecognition, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Derecognition
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(r) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

Operating leases
The minimum lease payments made under operating leases are charged against profit or loss in equal instalments over the accounting periods covered by the lease term where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements and amortised.

Finance leases
Leases which effectively transfer substantially all of the risks and rewards incidental to ownership of the leased item to the Group are capitalised at the inception of the lease at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

(s) Impairment of non-financial assets other than goodwill

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

At each reporting date, management assess whether there is any indication that an asset may be impaired, where an indicator of impairment exists, management makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less cost to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash- generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset.

(t) Goodwill and intangibles

Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the costs of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in business combination is from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

(a) represents the lowest level within the Group at which the goodwill is monitored for the internal management purposes; and
(b) is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 114 Segment reporting.

(t) Goodwill and intangibles (cont'd)

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill related. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit (group of cash-generating units) and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

Intangibles
Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired (see note 2(s) for methodology). The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and development costs
Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

The Group's intangible asset represents acquired intellectual property – patents and is amortised over the remaining life on a straight line basis.

(u) Trade and other payables

Trade and other payables are carried at amortised cost due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(v) Convertible notes

Convertible notes are compound financial instruments where interest is paid annually in arrears. The component parts of compound instruments issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method (note 2(i) above) until extinguished upon conversion or at the instrument's maturity date. The increase in the liability due to the passage of time is recognised as a finance cost.

The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured.

Transaction costs are apportioned between the liability and equity components of the convertible note based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

(w) Borrowing costs

Borrowing costs are recognised as an expense when incurred, except where they are directly attributable to the acquisition or construction of qualifying assets, in which case they are capitalised as part of the cost of that asset.

(x) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under and insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

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

Service warranties
Provision is made for the estimated liability on all products still under warranty at balance date. The amount of the provision is the present value of the estimated cash flows expected to be required to settle the warranty obligations, having regard to the service warranty experience over the last two years and the risks of the warranty obligations. The provision is not discounted to its present value as the effect of discounting is not material.

(y) Employee leave benefits

Wages, salaries, annual leave and non-monetary benefits
Provision is made for the employee benefits accumulated as a result of the employee rendering services up to the reporting date. These benefits including on costs expected to be settled within one year, together with benefits arising from wages and salaries, annual leave and non-monetary benefits which will be settled after one year, are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Long service leave
Long service leave including on costs, payable later than one year have been measured at the present value of estimated future cash outflows to be made for those benefits using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Retirement benefit obligations
The Group contributes to various superannuation plans in accordance with and at rates set down by law. Some employees contribute to these plans at differing percentages of their salaries.

The Group contribution plan and costs are charged as an expense as incurred.

(z) Share based payment transactions

The Group operates an Employee Share Option Plan (ESOP), which provides benefits to employees (including Directors) of the Group in the form of share based payment transactions, whereby employees render services in exchange for shares or rights over shares ("equity settled transactions").

The cost of these equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted. An external valuer using Black Scholes model determines the fair value, which takes into account the factors including the option exercise price, the current level and volatility of the underlying share price, the risk-free interest rate, expected dividends on the underlying share, current market price of the underlying share, the expected life of the option, and any barriers associated with vesting.

The fair value of equity settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions re fulfilled, ending on the date on which the relevant employees become fully entitled to the option ('vesting date').

The cumulative expense recognised for equity settled transactions at each reporting date until vesting reflects:

(a) the extent to which the vesting period has expired, and
(b) the number of options that, in the opinion of the Directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for options that do not ultimately vest, except for options where vesting is conditional upon a market condition.

(z) Share based payment transactions (cont'd)

Where the terms of an equity settled option are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity settled option is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the option is recognised immediately. However, if a new option is substituted for the cancelled option, and designated as a replacement option on the date that it is granted, the cancelled and new option are treated as if they were a modification of the original option, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(aa) Contributed Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3. Significant accounting estimates, assumptions and judgements

The preparation of the financial statements requires management to make judgements, estimates and assumptions in relation to assets, liabilities, contingent liabilities, revenue and expenses that affect the reported amounts in the financial statements. Estimations and judgements are continually evaluated by management and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believe to be reasonable under the circumstances.

(a) Significant accounting judgements

The following are the critical judgements that the directors have made in the process of applying the entity's accounting policies and that have the most significant effect of the amounts recognised in financial statements:

Impairment of non-financial assets other than goodwill
The Group assesses impairment of all assets including intangible assets with definite useful lives at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future product expectations. If an impairment trigger exists the recoverable amount of the asset is determined. Management considers that the triggers for impairment testing have not been significant enough for intellectual property and as such these assets have not been tested for impairment in this financial period.

(a) Significant accounting judgements (cont'd)

Taxation
The Group's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities in respect of tax losses and temporary differences not yet recognised. In such circumstances, some or all of the carrying amounts of unrecognised deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the income statement.

(b) Significant estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

Share based payment transactions
The cost of share based payments to employees and consultants is measured by reference to the fair value of the equity instruments at the date at which they are granted, the fair value is determined with assistance of an external valuer, using the Black Scholes formula, taking into accounts the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Impairment of goodwill
The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units, using a value in use discounted cash flow methodology, to which the goodwill are allocated. No impairment loss was recognised in the current year. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 13.

Warranty provision
In determining the level of provision required for product warranties the Group has made judgements in respect of the expected performance of the product, number of customers who will actually use the warranty and how often, and the costs of fulfilling the performance of the service warranty. Historical experience and current knowledge of the performance of products has been used in determining this provision. The related carrying amounts are disclosed in note 16. Any increase or decrease in the provision would affect profit or loss in future years.

4. Segment Information

The Company is not organised into segments or divisions.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
5. Revenue and expenses				
Revenue				
Sales of goods and services	580,863	1,102,777	580,863	783,722
Other revenue and gains				
Interest income	48,465	1,614	48,463	1,614
Convertible note interest forgiven	194,924	-	194,924	-
Gain on disposal of property, plant and equipment	20,415	1,227	20,415	29,305
Net exchange gains	132,352	645,022	132,328	646,302
	396,156	647,863	396,130	677,221
Employee payments including benefits				
Salaries and wages	2,195,596	1,918,285	2,195,596	1,355,716
Superannuation expense	178,145	156,493	178,145	113,825
Annual leave	(18,915)	31,553	(18,915)	32,299
Long service leave expense	(4,872)	(8,945)	(4,872)	(205)
Other employment expense	28,886	66,189	28,886	65,462
	2,378,840	2,163,575	2,378,840	1,567,097
Less: Research & development staff costs	(644,888)	(483,709)	(644,888)	(356,569)
Total employee payments	1,733,952	1,679,866	1,733,952	1,210,528
Research & development expenses				
Research and development staff costs	644,888	483,709	644,888	356,569
Legal costs	38,462	-	38,462	-
Consultant costs	158,629	144,060	158,629	144,060
Materials / services costs	231,987	229,281	231,987	214,575
Travel expenses	163,944	108,744	163,944	83,546
Total research & development expenses	1,237,910	965,794	1,237,910	798,750
Depreciation and amortisation expenses				
Depreciation of property, plant and equipment	243,174	272,901	237,309	261,220
Amortisation for leasehold improvements	48,068	46,405	48,069	46,382
Total depreciation and amortisation	291,242	319,306	285,378	307,602
Impairment loss				
Write-off of intercompany receivable	-	-	74,586	1,859,299
Finance costs				
Interest and finance charges paid	175,565	184,936	175,565	174,037
Convertible note interest	-	100,920	-	100,920
Total finance costs	175,565	285,856	175,565	274,957

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
6. Income tax				
(a) Income tax credit				
The major components of income tax credit are:				
Current income tax				
Research and development tax benefit	326,450	308,909	326,450	308,909
Deferred income tax				
Relating to origination and reversal of temporary differences	(21,967)	-	(122,244)	-
Recognition of tax losses	21,967	-	122,244	-
	326,450	308,909	326,450	308,909
(b) Numerical reconciliation between aggregate tax credit recognised in the income statement and tax expense calculated per the statutory income tax rate				
Loss before income tax expense	(5,783,609)	(3,643,866)	(5,848,422)	(5,064,162)
Income tax calculated at statutory tax rate of 30% (2007: 30%)	(1,735,082)	(1,093,160)	(1,754,527)	(1,519,248)
Tax effect of amounts which are not deductible in calculating taxable income	860	3,211	860	3,211
Share based payments	120,315	-	120,315	-
Impairment losses	-	-	22,376	-
Tax losses and timing differences not recognised	1,613,907	1,089,949	1,610,976	1,516,038
Research and development tax benefit	(326,450)	(308,909)	(326,450)	(308,909)
Aggregate income tax benefit	(326,450)	(308,909)	(326,450)	(308,909)

The franking account balance at year end was $Nil (2007: $Nil)

(c) Unrecognised temporary differences

At 30 June 2008, there are no unrecognised temporary differences associated with the Group's investments in subsidiaries as the Group has no liability for additional taxation should unremitted earnings be remitted (2007: $nil).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2008

6. Income tax (cont'd)

(d) Deferred tax assets and liabilities

The components of deferred tax assets/(liabilities) recognised in the balance sheets and the movements during the year are as follows:

CONSOLIDATED	Accelerated depreciation	Intellectual property	Provisions	Capital raising costs	Others	Tax losses	Total
At 1 July 2006	-	-	-		-	-	-
Charge/(credit) to income statement	(237,467)	111,511	40,087	35,833	50,036	-	-
At 30 June 2007	(237,467)	111,511	40,087	35,833	50,036	-	-
Charge/(credit) to income statement	(103,177)	(13,282)	61,258	51,580	(18,346)	21,967	-
At 30 June 2008	(340,644)	98,229	101,345	87,413	31,690	21,967	-

At 30 June 2008, the Group has unused tax losses and deductible temporary differences of $13,902,089 (2007: $8,450,191) and $1,062,256 (2007: $1,540,977) respectively available for offset against future profits. A deferred tax asset has been recognised in respect of $73,220 (2007: $Nil) of such losses and $1,062,256 (2007: $791,557) of the temporary differences. No deferred tax asset has been recognised in respect of the remaining tax loss of $13,828,869 (2007: $8,450,191) and deductible temporary differences of $Nil (2007: $749,420) due to the unpredictability of future profit streams. Such losses may be carried forward indefinitely subject to meeting relevant statutory tests.

PARENT	Accelerated depreciation	Intellectual property	Provisions	Capital raising costs	Others	Tax losses	Total
At 1 July 2006	-	-	-	-	-	-	-
Charge/(credit) to income statement	(225,952)	-	35,398	35,833	154,721	-	
At 30 June 2007	(225,952)	-	35,398	35,833	154,721	-	-
Charge/(credit) to income statement	(109,488)	(7,252)	65,947	51,580	(123,031)	122,244	-
At 30 June 2008	(335,440)	(7,252)	101,345	87,413	31,690	122,244	-

At 30 June 2008, the Company has unused tax losses and deductible temporary differences of $13,080,197 (2007: $7,941,797 and $710,653 (2007: $1,153,643) respectively available for offset against future profits. A deferred tax asset has been recognised in respect of $407,480 (2007: $Nil) of such losses and $710,653 (2007: $753,173) of the temporary differences. No deferred tax asset has been recognised in respect of the remaining tax loss of $12,672,717(2007: $7,941,797) and deductible temporary differences of $Nil (2007: $400,469) due to the unpredictability of future profit streams. Such loss may be carried forward indefinitely subject to meeting relevant statutory tests.

(e) Tax consolidation

The Company and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2004. The Company is the head entity of the tax consolidated group. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Incomes Taxes.

7. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to equity holders of the Company for the year of $5,457,159 and the weighted average of 62,173,045 ordinary shares in issue during the year.

Diluted loss per share amount for the year was the same as the basic loss per share as the share options outstanding as at 30 June 2008 had an anti-dilutive effect on the basic loss per share.

There is no comparative figure for the year ended 30 June 2007 as the company was not listed until 29 May 2008.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008	2007	2008	2007
	$	$	$	$
8. Remuneration of auditors				
Auditors of the Company – Ernst & Young (2007: BDO Kendalls Audit & Assurance):				
Audit and review of the financial report				
Current year	65,600	-	65,600	-
Prior year, charged by BDO Kendalls	36,012	15,548	36,012	15,548
Other services				
Other accounting services	4,000	-	4,000	-
Taxation services – Msquared (2007: BDO Kendalls Audit & Assurance):				
Tax compliance	22,600	15,450	22,600	15,450
Grant applications	24,645	6,000	24,645	6,000
	152,857	36,998	152,857	36,998
9. Cash and cash equivalents				
Cash at bank	3,070,415	13,345	3,069,924	4,486
Cash held on security deposit	140,000	-	140,000	-
Cash on hand	1,000	1,000	1,000	1,000
	3,211,415	14,345	3,210,924	5,486
Reconciliation to Cash Flow Statement				
For the purpose of the Cash Flow Statement, cash and cash equivalents comprise the following at 30 June:				
Cash assets	3,211,415	14,345	3,210,924	5,486
Cash held on security deposit	(140,000)	-	(140,000)	-
Bank overdrafts (note 16)	(723,342)	(84,201)	(723,342)	(84,201)
	2,348,073	(69,856)	2,347,582	(78,715)

Cash held on security deposit represents a fixed deposit for a term of 1 year maturing on 22 December 2008. The deposit bears interest at a fixed rate of 7.06% per annum. The deposit is pledged against the bank facilities granted to the Company. (note 16)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2008

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008	2007	2008	2007
	$	$	$	$
10. Trade and other receivables				
Trade receivables	63,532	16,371	63,532	6,345
Less: Allowance for impairment loss	-	(7,383)	-	(6,244)
	63,532	8,988	63,532	101
Trade deposits	131,653	14,846	131,653	14,846
Prepayments	129,923	168,504	129,923	168,504
	325,108	192,338	325,108	183,451

Trade receivables are non- interest bearing and are generally on 0-30 day terms. An allowance for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired. An impairment loss of $7,383 and $6,244 has been recognised by the Group and the Company in the year ended 30 June 2007. These amounts have been included in administrative expenses.

Movements in the allowance for impairment loss were as follows:

At 1 July	7,383	6,737	6,244	-
Charge for the year	-	7,383	-	6,244
Amounts written off	(7,383)	(6,737)	(6,244)	-
At 30 June	-	7,383	-	6,244

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

Neither past due nor impaired	7,720	5,573	7,720	1,101
Less than 1 month past due	53,580	699	53,580	-
1 to 3 months past due	2,232	(905)	2,232	(1,000)
Over 3 months past due	-	11,004	-	6,244
	63,532	16,371	63,532	6,345

Trade receivables that were neither past due nor impaired relate to a range of customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there have not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2008

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008	2007	2008	2007
	$	$	$	$
11. Inventories				
Work in progress – at net realisable value	547,586	637,298	547,586	637,298
Finished goods – at net realisable value	1,393,964	1,066,371	1,393,964	1,066,371
Total inventories at the lower of costs and net realisable value	1,941,550	1,703,669	1,941,550	1,703,669

The cost of inventories recognised as an expense during the year was $301,642 (2007: $952,153) for both the Group and the Company. This expense has been included in the cost of sales line item.

The cost of inventories recognised as an expense includes an additional $135,335 (2007: Nil) in respect of write-downs of work in progress to net realisable value.

	CONSOLIDATED ENTITY		PARENT ENTITY	
12. Other financial assets (non-current)				
Loan to non-related entity	15,000	-	15,000	-

The loan is unsecured, interest free and has no fixed repayment terms, but in no event will it be repayable within the next twelve months.

13. Property, plant and equipment

The Group engages Christie Whyte Moore, an accredited independent valuer that uses the International Valuation Standards Committee, International Valuation Standards as a reference, to determine the fair value of its land and building. Fair value is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Fair value is determined by direct reference to recent market transactions on arm's length terms for land and buildings comparable in size and location to those held by the Group, and to market based yields for comparable properties. The effective date of the revaluation was 31 October 2007. No subsequent valuation was performed and the directors are of the opinion that the fair value of the land and building as of 30 June 2008 approximates the fair value as of 31 October 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2008

13. Property, plant & equipment (cont'd)

CONSOLIDATED ENTITY	Leasehold Improvements	Land & Buildings	Building Improvements	Manufacturing plant & Equipment	Engineering Equipment & Software	Motor Vehicles	Office Furniture & Equipment	Workshop Equipment Low pool <$400	Total
At 1 July 2006	$	$	$	$	$	$	$	$	$
Cost or fair value	59,828	498,090	129,490	1,239,616	94,481	332,193	182,459	487	2,536,644
Accumulated Depreciation	(12,109)	-	(20,638)	(327,073)	(16,917)	(101,687)	(37,923)	(30)	(516,377)
Net book amount	47,719	498,090	108,852	912,543	77,564	230,506	144,536	457	2,020,267
Year ended 30 June 2007									
Opening net book amount	47,719	498,090	108,852	912,543	77,564	230,506	144,536	457	2,020,267
Revaluation Surplus	-	689,248	-	-	-	-	-	-	689,248
Additions	158,248	-	73,951	54,217	14,139	39,000	48,169	1,244	388,968
Disposals	(6,127)	-	(132)	(18,525)	(4,260)	(60,044)	(9,197)	-	(98,285)
Depreciation Charge	(46,405)	-	(10,009)	(138,370)	(24,258)	(43,941)	(56,117)	(208)	(319,308)
Closing Net book amount	153,435	1,187,338	172,662	809,865	63,185	165,521	127,391	1,493	2,680,890
At 30 June 2007									
Cost or fair value	200,870	1,187,338	203,242	1,269,604	104,360	247,574	208,660	1,731	3,423,379
Accumulated Depreciation	(47,435)	-	(30,580)	(459,739)	(41,175)	(82,053)	(81,269)	(238)	(742,489)
Net book amount	153,435	1,187,338	172,662	809,865	63,185	165,521	127,391	1,493	2,680,890
Year ended 30 June 2008									
Opening net book amount	153,435	1,187,338	172,662	809,865	63,185	165,521	127,391	1,493	2,680,890
Revaluation Surplus	-	142,840	-	-	-	-	-	-	142,840
Additions	10,710	-	13,969	196,420	148,967	168,475	10,904	-	549,445
Disposals	-	-	-	(326)	-	(54,622)	-	(1,493)	(56,441)
Depreciation Charge	(48,069)	-	(11,068)	(133,839)	(19,881)	(34,723)	(43,663)	-	(291,243)
Closing Net book amount	116,076	1,330,178	175,563	872,120	192,271	244,651	94,632	-	3,025,491
At 30 June 2008									
Cost or fair value	211,579	1,330,178	217,211	1,463,369	253,327	310,873	217,232	-	4,003,769
Accumulated Depreciation	(95,503)	-	(41,648)	(591,249)	(61,056)	(66,222)	(122,600)	-	(978,278)
Net book amount	116,076	1,330,178	175,563	872,120	192,271	244,651	94,632	-	3,025,491

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2008

13. Property, plant & equipment (cont'd)

PARENT ENTITY	Leasehold Improvements	Land & Buildings	Building Improvements	Manufacturing plant & Equipment	Engineering Equipment & Software	Motor Vehicles	Office Furniture & Equipment	Workshop Equipment Low pool <$400	Total $
At 30 June 2006	$	$	$	$	$	$	$	$	$
Cost or fair value	42,622	498,090	129,490	954,108	94,481	288,575	169,715	487	2,177,568
Accumulated Depreciation	(1,053)	-	(20,638)	(103,408)	(16,917)	(81,717)	(32,170)	(30)	(255,933)
Net book amount	41,569	498,090	108,852	850,700	77,564	206,858	137,545	457	1,921,635
Year ended 30 June 2007									
Opening net book amount	41,569	498,090	108,852	850,700	77,564	206,858	137,545	457	1,921,635
Revaluation Surplus	-	689,248	-	-	-	-	-	-	689,248
Additions	158,248	-	73,951	54,217	14,139	39,000	48,169	1,244	388,968
Disposals	-	-	(132)	(706)	(4,260)	(39,579)	(5,064)	-	(49,741)
Depreciation Charge	(46,382)	-	(10,009)	(130,818)	(24,258)	(40,758)	(55,169)	(208)	(307,602)
Closing Net book amount	153,435	1,187,338	172,662	773,393	63,185	165,521	125,481	1,493	2,642,508
At 30 June 2007									
Cost or fair value	200,870	1,187,338	203,242	1,007,619	104,360	247,574	203,046	1,731	3,155,780
Accumulated Depreciation	(47,435)	-	(30,580)	(234,226)	(41,175)	(82,053)	(77,565)	(238)	(513,272)
Net book amount	153,435	1,187,338	172,662	773,393	63,185	165,521	125,481	1,493	2,642,508
Year ended 30 June 2008									
Opening net book amount	153,435	1,187,338	172,662	773,393	63,185	165,521	125,481	1,493	2,642,508
Revaluation Surplus	-	142,840	-	-	-	-	-	-	142,840
Additions	10,710	-	13,969	196,420	148,967	168,475	10,904	-	549,445
Disposals	-	-	-	-	-	(54,622)	-	(1,493)	(56,115)
Depreciation Charge	(48,069)	-	(11,068)	(128,352)	(19,881)	(34,723)	(43,285)	-	(285,378)
Closing Net book amount	116,076	1,330,178	175,563	841,461	192,271	244,651	93,100	-	2,993,300
At 30 June 2008									
Cost or fair value	211,579	1,330,178	217,210	1,204,276	253,327	310,873	213,950	-	3,741,393
Accumulated Depreciation	(95,503)	-	(41,647)	(362,815)	(61,056)	(66,222)	(120,850)	-	(748,093)
Net book amount	116,076	1,330,178	175,563	841,461	192,271	244,651	93,100	-	2,993,300

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	**2007 $**	**2008 $**	**2007 $**
14. Goodwill & intellectual property				
Intellectual Property – Sprintex Technology	401,983	401,983	-	-
Less: Provision for diminution in value	(371,702)	(371,702)	-	-
	30,281	30,281	-	-
Goodwill	479,136	479,136	-	-
	509,417	509,417	-	-

Intellectual property – Sprintex Technology represented patents acquired through business combinations and are carried at cost less accumulated impairment losses. These intangible assets have been determined to have indefinite useful lives. The patents have been granted terms up to January 2013 or January 2014 by the relevant government agency with the option of renewal without significant cost at the end of this period.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill of the Group and the Company had been allocated to the Sprintex CGU, the value of which is essentially generated from the underlying value of intellectual property – Sprintex Technology. Accordingly, the recoverable amount of this CGU is determined based on the value in use calculations of the intellectual property – patents.

These calculations use cash flow projections based on sales budgets approved by management covering a five -year period and applying royalty income rate of 3% and 4.5%. Cash flows beyond the five year period are extrapolated using the estimated rates stated below.

Key assumptions used for value-in-use calculations:

	%
Risk free rate	5.64
Sales price growth rate	3
Royalty income rate	3 to 4.5
Discount rate	14 to 15.5

Management determined the budgeted production and revenue based on past performance and its expectation for market development. The royalty rates used are consistent with the forecasts included in the industry reports. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

The directors believe that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

As the recoverable amount of the intellectual property – Sprintex Technology, as determined by the value in use calculations is higher than the carrying values of the goodwill and the intellectual property, no impairment loss for the goodwill nor the intellectual property is considered necessary.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	**2007 $**	**2008 $**	**2007 $**
15. Trade and other payables				
Trade payables	385,054	504,528	385,054	505,084
Loans from a related entity	-	5,715,336	-	5,715,336
Other payables and accruals	488,902	628,471	488,902	599,551
	873,956	6,848,335	873,956	6,819,971

Trade payables
Trade payables are non-interest bearing and are predominately settled on 30 day terms.

Loans from a related entity
The loans from a related entity were due to the Company's ex-parent, Automotive Technology Group Limited (BVI) ("ATG BVI"). As of 9 January 2008, the loan balance was increased to $7,381,643 and was settled by the issuance of 4,576,175 shares at $1.61 per share on the same day. (note 19(a)(i))

16. Interest bearing borrowings				
Current				
Bank overdraft (secured)	723,342	84,201	723,342	84,201
Insurance premium funding (unsecured)	89,034	162,797	89,034	162,797
Finance lease liabilities (note 25)	208,840	159,114	208,840	152,257
	1,021,216	406,112	1,021,216	399,255
Non-current				
Finance lease liabilities (note 25)	372,534	402,439	372,534	384,424

(a) Bank overdrafts are repayable on demand. The average effective interest rate on bank overdrafts approximated 10.33% (2007: 9.35%) in the year and is determined based on 1% plus commercial base rate of the banker. Details of securities are disclosed in note (d) below.

(b) Insurance premium funding is unsecured and due for repayment over 12 equal instalments starting from March of each year. The effective interest rate of the loan was 8.71% (2007: 9.62%) per annum for the year.

(c) Details of finance lease liabilities are disclosed in note 25.

(d) Bank overdrafts and finance lease liabilities of $723,342 (2007: $Nil) and $194,769 (2007: $Nil) respectively granted by the banker are secured by the following:

- fixed and floating charge over the assets and undertakings of the Company;
- mortgage over land and buildings with a carrying value of $1,330,179 (2007: $1,187,338) (note 13);
- plant and equipment with total carrying value of $180,522 (2007: $Nil) held under finance leases and hire purchase arrangements;
- a legal right of set off enabling the bank to set off cash security deposit of $140,000 (2007: $Nil) against the interest obligations of at least one year (note 9); and
- guarantee and indemnity given by the two executive directors to the extent of $1,290,000 (2007 : $Nil);

The above banking facilities, in total extent of $1,290,000 (2007 : $Nil), were utilised to the extent of $$918,111 at 30 June 2008 (2007 : $Nil).

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	**2007 $**	**2008 $**	**2007 $**
17. Provisions				
Provision for warranty	28,646	54,667	28,646	39,036
Provision for employee entitlements	76,508	104,062	76,508	80,826
	105,154	158,729	105,154	119,862

Movements in the provision for warranty for the Group and the Company during the financial year are set out below:

	$
At 1 July 2007	54,667
Written back/utilisation of provisions	(26,021)
At 30 June 2008	28,646

Warranty provision

Under the terms of the Group's sales arrangements, the Group will rectify any product defects arising within one year of the date of sale. Provision is therefore made for the present value of the management's best estimate of the expected settlement under these agreements in respect of sales made within the year prior to the balance sheet date. The estimate has been made on the basis of the Group's historical warranty trends and industry averages for defective products and is only made where a warranty claim is probable.

	CONSOLIDATED ENTITY 2008 $	CONSOLIDATED ENTITY 2007 $	PARENT ENTITY 2008 $	PARENT ENTITY 2007 $
18. Other liabilities				
Current				
Directors loan accounts (note 22)	17,972	-	17,972	-
Non-current				
Convertible notes	-	1,043,659	-	1,043,659
Directors loan accounts (note 22)		405,827	-	405,827
	-	1,449,486	-	1,449,486

Convertible notes

On 3 May 2006, the Company entered into an agreement with China Automotive Holdings Limited and convertible notes in the principal amount of $1,200,000 were issued to the Company maturing on 36 months from 5 September 2005. The convertible notes carried a coupon interest rate of 5% per annum.

The carrying amount of the convertible notes in issue was split into the equity and liability components at the date of grant at $305,475 and $894,525 respectively. The fair value of the liability component was calculated using a market interest rate of 17.25% per annum at the date of grant. The residual amount of $305,475 representing the value of the equity conversion component, was included in equity as Convertible Note Equity.

The convertible notes were fully converted into 800,000 shares at $1.50 per share on 18 December 2007 (note 19).

The movement of the Convertible notes for the year is set out below:

	Equity component $	Liability component $	Total $
At 1 July 2006	305,475	942,740	1,248,215
Imputed interest	-	100,919	100,919
At 30 June 2007	305,475	1,043,659	1,349,134
Conversion into ordinary shares	(305,475)	(1,043,659)	(1,349,134)
At 30 June 2008	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED 30 JUNE 2008

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008	2007	2008	2007
	$	$	$	$
19. Contributed equity				
Paid up capital – ordinary shares	21,225,030	4,594,988	21,225,030	4,594,988
Capital raising costs capitalised	(609,707)	-	(609,707)	-
Convertible Note Equity (note 18)	-	305,475	-	305,475
	20,615,323	4,900,463	20,615,323	4,900,463

(a) Ordinary shares

Movements in ordinary share capital	Date	Number of shares	$
Balance at 1 July 2007		11,723,325	4,594,988
Conversion of convertible notes at $1.50 each (note 18)	18 Dec 2007	800,000	1,200,000
Issue of Shares at $1.61 each (note i)	9 Jan 2008	4,576,175	7,381,643
Capital Restructuring (51,298,500 shares) (note ii)	30 Jan 2008	51,298,500	4,399
Employee Shares (note iii)	29 Mar 2008	370,000	-
Seed Capital (note iv)	29 Mar 2008	10,000,000	2,000,000
Issuance of shares for initial public offering (note v)	27 May 2008	24,176,000	6,044,000
Less capital raising costs capitalised		-	(609,707)
Contributions to equity net of transaction costs during the year			16,020,335
Balance as at 30 June 2008		102,944,000	20,615,323

Holders of ordinary shares are entitled to receive dividends from time to time and are entitled to one vote per share at shareholders meetings.

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

(i) *Conversion of Automotive Technology Group Limited (BVI) debt*
On 9 January 2008, the debt owed to the Company's ex-parent, ATG BVI in the amount of $7,381,643 was capitalised by the Company issuing 4,576,175 shares at $1.61 per share as consideration. (note 15)

(ii) *Capital Reorganisation*
Pursuant to an ordinary resolution passed at the shareholder's meeting held on 30 January 2008, a share subdivision was effected such that every ordinary share in the issued and unissued share capital of the Company was subdivided into 4 subdivided shares by the creation of 151,298,500 subdivided shares based on the number of the issued ordinary shares at that time ("Share Subdivision"). Immediately after the Share Subdivision, a group reorganisation was effected such that the then parent of the Company, ATG (BVI) became a wholly owned subsidiary of the Group. The excess of the fair value of ATG (BVI) over the nominal value of ATG (BVI) in the amount of $4,399 was recorded as contributed surplus.

(iii) *Employee Shares*
Pursuant to a board resolution dated 20 February 2008, 370,000 ordinary shares were issued on 29 March 2008 to employees, contractors and advisors to the Company in consideration of their respective services or advice rendered or given to the Company.

19. Contributed equity (cont'd)

(iv) *Seed Capital*
On 31 January 2008, the Company closed a seed capital placement of $2,000,000 to various investors including the Directors associated entities. 10,000,000 ordinary shares at $0.20 per share were issued on 29 March 2008.

(v) *Issuance of shares for public offer and placing*
On 27 May 2008, an aggregate of 24,176,000 new ordinary shares were issued and offered for subscription under public offer at a price of $0.25 per share upon the listing of the Company's shares on the Australian Stock Exchange. The Group raised $5,434,293, net of related expenses from the share offer.

(b) Converting performance shares
Pursuant to a special resolution passed at the shareholders' meeting held on 30 January 2008, the Company created two additional classes of shares, being share classes "A" and "B". On 28 March 2008, the Company issued 17,099,500 new Class "A" Converting Performance Shares and 17,099,500 new Class "B" Converting Performance Shares as a bonus issue to shareholders of the Company as at 30 January 2008 (except for the subscribers to the Seed Capital) on the basis of 1 Class "A" Converting Performance Share and 1 Class "B" Converting Performance Share for every 4 Ordinary shares held.

Subject to performance criteria associated with the operating results of the Group, each Class "A" or Class "B" Converting Performance Share is entitled to convert to 1 ordinary share of the Company. Both Class "A" and Class "B" Converting Performance Share do not entitle the holder to vote on any resolutions proposed at a general meeting of shareholders, do not entitle the holder to any dividends, not transferable and can only participate in the surplus profits or assets of the Company upon winding up of the Company only to the extent of $0.0001 per Class "A" or Class "B" Converting Performance Share.

20. Reserves

(a) Convertible note equity

The equity component of convertible note represents the value of the unexercised equity component of convertible note issued by the Company recognised in accordance with the accounting policy adopted for convertible notes in note 18.

(b) Asset revaluation reserve

The asset revaluation reserve is used to record increments and decrements in the fair value of land and buildings to the extent that they offset one another. The reserve can only be used to pay dividends in limited circumstances.

(c) Share option reserve

Share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to management and consultants of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 24.

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $

21. Cash flow statement reconciliation

(a) Reconciliation of cash flows from operating activities to operating loss after income tax

	CONSOLIDATED ENTITY 2008 $	CONSOLIDATED ENTITY 2007 $	PARENT ENTITY 2008 $	PARENT ENTITY 2007 $
Operating loss after income tax	(5,457,159)	(3,334,957)	(5,521,970)	(4,755,253)
Add non-cash items:				
Share based payments	401,050	-	401,050	-
Convertible note interest	(194,924)	100,920	(194,924)	100,920
Depreciation and amortisation	291,242	319,306	285,378	307,602
Impairment loss	-	-	74,586	1,859,299
Net gain on disposal of property, plant and equipment	(20,415)	(1,227)	(20,415)	(29,305)
Exchange difference on loan from a related party	(132,352)	(645,022)	(132,328)	(646,302)
Changes in assets and liabilities				
Increase in trade and other receivables	(132,770)	(42,302)	(141,659)	(67,883)
Increase in inventories	(237,881)	(525,486)	(237,881)	(863,382)
Increase/(decrease) in trade and other payables	(213,252)	(502,276)	(184,890)	137,729
(Decrease)/increase in provision for warranty	(26,021)	32,513	(10,390)	29,933
(Decrease)/increase in provision for employee entitlements	(27,554)	24,011	(4,318)	69,355
Net cash flows used in operating activities	(5,750,036)	(4,574,520)	(5,687,761)	(3,857,287)

(b) Non-cash financing and investing activities

During the year ended 30 June 2008 there were the following non-cash financing and investing transactions:

(i) Conversion of convertible note with principal amount of $1,200,000 to equity (800,000 shares @$1.50). The interest due at the time of conversion was forgiven.
(ii) Conversion of ATG debt of $7,386,043 to equity (4,576,175 shares @ $1.61).
(iii) During the year, the Group acquired $203,758 of motor vehicles and equipment under finance leases. These acquisitions will be reflected in the cash flow statement over the terms of the finance leases via lease repayments.

22. Related party disclosures

(a) Subsidiaries

The following were controlled entities at 30 June 2008 and are included in the consolidated financial statements. All of the controlled entities have the same financial year as the parent

Name of Entity	Country of Incorporation	% Equity Interest 2008	% Equity Interest 2007	Investment 2008 $	Investment 2007 $
Sprintex Australasia Pty Limited	Australia	100	100	479,136	479,136
Vee Two Pty Limited	Australia	100	100	140,000	140,000
AAC Property Investments Pty Limited	Australia	100	100	556	556
Automotive Technology Group Limited (note 19(a)(ii))	British Virgin Islands	100	-	4,400	-
Provision for impairment				(556)	-
				623,536	619,692

(b) Transactions with related parties

Transactions between the Company and its subsidiaries, which are related parties of the company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

Save as disclosed in notes 16, 18, 19(a)(i), 19(a)(iii), 19(a)(iv) and 24 to the financial statements, the Group does not have transactions with other related parties.

The compensation of key management personnel and other details are set out in note 23 to the financial statements.

Directors loan accounts as at 30 June 2008 represented expenses paid by the directors on the Company's behalf. The amounts were unsecured, interest free and repaid on demand. The balances at 30 June 2007 represented mainly accrued management remuneration. The amounts were unsecured, interest free and not repayable within the next twelve months from the balance sheet date.

23. Key management personnel disclosures

(a) Details of key management personnel

Parent Entity Directors

Mr R Siemens .... Non-Executive Chairman
Mr S Apedaile...................................... Executive Director – Corporate
Mr A Hamilton..................................... Executive Director – Operations

Other Key Management Personnel

Ms E Chan[1] .... Chief Financial Officer
Mr J Upton... Business Development Manager
Mr R Griffin.. Procurement & Operations Manager
Mr S Wilkinson.................................... Sales & Marketing Manager
Mr J Williams[2] .... Assembly, Inventory, Warranty and Distribution Manager
Mr J Scoringe[3] .... Chief Financial Officer & Joint Company Secretary
Mr C Henry[4] .... General Manager - Operations
Mr J Lawrence[5] .... Operations Manager

1. Joined 9 September 2008
2. Joined 21 May 2007
3. Resigned 25 July 2008
4. Resigned 1 December 2006
5. Resigned 15 November 2007

(b) Key management personnel compensation

The key management personnel compensation is as follows:

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
Short-term employee benefits	1,168,320	520,711	1,168,320	520,711
Post employment benefits	33,902	25,383	33,902	25,383
Share-based payments	288,650	-	288,650	-
Total	1,490,872	546,094	1,490,872	546,094

(c) Option holdings of key management personnel

Directors	Balance at beginning of period 1 July 2007	Granted during the year	Balance at end of period 30 June 2008	Vested as of 30 June 2008 and exercisable
Mr R Siemens	-	1,500,000	1,500,000	1,500,000
Mr S Apedaile	-	1,500,000	1,500,000	1,500,000
Mr A Hamilton	-	1,500,000	1,500,000	1,500,000
	-	4,500,000	4,500,000	4,500,000

No options have been granted during the year ended 30 June 2007.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

FOR THE YEAR ENDED 30 JUNE 2008

23. Key management personnel disclosures (cont'd)

(d) Shareholdings of key management personnel

Ordinary shares

The following table shows the movement during the year in the number of ordinary shares in Automotive Technology Group Limited held directly, indirectly or beneficially, by each key management personnel, including their related parties:

Year ended 30 June 2008	**Held at 1 July 2007**	**Other changes prior to share split**	**Share split**	**Group re-structure**	**Received as remuneration**	**Other changes**	**Held at 30 June 2008**
		(note 18)	(note 19 (a)(ii))	(note 19 (a)(ii))			
Directors							
Mr R Siemens	-	846,667	2,540,001	9,955,168	-	518,334	13,860,170
Mr S Apedaile	800,000	46,667	2,540,001	9,955,169	-	798,333	14,140,170
Mr A Hamilton	800,000	46,666	2,539,998	9,955,173	-	518,333	13,860,170
Other key management personnel							
Mr J Upton	50,000	-	150,000	200,000	-	-	400,000
Mr R Griffin	-	-	-	-	30,000	-	30,000
Mr S Wilkinson	-	-	-	50,000	-	-	50,000
Mr J Williams	-	-	-	-	25,000	-	25,000
Mr J Scoringe	20,000	-	60,000	319,986	-	-	399,986
Mr C Henry	140,000	(140,000)	-	-	-	-	-
Mr J Lawrence	-	-	-	20,000	-	-	20,000
	1,810,000	800,000	7,830,000	30,455,496	55,000	1,835,000	42,785,496

Year ended 30 June 2007	**Held at 1 July 2006**	**Received as remuneration**	**Other changes**	**Held at 30 June 2007**
Directors				
Mr R Siemens	-	-	-	-
Mr S Apedaile	800,000	-	-	800,000
Mr A Hamilton	800,000	-	-	800,000
Other key management personnel				
Mr J Upton	50,000	-	-	50,000
Mr C Henry	140,000	-	-	140,000
Mr J Scoringe	20,000	-	-	20,000
	1,810,000	-	-	1,810,000

There were no share transactions relating to key management personnel during the year ended 30 June 2007.

23. Key management personnel disclosures (cont'd)

Converting performance shares
The following table shows the movement during the year ended 30 June 2008 in the number of converting performance shares in Automotive Technology Group Limited held directly, indirectly or beneficially, by each key management personnel, including their related parties:

Directors	Class A Converting performance shares	Class B Converting performance shares	Issued during the year and held at 30 June 2008
Mr R Siemens	3,335,458	3,335,458	6,670,916
Mr S Apedaile	3,210,458	3,210,458	6,420,916
Mr A Hamilton	3,210,458	3,210,458	6,420,916
	9,756,374	9,756,374	19,512,748

All equity transactions with key management personnel other than arising from the granting of employee shares as stated in note 19(a)(iii) above have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

24. Share based payment transactions

The Company has established an employee share option plan ("ESOP") for all employees or consultants of the Group. The ESOP is designed to provide eligible participants with an ownership interest in the Company and to provide additional incentives for eligible participants to increase profitability and returns to shareholders. Options are issued for no consideration and the exercise price shall be as the directors in their absolute discretion determine, provided the exercise price shall not be less than the weighted average of the last sale price of the Company's Shares on ASX at the close of business on each of the 5 Business Days immediately preceding the date on which the directors resolve to grant the options.

The Options may not be exercised until the shares of the Company have been quoted on ASX throughout the 12 month period immediately preceding the exercise of the Options, without suspension during that period exceeding in total 2 trading days. If the options remain unexercised after a period of 5 years from the date of grant, the options expire. Options are forfeited immediately if the employee leaves the Group before the above condition is met or 60 days after the leave of the employee if the above condition is met.

As at 30 June 2008, no options were granted in respect of the ESOP.

24. Share based payment transactions (cont'd)

On 29 February 2008, 6,500,000 options were granted to directors and a non-related consultant, Taylor Collison Limited, with an exercise price of $0.3, exercisable at any time on or prior to 3:00 pm (WST) on 31 December 2010. Each option entitles the holder to one ordinary share of the Company. The shares issued upon exercise of the options will rank pari passu in all respects with the issued ordinary shares of the Company..

The number and weighted average exercise prices of the share options granted during the year are as follows:

	Options granted to directors	Options granted to a consultant	Number of share options	Weighted average exercise price
Outstanding at beginning of year	-	-	-	-
Granted during the year	4,500,000	2,000,000	6,500,000	$0.3
Outstanding at the end of year	4,500,000	2,000,000	6,500,000	$0.3
Exercisable at end of year			6,500,000	

The options outstanding at the end of the year have a weighted average remaining contractual life of 2.5 years and the estimated fair value of the options granted is $0.0617. The fair value was calculated using the Black-Scholes option pricing model. The inputs into the model were as follows:

Underlying share price	$0.21
Exercise price	$0.3
Expected volatility	53.42%
Expected life	3 years
Risk free rate	6.63%
Expected dividend yield	-

Expected volatility was determined by calculating the historical volatility of the share prices of listed companies with profile similar to the Company. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural consideration. The Company has not forecasted any future dividend payments.

The Group recognised total expenses of $401,050 (2007: Nil) related to equity-settled share based payment transactions during the year as follows:

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008 $	2007 $	2008 $	2007 $
Unlisted management options	277,650	-	277,650	-
Unlisted sponsoring broker options	123,400	-	123,400	-
Total share based payments	401,050	-	401,050	-

25. Commitments

(a) Operating lease commitments

The Group is the lessee in respect of certain property and items of plant and machinery and office equipment held under operating leases. The lease for the property has a term of 10 years from 1 July 2006 and lease payments are increased every year with indexation to reflect market rentals. The lease does not include contingent rentals.

At the balance sheet date, the Group and the Company had outstanding minimum commitments under non-cancellable operating leases, which fall due as follows:-

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008	**2007**	**2008**	**2007**
	$	**$**	**$**	**$**
Within one year	127,786	127,786	127,786	127,786
After one year but not more than five years	511,144	511,144	511,144	511,144
After more than five years	383,358	511,144	383,358	511,144
Total minimum lease payments	1,022,288	1,150,074	1,022,288	1,150,074

(b) Finance lease and hire purchase commitments

The Group leases certain plant and equipment under finance leases expiring from 1 to 5 years. At the end of the lease terms the Group owns the equipment outright or has the option to purchase the equipment for the residual amount owing. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

Within one year	251,989	199,491	251,989	190,793
After one year but not more than five years	416,872	447,999	416,872	429,000
Total minimum lease payments	668,861	647,490	668,861	619,793
Less: amounts representing finance charges	(87,487)	(85,937)	(87,487)	(83,112)
Present value of minimum lease payments	581,374	561,553	581,374	536,681
Included in the financial statements as:				
Current interest-bearing liabilities (note 16)	208,840	159,114	208,840	152,257
Non-current interest-bearing liabilities (note 16)	372,534	402,439	372,534	384,424
	581,374	561,553	581,374	536,681

(c) Capital commitments

Capital commitments outstanding at the balance sheet date in respect of acquisition of property plant and equipment contracted for but not provided for in the financial statements were $193,500 (2007: $Nil).

26. Capital risk management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

During 2008, no dividends have been paid. The Company does not yet have a dividend policy and payment of future dividends will be dependent upon the future profitability and financial position of the Company.

The capital structure of the Group consists of total debts, which includes the interest-bearing borrowings, convertible notes and finance lease liabilities as detailed in notes 16 and 18, cash and cash equivalents and equity attributable to equity holders of the Company, comprising contributed equity, reserves and accumulated losses as disclosed in notes 19 and 20 respectively.

Management monitor capital through the gearing ratio (net debt / total capital) and (total debt/total equity). For this purpose the Group defines net debts as total debts as defined above, less cash and cash equivalents. The gearing ratios based on continuing operations at 30 June 2008 and 2007 were as follows:

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008	2007	2008	2007
	$	$	$	$
Total debts	1,393,750	1,852,210	1,393,750	1,827,338
Less: cash and cash equivalents	(3,211,415)	(14,345)	(3,210,924)	(5,486)
Net debt	(1,817,665)	1,837,865	(1,817,174)	1,821,852
Total equity	6,637,149	(4,164,442)	6,718,586	(4,018,192)
Total capital	4,819,484	(2,326,577)	4,901,412	(2,196,340)
Gearing ratio				
Net debt / total capital	**N/A**	**N/A**	**N/A**	**N/A**
Total debt/total equity	**21%**	**N/A**	**21%**	**N/A**

27. Financial risk management

The Group's and the Company's principal financial instruments comprise receivables, payables, interest bearing borrowings and overdrafts, convertible notes, finance lease liabilities, cash and short-term deposits.

Exposure to credit risk, liquidity risk, interest rate risk and currency risk arises in the normal course of the Group's and the Company's business.

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets whilst protecting future financial security.

27. Financial risk management (cont'd)

(a) Credit risk

The Group's credit risk is primarily attributable to its trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance.

Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customers operate. Trade receivables are due within 0 to 30 days from the date of billing. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

At the balance sheet date, the Group and the Company has a certain concentration of credit risk as 81% (2007: 7%) of the total trade receivables was due from the Group's largest customer respectively.

Further quantitative disclosures in respect of the Group's and the Company's exposure to credit risk arising from trade and other receivables are set out in note 10.

(b) Liquidity risk

The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial assets and liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates, or if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to receive or pay. Since the Company is the main operating entity, only the analysis for the Group's contractual maturities of undiscounted cash flows of the financial assets and liabilities is presented.

Year ended 30 June 2008	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but Less than 5 years
Financial assets					
Cash and cash equivalents	3,211,415	3,435,991	3,435,991	-	-
Trade receivables	63,532	63,532	63,532	-	-
Loan to non-related party	15,000	15,000	-	15,000	-
	3,289,947	3,514,523	3,499,523	15,000	-
Financial liabilities					
Trade and other payables	873,956	873,956	873,956	-	-
Bank overdrafts	723,342	798,063	798,063	-	-
Insurance premium funding	89,034	93,361	93,361	-	-
Finance lease liabilities	581,374	668,861	251,989	187,347	229,525
Directors loan account	17,972	17,972	17,972	-	-
	2,285,678	2,452,213	2,035,341	187,347	229,525
Net maturity	1,004,269	1,062,310	1,464,182	(172,347)	(229,525)

27. Financial risk management (cont'd)

Year ended 30 June 2007	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but Less than 5 years
Financial assets					
Cash and cash equivalents	14,345	15,348	15,348	-	-
Trade receivables	8,988	8,988	8,988	-	-
	23,333	24,336	24,336	-	-
Financial liabilities					
Trade and other payables	1,132,999	1,132,999	1,132,999	-	-
Loan from related entity	5,715,336	5,715,336	5,715,336	-	-
Bank overdrafts	84,201	92,074	92,074	-	-
Insurance premium funding	162,797	169,419	169,419	-	-
Finance lease liabilities	561,553	647,490	200,402	199,793	247,295
Convertible notes	1,043,659	1,269,894	60,041	1,209,853	-
Directors loan account	405,827	405,827	405,827	-	-
	9,106,372	9,433,039	7,776,098	1,409,646	247,295
Net maturity	(9,083,039)	(9,408,703)	(7,751,762)	(1,409,646)	(247,295)

(c) Interest rate risk

The Group's and the Company's interest rate risk arises primarily from interest bearing financial assets and financial liabilities. Financial instruments issued at variable rates and at fixed rates expose the Group and the Company to cash flow interest rate risk and fair value interest risk respectively. At balance sheet date, the interest rate profile of the carrying value of the Group's and the Company's interest bearing financial assets and liabilities are set out in the following tables:

Year ended 30 June 2008	Floating interest rate **$**	Fixed interest rate **$**	Total **$**
Financial assets			
Cash and cash equivalents	3,071,415	140,000	3,211,415
Financial liabilities			
Bank overdrafts	723,342	-	723,342
Insurance premium funding	-	89,034	89,034
Finance lease liabilities	-	581,374	581,374
	723,342	670,408	1,393,750
	2,348,073	(530,408)	1,817,665

27. Financial risk management (cont'd)

(c) Interest rate risk (cont'd)

Year ended 30 June 2007	Floating interest rate **$**	Fixed interest rate **$**	Total **$**
Financial assets			
Cash and cash equivalents	14,345	-	14,345
Financial liabilities			
Bank overdrafts	84,201	-	84,201
Insurance premium funding	-	162,797	162,797
Finance lease liabilities	-	561,553	561,553
Convertible notes	-	1,043,659	1,043,659
	84,201	1,768,009	1,852,210
	(69,856)	(1,768,009)	(1,837,865)

The interest rates and terms of repayment of the Group's and the Company's borrowings are disclosed in note 18 to the financial statements.

Cash flow sensitivity analysis for floating rate instruments
An increase of 100 basis points in interest rates at the reporting date would have decreased net loss and accumulated losses by $23,481 (2007: increased by $699). A decrease of 100 basis points in interest rates will have the same amount but opposite financial effect on net loss and accumulated losses.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for financial instruments in existence at that date. The 100 basis point increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual balance sheet date based on historical market trend. The analysis is performed on the same basis for 2007.

(d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Hong Kong dollars and Swedish Kroner.

All the Group's borrowings are denominated in the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any currency risk associated with the Group's borrowings.

27. Financial risk management (cont'd)

(d) Currency risk (cont'd)

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2008			**2007**		
	Euros EUR	**US dollars** USD	**Hong Kong dollars** HKD	**Euros** EUR	**US dollars** USD	**Swedish Kroner** SEK
Trade and other receivables	409	-	-	-	-	-
Cash and cash equivalents	-	320	1,185	-	3,627	-
Trade and other payables	(63,736)	(802)	-	(22,340)	-	(238,290)
Overall net exposure	(63,327)	(482)	1,185	(22,340)	3,627	(238,290)

The following table indicates the approximate change in the Group's loss after taxation and accumulated losses in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates a decrease in net loss for the year and accumulated losses where the AUD strengthens against the relevant currency. For a weakening of the AUD against the relevant currency, there would be an equal and opposite impact on the net loss and accumulated losses, and the balances below would be negative.

	2008		**2007**	
	Increase in foreign exchange rates	**Effect on loss for the year and accumulated losses** $	**Increase in foreign exchange rates**	**Effect on loss for the year and accumulated losses** $
Euros	10%	(10,148)	10%	(3,720)
United States dollars	10%	(57)	10%	427
Hong Kong dollars	10%	16	-	-
Swedish Kroner	-	-	10%	(4,146)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the group entities; exposure to currency risk for financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' net loss for the year and accumulated losses measured in the respective functional currencies, translated into AUD at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2007.

27. Financial risk management (cont'd)

(e) Fair value estimation

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2008 and 2007, except for directors loan accounts and convertible notes as at 30 June 2007. The directors loan accounts were unsecured, interest free and, had no fixed repayment terms and have been settled during the year. The convertible notes were converted to equity during the year.

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provisions of trade receivables and payables are assumed to approximate their fair values due to their short term nature. The fair value of financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments, as detailed in notes 16 and 18. The directors consider that the change in interest rates will not cause a significant impact on the fair values of the financial liabilities.

28. Summary of financial instruments by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 30 June 2008 and 2007 may be categorised as follows:

	CONSOLIDATED ENTITY		PARENT ENTITY	
	2008	2007	2008	2007
	$	$	$	$
Financial assets				
Loans and receivables (including cash and cash equivalents)	3,289,947	23,333	3,289,456	5,586
Financial liabilities				
Financial liabilities measured at amortised cost	2,285,678	9,106,372	2,285,678	9,053,137

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Automotive Technology Group Limited, we state that:

1. In the opinion of the directors:

a. The financial statements and notes included in the directors' report designation as audited, of the Company and of the consolidated entity are in accordance with the *Corporations Act 2001*, including*:*

   (i) comply with the Australian Accounting Standards and the Corporations Regulations 2001; and

   (ii) give a true and fair view of the Company's and consolidated entity's financial positions as at 30 June 2008 and of their performance for the year ended on that date; and

b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* with the exception of the Chief Financial Officer declaration for reason explained on page 15, for the financial year ended 30 June 2008.

Dated at Perth this 30th day of September 2008.

Anthony Robert Hamilton
Director

Steven Apedaile
Director

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Independent Auditor's report to the Members of Automotive Technology Group Limited

Report on the Financial Report

We have audited the accompanying financial report of Automotive Technology Group Limited, 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, other explanatory notes and the directors' declaration of the consolidated entity comprising 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 the 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 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report and the remuneration 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report and the remuneration 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 controls. 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.

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Auditor's Opinion

In our opinion:
1. the financial report of Automotive Technology Group Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the financial position of Automotive Technology Group Limited and the consolidated entity 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*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 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 Automotive Technology Group Limited for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.

Ernst + Young

Ernst & Young

Peter McIver

P McIver
Partner
Perth
30 September 2008

ASX ADDITIONAL INFORMATION

The following additional information is provided in accordance with the listing rules and is current as at 18 September 2008.

(a) Distribution of equity securities

(i) *Ordinary share capital*

102,944,000 fully paid ordinary shares are held by 271 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

(ii) *Converting performance shares*

17,099,500 Class "A" Converting Performance Shares and 17,099,500 new Class "B" Converting Performance Shares are held by 60 and 60 individual shareholders respectively.

Subject to performance criteria associated with the operating results of the Group, each Class "A" or Class "B" Converting Performance Share is entitled to convert to 1 ordinary shares of the Company. Both Class "A" and Class "B" Converting Performance Shares do not entitle the holder to vote on any resolutions proposed at a general meeting of shareholders, do not entitle the holder to any dividends, not transferable and can only participate in the surplus profits or assets of the Company upon winding up of the Company only to the extent of $0.0001 per Class "A" or Class "B" Converting Performance Share.

(iii) *Options*

6,500,000 options are held by 4 individual option holders. Options do not carry a right to vote.

The number of shareholders, by size of holding, in each class is:

	Fully Paid Ordinary Shares	Converting Performing Shares – Class B	Converting Performing Shares – Class A	Options
1 – 1,000	-	-	-	-
1,001 - 5,000	15	1	1	-
5,001 - 10,000	42	2	2	-
10,001 - 100,000	144	39	39	-
100,001 and over	70	18	18	4
	271	60	60	4
Holding less than a marketable parcel	1			

(b) Substantial shareholders

Ordinary shareholders	Fully paid Number	Fully paid Percentage
Euro Mark Limited	17,700,004	17.19%
Mr Steven James Apedaile and his controlled entities	14,144,170	13.74%
Mr Anthony Hamilton and his controlled entities	13,863,170	13.47%
China Automotive Holdings Limited, controlled by Mr Richard Siemens	13,860,170	13.46%
	59,560,514	57.86%

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(c) Largest twenty shareholders

Ordinary shareholders	Fully paid Number	Percentage
Euro Mark Limited	17,700,004	17.19%
China Automotive Holdings Limited	13,860,170	13.46%
Mr Steven James Apedaile & Mrs Michelle Lynda Apedaile ATF Apedaile Family Trust	13,360,170	12.98%
CMIH Enterprises Pty Ltd	9,331,394	9.06%
ANZ Nominees Limited	5,445,000	5.29%
Fortis Clearing Nominees Pty Limited	5,283,000	5.13%
Four Paws Investments Pty Ltd	4,528,776	4.40%
I-Biz Limited	3,300,000	3.21%
Bond Street Custodians Limited	1,800,000	1.75%
Ms Celia Mi Choi Kwong	1,572,000	1.53%
Daily Power Pty Ltd	1,500,000	1.46%
Capital Union Pty Ltd	1,250,000	1.21%
Bulk Nominees Pty Ltd	1,000,000	0.97%
Mr Euan Alexander Barty & Ms Patricia Ann Malone	880,000	0.85%
Jason Tranter No 1 Pty Ltd	675,000	0.66%
Mr Thomas Prentice Thomson	656,000	0.64%
Saruman Holdings Pty Ltd	636,000	0.62%
HSBC Custody Nominees (Australia) Limited – A/C 2	600,000	0.58%
Powertraveller Pty Ltd	500,000	0.49%
Jungle City Investments Limited	480,000	0.47%
	84,357,514	81.95%